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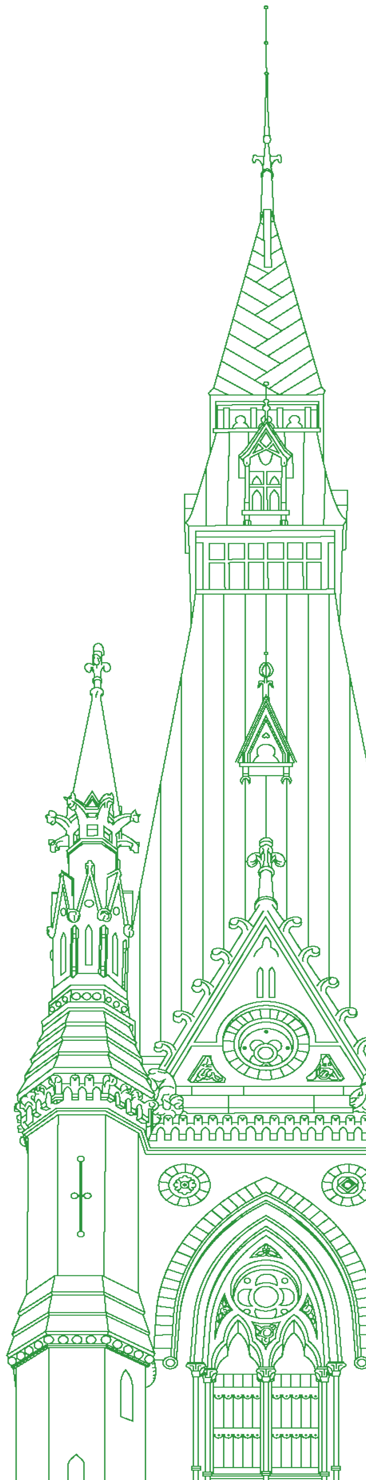

Chair: Mr. Peter Fonseca

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● (1000)

[*English*]

The Chair (Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.)): I call this meeting to order. Welcome to meeting number 51 of the House of Commons Standing Committee on Finance.

Pursuant to the order of reference of May 10, 2022, the committee is meeting on Bill C-19, an act to implement certain provisions of the budget tabled in Parliament on April 7, 2022 and other measures.

Today's meeting is taking place in a hybrid format, pursuant to the House order of November 25, 2021. Members are attending in person in the room and remotely using the Zoom application. Per the directive of the Board of Internal Economy on March 10, 2022, all those attending the meeting in person must wear a mask, except for members who are at their place during proceedings.

I'd like to make a few comments for the benefit of the witnesses and members.

Please wait until I recognize you by name before speaking. For those participating by video conference, click on the microphone icon to activate your mike. Please mute yourself when you are not speaking.

There is interpretation for those on Zoom. You have the choice, at the bottom of your screen, of floor, English or French audio. Those in the room can use the earpiece and select the desired channel.

I'll remind you that all comments should be addressed through the chair. For members in the room, if you wish to speak, please raise your hand. For members on Zoom, please use the “raise hand” function. The clerk and I will manage the speaking order as best we can. We appreciate your patience and understanding in this regard. I request that members and witnesses mutually treat each other with respect and decorum.

I would now like to welcome today's witnesses.

For our first panel, from 10:00 a.m. to 12:00 p.m., as an individual, we have Vass Bednar, executive director, Master of Public Policy in Digital Society program, McMaster University. I believe Ms. Bednar will be with us only until 11:40 a.m. this morning.

From the Canadian Dental Association, we have Lynn Tomkins, president, and Aaron Burry, acting chief executive officer. From the Canadian Manufacturers and Exporters, we have Matt Poirier, director of trade policy. From the National Marine Manufacturers Association Canada, we have Sara Anghel, who is the president.

From the Philanthropic Foundations Canada, we have Jean-Marc Mangin, president and chief executive officer; and from Les producteurs de cidre du Québec, we have Marc-Antoine Lasnier, president, and Catherine St-Georges, director general.

Our other witness is from Wine Growers Canada. We have Dan Paszkowski, president and chief executive officer. Mr. Paszkowski is in the room, members.

We'll now begin with Ms. Bednar, with her opening remarks for up to five minutes.

Ms. Vass Bednar (Executive Director, Master of Public Policy in Digital Society Program, McMaster University, As an Individual): Good morning. Thank you to the chair and to this committee for the opportunity to appear.

We haven't quite met before. You've heard that my name is Vass Bednar and that I am the executive director of McMaster University's MPP in digital society program, where I am also an adjunct professor of political science. I actively participate in Canada's policy ecosystem as an Action Canada fellow, a Public Policy Forum fellow and a senior fellow at the Centre for International Governance Innovation, known as CIGI.

In addition to my leadership role at McMaster, I'm one of the country's most vocal advocates for competition modernization. I have engaged Canadians on the merits and need for competition reform in modest but meaningful ways through opinion editorials in The Globe and Mail, the National Post, collaborative research published by McGill University and commissioned by ISED, various podcast inerviews and my newsletter, which has a funny name, “Regs to Riches”.

Due to that general focus on competition in Canada and my own intellectual anchoring in digital policy issues, I am going to focus my brief remarks on the amendments that pertain to the Competition Act.

As you know, that act was last updated modestly after the “Compete to Win” report that was initiated in 2008, and 2008 is the same year that Apple's App Store launched. It's when Uber and Airbnb were founded, and later Slack, Venmo, and so many more. In many ways, that year is a hinge of sorts for the acceleration of the digital economy.

There are plenty of good reasons to support competition modernization beyond the passage of time. As an Ipsos poll from earlier this year highlighted, “Most Canadians say we need more competition as it's too easy for big business to take advantage of consumers”. It's 88%.

As noted in President Biden's historic executive order on competition from last spring, economists find that as competition declines, productivity growth slows, business investment and innovation decline, and income, wealth and racial inequality widen.

Competition is a key catalyst of productivity. It attracts investment, stimulates the creation of high-skilled jobs, and fuels exports of Canadian products, services and ideas.

I recently appeared before your colleagues at INDU to discuss these proposed changes to the Competition Act in greater detail. During that meeting, I expressed support for the amendments because they clearly serve the public interest at a time when Canadians are under intense economic pressure. They will improve the enforcement of the current act. They were clearly foreshadowed in a February press release from the minister. They are aligned with analysis from the Competition Bureau, and they've been discussed at length in the public domain.

I also acknowledge that, while the Budget Implementation Act is an imperfect democratic tool, policy windows of opportunity are scarce and must be seized.

Another reason for my general support is that these proposed amendments start to bring Canada in line with best practices in peer jurisdictions. It also sends a good signal that we are moving, however slowly, in the right direction, especially on making references to artifacts of the digital economy. I want to be clear here. In general, we're playing catch-up in Canada except on wage-fixing, where no one jurisdiction is really ahead or has figured out the optimal implementation of that policy goal.

Going forward, you should or could strike a panel of Canadian academics that focuses on competition issues as your digital policy task force. I would like to encourage this committee to consider the merits of an all-of-government approach to digital regulation that can complement competition reform efforts and help us achieve a truly interoperable policy environment. This is something I've written about.

These changes are a down payment on competition reform in Canada, modernization that is long overdue. They are not perfect, but no policy choice is. As I joked on Twitter, where honestly I spend a lot of my time on the Internet nowadays, we don't write the law in stone anymore, and that's a good thing. I see no reason to treat this suite of legislative changes as if it cannot be further refined and improved as we go forward. In fact, perhaps we can review the Competition Act every five years, as we do the Bank Act, to keep it fresh, flexible and responsive.

While I am not entirely sure if this is relevant, I also want to note that, in last year's federal election, it was the Conservative platform that spoke most explicitly to competition reform. It acknowledged that we need to ensure a level playing field for Canadian businesses. It promised harsher penalties for executives and companies that fix prices or abuse their dominant positions. The platform also supported workers, noting that mergers that reduce competition and lead to layoffs and higher prices will be rejected. These were compelling proposals that I was excited to read.

To conclude, I'd like to thank everyone responsible for drafting the language that we've read in the budget implementation act and for supporting these important, initial improvements to the Competition Act.

I am looking forward to continuing to engage on these issues and to further discussion.

Thank you very much.

● (1005)

The Chair: Thank you, Ms. Bednar.

Now we'll hear from the Canadian Dental Association, for five minutes of remarks, please.

Dr. Lynn Tomkins (President, Canadian Dental Association): Thank you, Mr. Chair.

[*Translation*]

Good morning to all the members of the committee.

[*English*]

I am a dentist here in Toronto, and I am president of the Canadian Dental Association. My name is Lynn Tomkins. I am joined today by my colleague, our interim executive director at the Canadian Dental Association, Dr. Aaron Burry.

I am speaking to you from Toronto on the traditional territory of the Huron-Wendat, the Haudenosaunee, the Anishinabe, and the Mississaugas of the Credit First Nation.

I appreciate this opportunity to discuss budget 2022 and its proposed investment of $5.3 million towards access to dental care. I would also like to thank Mr. Chambers, Mr. MacDonald and Mr. Blaikie for meeting with the Canadian Dental Association on this topic over the past few weeks.

At the Canadian Dental Association, we know that oral health is an essential component of overall health. We believe that Canadians have a right to good oral health. That is why we fully support efforts by all levels of government to improve Canadians' oral health and to increase their access to dental care. We applaud this historic federal financial commitment.

Poor oral health strains other parts of the health care system, whether through hospital visits for dental emergencies or managing the long-term impacts of poor oral health on systemic health, for instance, cardiovascular disease or diabetes. While Canada compares favourably to many other countries, too many people still do not receive the dental care they need. More than six million Canadians each year avoid visiting the dentist because of the cost. This is especially true for low-income families.

Today I would like to comment briefly on how the federal government can best ensure this funding will quickly and efficiently benefit the Canadians who need it most, namely by collaborating with provinces and territories to stabilize and enhance the existing provincial and territorial dental programs.

Yes, many of these programs have flaws. Some of them cover only limited services, and others target only a narrow segment of the population, for example, only children or only low-income families. Many reimburse dentists at rates far below the cost of providing treatment. However, this only underscores why it is vital for the federal government to work with its provincial and territorial partners to stabilize their programs and to use their existing infrastructure to deliver enhanced, federally funded coverage. It makes no sense to construct a new stand-alone federal dental care program on top of strained provincial foundations.

A one-size-fits-all, Ottawa-knows-best approach has many drawbacks. Difficulties in setting up a new federal program could actually jeopardize dental care access for millions of Canadians who already have some sort of employer-sponsored coverage. Sixty-eight per cent of Canadian households earn less than the proposed $90,000 threshold, so we risk defunding or elimination by the provinces or territories of their existing programs. This would divert hundreds of millions of public dollars away from dental care and towards other priorities.

At a time when the federal government has difficulty providing passports to Canadians—and this is a function we have undertaken for over a century—it is fair to ask whether it could quickly and successfully set up a program that directly provides health care to the general public, an area where it has little relevant expertise. The spectre of a lengthy federal procurement process and the contracting out of the delivery of billions of dollars in health care spending to a private, for-profit insurance company is also unsettling. Pursuing either of these routes would be a mistake.

Furthermore, there are massive jurisdictional issues at play. Broad-based health care programs are the exclusive jurisdiction of the provinces, and efforts by the federal government to sidestep the premiers could lead to squabbles and court challenges. This would impede rather than improve access to care for the very Canadians that such a program would be designed to help.

There have also been questions about whether the federal government has the constitutional or legislative authority to deliver such an initiative directly. Premiers such as John Horgan and François Legault have already called for these funds to be transferred to their governments to support provincial delivery of dental care. Liberal governments in Newfoundland and Labrador and Yukon, as well as the Progressive Conservatives in P.E.I., have also recently made huge strides on access to dental care. In this environment, the federal government cannot and should not go it alone.

● (1010)

In late March, health minister Jean-Yves Duclos outlined three principles for intergovernmental collaboration on health care: sharing responsibility, respecting jurisdiction and focusing on results. Since then, we have appreciated the hard work done by him, by his team and by his officials on this file, as well as how much they have consulted with the CDA and other stakeholders. Dr. Burry and I had an excellent meeting with him just a few weeks ago. I encouraged the minister to continue this collaborative approach by working on this file with provincial and territorial colleagues in the weeks and months ahead.

Likewise, the day after the budget, CDA was happy to hear both Prime Minister Trudeau and—

The Chair: Ms. Tomkins, could you start wrapping it up? We're well over time. Thank you.

● (1015)

Dr. Lynn Tomkins: Yes. I have four sentences left. I should have talked faster. I apologize to the committee.

Recently, the Prime Minister and the Deputy Prime Minister said they looked forward to intergovernmental collaboration on dental care, as had recently taken place with child care.

We have a historic opportunity to make a big difference in the oral health of millions of Canadians. Let's get this right.

Thank you very much for the opportunity to present today. Dr. Burry and I will be happy to answer any questions. My apologies for going over time.

The Chair: It's not a problem; thank you, Ms. Tomkins.

Now we'll hear from Canadian Manufacturers & Exporters.

Mr. Poirier, you have up to five minutes, please.

Mr. Matt Poirier (Director, Trade Policy, Canadian Manufacturers and Exporters): Thank you, Mr. Chair, and good morning, everyone. It's my pleasure to be here on behalf of Canada's 90,000 manufacturers and exporters and our association's 2,500 direct members to discuss Bill C-19.

The manufacturing industry is 10% of Canada's GDP, produces two-thirds of Canada's value-added exports and employs 1.7 million people in high-paying jobs across the country.

In the lead-up to the budget, CME issued its 2% challenge. That is, the federal government should attract 2% of OECD manufacturing investment into Canada, up from our current 1%, by instituting a national industrial strategy. Doubling that investment to 2% would revolutionize Canadian manufacturing, create hundreds of thousands of jobs, and increase our GDP and standard of living.

To get there, we must address our most pressing challenges: labour shortages, supply chain disruptions and declining investment and export performance. While there's a sprinkling of help in all those areas in budget 2022, we believe more must be done to help Canadian manufacturing grow. I will outline that plan now.

First, on labour shortages, manufacturers big and small are struggling to fill the 81,000 vacancies across Canada. All this is happening even though our sector is one of the highest-paying industries in the country.

We can tackle this problem in many ways, but the main drive should be to plug our labour shortages through immigration. Budget 2022 talked about processing backlogs, but we encourage the government to dedicate more resources to the problem. We must also speed up the introduction of a trusted employer stream to the temporary foreign worker program and reduce the administrative burden on companies applying to the program. Ultimately, however, the temporary foreign worker program is merely a pressure release valve. We need to aggressively increase our immigration intake targets to 500,000 per year in the economic stream alone. We need workers.

Second, on supply chain bottlenecks, according to a CME survey, nine out of 10 Canadian manufacturers report encountering supply chain issues. The added challenge for Canadian manufacturers is their lower position in the pecking order for critical components. We currently have the situation in Canada whereby a company can have an increase in customer orders and a workforce ready to go, but nothing to build because it's waiting on parts. The national corridors fund to facilitate the movement of goods and other initiatives announced in the budget will help, but in addition to long-term investments and modernizing our trade infrastructure, we must address the short-term problem by providing temporary financial assistance to manufacturing companies still feeling supply chain disruptions.

