HOUSE OF COMMONS
CANADA

CANADA: COMPETING TO WIN

Report of the Standing Committee on Finance

Brian Pallister, M.P.
Chair

DECEMBER 2006

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THE STANDING COMMITTEE ON FINANCE

has the honour to present its

EIGHTH REPORT

In accordance with its mandate under Standing Order 83.1, the Committee has studied proposals on the budgetary policy of the government and has agreed to report the following:

CHAIR'S FOREWORD

Please accept this report on behalf of the Members of the House of Commons Standing Committee on Finance. The Pre-Budget Consultation hearings are designed to receive the input of Canadians regarding future budgetary priorities and I believe that the Committee fulfilled this objective.

The theme of this year's pre-budget consultation hearing was "Canada's Place in a Competitive World" and we met with over 450 presenters by traveling to a number of locations throughout Canada. The Committee was keen to receive a broad spectrum of views on the budget and, as a consequence, we traveled to locations not visited in previous years. I believe that we were successful in capturing this broad view.

In conclusion, we were honored and humbled by the enormity of this task. The challenges were many including bringing together members from all of the parties, cataloging and then sorting through hundreds of pre-budget submissions, and then coming up with a final report.

Special thanks to the Clerk's office for the organization and implementation of the pre-budget consultation hearings. Canadians should be proud of their efforts.

Brian Pallister, M.P.
Chair

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CHAPTER ONE: INTRODUCTION

In September 2006, the World Economic Forum's *Global Competitiveness Report 2006-2007* indicated that Canada's relative position had declined since 2005. In particular, Canada fell from 14th to 15th on the Business Competitiveness Index and from 13th to 16th on the Global Competitiveness Index.

This relative decline in Canada's competitiveness is unwelcome, particularly at a time when the Organisation for Economic Co-operation and Development's *Economic Survey of Canada, 2006* indicated that while our economy has had relatively strong performance in recent years, key future challenges will be improved productivity growth and the sustainability of fiscal and social policies that will help to address the challenges of an ageing population.

Productivity measures how efficiently production inputs, such as labour and capital, are turned into the final goods and services desired by consumers. In essence, it is a measure of output per unit of input into the production process. Statistical evidence reveals a positive relationship between a nation's productivity performance and its standard of living, and some suggest that productivity may be the single most important factor influencing a nation's long-term economic growth potential.

A number of factors influence a nation's productivity performance, and a range of measures might be put in place to enhance that performance. Initiatives might be implemented to enable individuals to engage in work and non-work activities as well as in lifelong learning. As well, actions might be taken to ensure that the physical infrastructure in our communities facilitates high levels of productivity growth, and that other aspects of our communities make them desirable places for individuals to work and live, and for businesses to operate and prosper. Finally, measures might be instituted to provide businesses with an increased ability and willingness to engage in research and development as well as to adopt the best machinery and equipment for their employees.

While Canada has an enviable standard of living, our nation's economic performance is not all that it can — or should — be. Governments have a role to play in creating the conditions for rapid and sustained productivity growth and for the improved competitiveness that will ensure a continued high standard of living and quality of life for Canadians. It is essential that the federal government act today to advance Canada's competitive position in a world characterized by rapid technological change and the emergence of new economic powers.

It is with a focus on the importance of competitiveness that the House of Commons Standing Committee on Finance undertook its 2006 pre-budget consultations and invited witnesses to share their views about the federal taxation, program spending and other policy changes needed to enhance Canada's competitiveness.

In choosing the theme of competitiveness, the Committee took a broad view of the factors that contribute to enhanced competitiveness. Our focus was not limited to the research and innovation, taxation, health, education and other spending measures that are important contributors to improved competitiveness, but was also on factors that contribute to national prosperity in terms of caring for our residents and our communities. In particular, we felt that there are a number of measures that the federal government might implement and actions that it might take to ensure that:

- our citizens are healthy, can fulfill their basic needs, have the necessary skills and education, and are presented with appropriate incentives to work and to save;

- our communities provide the physical, natural and social environment that is desired by individuals seeking a high quality of life and businesses seeking to operate in a cost-effective and efficient manner; and

- our businesses have a competitive tax regime, can access markets for their goods and services, and are able to benefit from secure and appropriately priced labour, capital and other production inputs.

Consequently, witnesses were asked to provide their input on four questions:

- What specific federal tax and/or program spending measures should be implemented in the upcoming budget to ensure that our citizens are healthy, have the right skills, etc. for their own benefit and for the benefit of their employers?

- What specific federal tax and/or program spending measures should be implemented in the upcoming budget to ensure that our nation has the infrastructure required by individuals and businesses?

- What specific federal tax and/or program spending measures should be implemented in the upcoming budget to ensure that our businesses are competitive?

- What specific federal actions should be taken in order that the federal government is able to afford the tax and/or program spending measures needed to ensure that Canada's individuals and businesses can prosper in the world of the future?

On 23 November 2006, the Minister of Finance presented *The Economic and Fiscal Update* and *Advantage Canada: Building a Strong Economy for Canadians* (hereafter, *Advantage Canada*) to the Committee. In his appearance, the Minister outlined the five key areas in which *Advantage Canada* — the federal government's long-term economic plan — seeks to gain a global competitive advantage for Canada. These areas are:

- taxes — lower taxes for all Canadians and the lowest tax rate on new business investment among the Group of Seven countries;

- fiscal finances — elimination of Canada's total government net debt in less than a generation;

- entrepreneurism — a reduction in unnecessary regulation and red tape as well as enhanced competition in the Canadian marketplace;

- knowledge — creation of the best educated, most skilled and most flexible workforce in the world; and

- infrastructure — efforts to build modern, world-class infrastructure in Canada through public-private partnerships in order to ensure a seamless flow of people, goods and services.