Lastly, on investment and exports, Canada lags behind other OECD countries in non-residential business investment, and this is leading to deterioration in our international competitiveness. On the net-zero transition, Canada's manufacturing industry has already started, but smaller companies are falling behind. On trade, while we enjoy some of the best free market access of any country on earth, our goods exports are stuck in neutral.

To respond to all of these challenges, the budget announced some measures that CME has long called for. The Canada growth fund and tax changes for SMEs are positive, as are the promises to look into adopting a patent box regime and SR and ED reform. A tax credit for investments in clean technology and a refundable tax credit for carbon capture will support manufacturers as they work to decarbonize their industrial processes.

While these are all positive developments, we worry that the money allocated to these measures may not be sufficient, so we urge the government to put up the money necessary to make these changes have a real impact. We also need to better incorporate SMEs into the design of these programs so they can qualify for them and be helped through the process of using them, particularly on the net-zero transition and growing exports front.

Before I conclude, I want to register our concern with the proposed luxury tax on planes, boats and autos. I echo all the others who have spoken out against this tax. We understand the allure of such policies but they are a siren's song, as they do a lot of damage to domestic manufacturing. Manufacturers and organized labour are united in their calls for this tax to go, and we urge the government to do just that.

In conclusion, while CME is pleased to see many policies we have long championed included in the budget, this is just the starting point. We look forward to working with you all to tackle our industry's challenges and ensure our economic prosperity for years to come.

● (1020)

Thank you for inviting me. I look forward to the discussion.

The Chair: Thank you, Mr. Poirier.

We'll hear from Sara Anghel for the National Marine Manufacturers Association Canada.

Ms. Anghel.

Ms. Sara Anghel (President, National Marine Manufacturers Association Canada): Good morning, Mr. Chair, members of the committee and ladies and gentlemen.

My name is Sara Anghel and I'm president of the National Marine Manufacturers Association Canada. I'm here to express the recreational boating industry's concerns with the proposed luxury tax on boats valued above $250,000.

The boating industry has a GDP impact of $5.6 billion. It has $10 billion in revenue and employs more than 75,000 Canadians in the core of the industry. Our industry has faced many headwinds since the start of the pandemic. Supply chain disruptions, production delays and inflation have affected our members. Tourism and recreational businesses were closed for months due to the pandemic restrictions and border closures. On top of that, we are now facing an impending luxury tax on boats.

Our industry understands the government's need to raise revenue in the wake of the pandemic. The luxury tax is not the way to achieve this. The history of luxury taxes shows that consumers will simply choose to take their discretionary spending elsewhere. That is what dealers and manufacturers are hearing from customers. The result will inevitably be a dip in revenue and hundreds or even thousands of job losses across the country.

According to an economic impact study by economist Dr. Jack Mintz in partnership with Ernst & Young, the proposed tax would result in a minimum $90-million decrease in revenues for boat dealers and potential job losses of at least 900 full-time equivalent employees. In short, the tax will hurt the very middle-class families the government is trying to help.

The problem with this kind of tax is that it can easily be avoided by consumers either buying other goods or purchasing and keeping their boats abroad, in Florida or Seattle, for example. They may bring a boat into Vancouver for the day, but keep it stateside.

The expected drop in sales will significantly impact the bottom line of many manufacturers and dealers, which will then be forced to scale back their operations and staffing levels. While we saw a boom in boat sales during the pandemic, the supply chain disruption has been very difficult for our industry. In fact, dealers are expecting a significant drop in sales due to material shortages. Ontario dealer Crate's Lake Country Boats in Orillia expects a drop of 70% in sales by the end of 2022. That doesn't account for what will happen once the luxury tax is in place.

The tax also threatens the survival of Canada's domestic boat manufacturing base, which has already been hollowed out by years of competition from low-cost jurisdictions and offshoring for many. For some yacht builders, such as Neptunus Yachts in St. Catharines, Canadian sales have been the foundation of their business for 30 years. Neptunus Yachts expects to see these Canadian sales drop to virtually zero.

We can also expect a ripple effect of job losses at marinas and service shops. Fewer new boats sold means less work for the marina service industry, much of which is concentrated in rural and coastal communities.

In the early 1990s, the U.S. introduced a similar tax on boats that devastated the industry. It was eventually repealed following the loss of thousands of jobs and a net revenue loss for the government. New Zealand, Italy, Norway, Turkey and Spain have also previously introduced a luxury tax on boats. In each of these cases, the tax was ultimately repealed due to the net negative economic effects. There is no reason to think the same will not happen here in Canada.

We are also troubled by the singling out of recreational boats and not other recreational products. Boating is a cherished pastime for millions of middle-class Canadian families. In this unaffordable recreational property market, many families choose to purchase a boat valued above $250,000 as their cottage.

At a time when governments are trying to attract investment and rebuild our economy, a tax that guts homegrown manufacturing and retail businesses makes no sense. Instead of supporting our industry as a vital part of Canada's recovery, this tax is picking winners and losers in outdoor recreation.

The luxury tax also has the potential to damage Canada's trade relations. Concerns have been raised by the boating industry in the United States that this tax directly attacks our Canada-U.S.-Mexico agreement. Similarly, our trading partnership with the U.K. and the European Union could be hurt by what many see as an indirect tariff on boats.

Finally, I saw this morning that the PBO has released a new report on the tax and projects a $2.9-billion loss in sales and that 75% of that loss will come from boats. This is what our industry has been trying to communicate to the government—that this tax will destroy the industry and cause job losses across the country.

Thank you very much for the time to speak to you today.

● (1025)

The Chair: Thank you, Ms. Anghel.

Now we'll hear from Philanthropic Foundations Canada.

Jean-Marc Mangin, you have up to five minutes, please.

[*Translation*]

Mr. Jean-Marc Mangin (President and Chief Executive Officer, Philanthropic Foundations Canada): Mr. Chair, members of the committee, thank you very much for this opportunity to discuss the serious and unintended consequences of Bill C-19 for the charitable and non-profit sector.

Like many other organizations in the sector, Philanthropic Foundations Canada, which is the largest national network of private and public foundations in the country, welcomed the government's budget announcement that it would adopt the spirit of Bill S-216, the purpose of which is to treat organizations that contribute to the common good on an equitable basis even if they do not have official charitable status.

However, Bill C-19 does no such thing. In fact, if passed in its present form, it would undermine the operational environment by adding more complexity and risk through overly prescriptive statutory measures. I believe that the government and opposition parties are fully aware of the problems involved and that there is a common willingness to correct these unintended effects.

[*English*]

With Imagine Canada, Cooperation Canada and leading charitable lawyers, we have provided three simple amendments that would remove the worst of these unintended consequences. These have already been submitted to the clerk of this committee. Together, we continue to offer our co-operation to fix Bill C-19.

Given the vast and complex set of urgent challenges facing our communities, our collective focus must be to encourage adaptive, learning-oriented results management, not to impose, in law, seven narrow and mandatory measures on all forms of partnership.

The former—that is, Bill S-216—offers real accountability to funders and communities alike who work across a myriad of partnerships. The latter—that is, Bill C-19 in its current form—is a straitjacket that will hinder social innovation, continue the damaging colonial practices of de facto direction and control, and ultimately restrict the flow of charitable dollars to those who need them the most. Let's focus on outcomes—

[*Translation*]

Mr. Jean-Denis Garon (Mirabel, BQ): I have a point of order, Mr. Chair. There has been no interpretation for the past 20 seconds. I think there's a sound quality problem affecting the interpretation or cutting it off.

[*English*]

The Chair: Clerk, there's a point of order on the interpretation. Can you share with us what's happening?

[*Translation*]

The Clerk of the Committee (Mr. Alexandre Roger): Yes.

Mr. Mangin, I believe your mike hasn't been selected. On the left at the bottom of your screen, you'll see the *Mute/Unmute* button with an arrow pointing upward. Can you tell me what's selected under *Select a Microphone*?

Mr. Jean-Marc Mangin: It's *Microphone Array (Realtek Audio)*.

The Clerk: If you see no other choices, it appears your headset isn't detected. Would you please unplug it and then plug it back in it?

Mr. Jean-Marc Mangin: Yes.

The Clerk: It should reinitialize.

Has a new option appeared under *Select a Microphone*?

● (1030)

Mr. Jean-Marc Mangin: No.

The Clerk: Then the system isn't recognizing your mike.

[*English*]

Mr. Chair, there's nothing we can do. This is not a House-recognized device on his head.

We were told yesterday that he would appear virtually. We didn't have time to send out a headset.

[*Translation*]

Mr. Mangin, do you have another headset or another audio system? For instance, do you have any iPhone earpods with you?

Mr. Jean-Marc Mangin: Yes.

The Clerk: I know the iPhone system has previously been useful in solving this kind of problem. There's an integrated mike on the earpod wire. If you raise it close to your mouth, it might work and help the interpreters do their job.

Mr. Jean-Marc Mangin: All right.

Is it working better now?

The Clerk: No, it's the same. The system's picking up your voice but isn't producing sound quality good enough for the interpreters.

[*English*]

The Chair: Mr. Mangin, I paused the time. You were about two and a half minutes into your opening remarks.

What can we do? Is that your new headset?

Mr. Jean-Marc Mangin: That's my other headset. Does this make any difference?

The Clerk: No. It doesn't make any difference. There is no microphone attached to the headset. It's only a headset. We need the sound to be better, so we need a proper microphone.

The Chair: It may not be possible to have Mr. Mangin, because of our interpretation services.

The Clerk: Mr. Mangin, do you not have an iPhone device with earbuds?

Mr. Jean-Marc Mangin: I have. I could try that.

The Chair: As Mr. Mangin is trying that out, members, I would say that we'll move to our next witness and then bring Mr. Mangin back if he has everything in order with his device.

Mr. Jean-Marc Mangin: Thank you.

The Chair: We're moving to the Producteurs de cidre du Québec for up to five minutes, please, for opening remarks.

[*Translation*]

Mr. Marc-Antoine Lasnier (President, Producteurs de cidre du Québec): Good morning.

Thank you very much for welcoming us and allowing us to state our position on Bill C-19.

My name is Marc-Antoine Lasnier, and I am the president of Producteurs de cidre du Québec. I'm also the owner of Cidrerie Milton, which is located in the Eastern Townships.

I am accompanied by Catherine St-Georges.

Ms. Catherine St-Georges (Director General, Producteurs de cidre du Québec): Good morning, everyone.

My name is Catherine St-Georges, and I'm the director general of the Producteurs de cidre du Québec.

First, by way of introduction, I would like to introduce our association. It was founded in 1992 and will celebrate its 30th anniversary this year. It represents all cider producers in Quebec. We have 81 voluntary members and represent the interests of all cider producers in our efforts to optimize Quebec's cider-producing potential and secure the industry's future.

I have some interesting numbers for you.

I told you we have 81 voluntary members, but there are 118 permit holders producing cider in Quebec, 84% of whom also grow apples in the province.

Cider volumes rose from 3.2 million litres in 2016 to 5.1 million litres in 2021, a net increase of 60% in 5 years. The cider industry is thus truly thriving. We calculate that 11% of all apples grown in Quebec are processed as cider, and that volume is increasing as the industry grows. The total value of cider sales in Quebec is $51 million.

There are 9,000 jobs in Canada's cider industry as a whole. If you include all production-related sectors, such as restaurants, transportation and agritourism, cider production represents tens of thousands of jobs.

Mr. Marc-Antoine Lasnier: What has caught our attention and brought us here today is the reinstatement of the excise tax. Here's a brief history of that tax.

In 2006, 100% Canadian wines were exempted from excise duty. Ciders fall into the wine class for excise tax purposes. As a result of a complaint filed by Australia, we lost our case before the WTO and the excise tax was reinstated in July 2022.

Our industry thus operated without that tax for about 16 years. Today, many owners don't even know that the tax was previously in force or that it could be again.

The tax is roughly equal to the current net margins on our products. From what we've heard, a compensation program is already being developed. We'd like to bring that program to your attention because, if it isn't generous enough, we can expect that businesses will shut down over the next few years. If businesses in our sector close their doors, that could affect related businesses and sectors, such as apple production and the tourist and restaurant industries.

We have very few diversification options in our sector. Regulation is very strict, and we operate on a vertically integrated apple business model.

I can give you an idea of the potential impact that reinstatement of the excise tax may have. The tax represents approximately $200,000 for my business, Cidrerie Milton. However, my net annual profit is less than $200,000. So I expect to operate at a loss unless a compensation program is developed.

Our demands are very specific, and Cider Canada has previously outlined them to the committee. We are making the same demands here today: that the government increase the budget allocation so the program can support the entire cider industry, extend the program until 2030, and provide a timeframe for the implementation of the excise tax so that it coincides with the program's coming into force and our tax disbursements.

Thank you very much for your attention.

That completes our presentation.

● (1035)

The Chair: Thank you.

[*English*]

Now we will hear from Wine Growers Canada. Mr. Paszkowski, I believe, is in the committee room.

Mr. Dan Paszkowski (President and Chief Executive Officer, Wine Growers Canada): Thank you, Mr. Chair, and thank you to all members of the committee for the invitation to discuss budget 2022.

Wine Growers Canada represents the national and international interests of the Canadian grape wine industry, which consists of over 700 grape wineries and 1,800 independent grape growers producing 75 million litres of grape wine in six provinces. We support over 37,000 high-paying jobs and contribute more than $9 billion annually to the national economy. As a result, every dollar spent on Canadian wine sold in Canada generates over $3.50 in gross domestic product.

For over 16 years, I've been meeting with parliamentarians and government officials to talk about the tremendous growth and job creation opportunities in Canada's wine industry, driven by investments in capacity, quality research, innovation and experiential tourism infrastructure. The major challenge is that wine is subject to excise duty and other agricultural products are not.

I'm not here today to deliver a positive message. Today, like the cider industry you just heard from, I'm here to tell you that Canada's wine industry is at a crossroads.

In addition to the challenges of postpandemic recovery, skyrocketing inflation on the cost of goods, and supply chain disruptions, the long-standing excise duty exemption that fuelled investment and industry expansion will be repealed on July 1. As you may know, 16 years ago, the 2006 budget established the federal excise duty exemption on 100% Canadian wine to incentivize strategic investments to modernize, grow and enhance the quality of wines produced in this country. As a result, 400 new wineries were constructed, increasing the quality and quantity of Canadian-produced wines while increasing annual production of 100% Canadian wine by 45 million litres. This growth helped generate an additional $4.8 billion in annual national economic impact in return for $42 million in forgone excise revenue—a fantastic return on investment.

Between 2006 and 2017, the excise exemption on 100% Canadian wine was not a major concern for import producers as they watched their sales grow across Canada. However, this all changed when the 2017 federal budget legislated annual alcohol excise duty increases indexed to the consumer price index. Legislated inflation indexation, better known as the excise escalator, raised the ire of major wine-producing nations around the world, prompted a WTO challenge from Australia and led to the pending repeal of the excise exemption through a negotiated settlement to end the trade dispute. Effective July 1, all 100% Canadian wine, including non-packaged wine produced prior to this date, will become subject to excise duty.

Canadian wineries agreed to the terms of the negotiated settlement with the Government of Australia, based on advice from Global Affairs Canada and the Liberal government's promise, made by then finance minister Morneau, to ensure the long-term success of grape growers and winemakers. However, budget 2021 announced funding for a limited 18-month support program, which we immediately confirmed was insufficient to address the loss of the excise exemption and the remaining 100% Canadian wine inventory that was produced excise-free. Clearly this was an error in the budget.

Between budget 2021 and, most recently, budget 2022, Wine Growers Canada repeatedly stressed that the only way to grow the industry was to increase the $101 million in funding announced in the budget, extend the program beyond 18 months to encourage investment and bank financing, and zero-rate the excise duty payable on all wine inventories produced before July 1, 2022, all of which were produced in a legislated excise-exempt environment.

While budget 2022 did not respond favourably to Wine Growers Canada's request, the budget reported $390 million in forecasted federal excise revenue over the next five years as a result of the repeal of the excise exemption, with $135 million of that for year one and two, or $34 million more than was provided in budget 2021.

Excise duty on Canadian wine is not a consumer tax but a production tax, because we cannot pass it on to the consumers. This is because imported wines represent over 70% of Canada's domestic wine sales market, forcing Canadian wines to be price-takers in our home market.

● (1040)

Investor confidence has waned as successive trade agreement concessions have benefited imports and has stalled since the 2020 negotiated settlement with Australia. The excise exemption will be repealed in four weeks, and wineries, grape growers, employees, investors and creditors remain uncertain of the industry's ongoing viability or the results of the wine support program, which has not been announced yet.

Without an adequately funded wine support program, the lost revenue will have dire economic impacts on the entire supply chain. Wine Growers Canada's research estimates that the loss of the excise exemption would result in a 12% drop of total industry sales, the closure of over 300 wineries, 2,400—

The Chair: Wrap it up, Mr. Paszkowski, please.

Mr. Dan Paszkowski: —job losses, and the loss of $425 million in total economic impact. That's only for grape wine. That does not include cider, mead or sake.

The addition of 52¢ per bottle will negatively impact the industry. We are simply asking the government to fix the error in budget 2021-22 and live up to its promise to provide adequate support for our industry when we need it most. If this isn't undertaken, the only winners will be the Australian wine industry and all other wines imported into Canada, at the expense of Canadian wine sales in our domestic market.

Thank you very much.

The Chair: Thank you, Mr. Paszkowski.

Before we go to the members' questions, I want to see an update on how Mr. Mangin's audio is working. My understanding is that the computer is not picking it up and we're not getting the headset.

The Clerk: From what I understand, the computer he's using does not pick up the mike. He bought his headset yesterday specifically for this committee, so it's unfortunate that it's not working.

We've called Mr. Mangin.

● (1045)

[*Translation*]

Mr. Mangin, I believe you've spoken to our IT ambassadors.

Mr. Jean-Marc Mangin: Yes, that's true.

The Clerk: All right.

[*English*]

We don't have a solution, sir, at this time. I don't know how to proceed.

The Chair: We understand the challenges, but I don't think we'll be able to proceed with Mr. Mangin due to the technical issues we're having with the headsets and then with interpretation. We apologize on behalf of the committee for that.

Mr. Mangin, I know you made efforts to be able to address the members and have your questions. If you can submit your remarks to the committee, that would be appreciated.

Mr. Jean-Marc Mangin: I will do so.

[*Translation*]

The Chair: Thank you.

[*English*]

Members, we are moving to questions.

In our first round of questions, members will have up to six minutes to ask questions of our witnesses. We are commencing with the Conservatives and MP Chambers.

You have up to six minutes, please.

Mr. Adam Chambers (Simcoe North, CPC): Thank you very much, Mr. Chair, and thank you to all of our witnesses. What a vast and rich panel we have here today.

Unfortunately, I won't have time to get to all the questions I'd like to, but after listening to your opening interventions, it seems to me that the government seems to be attempting to tax the country's way to prosperity. Whether that's with the wine industry, whether that's on manufacturing, I think that's a lesson we should be all taking away from this.

I'd like to start with a few questions to Ms. Anghel from the National Marine Manufacturers Association.

Ms. Anghel, you referenced potential job losses not just for your members but also across the industry. When this tax was proposed by the government, what kinds of consultation were there with your industry about the potential impacts? Did you feel that you were consulted?

Ms. Sara Anghel: We worked very closely with at the Department of Finance and had a lot of dialogue, but there was no direct consultation with our industry from the minister's office or others.

Mr. Adam Chambers: Would it surprise you to learn that there was no economic impact assessment done at either the political or the government level? The only economic impact analysis we have is one that we see from your industry association, and then also what was just released this morning from a Parliamentary Budget Officer report.

Does it surprise you that there wasn't anything done on the government side?

Ms. Sara Anghel: It would have been very much appreciated had there been some more thought put into it. I realize these things go how they go. It was surprising that there wasn't anything done. That's why our industry stepped up in an effort to assist the government and commissioned work with Dr. Mintz to have that study so we would have some data to provide to them to help guide them through the situation.

Mr. Adam Chambers: You listed a few other countries that have implemented a similar version of the tax, but have since walked away from it. Do you know why these countries have done that?

Ms. Sara Anghel: In every case, once the tax was implemented, it didn't take very long before they saw job losses, the industry decreasing and people even using their boats. In the case of Italy, it was revenue lost to the government and people taking their vessels outside of the country. Most importantly, with our neighbours to the south of us, the U.S., we saw boat manufacturing facilities with 1,200 jobs go down to having 70 jobs. It was quickly seen that it was a flawed approach.

Mr. Adam Chambers: Wow.

If you're in a border community, as many Canadians are—in fact, many Canadians live within a short distance of a border—or if you're lucky enough to live in a community like mine, you can get to the United States by water quite easily. How easy would it be to keep a vessel across the border and either bring it into Canada or leave it in the U.S. for recreation?

Ms. Sara Anghel: It would be extremely easy, as you've pointed out. Whether it's through the Great Lakes, from Vancouver to Seattle or on the east coast and everything in between, that is what we're hearing. These vessels will be registered and sold in the United States. They will potentially come up to Canada, but potentially not, because it may be too much effort to do so.

We'll lose the ripple effect of tourism dollar spending and we'll see a complete loss in revenue. Those vessels not being sold will have an economic impact in Canada.

● (1050)

Mr. Adam Chambers: When we talk about lost sales, how does that filter through? Lost sales mean potential cutbacks at a manufacturing facility and potential knock-on effects at a dealer, as an example, in sales, but what other kinds of impacts could we expect? How would this work?

Ms. Sara Anghel: That's the start of it at the manufacturing level, or what's left of it in Canada, which we should be protecting and nurturing.

The dealer that is selling the U.S.-made or European-made boat, or whatever the case may be, will see sales drop, because people will choose to spend their discretionary money elsewhere. The effects will continue to ripple through to the marina and the repair shops, because now there will be fewer vessels in the country to service and take care of. Every vessel is a microeconomy in and of itself, a continued layer of things that stimulate the economy.

Mr. Adam Chambers: Thank you very much for being here today.

In my remaining minute, I would like to bring in the Canadian Manufacturers and Exporters.

Mr. Poirier, you've heard some of this discussion. You also represent manufacturers of aircraft and automobiles. How do you think this tax is going to impact manufacturing? Are we going to have more manufacturing activity or less after this tax comes into effect?

Mr. Matt Poirier: It's certainly not good. To echo everything that Ms. Anghel said, it's for those same reasons. She's looking at the marine sector, and we have members there. However, it will impact the aerospace and automotive sectors and all of the supply chain partners that are part of that. These are little companies that make all those parts that feed into those products.

It's a bad idea, full stop. History has shown that these measures do not bring in the revenue that they always hope for, which is why I referred to it as a siren song.

Mr. Adam Chambers: Thank you very much. Mr. Chair, I know we want to keep on time, so I'll go back to you.

The Chair: Thank you, MP Chambers.

Members, before we go to the Liberals for their six minutes with MP Baker, you may have questions for Mr. Mangin and Philanthropic Foundations Canada. Please submit those in writing. We will get them to Mr. Mangin for answers and then distribute those to members with translation. As well, opening remarks from Mr. Mangin will be translated and sent out to members.

Now we'll go to the Liberals and MP Baker for six minutes.

Mr. Yvan Baker (Etobicoke Centre, Lib.): Thank you Mr. Chair.

Thank you to all the witnesses for being here today.

I would like to start my questions with Ms. Tomkins.

In your opening remarks, you talked about the need for the federal government to work with the provinces and territories on the implementation of dental care. You had some strong views as to how that should or shouldn't be done.

When I think about analogies to this, I think about child care. I'm wondering what your thoughts are on the manner in which child care agreements were reached recently. Do you support that type of model for the implementation of national dental care?

Dr. Lynn Tomkins: Certainly we strongly recommend that the federal government implement this program through funding the existing provincial and territorial programs, which by and large operate well. They do reach the underserved populations, but for them it's a matter of funding. The federal contribution to the provincial programs has been almost non-existent. These programs are functioning well. They are delivering care to the populations that they are designed to reach, but they do need to be funded, and that has been a long-standing advocacy position for us, even before this announcement. The federal government needed to do that.

I don't know all the nitty-gritty details of what you did in working out the agreements with respect to child care, but it seemed that those agreements brought people together on areas of agreement, respected jurisdictional differences and still were able to get the funding to the programs that needed it the most, so insofar as that would work for us, I think that would be a good model.

● (1055)

Mr. Yvan Baker: That's great. Thank you for that.

In terms of the child care agreements, without getting into the nitty-gritty here, what was done there, in my view, was that the government came to agreements with the provinces as to how they would fund that programming in a collaborative way. We came to a separate agreement with each of the provinces and territories and ensured that it was funded equitably across the country while ensuring that the provinces were on board.

I'm not putting words in your mouth, but in your opening remarks I did hear that you wanted to make sure some of those goals were achieved in any kind of national dental care plan. That's kind of why I asked you about the child care. I appreciate that.

Dr. Lynn Tomkins: May I add a comment?

Mr. Yvan Baker: Sure, absolutely.

Dr. Lynn Tomkins: I think the whole aspect of collaboration is extremely important, because I think we in dentistry view this as a very exciting opportunity. You have children in pain, disabled people who cannot smile and seniors who can't eat, so I think that if we keep in mind the overall goal of wanting to see the funding go into delivering care for those who need it the most and we operate in the spirit of collaboration and keep the bigger picture in mind, we will achieve a great outcome. It's a game-changer for us.

Mr. Yvan Baker: That's great. I appreciate that, Ms. Tomkins.

I have a follow-up question for you. I used to be a member of the provincial Parliament in Ontario, so I'm familiar with the provincial side of this and now the federal side. One of the things on which people used to approach me and meet with me at my constituency office in Etobicoke Centre was their concerns about the lack of dental care for those vulnerable folks you just spoke about.

I think sometimes we think about dental care as being sort of hived off from the broader health care system or health care needs of Canadians, and I'm wondering if you could speak to the other health impacts of poor dental health. What is that impact and what kind of strain does it put on the rest of the health care system when poor oral or dental health exists?

Dr. Lynn Tomkins: I think a very good example would be a person who is unable to access dental care for an immediate problem, such as a toothache. They have an infected tooth that either needs to have a root canal treatment or it needs to be taken out. If they're not able to get to a dentist and receive the care they need, they end up in the emergency ward of the local hospital. In that appointment, they're seen and assessed, but the definitive treatment is not rendered. There are very few hospitals that have dental departments in them. As a result, that person is given a prescription for an antibiotic, sort of on speculation, whether or not they actually need it, but they're given it just in case. Now we have the potential overuse of antibiotics, which has a whole lot of other implications for health. As well, they're given a prescription for, usually, very strong painkillers, such as an opioid.

The root of the problem has actually not been addressed. That visit to the health system costs the provincial health system anywhere from $500 to $700 and still they did not get the treatment that would have taken care of the problem, which in a dental office would probably have cost less than half of that. That would be a very direct example of an emergency situation.

I'm on staff at the University of Toronto faculty of dentistry. I teach in emergency and oral diagnosis, so we see people with an awful lot of chronic conditions—diabetes, cardiovascular diseases, rheumatoid arthritis and the inflammatory effects of gum disease—what we call periodontal disease—which is actually a disease of bone that has significant effects on the inflammatory processes in the human body, so there are lots of implications. Whatever happens in the mouth is either a sign of something happening in the body or the result of something happening in the body and/or the treatment of it.

The Chair: Thank you, Ms. Tomkins and MP Baker.

Now we will have questions from the Bloc. Monsieur Garon, you have six minutes, please.

[*Translation*]

Mr. Jean-Denis Garon: Thank you, Mr. Chair

All my questions will be for Mr. Lasnier and Ms. St-Georges. I'll leave it to them to decide who responds.

We have outstanding businesses in my riding, such as Cidrerie Lacroix and Intermiel, which are processors. Somewhat like you, they're surprised to see this new tax come out of nowhere as a result of the settlement of a trade dispute with Australia essentially concerning the wine industry.

Why do you think this measure is being applied so broadly, particularly to goods that weren't involved in the dispute?

● (1100)

Mr. Marc-Antoine Lasnier: Our understanding is that it's definitely related to Canada's regulation of the wine industry. Cider is considered a wine at the federal level, as are mead, maple-based beverages and berry-based drinks.

Mr. Jean-Denis Garon: So I understand that apples are classified in the same category as grapes under federal regulations, which have been in force for some time. Your response shows just how obsolete those regulations are.

I'm quite familiar with these businesses. There's a lot of talk about processing and value-added products, and people say our resources must be processed in order to create employment and wealth, and that's exactly what these businesses do.

Do you know if the federal government did a study to assess the impact of this new tax before so quickly introducing the measures we now see in Bill C-19?

Mr. Marc-Antoine Lasnier: I couldn't tell you whether the government has done in an impact study. However, Cider Canada was established very recently, when this new tax was introduced, and it conducted a study that showed the tax might result in the loss of 4,000 of the 9,000 jobs associated with the sector and result in losses totalling $500 million across Canada.

Mr. Jean-Denis Garon: I understand.

One of the factors that may explain the potentially mistaken application of this new tax is that the federal government has no expertise in wine. In Quebec, for example, we have the Société des alcools du Québec, and the regulations respecting cider, which for a long time was illegal, have been amended.

Do you think that this was a good-faith error resulting from a lack of expertise and that it could be corrected by an amendment to Bill C-19?

Mr. Marc-Antoine Lasnier: Pardon me, but would you please clarify your question?

Mr. Jean-Denis Garon: Do you think we should amend Bill C-19 to apply the new tax solely to wine, the product at issue in the dispute?

Mr. Marc-Antoine Lasnier: That would obviously be a huge help to cider producers, mead and berry-based beverage producers and all the partners we've recently spoken to.

Mr. Jean-Denis Garon: This is a significant tax. It may range up to $0.16 per can. In the current inflationary climate, you can't and don't want to pass all of that tax on to consumers. So that'll have an impact on your production costs. Certain producers tell me it might encourage some to use fewer Canadian and Quebec apples and to bring in concentrates from other countries in order to survive.

Do you think that kind of problem might arise after the new tax is applied to your products?

Mr. Marc-Antoine Lasnier: Yes, absolutely, but we'd see that more in other provinces than Quebec because Quebec regulations prohibit the use of apples from other countries. Our hands are tied in Quebec. In the rest of Canada, however, apples or juice concentrates could be imported from China or the United States, for example.

Mr. Jean-Denis Garon: As far as you know, cider and mead aren't currently at issue in any trade dispute at the World Trade Organization, are they?

Mr. Marc-Antoine Lasnier: No, not at all; cider isn't an issue. There have also been negotiations between the WTO and federal and provincial governments, and cider wasn't the subject of any targeted negotiations with certain provinces.

Mr. Jean-Denis Garon: I understand.

Mr. Lasnier, you have approximately 1 minute and 20 seconds left.

As you know, we're considering Bill C-19. Bills may be amended in committee. At the end of your opening remarks, you stated three very pragmatic demands to the committee. Would you please repeat them to the members of the Standing Committee on Finance?

Mr. Marc-Antoine Lasnier: We're asking that the budget allocate the necessary resources for the compensation program to support the cider industry as a whole.

We would also like the compensation program to be extended to 2030 to afford our businesses some predictability.

We also want to see a timeframe for the implementation of the excise duty so it coincides with the coming into force of the compensation program. As we understand it, the program could be introduced in 2023, but producers will be required to make disbursements in July of this year.

● (1105)

Mr. Jean-Denis Garon: I imagine you were informed of this new fiscal reality at the last minute. Since you're part of the wine industry, it came as a surprise and you need time to adjust, plan and adapt.

Is that consistent with what you've heard on the ground from members of your association and the industry?

Mr. Marc-Antoine Lasnier: I actually feel privileged to be appearing here today because I think producers on the ground aren't much aware of this issue, even though we've informed them about it and backed that up with numbers. What's coming will be tough on the industry.

Mr. Jean-Denis Garon: Thank you very much, Mr. Lasnier.

Thank you, Mr. Chair.

Mr. Marc-Antoine Lasnier: Thanks to you, Mr. Garon.

The Chair: Thank you, Mr. Garon.

[*English*]

We will now go to the NDP.

Welcome, MP McPherson. You have six minutes for questions.

Ms. Heather McPherson (Edmonton Strathcona, NDP): Thank you, Chair, and thank you to all our witnesses for sharing their testimony today. It's been very informative and very interesting. It's my very first time attending this committee, and I look forward to participating.

I'm going to follow up on some of the very brief testimony that we heard from Mr. Mangin and hopefully talk a bit about some of the issues around Bill S-216 and the BIA.

The reason I want to do this is that we didn't get the opportunity to hear from Mr. Mangin, but this is an issue that's very, very important to me. I know it's very important to many members of Parliament, but I come at it from a bit of a special perspective, I guess, which is that I have been working on changing the direction and control legislation in this country since 2005. We have known that this is a paternalistic and a colonial piece of work within CRA that has needed to be changed for a very long time and has impacted the ability of the charitable sector to actually do the work they are mandated to do. It is in no way reflective of participatory, democratic good practice in charities. It needed to be changed.

When Senator Omidvar came to me and to many other parliamentarians to speak about the changes to direction and control within her bill, Bill S-216, we of course were all delighted. We were all on board. We were all working with her. The sector has worked very closely with her, and legal experts have worked very closely with her and her team to develop a really strong piece of legislation.

Of course, when we saw in the BIA that it was named and that the spirit of Bill S-216 was going to be implemented, I think many of us within the House of Commons and many more within the charitable sector were delighted. When we saw what was actually being proposed, the delight turned a bit to disappointment.

I'm going to read from a few different places for you, and I'd like to put some of this testimony into the record. Then I'm going to pose some questions to Mr. Mangin that he can respond to in writing, bilingually, when he's able to do so.

First of all, I want to start with a letter that was written to the government by Cooperation Canada. For those who don't know, Cooperation Canada is an organization that represents many of the charitable sector groups that work in Canada. It's a very long-standing organization that has been in place for over 50 years. It is very well respected and knowledgeable on this file and has certainly taken a lead on it.

In the letter they addressed to the government, they say:

> ...the BIA reinforces the colonial and paternalistic approach to the relationship between charities and the partner organizations supporting their charitable purposes. It makes the current regime more challenging for organizations to fulfill their charitable purpose by embedding a rigid and prescriptive approach to funding non-qualified donees inside and outside Canada in legislation. It makes the system more confusing, risky and challenging for registered charities and non-qualified donees to work together, and as such, impedes philanthropic and charitable resources flowing to communities that need them the most.

The serious concerns that the sector has with the BIA and that we would like to see changed within the BIA are the proposed definition of a qualifying disbursement, the proposed language relating to directed gifts and the prescribed conditions for qualifying disbursements to grantee organizations.

I know that this committee has received information from Imagine Canada; I wanted to make sure that that information from Cooperation Canada was also included.

I also wanted to give a little bit of insight into what this looks like on the ground. For example, if you're looking at perhaps an indigenous partnership and perhaps there is a requirement to work with indigenous groups that do not, for whatever reason, have charitable status, what we have in the BIA impedes the ability for charities to support indigenous groups that are doing the work within their communities. I think that's something that no Canadians want as we deal with truth and reconciliation in this country.

There's another example when we look at working internationally. Right now, we have an incredible crisis that is happening in Ukraine. I think it's really important that everyone on this committee recognizes that if we don't get this BIA right, if we don't get the direction and control right, those organizations that can do the best work in Ukraine and can do the best work with refugees who have fled Ukraine, Romania, Poland and other countries won't be able to work with Canadian charities because of the aspect of direction and control that we have in this BIA.

● (1110)

As Mr. Mangin was, I suspect, going to tell us, we need to amend the language on direct giving. This would allow Canadian charities to contribute to pooled funds and support non-qualified donees.

We need to remove the reference to disbursements meeting prescribed conditions and replace it with a requirement that the charity instead takes reasonable steps to ensure that the resources are disbursed and used exclusively in furtherance of a charitable purpose. We need to delete proposed regulation 3703 in its entirety. This would allow for regulations to remain in the CRA guidance documents.

Thank you, Mr. Chair.

The Chair: Thank you, MP McPherson.

Members and witnesses, we're moving into our second round of questions. In this round, we will have the Conservatives up first. MP Baldinelli, you have five minutes.

Mr. Tony Baldinelli (Niagara Falls, CPC): Thank you, Mr. Chair.

First of all, thank you to all the witnesses for joining us this morning.

Given the significant interest of Canada's wine industry in my riding of Niagara Falls, particularly in the town of Niagara-on-the-Lake, I'm going to be spending most of my time questioning Wine Growers of Canada and Mr. Paszkowski.

Mr. Paszkowski, in your testimony you had talked about how the sector had flourished since 2006 with the excise exemption that the previous Conservative government had brought in, and since that time how the sector has grown. Near the end of your commentary, unfortunately, you were getting to the end of your time.

I'm hoping you can get your comments into the record on how you think this new excise tax that will apply as of July 1 will impact the sector. How is it at risk?

Mr. Dan Paszkowski: Thank you very much.

Yes, as I mentioned, there's been significant growth as a result of the excise exemption that was put into place.

You have to understand that the excise duty takes place right after the producer's price on a bottle of wine. As that moves through the price chain, ending up all the way down to the liquor retailer, it's picking up a lot of different *ad valorem* taxes at the liquor retail level, such as the GST and PST, etc.

The 52¢ per bottle tax, depending on what jurisdiction you're in, will more than double. In the case of the LCBO, that 52¢ per bottle may increase the price of a bottle of wine by roughly $1.15. When you only own 30% of your market, if we pass that tax on but the imports don't, we're going to lose that consumer to imported wine. It's a significant tax that hurts every single wine producer in Canada.

We still don't have the final details of the wine support program. We worked with trade lawyers and experts from agriculture, finance and global affairs to develop a trade-legal program that allowed all wine produced in Canada from fresh fruit to benefit through a grant program based upon the litres of wine produced in Canada. It could not be concentrate or imported concentrate but had to be from fresh fruit, and it applied to both domestic and imported fresh fruit.

By putting a program like that in place, you'd allow the producers to get funding from the federal government to be able to address the investments that they need to make, as they have over the past 16 years under the excise exemption, which grew the industry significantly. That program would work 100% for every wine, cider, mead and sake producer in this country. Every apple producer and grape grower would be a significant beneficiary as a result.

● (1115)

Mr. Tony Baldinelli: You mentioned last year's budget and the $101 million that was allocated for a program. Now we're looking at a budget that indicates about $135 million coming in.

Has the government indicated to the stakeholder groups that this extra $34 million in revenue will be flowing back to the grape and wine sector? They promised to make the industry whole. What are they telling you on that?

Mr. Dan Paszkowski: We have four weeks left until we lose the exemption. I do know, from in my discussions with officials, that they are looking at the funding element, given that $101 million is clearly insufficient to cover off all of the wine produced in Canada. Budget 2021 allocated $35 million in year one, which wouldn't be enough to cover off the grape wine industry, let alone anybody else.

Our understanding is that the dollar component is being looked at, clearly as a result of the projections in excise revenue collected as a result of the loss of the excise exemption, but we still don't have any definite answers.

Mr. Tony Baldinelli: Mr. Paszkowski, I have one quick question. I believe there are only 36 days until that new tax comes into effect, and we still don't know the details of this program. How does a sector prepare for a tax that's coming in 36 days? Several other organizations, such as the cideries and the craft breweries, have asked for a reprieve on the implementation date, such as extending it for six months. Do you agree with those assertions?

Mr. Dan Paszkowski: We have obligations under the Canada-Australia negotiated settlement, but there is a new government in Australia right now. If there was an opportunity to get an extension to the end of this year or the beginning of next year, given the fact that we don't know what the funding elements are right now.... We don't know what the details of the wine support program are. Will they follow what we put together with senior officials?

We have elements with the Canada Revenue Agency in terms of moving packaged wine products into retail sectors that have not been addressed yet. We have a problem in terms of July 1; all wine that's packaged before that will remain excise exempt, but in this pandemic, not only have bottle prices more than doubled, but we also have supply chain problems. We can't get our hands on bottles. Even if we want to bottle wine to take advantage of the exemption up until midnight on June 29, which is the deadline, we can't get enough bottles to bottle the wine. That becomes a problem for every single winery in this country.

If there was an opportunity to extend, yes, that would be a good idea.

The Chair: Thank you, Mr. Paszkowski and MP Baldinelli.

Mr. Tony Baldinelli: Thank you.

The Chair: We'll move now to the Liberals. MP Chatel, you have five minutes, please.

Mrs. Sophie Chatel (Pontiac, Lib.): Thank you, Chair.

[*Translation*]

I want to thank all the witnesses for being with us and for their excellent presentations this morning.

My question is for Mr. Poirier from Canadian Manufacturers and Exporters.

I'm very pleased to hear you talk about our greenhouse gas emissions reduction program, our strategy and our investments in businesses. More specifically, I'd like to hear more of what you have to say about small and medium enterprises.

How can the Canada growth fund help SMEs find their own niche in the green and digital economy of tomorrow?

[*English*]

Mr. Matt Poirier: I'm happy to answer that question.

We were very pleased to see the creation of those programs. We're still awaiting a lot of the details of how they'll be structured and what they'll look like, but at first glance, it's something that we called for, so we're certainly very happy on that front.

As I said in my remarks, we caution the development of these programs on two fronts. There's adequate money in the program to incent the transition, but particularly for SMEs that struggle with, one, knowing about government programs, and two, navigating them and using them to full benefit, in the structuring of the program, how do we hold them by the hand and take them through it so that the pickup is there and the results are there as well? We really need to think about that.

As I mentioned, what we're seeing right now is that the big companies, the big manufacturers, have already begun net-zero transition, with specific government help in many instances, but we're not seeing that same thing happen with the SMEs. They're not even thinking about it in many cases, depending. That's a problem that we want to tackle and that we're alerted to, because most of our companies are SMEs. We're going to get massive reductions in greenhouse gases by tackling the big ones, but most of our companies are SMEs, so we need to bring them along for the ride too.

That was sort of a long-winded way to get at the question, but again, it's the SME component. It's very important for us to get that right.

● (1120)

Mrs. Sophie Chatel: Thank you very much, Monsieur Poirier. I must say that this is equally what I'm seeing. I'm in a rural riding. We have a lot of SMEs. I'm worried that they are not thinking strategically about how they can be winners in tomorrow's economy. I see larger companies really making these strategic decisions. The world is moving towards a green and more technological economy.

What would be your advice on these innovation funds, including the Canada growth fund? What would be your three pieces of advice for the committee, especially targeting SMEs? If you have more, we'll be very happy to read them, and you could forward them.

Mr. Matt Poirier: We've done a lot of work over the past few years on this, so I would be more than happy to share that research and those policy recommendations with the committee. Perhaps we can connect offline afterward.

At a high level, what I mentioned before was the SME piece. That's important. The big companies are going to do it, but they'll also drag up all the companies that are in their supply chains already along those lines, so it's an awareness function for the SMEs to realize that this is the future and that they need to help to transition to it.

One of the problems government has is that they have excellent programs, but they're not well known and it's not a default reflex for an SME to wonder what the government is doing. I think it's leveraging trade associations like us—like CME, like my colleagues here on the panel today—to help deliver the message.

There is a bit of capacity building within that, too. If we're going to use exports, for example, some of the agencies like the trade commissioner service and EDC will embed employees and resources within the trade associations to try to access those SMEs better. It's that type of model that will really be needed, at least for our sector.

[*Translation*]

The Chair: Thank you, Mr. Poirier and Ms. Chatel.

[*English*]

Mrs. Sophie Chatel: Thank you, Chair.

The Chair: We're moving to the Bloc, and I see MP Ste-Marie.

You have two and a half minutes, MP Ste-Marie.

[*Translation*]

Mr. Gabriel Ste-Marie (Joliette, BQ): Thank you, Mr. Chair.

Good morning to my colleagues and all the witnesses.

My question is for Mr. Lasnier and Ms. St-Georges.

Australia filed a complaint against Canada respecting grape-based wine, as a result of which an amendment will be made to the excise tax. That affects you too because the federal government draws no distinction between wine and cider. We note that the federal government didn't conduct a study on the impact that will have on your industry before penalizing you in this manner. However, you say you've done your own study.

In the next two minutes or so, would you please give us more details on the 4,000 jobs that may be lost? For example, are they jobs in regional or urban areas? How many producers will that affect?

I'm listening.

● (1125)

Mr. Marc-Antoine Lasnier: As you can understand, that assessment is quite preliminary, since the association that conducted it is very new; it was created barely a year ago.

I'd like to talk a little about the geographic distribution of these businesses. They are highly concentrated in British Columbia, Ontario and Quebec and are definitely located in regional areas. They virtually range across the entire province of Quebec.

Basically, the reinstatement of this tax quite simply means these businesses won't be able to turn a profit. For the cider industry, which is young and flourishing, it's a major threat. We're growing at a significant pace in Canada, and Canadian products have an excellent reputation around the world. I think it would be very risky not to support our sector.

Mr. Gabriel Ste-Marie: Thank you.

How much time do I have left, Mr. Chair?

[*English*]

The Chair: You have 30 seconds, MP Ste-Marie.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you.

Mr. Lasnier and Ms. St-Georges, I tip my hat to you. This is really a flourishing and expanding industry producing high-quality products.

A few weeks ago, a number of cider-themed activities were held in Joliette, and we were able to taste products from across Quebec. I discovered that there's a good cider maker called Qui sème récolte in Saint-Jean-de-Matha that sells fantastic products.

I think it's incredible that the government is penalizing an industry that's expanding this way. So we hope this will be changed under this bill.

Thank you.

Mr. Marc-Antoine Lasnier: Thank you. We hope so too.

[*English*]

The Chair: Thank you, MP Ste-Marie.

Now we'll move to the NDP for two and a half minutes. Go ahead, MP McPherson.

Ms. Heather McPherson: Thank you, Mr. Chair, and thank you again to all of our witnesses today.

I have some questions for Ms. Tomkins.

As New Democrats, we were delighted to see that the dental care plan of my colleague from the previous Parliament, Mr. Harris, is going to be going forward and that we'll be working on that together.

One of the reasons I'm so pleased is that we know the impacts of failing to have dental care for children around this country and that this lack is in fact the leading cause of children visiting emergency rooms. I wonder if she could elaborate more on the impacts on children when dental care is not available.

Dr. Lynn Tomkins: Certainly.

There are many, as you've alluded to. Treatment of children for early childhood cavities—or caries, as we call them—can take up a lot of time in operating rooms in hospitals. That's one thing.

Very small children, if you have an age.... I see one on our call here, and I hope she's brushed her teeth today. As soon as kids have teeth, they can get cavities, and children who are susceptible have a higher rate of decay and sometimes end up at the age of two or three in the operating rooms of hospitals having fillings done, including the baby tooth version of root canals in their molar teeth. That's a tremendous event for a small child and their parents to go through. It's very traumatic, and it also has a high cost to the health system. The other thing is it's one of the most common causes of children losing time from school. Also, they can't eat properly if they have toothaches, and infections can make them very sick.

Our goal would be to have every child seen as soon as possible in a dental office, within six months of the eruption of the first tooth, to identify children who are at higher risk for dental decay and to put preventive measures and education measures in place so that over a lifetime a child will need less dental care. That is our aim: that children will need less dental care. The earlier we can identify those types of problems in children, the better.

Unfortunately, there are higher rates of dental cavities and dental problems in new Canadian populations, where perhaps the emphasis on dental care has not been the same or they've been brought late to the dental office, so by the time they do get to the dental office, they have a lot of dental problems.

Another aspect of prevention for children is community water fluoridation, which still makes a tremendous difference in the rate of decay in children. We're fully supportive of community water fluoridation to reduce the amount of dentistry overall, which will also reduce the environmental burden of a child's treatment over their lifetime.

● (1130)

Ms. Heather McPherson: Wonderful. Thank you so much.

The Chair: Thank you, Dr. Tomkins and MP McPherson.

Now we'll have the Conservatives up for five minutes of questions.

I have MP Stewart for five minutes, please.

Mr. Jake Stewart (Miramichi—Grand Lake, CPC): Thank you, Mr. Chair.

Can you hear me? I was having some connectivity problems here in rural New Brunswick. It's common.

My questions today are for Mr. Paszkowski with Wine Growers Canada.

Mr. Paszkowski, considering that excise taxes negatively affect both consumers and wine producers, you would think it would have been clear that government would need to find a better solution. Of course, that's my opinion, but do you agree that this excise tax has the potential to produce real income losses across wages, profits and other returns to labour and capital in this industry?

Mr. Dan Paszkowski: Absolutely, because it's a producer tax, and we can't pass that tax on to consumers, as I mentioned; otherwise, we'll lose the consumer to imports.

If I'm paying 52¢ a bottle in tax, that's 52¢ a bottle I can't put towards any other part of my business. One of my smaller board members is going to be paying $300,000 in tax per year effective July 1. That's his entire marketing budget for the year. That's just one example of the impact this will have on the industry. As I mentioned, the majority of wineries in smaller regions—New Brunswick, for example—will not be able to survive a tax like this. There are already low margins in this business, and this will cripple them.

Mr. Jake Stewart: Thank you so much for that. Thank you for the example as well. That adds some light to it.

Taking into consideration the hit to the industry that it actually causes based on the examples you just shared, we must also consider the consumers. Across the industry, what additional price increases can the consumer expect?

Mr. Dan Paszkowski: At this point, for the tax itself, you will have some wineries attempt to pass it on. I'd say possibly some of the super-high-premium wines will be able to pass it on. It has a larger impact, obviously, on lower-priced wines than on higher-priced wines, but you also have to remember that effective July 1, every 100% Canadian wine sold in Canada will also face indexation, so on April 1 of every year, we will have legislated increases to the excise duty. Given where inflation is right now, we can anticipate that with a 5% to 7% increase in the excise duty rate, there will come a point where we'll have to pass that on to the consumer. As I said, that will double by the time it hits the consumer.

There is a risk if you do pass on that cost. The consumers who have a line in the sand—maybe it's $10 a bottle, and you go to $10.05—may switch over to a different brand, and in most cases that will be to an import, so that will impact the bottom line of every winery and cidery across the country.

Mr. Jake Stewart: Thank you, Mr. Paszkowski.

We've heard now that basically the wine producers and consumers are going to be hit with this excise tax in numerous and different ways. To follow up on the obvious reduction in real income to wine producers, would you say that, coupled with the excise tax, the increased costs to producers associated with shipping as a result of the dramatic rise in fuel costs will most certainly drive prices to a point that sales will be negatively affected?

Mr. Dan Paszkowski: We're facing that impact right now. The supply chain disruptions have increased the cost of goods for wine producers above a 10% rate. That's impacting everybody's bottom line and everybody's level of profitability. There is that point in time when you have to make a decision: Am I going to pass this on to the consumer, and how am I going to go about doing that?

The loss of the excise exemption is but one issue among a whole range of issues facing the industry right now. It couldn't come at a worse time in the history of the Canadian wine industry. It will have severe impacts, above and beyond just when the tax comes into play, because there are a lot of other factors at play.

● (1135)

Mr. Jake Stewart: Mr. Paszkowski, if sales are negatively affected, wouldn't producers then be required to potentially reduce employee levels to compensate for the losses?

Mr. Dan Paszkowski: Yes. I guess if profitability is impacted, they're going to have to take a look at all mechanisms. The first casualties will be grape producers. The demand for grapes will have to decrease. Production will go down. That's the first element of the supply chain that will be impacted.

The second one will be employment, as I mentioned in my comments. If the excise exemption is lost, we're looking at at least 2,400 jobs that will be lost, and 350 winery closures. Those are real numbers. That is the impact of an excise tax that is already one of the highest in the wine-making world. The U.S. tax is 35¢ a litre and ours is 70¢ a litre, but the U.S. provides a tax credit to their producers that brings it down to 2¢ per litre. One of our biggest competitors is France. They don't pay any excise tax.

The Chair: Thank you, Mr. Paszkowski.

Thank you, MP Stewart.

Now, moving to the Liberals, and also from the east coast, we have MP MacDonald for five minutes.

Mr. Heath MacDonald (Malpeque, Lib.): Thank you, Chair. Thank you to the witnesses here today.

I'm going to jump around a bit. I want to go back to Mr. Poirier.

I know your organization was very vocal during the blockades on the supply chain issues. I want to talk to you a little bit about the vulnerability of our supply chains and how important they are to the economy. I think you quoted that Canadian manufacturers and exporters are 10% of our GDP.

What do we need to do in the future to ensure that things like that never happen again because it is critical to our economic value in Canada?

Mr. Matt Poirier: I agree that it is.

As an anecdote, at the association level, whenever we hear from our members that it's the worst is whenever we have blockades or transportation network disruptions. It affects them the most, and certainly manufacturers are the biggest users of Canada's transportation network.

We approach this from the angle that everyone has the right to protest. Everyone has a right to do that. However, there are.... We have done the exercise of deeming certain things to be critical infrastructure, and we would argue that transportation networks are critical infrastructure. Our industry is held hostage every time they're shut down. Our solution is to designate those and make them out of bounds for protest activities. However we want to design that designation is a discussion we can have, but from a fundamental perspective, that's how we view it. It would still leave 99% of the country open for legitimate protests.

Just ensure that those networks are protected on that front, because the reputational damage that Canada takes every time we have to close down our transportation network, whether it's for a strike, a blockade, or what have you, is significant. Our members tell us that they have to have really tough discussions with headquarters and other countries to justify why they're still making stuff in Canada and operating in Canada.

We don't want our members to have to do that. It's unnecessary, and it's a big threat to that 10% of GDP.

Mr. Heath MacDonald: I want to follow up on what my colleague Ms. Chatel was talking about and touch base with you on small and medium-sized enterprises.

I come from the east coast, where there are a lot of smaller businesses. The government put forth a $5-billion green bond, and I'm wondering how your organization is presenting that as an opportunity for small companies to possibly reduce their emissions and get involved in the innovative side for reshaping how they do business.

Mr. Matt Poirier: That's part of it. What we're noticing, at least from the government, is.... We're starting to piece together our incentives and plans, and there are various elements to that. That is one of them. Our general feeling at this point is that they're all introductory moves, first steps, because when we look at it, billions of dollars have been put on the table for this type of transition. We think it's probably around $100 billion for the entire industry.

That's why my comment focused on this. It's great, and we asked for it and we got it, but we need to make sure the money is there to get the full transition happening. That's not to say the government has to fund all of it. It will be a partnership with industry, certainly, but our initial assessment at this point is that it's a good first step but more is needed. Obviously, it also means working with us during the process so that it's not a one-size-fits-all government program that's designed in Ottawa and there's no uptake from SMEs, for example.

● (1140)

Mr. Heath MacDonald: That's good. I'm glad you said “designed in Ottawa”, because I'm on the east coast and we are quite different from some other parts of the country.

Mr. Poirier, we've heard a lot and seen a lot over the past number of years about protectionism. We talk a lot about diversifying our markets, and we are dependent on our biggest trading partner south of the border. We've also seen disruptions in global supply chains and so forth. How do we plan for a future that eliminates some of these possible consequences, especially for your sector?

When you hear “buy America” or what have you, or when you see China set rules and regulations, even most recently with COVID-19, how do we overcome that? What's your sector's opinion on ensuring that we continue trade, which is so important to the economy of our country?

The Chair: I'm going to ask for a very short answer, Mr. Poirier.

Mr. Matt Poirier: Basically, there are mechanisms in our trade deals, such as the competitiveness chapter in the new NAFTA, for example, that are designed to do exactly that, and we should embrace them, get working on them and leverage them to their maximum extent. We haven't done that yet. That would be my quick comment.

Mr. Heath MacDonald: Thank you.

The Chair: Thank you, MP MacDonald.

Members and witnesses, I'm just looking at the time. We're coming to the top of the hour pretty soon; that will be the end of our first panel, so what we're going to do is divide up the time equally, as we usually do in this committee. For this round, each party will have four minutes to ask questions.

We'll begin with the Conservatives. MP Albas is up for four minutes.

Mr. Dan Albas (Central Okanagan—Similkameen—Nicola, CPC): Thank you, Mr. Chair, and thank you to all of the witnesses who are here today. I appreciate your expertise.

I'm going to start with Dr. Lynn Tomkins. Thank you very much for appearing today on behalf of the dental association.

I'd like to talk a bit about the ways forward on this aspect. In the last few elections, the Conservatives have talked about the need to work with the provinces and territories as co-operative partners to effectively fill in gaps that may exist in some systems, rather than a wholescale change that might totally change the experience that many Canadians have of programs they already know and trust.

With regard to dealing with some of the gaps that currently exist, can you identify where they would be and which provinces or territories you think would bear the most fruit in easing the gaps that are there?

Dr. Lynn Tomkins: Certainly it is our perspective that in co-operation and collaboration with the provinces, the federal money that has been set aside for dental care was distributed to the provinces to sustain and stabilize the existing programs. Across the country, all of the programs are in need of some sort of support. There are better programs than others in certain areas, but there's no one perfect system.

I can't give you a single province that I think you should single out for special treatment. It's Canada; we need to treat everybody equitably.

Yes, there are existing programs, and there are existing administrations, and there are existing relationships among the stakeholders within the provinces, so we don't really need another top-down, administration-heavy, stand-alone program. What most of the programs need is funding so that they can increase the funding levels to cover the cost of providing treatment, because a lot of them don't even cover the cost of providing treatment. Any dentist or dental office that treats a patient on some of these provincial programs is subsidizing the programs out of pocket, and that's not sustainable.

I think that going with the existing programs would be the way to go. The people are there, and they can expand the program to include more people according to the goal that the federal government has, such as the zero-to-12 age group. It would be much better to do it that way, rather than creating a top-heavy, top-down, new administrative program that might capture people who already have dental plans. The eligibility criteria may capture people who already have dental plans. We're already hearing some hints that some employers might be saying that they'll drop their dental plans for people who would be covered by the federal plan, so there would be this unintended consequence.

We feel very strongly that the best way is to flow the money through the existing programs.

● (1145)

Mr. Dan Albas: I take your point about the government, which can't seem to issue passports on time, let alone fix its Phoenix payroll debacle.

On universality, who wins in that case? Is it people who are wealthy enough to provide for themselves through private plans? Is it the private insurers themselves? Ultimately, will taxpayers, even low-income taxpayers, be subsidizing people who are well off?

Dr. Lynn Tomkins: We already have a good system in Canada. Two-thirds of Canadians are covered by some sort of plan, whether it's through an employer-sponsored plan or through some government plan, and 75% of Canadians report that they feel they have good access to care.

Again, it goes back to our original position. We feel that flowing the money through to the provinces to build up, stabilize and support the existing programs is going to be most equitable. The people who are at the top end of the income range and already have dental plans don't need to be on a federal plan, even though technically they might be eligible.

The Chair: Thank you.

We'll hear from the Liberals for about four minutes. Go ahead, MP Sorbara.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Thank you, Chair. It's great to be here today with all my honourable colleagues.

I'm looking at my screen. Is Ms. Vass Bednar not on anymore? Did she sign off?

The Chair: Ms. Bednar had to leave at 11:40 a.m.

Mr. Francesco Sorbara: Thank you, Chair.

I want to put on record that Ms. Bednar's comments in terms of the changes with regard to the Competition Act, which Deputy Prime Minister Freeland and Minister Champagne have championed in the budget and now in the BIA. I applaud them with full vigour. They are long overdue and well needed. It's great to see us tackling the issue and ensuring that there is competition within the economy and within sectors, that anti-competitive policies are being addressed, and that the Competition Bureau and the Competition Act are being given more teeth and more resources to ensure that Canadians are put first in consumer choice.

I want to speak to Mr. Poirier from the Canadian Manufacturers and Exporters.

Mr. Poirier, I've interacted with you folks for many years and have had a lot a great meetings. York Region area, where I live and which I represent, is a manufacturing hub. We have the largest auto parts supplier in the world, Magna, and the third largest in Canada, Martinrea, which is about a kilometre and a half from my constituency office. We are an agri-food processing hub. We are a place where a lot of folks invest and work. We are a logistics hub. We have the largest CP intermodal facility, the busiest one in the country, in my riding. Vaughan has the largest CN yard in Canada, and I know Peter loves to hear that.

I want to ask some questions about the issues that we need to address on the supply chain. We have a supply chain working council. We have put money into the funds, and we have the national trade corridor fund. We are making progress on the supply chain, although it is difficult.

Could you provide any sort of recommendations that you think, top of mind, would assist us in addressing the issue even further?

Mr. Matt Poirier: Yes. All those initiatives you mentioned, Mr. Sorbara, are needed and are good. In addition, we're noticing that because of the relatively small size of Canadian manufacturers, we're struggling to move up in the pecking order for critical components. We're still seeing those problems in our industry today.

That's why I mentioned emergency, temporary, bridging financial help. We can discuss how that looks, but as it comes to us, it's a wage subsidy. Because it's such a tight labour market, our members are really afraid of losing workers while they're waiting for the critical parts to be able to produce goods. There's that component there, but it's also the labour shortage. That's driving this too.

● (1150)

Mr. Francesco Sorbara: Matt, I want to say that within the BIA, if I'm not mistaken—I remember reading all 464 pages or thereabouts—there is something with regard to the ministry of immigration and some legislation there that would allow the minister to identify certain areas within the economy, such as with the NOC codes, to allow faster access or more efficient access to those pools of labour.

There is a shortage, but there is also what I would call a skills mismatch within the economy in terms of providing the right skill sets to workers. Wouldn't you also agree on that front?

Mr. Matt Poirier: Absolutely. That's why we call for industry councils that can help coordinate with government, with labour and with all the players involved to help coordinate those labour market needs. They're always changing, and they'll be different by region as well.

Mr. Francesco Sorbara: Okay.

Peter, am I finished?

The Chair: That is your time, MP Sorbara.

Mr. Francesco Sorbara: Thank you.

The Chair: We know that Vaughan and York Region have a lot. My kids always remind me that Canada's Wonderland is up there, so thank you for that.

Mr. Francesco Sorbara: You're always welcome.

The Chair: We will now move to the Bloc. MP Ste-Marie, you have four minutes, please.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

My question is for Mr. Lasnier.

If the bill goes ahead as drafted, what impact will it have on the price of cider?

Mr. Marc-Antoine Lasnier: As I said in my opening statement, a market has developed over the past 16 years, and it's a market for beverages in cans. Ms. St-Georges is presenting the cans we've marketed. This market is very much like the beer market. In consumers' minds, the product is compared with beer. However, it must be understood that our profit margins are much thinner. Since cider is made from fruit, unlike beer, which is made from grain and water, it's more costly for our producers. It's also more strictly regulated. In many provinces, we're forced to produce our own fruit, which adds to the pressure. In addition, taxes are already lower on beer. Consequently, it will be very difficult for us to raise prices as a result of the new excise tax.

As the representative of Wine Growers Canada said, this will cause major problems for entry-level products. Prices may have to be raised on high-end products, which occupy specialized market niches. However, most Canadian producers make entry-level products, and the excise tax will clearly create pressure. Since we won't necessarily be able to raise prices, producers will have to cut their profit margins. That's precisely why we anticipate job losses and potential bankruptcies.

Mr. Gabriel Ste-Marie: Cider ultimately competes with beer more than wine in the canned beverages market. Furthermore, since cider production costs are higher than those for beer, your profit margins are thinner. Now you'll have to pay higher taxes than are paid on beer, whereas you're a young industry that hasn't reached maturity.

Mr. Marc-Antoine Lasnier: That's right.

Mr. Gabriel Ste-Marie: That's terrible. The government needs to change that.

Mr. Marc-Antoine Lasnier: Definitely.

Ms. Catherine St-Georges: I'd like to add that producers should not reduce their production costs by using raw materials from elsewhere or apple concentrate. The temptation to reduce production costs could become strong if the excise tax returns. The idea is to continue making quality products, while keeping them affordable for consumers.

Mr. Gabriel Ste-Marie: The executive director of Cider Canada spoke to us about the temptation of importing apple juice from the United States as a way of cutting costs. That would lower the quality. What we like about your products is all the work put in by artisans. This tax should not be applicable to you.

• (1155)

Mr. Marc-Antoine Lasnier: That would of course have repercussions on the rest of the production chain. Apples from the United States or concentrate from China would likely be less expensive. Whether we like it or not, growing apples in our northern country will always be more expensive, and give lower yields.

Mr. Gabriel Ste-Marie: It's obvious. Let's hope that the committee will end up exempting your products from the excise tax.

Thank you, Mr. Chair.

Mr. Marc-Antoine Lasnier: Thank you.

The Chair: Thank you, Mr. Ste.-Marie.

[*English*]

Now we'll move to the NDP. These will be our last questions for this first panel.

I have MP McPherson for four minutes. Go ahead, please.

Ms. Heather McPherson: Thank you, Mr. Chair.

I have one more question for Ms. Tomkins. Thank you very much for reminding all of the children who may be watching this finance committee to brush their teeth. My son got braces yesterday, and I can tell you that this is going to be a couple years of dire parenting on my end.

Ms. Tomkins, if you wouldn't mind, could you talk a little bit about what the government should be looking for in terms of the investments into the workforce as we scale up access to dental care across Canada?

Dr. Lynn Tomkins: That's a great question, and it's something we have been talking to some of your colleagues about, because across the country right now there is a shortage of dental assistants. Even before COVID, there was a shortage, and since COVID, that shortage has been exacerbated, because the demands on a dental assistant....

A dental office operates like a small hospital. Any of you who have been to your dentist, especially since COVID, have seen all the barriers and PPE and everything going on, and the people who actually make all that happen are the dental assistants. They're highly trained and they're very technical. It is not an easy job, and it requires education. In most provinces, it's regulated.

We are applying to the federal government on a project in collaboration with the Canadian Dental Assistants Association and looking for ways that we can increase the number of dental assistants entering into the profession as well as for ways of retaining them in the profession, because with respect to the supports for mental health, for instance, they have been tremendously affected, as have all other frontline workers during the pandemic. It will be a bit of a concern if we get a sudden influx of new patients coming into the system. Dentists and dental office staff will do their best to handle that influx, but there is a shortage of dental assistants.

I think there's another study going on looking at the care economy in the public health system, and we're concerned that we don't forget the health care that's being delivered in private settings, such as dental offices, because if you end up attracting more people into one aspect of the health system, you don't want that to be at the detriment of the private delivery.

There are dental assistants who work in public health. Dr. Aaron Burry himself works in a public health office one day a week, but the majority work in private dental offices and the majority are female, so all the issues around child care and schooling at home and all of that stuff that took place during the pandemic had a tremendous effect on the workforce.

Ms. Heather McPherson: Thank you very much. That's very interesting. I think just those trickle-down impacts are really important for this committee to consider.

Dr. Lynn Tomkins: Thank you.

Ms. Heather McPherson: I'll just end, if I could, Mr. Chair, with one more reiteration that the sector, the experts in charitable direction and control, have given amendments to this committee. They have written amendments. I would urge this committee to consider those three amendments that they have brought forward, and I would just ask that Mr. Mangin, when he has the opportunity to do so, provide some feedback to this committee on the impacts to the charitable sector if we do not get the BIA correct with regard to direction and control.

I will cede my time at this point. Thank you, Mr. Chair.

The Chair: Thank you, MP McPherson.

I will just reiterate, members, that if you want to send in questions, Mr. Mangin will provide answers in both official languages back to the committee. Thank you for that.

We want to thank all of you witnesses for providing us with your time and your expertise and for coming before our committee to answer many questions. I know we had many of you here on our first panel, and we really appreciate, as I said, your coming before us. On behalf of the committee, the clerk, the analysts and the interpreters, we thank you and wish you a great day. Thank you very much.

Members, at this time we're going to suspend for a couple of minutes as we transition to our second panel.

• (1155)

_____________________(Pause)_____________________

• (1200)

The Chair: Welcome back, everyone.

I'd like to welcome today's witnesses for our second panel.

With us from the Office of the Parliamentary Budget Officer, we have the Parliamentary Budget Officer, Monsieur Yves Giroux. Accompanying Mr. Giroux we have Xiaoyi Yan, director, budgetary analysis.

Please share your opening remarks.

[*Translation*]

Mr. Yves Giroux (Parliamentary Budget Officer, Office of the Parliamentary Budget Officer): Good afternoon Mr. Chair and members of the committee.

Thank you for the invitation to appear before you today.

We are pleased to be here to discuss the analysis of your study of Bill C-19, An Act to implement certain provisions of the budget tabled in Parliament on April 7, 2022 and other measures.

With me today are Xiaoyi Yan, Director, Budgetary Analysis.

In compliance with the mandate of the Parliamentary Budget Officer, which consists of providing independent and non-partisan analyses to Parliament, we published our analysis of the 2022 budget on April 22. In the report, we identified several key issues to assist parliamentarians in their budgetary deliberations, and also presented updated fiscal and economic projections.

[*English*]

I will now continue my remarks in English.

In terms of transparency, budget 2022 includes long-term economic and fiscal projections, which improve fiscal transparency and contribute to sustainability analysis. However, the analysis provided in the budget would be further enhanced by the inclusion of additional details, such as long-term projections of old age security, employment insurance and children's benefits.

It's also worth noting that while the budget includes some of the measures from the Liberal Party's 2021 election platform, the implementation of any remaining platform measures and additional commitments not accounted for in the budget, such as pharmacare, will impact the budgetary balance going forward.

Our report also notes the continued misalignment of financial reporting, as budget 2022 was tabled a month after the government's main estimates. Parliamentarians could be well served by adopting a new legislative or administrative framework to enforce better alignment among the government's various financial reports.

Following this assessment, on May 17 we published a stochastic debt sustainability analysis of the medium-term outlook presented in budget 2022. The report provides a stress test of the government's financial position. Based on past experience, our results suggest that the government could maintain debt sustainability over the medium term. However, our results also suggest that on balance, there is upside risk to the budget 2022 projection of gross debt as a share of GDP.

In addition to our reports, my office has also released independent cost estimates of selected measures contained in budget 2022, including the mobility tax deduction for tradespersons and indentured apprentices and the luxury goods sales tax.

We would be pleased to respond to any questions you may have regarding our analysis of budget 2022 or other PBO work.

Thank you, Mr. Chair.

● (1205)

[*Translation*]

The Chair: Thank you, Mr. Giroux.

[*English*]

We will move right to our first round of questions.

We have the Conservatives up first, with MP Chambers for six minutes.

Mr. Adam Chambers: Thank you very much, Mr. Chair.

Mr. Giroux—and I see you have one of your staff with you today—thank you very much for appearing at our committee. It's wonderful to have you here. I think back to the time before we had the Parliamentary Budget Officer. I think the work that you and your office do certainly makes our job as parliamentarians easier. It also increases our confidence level in some of the financial discussions we have at this table. Thank you very much.

You mentioned that you did some work on the luxury tax. I'd like to spend a bit of time there, but before I do, Mr. Chair, I'd like to provide notice to this committee of a motion. I do not wish to debate this motion, but I did want to table it here publicly. I have sent it to the clerk.

Following on the good work of the Parliamentary Budget Officer, the motion is that this committee, in respect of the luxury tax, will ask the Department of Finance to table a report to this committee on or before September 19, which would include an economic impact study of the select luxury tax items, including a breakdown on the expected employment and expected tax revenue, on or before October 24; that the Department of Finance provide a detailed written progress report on the efforts by the department to address some of the issues that we've heard; and that by November 21, 2022, the department reappear before this committee so that we can discuss its findings.

The Chair: Thank you, Mr. Chambers. I'll ask if the clerk has received the motion and distributed it to members.

Yes. We have thumbs-up. Thank you.

Mr. Adam Chambers: Thank you very much. We'll discuss that at a later date with my peers.

Mr. Giroux, thank you for providing some economic basis. We have not seen an economic impact assessment done by the government of this luxury tax, so I was very interested in what you shared with us.

At a high level, I saw some significant loss in sales, about $2.9 billion. The lion's share of that was affecting the vessels, the boating industries—about 75%, or $2.1 billion. There are assumptions that go into that, but I want to talk at a high level about what we could expect to see, even just the direction of economic activity.

Mr. Yves Giroux: As you pointed out, we did estimate the impact on sales from the introduction of a luxury sales tax on automobiles, vessels and aircraft, and we found that the bigger impact would be on vessels.

With the reduction in sales of vessels, we can expect a potential reduction in the manufacturing of these vessels, and aircraft to a lesser extent, and automobiles. However, we haven't done an economic study, because that would be a significant undertaking for a small office like ours, so it's not clear whether there would be a full substitution in exports for that loss of sales, or whether it would be mostly imports or domestically produced goods that would be suffering. It would probably be a mix, but we have not done that study.

However, it is clear that with a reduction in sales, there would inevitably be a reduction in the sales tax that would otherwise be collected. One can think about the GST, but there is also the provincial sales tax and the HST.

In a nutshell, at a high level, that's what we can expect: a reduction in sales of almost $2.9 billion over a five-year horizon, and a commensurate reduction in sales tax collected.

● (1210)

Mr. Adam Chambers: Thank you very much.

I would obviously support your office's getting additional resources so that you can take on additional studies like that .

My high-level math shows that if you just looked at sales taxes—federal and provincial sales taxes together—it's about $375 million, holding everything else equal on $2.9 billion of sales. Just at the highest level, if you net that out against what the government says it will take in in revenue, it is going to have a substantial net negative impact on the government's coffers.

Is that a fair assessment?

Mr. Yves Giroux: That's indeed a fair assessment. Because of the reduction in sales, there will undoubtedly be a reduction in sales tax collected, the extent of which is difficult to estimate, because it's a niche market. Obviously, not every one of us buys a vessel or an aircraft. I certainly don't, and I'm not in the market for an expensive car, but it's certain that there would be a reduction in sales tax receipts.

The extent to which this will happen is an estimate, and because it's a niche market, it's not straightforward to estimate what we call an “elasticity”, the extent to which sales will respond to an increase in prices from the luxury sales tax.

That said, we have looked at international experience and we have used a peer-reviewed elasticity that we think is very defensible.

Mr. Adam Chambers: Thank you very much.

Mr. Chair, I hear that doing some homework is better than doing none, and I think this shows the government should be doing it.

Just quickly, this is the second time you have come to the committee. You mentioned the timing of the budget and having MPs able to review things. Do you want to expand very briefly on what you would like to see in terms of the timing of reports and the tabling of budgets?

Mr. Yves Giroux: That's a good point.

Ideally, there would be a budget that would happen earlier in the cycle—for example, in February—so that budget items would be reflected in the main estimates. As that is the vehicle through which the government finances its operations, you then as parliamentarians, when you review the main estimates, would be able to make the connection back to budget items, as opposed to having main estimates that are not complete and that do not paint a complete picture of the government's finances and so do not include the budget estimates.

You'd have a much easier job, I would say, of approving or scrutinizing government expenditures, or the government's requests for money that would include budget items, which is currently not the case with the budget tabled way after when the main estimates have to be prepared and tabled.

Mr. Adam Chambers: Thank you very much, Mr. Giroux. You're welcome to come back anytime.

Thank you, Mr. Chair.

The Chair: Thank you, MP Chambers.

As far as the motion is concerned, the clerk did receive it, although we do need it in both official languages for distribution. Thank you.

We'll now hear from the Liberals for six minutes. Go ahead, MP Chatel, please.

[*Translation*]

Mrs. Sophie Chatel: Thank you very much, Mr. Chair.

Mr. Giroux, thank you very much for being with us again. It's always a pleasure to see you.

In "A stochastic debt sustainability analysis of Budget 2022", you said that, "most future debt paths would result in a lower gross debt-to-GDP ratio after five years". You also wrote that "it is likely that the Government will meet its objective of maintaining a declining federal debt-to-GDP ratio over the medium term."

Can you give us more details about the process used in this analysis to reach these conclusions?

Mr. Yves Giroux: Of course. It's not an easy question to answer, because the analysis is rather technical. For the econometricians who may be listening, I would say that the analysis is based on a series of analyses and simulations using the Monte Carlo method, which has nothing to do, unfortunately, with the eponymous tax haven. We made use of parameters from the past 30 years, meaning from 1990-1991 up to the period immediately prior to the pandemic. We consider the various economic variables, like GDP, inflation and the interest rate, and observe how these variables behave themselves over this lengthy period. We then put all of that into a model whose starting point is right now.

What do we get as the future trajectory of the debt if the economic and macroeconomic parameters vary from what we have seen over the past two decades? We get a distribution of the possible scenarios, and that's what we base our estimates of probabilities on. They're not really probabilities, but rather a range of possibilities within which the government might or might not meet its objectives.

In short, we look at what happened in recent decades, we introduce the data into a model based on current parameters, and by looking at the past, we can see what the future might hold for us. This does not of course take extraordinary events like a pandemic or a war into consideration, but it gives us a very good idea of the future debt trajectory.

● (1215)

Mrs. Sophie Chatel: Have you factored the war and what we know about it at the moment into your models?

Mr. Yves Giroux: We took it into account insofar as our point of departure reflected it. If the point of departure is a period during which inflation is somewhat higher, which is currently the case, then we take that into account. However, we do not explicitly factor it in the impact of war, like the war in Ukraine, to which you are alluding, I would imagine. In other words, we do not allow for the fact that it might continue and have even more significant impacts on the world economy and Canada's economy.

Mrs. Sophie Chatel: So you took what we knew at the time into account to determine the debt trajectory.

Mr. Yves Giroux: Yes, implicitly, we took it into consideration. Our model enters the parameters as they were at the end of the fiscal year.

Mrs. Sophie Chatel: In my view, one of the key points with respect to Canada's economic prosperity is really the debt-to-GDP ratio. Canada's ratio needs to be one of the most competitive within the G7, the G20 and even the OECD.

So am I to understand that in this scenario, the trajectory is nevertheless healthy and positive?

Mr. Yves Giroux: Based on our simulations, the probability is approximately two out of three that the gross debt-to-GDP ratio in 2026-2027 will be lower than in 2021-2022. It's therefore likely that the gross debt-to-GDP ratio will be lower in five years than it was in March. Of course, it all depends on numerous factors. The future will tell.

In the current state of things, we believe that the probabilities are fairly good, even though we don't know for sure. Two out of three is nevertheless a fairly good scenario.

Mrs. Sophie Chatel: So we can say that the net debt position is still better if we take away the impact of pension funding in Canada, compared to Europe, where there is no pension funding or future debts for pensioners. In short, the news is still better than expected for net debt. That's my understanding of it.

Mr. Yves Giroux: Yes, the net debt should be lower than expected.

On the other hand, what we did in this report is consistent with what the International Monetary Fund is doing. Because financial assets can play nasty tricks on us, particularly with respect to international comparisons, we used gross debt in order to be consistent with the International Monetary Fund's methodology. However, the results should, overall, be in alignment, regardless of whether we're looking at gross debt or net debt. The levels would of course be different, but the trajectory should remain approximately the same. If the likelihood of lower gross debt in five years is two out of three, then the probabilities should be pretty much the same for net debt.

Mrs. Sophie Chatel: Thank you very much.

The Chair: Thank you, Ms. Chatel.

[*English*]

We now go to the Bloc and MP Ste-Marie for six minutes, please.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

Good morning, Mr. Giroux and Ms. Yan. Once again, I'd like to join my colleagues in thanking you for the work you do. It's very helpful and widely used. It's very important for us to have access to an objective point of view on everything pertaining to the budget so that we can do our work effectively.

My questions will begin by addressing your note on the estimation of the sales tax for luxury goods, and the update to this note that was published this morning.

I'll begin with a comment, a reminder to the effect that when we talk about public debt in Canada, it's important to also look at provincial debt. Just about every year, you provide an update in the fiscal sustainability report. In the end, it's the provinces that bear the financial burden.

The committee asked the Department of Finance whether it had, before introducing the sales tax on luxury goods, conducted a study on the impact on the targeted industries in order to identify potential impacts, such as how many jobs and how much revenue would be lost. This was not done, and I believe that it was a serious omission.

I'd like to ask you some questions in order to clearly understand what the boundaries of your study were.

You began by estimating the costs and revenue for the state, for the federal government, but not their impact on the industries affected. Is that correct?

● (1220)

Mr. Yves Giroux: Yes, that's right Mr. Ste-Marie. We estimated the costs and revenue generated by the tax with due regard to the fact that there would be decreased sales if prices were to increase. There are of course people who will not buy these goods, or purchase them abroad, in the case of boats. We only took into account the federal revenue generated by the introduction of a tax on those automobiles, vessels and aircraft considered luxury goods.

Mr. Gabriel Ste-Marie: Okay, thank you.

I'd also like to thank you very much for the transparency demonstrated in your note. You talk about all the sources of uncertainty about what might happen after the taxes are introduced.

Did you use the same elasticity models for each of the sectors: automobiles, vessels and aircraft?

Mr. Yves Giroux: Yes, we use the same elasticity, because there is not much available data on demand elasticity for these types of goods. They are not particularly popular. There are not a lot of international studies, or at least studies for markets comparable to Canada's. The elasticity we used, if I recall correctly, is based on an American study that was done in recent years. Elasticity was therefore estimated to be -2.4 and I believe that was based on luxury vehicles. I'm trying to see in my notes whether that's really it, but I believe it is. We didn't use separate elasticity for vessels, vehicles and aircraft. We used the same figure, which, as you mentioned, is a source of uncertainty.

Mr. Gabriel Ste-Marie: Yes, exactly. The purpose of my questions is precisely to understand what the boundaries of the study were, because we don't have much information owing to the few research studies that have been conducted in this area.

Of course I am particularly concerned about the aircraft sector, because that's an important driver for the Canadian and Quebec economy. Many people are worried about it.

For example, Bell Helicopter Textron will be affected by this tax on sales of luxury goods. The company is wondering whether helicopters were taken into consideration by your analyst in assessing the measure.

Mr. Yves Giroux: I believe so. However, it would be useful to check with the manufacturer, Bell helicopter Textron, to determine what proportion of its sales are to individuals. I would imagine that it's rather small, given that the market for helicopters is not a very big one.

I would therefore tell you—very tentatively, and I'd need to consult the analyst—but I believe helicopters were taken into account. Even if that's not the case, the results would be more or less the same, because they likely represent a very small percentage of sales in the aircraft category.

Mr. Gabriel Ste-Marie: Okay. Thank you very much.

The industry is very worried about the impact of this part of the bill on business aircraft. The bill's intent is not to apply this luxury tax on these aircraft and yet, according to the almost incomprehensible 170 pages of the soon to be adopted bill on the new tax, they are. That's what we're being told.

There's the issue of the threshold and the activities of charter aircraft. When companies buy a business aircraft, and it is not in use, they can allow a charter aircraft company to use it, and there is a risk that the charter company will lease the aircraft for personal use. In cases like this, the aircraft manufacturer might be subject to the tax, even though it sold the aircraft to a company. In fact, if the aircraft is used for personal purposes for at least 10% of the time, the 20% tax could be applied.

In view of all this uncertainty, many clients have been cancelling their orders from builders of business aircraft. Most business helicopters and airplanes are exported, but the companies have to collect taxes. What they tell us is that they may have to wait a long time, sometimes up to six or even nine months, before the taxes are reimbursed. That generates significant cash flows, repercussions and uncertainty.

The factors I have mentioned are not measured directly in your note. But they should have been included in the Department of Finance impact study, should they not?

● (1225)

Mr. Yves Giroux: You've raised an excellent point.

[*English*]

The Chair: We need a very short answer, please.

[*Translation*]

Mr. Yves Giroux: We did give consideration to the fact that some legislative provisions included exemptions for business-related purchases. However, if provisions generate uncertainty, it's highly likely that buyers could postpone their purchases until the provisions, and how they will be applied, have become clear to them.

Mr. Gabriel Ste-Marie: Thank you very much.

The Chair: Thank you, Mr. Ste-Marie.

[*English*]

We will go to the NDP and MP McPherson for six minutes, please.

Ms. Heather McPherson: Thank you, Mr. Chair.

I would also like to echo my colleagues in thanking the witnesses for being here today, sharing their expertise, and providing parliamentarians with the tools we need to do our job and to continue to play an important role as opposition members. Thank you very much.

My first question is for Mr. Giroux.

I understand that there was a costing note on the mobility tax deduction for tradespersons and indentured apprentices. I'm wondering if you would be able to walk the committee through the estimated costs and what data went into your projections.

Mr. Yves Giroux: First of all, thank you for the compliment. It's a team effort.

We looked at the data, based on Statistics Canada and some tax deductions, and the number of persons—apprentices and indentured tradespersons—who reported living at a certain distance from their primary place of work. Based on the number of these tradespersons and the estimated cost of travelling back and forth, we estimate that the tax deduction would amount to about—and I don't have the numbers in front of me—$100 million per year in tax relief for individuals who would benefit from this tax provision—that is, those who travel more than 80 kilometres to their place of work.

Ms. Heather McPherson: Thank you very much. That's obviously very important for many working folks in Alberta. We have situations of people having to travel a great distance to get to their place of employment.

Here is my next question for you. In your budget 2022 analysis, you noted that the estimates and the budget once again had discrepancies. Would you be able to highlight some of the areas where you noticed discrepancies, as well as explain why you think a more aligned budget and main estimates process would be of benefit?

Mr. Yves Giroux: Dr. Yan just told me that in response to the previous question, the distance is 150 kilometres. I apologize for that.

With respect to your question on the alignment of the budget and the estimates, it's fairly easy to see which items were not in the main estimates that could have been in the main estimates. It's virtually all budget items that had expenditures or that have expenditures in the current fiscal year. Because the budget is not and was not tabled before the production of the main estimates by the Treasury Board Secretariat, these items could not be included in the main estimates. There are multiple expenditures that were included in the budget that are not in the main estimates. The list is very long. It's probably a few hundred items.

The impact is that when you as members of Parliament and your colleagues in the Senate look at the main estimates, you don't have the numbers when you look at specific departments or specific initiatives, or even the totals. You don't have the full picture of the government's plan when it comes to spending. You only have the state of the world as it was on March 1, so anything that's in the budget will be reflected later in supplementary estimates (A), supplementary estimates (B) or even supplementary estimates (C). It makes your job significantly more complicated, because you have to approve main estimates that are a very incomplete picture of the government's plans when it comes to spending.

That's why I'm saying, and I've been saying for a little while now, that it would be beneficial for transparency purposes and it would facilitate your work as legislators if the budget items were included in the mains. That would mean either tabling the main estimates later or—and more easily done, I think—by tabling the budget sooner, so that officials in the Treasury Board Secretariat have sufficient time to incorporate these items into the main estimates.

● (1230)

Ms. Heather McPherson: You spoke of hundreds of examples. Are there any that are particularly noteworthy from your perspective that you could highlight, even if it's just a couple?

Mr. Yves Giroux: I could flip to any page in the budget. I have the budget here, so I can look at several of the items. There are so many things in the budget that I cannot think of one in particular, but if you think of any departmental spending that's highlighted in the budget, it is probably.... Any example is a good example, I think. I would be remiss if I singled out one or two.

Ms. Heather McPherson: As much as we try to get you to single one out, I appreciate your honesty and integrity in not doing that.

In your budget 2022 report, you mentioned increased spending on tax compliance. I'm wondering if you could walk the committee through what measures you looked at and what your findings were with regard to that. We know CRA is quick to enforce tax compliance for low-income Canadians, but is less quick to enforce for large corporations. I'd love to hear your insight on how budget 2022 chalks up in that regard.

Mr. Yves Giroux: In response to your previous question, additional money for CRA that was not in the mains is a very good example. It could have been, had the budget been tabled earlier or the main estimates tabled a bit later.

When we look at additional money for the CRA for enforcement of tax provisions, we find that the expected returns that the CRA or the government expects seem to be going down. That's a bit surprising, because the additional money that the government indicated would be recovered through previous exercises or previous investments or spending initiatives was slightly higher. There's not a lot of detail, so it's a bit surprising in that it doesn't indicate to us why the government would be expecting lower returns with this series of additional spending for the CRA.

However, what we have also noted in the budget is that there's no provision—or no explicit provision, at least—for subsequent activities after additional audit activities. There's no significant amount that's identified. Maybe it's there, but it's implicit rather than explicit. There are no additional amounts for what will inevitably lead to or result in additional opposition to and appeals of these additional audits.

It's one thing that we have flagged in addition to an absence of significant details on the areas that will be the focus of these additional sums for CRA.

Ms. Heather McPherson: Thank you.

The Chair: Thank you, MP McPherson.

Members, that concludes our first round. Moving into our second round, we have the Conservatives up. MP Stewart has five minutes.

Mr. Jake Stewart: Thank you, Mr. Chair.

My first question is to the Office of the PBO.

There was a stunning negative revelation outlined in your update document, which stated that the new luxury tax will result in over $2.8 billion in lost sales over five years. Someone called it a “torpedo tax” before you ask the questions, and I think this might work. I've heard it called this a few times. I've heard other members call it a torpedo tax, and that is valid. I liken what this government has chosen to do as being similar to a submarine targeting an unsuspecting merchant ship in the dead of night. This government is firing a massive torpedo at the Canadian car, boating and aerospace manufacturing sectors, among others.

Considering the struggle that all sectors are having after the pandemic, including manufacturing, are you of the opinion that this tax needs to be put on hold or done away with altogether?

● (1235)

Mr. Yves Giroux: That's a question that I think is better answered by you collectively as parliamentarians.

My job—and I like it a lot—is to provide you with the facts, the numbers, and I it to people who have been elected who are collectively much smarter than I am to make these decisions. I'll provide you with the numbers, and you collectively decide whether it's worth pursuing and amending, or not. Therefore, I won't pronounce on that.

Mr. Jake Stewart: I appreciate that. I was certain you were going to bite on that, but I tried. I know what your job is and you do it very well, by the way.

Obviously, I think the luxury tax is really hurting, and I think it's the wrong thing to do altogether, but you know that's political, and I guess you can't do that either.

The second question I have is this: Considering the 15% decline in sales projected in the PBO report as a result of the luxury goods tax, does the PBO expect job losses as a result of the reduction in sales caused by the tax?

Mr. Yves Giroux: Normally we would expect, yes, some job losses. The extent of these job losses would be determined after a much more in-depth study of the market. By that I mean whether there would be a greater impact on domestically produced vessels, cars and aircraft, or whether there would be a bigger impact on imported goods.

Not having a very firm grasp of the market and the split between domestic and foreign vessels, aircraft, cars, it's difficult to determine the extent of these job losses, but it is quite clear that with such a reduction in sales, there would certainly be job losses. However, the extent of these job losses can only be determined after a much more in-depth study of the market.

Mr. Jake Stewart: Thank you for your answer.

In view of potentially significant job losses as a result of the tax, would it be reasonable, then, to expect a reduction in federal and provincial income tax revenue due to jobs lost as a result of the tax?

Mr. Yves Giroux: It's clear that with a reduction in sales, there would be a reduction in sales taxes, both provincial and federal.

With the reduction in sales, as I mentioned, there would be a reduction or loss of jobs, but the subsequent reduction in personal and corporate income taxes resulting from these job losses would obviously depend on the magnitude of these jobs that would be lost as a result of the reduction in sales. That would be something that could be assessed once a deeper economic assessment is done, as some of your colleagues have suggested the Department of Finance could do. I think they'd be in a good position. After having performed that economic analysis, they'd be in a good position to determine the impact on government finances.

Mr. Jake Stewart: Thank you so much.

Mr. Chair, how much time do I have?

The Chair: You have about 30 seconds, MP Stewart, and I'm trying to hold everybody to their time—

Mr. Jake Stewart: Sure, sure—

The Chair: —so if you're good there....

Mr. Jake Stewart: No, I have one last question.

The Chair: Make it very quick, and with a very short answer.

Mr. Jake Stewart: My last question is to the PBO.

Do you have any final comments on the luxury tax? Is there anything else you want to add on the tax itself?

Mr. Yves Giroux: I think, Mr. Stewart, you've asked all the right questions, and I did my best to provide you with answers.

Mr. Jake Stewart: All right. Thank you.

The Chair: Thank you very much, MP Stewart.

Moving to the Liberals, we have MP Baker for five minutes.

Mr. Yvan Baker: Thanks very much, Chair. Thank you, Monsieur Giroux, for being here with us today.

I'd like to go back to Canada's fiscal position.

The budget that was introduced projects a declining deficit, getting down to, I believe, $8.4 billion in fiscal year 2026-27. I think there's a conscious effort behind these numbers, and certainly the decisions being proposed in the budget to achieve those numbers demonstrate the government's commitment to seeing the debt-to-GDP ratio decline. I think you spoke about that a little bit in your interactions with Ms. Chatel.

On April 28, S&P Global Ratings reaffirmed Canada's AAA credit rating. They noted S&P Global Ratings' “view that Canada's high wealth, economic diversification, and ample fiscal and monetary buffers are helping the country recover from the impact of the COVID-19 pandemic, and leave it well-positioned to face future potential shocks.”

Mr. Giroux, my question is this: Do you agree with this assessment by S&P?

● (1240)

Mr. Yves Giroux: It's true that Canada's fiscal situation is quite strong, especially compared with other G7 countries, so I have no reason to disagree with the overall Standard and Poor's assessment. That said, Standard and Poor's is in a different line of business from mine. They're in the business of assessing credit risk for sovereign countries and subnational countries, whereas I'm a couple of levels down, trying to determine the long-term fiscal sustainability of governments as well as the costs of certain specific measures.

However, there's no fundamental reason to greatly disagree with the Standard and Poor's assessment.

Mr. Yvan Baker: In your response just now, you spoke about our fiscal position relative to other G7 countries. I'm not trying to put words in your mouth, but I think you said something along the lines that it's quite strong.

First of all, could you correct me if that's wrong or tell me if that's correct, and then also explain to me why you feel that way?

Mr. Yves Giroux: Well, when we look at the debt-to-GDP ratio of G7 countries, Canada is, if not the lowest, probably the second-lowest. We are certainly among the lowest. With the fundamentals of the Canadian economy and what we know so far with respect to the longer-term trends, the country is still in a fiscally sustainable longer-term situation, and that includes at the federal level. In a nutshell, that's why we can say that the situation is good, fiscally speaking.

One of your colleagues, Monsieur Ste-Marie, talked about the fiscal sustainability report that we regularly publish. In it we look at the provincial situation as well as the federal situation. We will be in a situation to release an updated fiscal sustainability report during the summer, so members of the committee will have some pleasant summer reading with a report that will look at the sustainability of the federal and provincial governments in the country.

Mr. Yvan Baker: Thank you very much for that. I'm looking forward to spending my summer reading your work.

I have only about 60 seconds left, so I'll be very brief.

The government announced a strategic policy review. Do you support such a review, and what recommendations would you have for such a review of our spending?

Mr. Yves Giroux: That's an interesting question.

Undertaking a review with the view of reducing spending is a policy decision on the part of the government. I'm not in the habit of pronouncing as to whether specific individual policy items are good or not.

However, as outlined in our note entitled "Issues for parliamentarians", I would point out that if the government sticks with the budget 2022 plan—and that includes a strategic review—that plan would mean very, very small growth in operating and capital expenditures from 2024 to 2027. We have not seen that in a long time. That would represent a significant departure from the last 10 or 12 years.

● (1245)

Mr. Yvan Baker: Thank you.

[*Translation*]

The Chair: Thank you Mr. Giroux and Mr. Baker.

[*English*]

We will now go to the Bloc.

MP Ste-Marie, you have two and a half minutes.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

As I have only two and a half minutes left, I'll ask my questions in succession.

My first question is about the new tax on certain luxury goods.

This tax will increase the federal government's revenue, but it will decrease provincial revenue because the number of sales will drop and the provincial sales tax on such goods will apply to a smaller tax base. I'd like confirmation that I've understood this properly.

My second question is about Bill C-19. I'm afraid that the committee will not be able to fully study this mammoth bill of over 400 pages in length, and which includes many parts and divisions.

Do you and your team have any warnings for us, or anything they would like to point out to us, in connection with Bill C-19? I don't know whether you've had enough time to examine the entire bill, and Part 5 in particular.

I'm thinking, for example, of division 9, which concerns the Special Import Measures Act and other areas. Do you think there are any dangers here?

Is division 15, which is about the Competition Act, put together coherently?

And what of division 16, in connection with the Copyright Act, and division 17, with respect to patents?

I'm also surprised to see, in a budget implementation bill, that there should be a mention of the Civil International Space Station Agreement Implementation Act. That's in division 18.

And division 19 addresses prison strip searches.

Suggested amendments to the Immigration and Refugee Protection Act and the Employment Insurance Act are also found in this bill.

Are you looking at all of that, because it's a budget implementation bill, or are you somewhat overwhelmed, as we are, by the scope of this bill?

Do you have any warnings for us?

Mr. Yves Giroux: Thank you very much for having asked these two questions.

With respect to your first question, it's true that the tax on luxury goods will increase federal revenue, but unfortunately decrease provincial revenue, at least for provinces that have a sales tax on goods of this kind.

Your second question was about warnings. We haven't studied the parts or divisions that did not include financial provisions or that did not generate considerable expenditures.

However, we did note that division 6 of Part 5 is identical to what is in Bill C-17. I'm talking here of the transfer of $2 billion to the provinces to reduce health care wait times. These two provisions have exactly the same goal; at least that's how I understand it. I believe that it is included because the government expects to have Bill C-19 adopted before Bill C-17. We believe that this deserves the attention of parliamentarians, to avoid duplication in the objectives and expenditures. We are, after all, talking about $2 billion.

Mr. Gabriel Ste-Marie: Thank you, Mr. Giroux.

The Chair: Thank you, Mr. Ste.-Marie.

[*English*]

We will now move to the NDP. We have MP Blaikie back with us.

MP Blaikie, you have two and a half minutes.

Mr. Daniel Blaikie (Elmwood—Transcona, NDP): Thank you very much. I'm glad to be back.

I wanted to follow up on questions about the CRA, particularly the expenditures in regard to recovery and the diminishing return you outlined in your report.

There's one thing I've been trying to get to the bottom of. I don't know if it's represented in some of the numbers in your report or if this would be in addition to them. I'm wondering if you're in a position to be able to provide any comment on the investment that the government is making, including some money in this bill, to go after people who applied in good faith for the CERB when they were told to, who don't have much income themselves, who are already living below the poverty line, and whom the government seems intent on pursuing for that money.

I'm wondering how good an investment you think it is to chase the poor for money that they don't have, how likely government is to recoup that money and if you're aware of any data. We've asked government directly. I would say that we haven't had an adequate answer on how many people they believe owe the government money under this program, how many people are below the poverty line, how much debt they think they're owed or how much they actually expect to recover.

I'm wondering if you're in a position to be able to provide any commentary on that as well in terms of what data is available, and how it might help us understand the return on investment, so to speak, although I don't think that's the appropriate term when we're talking about people who are already in financial distress.

● (1250)

Mr. Yves Giroux: We don't have data specifically on CERB and its successors, and the potential amount that was paid by mistake or as a result of fraud, but I would think that CRA would quite easily have at least partial data, especially if they do some recoupment between what they paid and whether individuals who received CERB also had other types of benefits or were not eligible because, for example, they were in receipt of income from full-time jobs, old age security or the guaranteed income supplement.

It would be fairly easy for CRA to at least provide this committee with some partial data on the amount it anticipates or expects to have been paid in error or to people who were abroad, and all these payments that should not have been made. I'm a bit surprised to hear that CRA is not providing you with that information.

That's probably as much as I can say, not having received or asked for any data on CERB paid fraudulently or by mistake. That's probably as much as I can say.

The Chair: Thank you, MP Blaikie.

Now we're going to the Conservatives and MP Albas for five minutes, please.

Mr. Dan Albas: Thank you, Parliamentary Budget Officer. I appreciate your presence and your team's work.

Officer, did your office anticipate the COVID-19 pandemic?

Mr. Yves Giroux: The short answer is no.

Mr. Dan Albas: Did your office anticipate the war in Ukraine?

Mr. Yves Giroux: Again, it's no.

Mr. Dan Albas: I don't blame you for that. I don't think the Department of Finance did either.

However, you've made a case here today that sometimes life comes at you fast and that we have to be prepared as a government and as a country for these unanticipated events. You've given some suggestions here for parliamentarians to have a better lens on long-term sustainability, like old age security benefits and child benefits.

How can the government report to Parliament better, so that we can at least anticipate the expenses we know we will have?

Mr. Yves Giroux: First of all, I was worried when you asked me if I had anticipated that. I was worried you would blame me for that. Thankfully, you didn't.

In response to your question, it's not that difficult to provide these long-term expenditures, or at least an estimate of these long-term expenditures. We do that. We are a small office. As part of our fiscal sustainability report, we incorporate longer-term trends and projections when it comes to old age security, child benefits, equalization payments and transfers to provinces. It's not super-easy to do, but it's doable. In fact, it's good practice, and recognized by the OECD and other international institutions, that governments should provide or undertake that type of long-term projection to have an idea of whether their policies are putting the country's finances on a sustainable or unsustainable medium and longer-term track.

We do that on an annual basis. There's no reason that the Department of Finance and the government could not do the same.

Mr. Dan Albas: I do hope government members are texting Mona Fortier at the Treasury Board right now and asking for these changes.

I would like to talk to you about your work in regard to what you viewed as an underestimation by the Department of Finance of debt servicing costs in the fiscal year 2027. I think you said it was by several billion dollars.

Has that assessment changed since we've seen an uptick in interest rates?

Mr. Yves Giroux: The department has not published, at least to my knowledge, an updated estimate of the debt servicing costs. You're probably referring to our stochastic debt sustainability analysis, in which we indicate that there's a significantly higher risk that the debt servicing cost will be higher than expected by the government due to the increase in debt and also the expected increase in interest rates.

● (1255)

Mr. Dan Albas: The government has brought us essentially double the spending on our debt. They've essentially doubled our debt load. They're not anticipating future events. They're not reporting to Parliament what they know is already caked into the books. As you said, they should be able to report on these things, and they have yet to tell us what kind of deals they've cooked up with the NDP when it comes to pharmacare or dental care or all these other things that may happen.

Do you believe that the government needs to be more up front on all of these things?

Mr. Yves Giroux: I certainly think there is room for improving transparency, especially when it comes to medium-term and longer-term fiscal forecasts.

As I mentioned on a couple of occasions, the budget that was tabled in April lays out a fiscal track, but that fiscal track does not include significant measures that were promised during the last electoral campaign, notably pharmacare and additional funding for mental health. There are also demands when it comes to increasing national defence spending to meet the NATO target of 2% of GDP, and there is tremendous pressure from provinces to significantly increase health care transfers.

All these pressures are there, and I think the government will probably have to either agree to deliver on some of these commitments or else be clear that some of these cannot be met.

The Chair: Thank you. Thank you, MP Albas.

Now we're going to the Liberals and MP MacDonald, and that will conclude our second round.

MP MacDonald, go ahead for five minutes.

Mr. Heath MacDonald: Thank you, Chair. Thank you, Mr. Giroux and your team, for what you do. Hearing some of your advice certainly helps us parliamentarians as we create policy.

I want to add a little bit to what my colleague said. Prior to COVID-19, we were very fortunate to have economic stability. Inflation was exactly on target, and our unemployment numbers were extremely good. I think we went into COVID-19 in really good shape, and I think the recovery of our economy is certainly showing the strength we had prior to that.

In your report, you requested that all governments at every level expand their analysis to give a total Canadian perspective. Can you elaborate on what you mean by that?

Mr. Yves Giroux: I assume you're referring to the fiscal sustainability aspect.

Mr. Heath MacDonald: Yes.

Mr. Yves Giroux: I refer to the fact that when we are looking at longer-term or medium-term fiscal sustainability, we should also consider other levels of government in our analysis of long-term fiscal sustainability. It's one thing, for example, to look at the fiscal situation of the federal government, but given that it's the same taxpayer supporting his or her municipal, provincial and federal government, we also need to take into consideration the finances at the provincial and municipal level, although we find in studying that issue that what matters the most for long-term fiscal sustainability is the federal and provincial fiscal sustainability. That's what I mean when I suggest that we take a whole-of-Canada approach, especially in the context of fiscal sustainability.

Mr. Heath MacDonald: Thank you.

Recently here in Prince Edward Island there was a report about so many millions of dollars left on the table relevant to COVID recovery. It was interesting to hear about that and about how you would decipher some of those challenges.

Our government expects to reduce spending by $9 billion over four years, beginning in 2023. Just comparably—and I know you answered some of this—how do we stand within our economic situation right now, coming out of the past two and a half years? Can you elaborate a little more on our fiscal positioning and our economic value going forward? Are we on the right trajectory?

Mr. Yves Giroux: With an expected reduction in deficits from the very high levels of the pandemic, what we anticipate is a substantial reduction in the deficit going forward, to about 0.3% of GDP in 2026, if I'm not mistaken. If that materializes, that would put the debt-to-GDP ratio on a downward trajectory, which would be key in restoring Canadian long-term sustainability, at least at the federal level.

However, as I mentioned before, that doesn't take into account potential additional investments or spending items when it comes to platform commitments of the 2021 election campaign, or calls for Canada to increase its defence spending or health care transfers to the provinces. However, that doesn't mean that if the government were to fulfill all these commitments and respond favourably to these pressures, it could not reach its debt-to-GDP targets or achieve the reduced level of deficit; it would just mean that it would require additional revenues and increased taxes.

All that is to say that we are on a relatively good track as a country, when we look at the federal level, for a reduction in the deficit and a reduction of the burden of the debt as a share of the economy, but that depends a lot on what will be done in the future to respond to pressures that the government is faced with.

● (1300)

Mr. Heath MacDonald: Thank you.

The Chair: Thank you, MP MacDonald.

We want to thank the Parliamentary Budget Officer for appearing before our committee. On behalf of all of the members of the committee, thank you for your insights, your reports and the work that you do, and for answering so many of our questions. We also thank Dr. Yan, who is with you today.

[*Translation*]

Thank you, Mr. Giroux.

[*English*]

On behalf of the clerk, the analysts and everyone here at committee, we thank you for appearing before us.

Members, on that, I want to let you know that Monday's meeting will start at 3:30 rather than at 11 a.m. On Tuesday, FINA is meeting from 11 to 1 and again from 3:30 to 5:30.

On that, shall we adjourn?

Some hon. members: Agreed.

The Chair: Thank you, members. Have a great day.

The meeting is adjourned.