The Minister also itemized the four key principles on which *Advantage Canada* is based. These principles are:

- focusing government on what it does best;

- creating new opportunities and choices for people;

- investing for sustainable growth; and

- freeing businesses to grow and succeed.

This report summarizes the presentations that were made to the Committee by Canadians during our consultations. It also presents our thoughts and recommendations on these issues and on the Minister of Finance's presentation of *The Economic and Fiscal Update* and *Advantage Canada*, since our deliberations have been guided by what Canadians and the Minister of Finance told us.

CHAPTER TWO: COMPETITIVE PEOPLE

Individuals' decisions about education and training, and about the form and extent of their involvement in labour market and non-labour market activities, are affected by such quality of life factors as health status and access to affordable housing and other basic necessities, as well as by the incentives and disincentives inherent in employment policies, personal taxation, government program spending and legislation/regulation.

HEALTH

Health, both physical and mental, directly affects the ability of individuals to apply their skills and education in the labour force effectively and to enjoy activities outside the work environment. Moreover, physical health may affect decisions regarding investments in education and training, since — for example — individuals with longer life expectancies have more time to spend in the labour force and to benefit from their investments.

A. WHAT WE HEARD

A number of the Committee's witnesses spoke about the importance of good health outcomes for the nation's competitiveness and the quality of life of our residents. Other witnesses, including the Yukon Council on Aging and the Federation of Medical Women of Canada, adopted a somewhat narrower perspective and highlighted the importance of considering the needs of specific groups of Canadians — including children, seniors, women and Aboriginal persons — when developing health-related programs and policies.

1. Health Research

Witnesses told the Committee about the importance of health research for enabling sound health policy and resource allocation decisions. As a benchmark, the Canadian Healthcare Association suggested that at least 1% of total federal health spending be allocated to health research.

In order to achieve its legislated mandate and to compete internationally, the Canadian Institutes of Health Research (CIHR) informed the Committee that it requires a federal investment of $740 million over three years to increase its base budget to $1.1 billion per year. Other witnesses recommended smaller increases to the CIHR's base budget, ranging from $350 million to $600 million over three years. The Hospital for Sick Children and Research Canada: An Alliance for Health Discovery suggested that the federal government implement targeted envelopes of

funding administered by the CIHR and determined in consultation with the federal government. Other witnesses requested enhanced support for existing CIHR initiatives, such as the Canadian Lifelong Health Initiative, or for new initiatives, such as the request for $75 million per year for strategic public health research by the CIHR.

Witnesses identified several new projects and areas of research for federal investment, including a publicly accessible clinical trials registry to ensure the recording and public release of protocol information and trial results in order to avoid selective reporting, a cardiac arrest surveillance registry and a national lifelong cohort study to track the impact of modifiable risk factors on chronic disease outcomes, and rural health research to support evidence-based decisions for the delivery of health in rural and remote communities.

The Committee also heard recommendations regarding continuation of, or improvements to, existing initiatives. Specifically, witnesses proposed a federal investment of $36 million — $5 million to $7 million in 2007 — to improve the chronic disease surveillance system, triennial updates to the Public Health Agency of Canada's Economic Burden of Illness report, and reinvestment in nursing research through the Nurse Fund, a $25 million, 10-year investment that will expire in 2008.

2. Public Health and Wellness Measures

The Canadian Public Health Association told the Committee that public health may be defined as a society's organized efforts to improve the health of its population. We heard that public health is carried out through six major functions: health protection; health promotion; health assessment; public health surveillance; chronic injury and disease prevention; and emergency preparedness. We were told that, of the $130 billion health-related expenditures in Canada each year, likely more than 90% is spent on treatment; however, investments in public health can deliver proportionally greater savings in health care spending.

The Canadian Public Health Association recommended that the federal government increase core funding for federal public health functions to $1.1 billion annually, ensure that provinces/territories allocate a portion of the resources provided in the Ten-Year Plan to Strengthen Health Care to public health activities, and undertake a comprehensive review of long-term funding for public health. The Nova Scotia Association of Social Workers also encouraged the federal government to consider improving the health of Canadians by addressing social determinants of health, including poverty, income inequality and social inclusion/exclusion.

Witnesses also recommended expanding the availability of public health information through public reporting on the performance of the public health system by the Health Council of Canada as well as through continued federal support for the Canadian Health Network, a health information web portal coordinated by the Public Health Agency of Canada and Canadian health organizations.

The Canadian Medical Association told the Committee that it remains concerned about the state of Canada's public health system and that needed infrastructure must be in place prior to a pandemic. Consequently, the federal government was urged to establish a public health infrastructure renewal fund — financed in the amount of $350 million annually — for a public health partnership program with the provincial/territorial governments in order to build capacity at the local level and to undertake advance pandemic planning.

The Committee heard that investments in women's health — including reproductive health — are important because poor health contributes to poverty among women and reduces their productivity at work and in the home. The Society of Obstetricians and Gynaecologists of Canada and the Association of Obstetricians and Gynecologists of Quebec recommended federal investment in women's reproductive health, including funding for a pan-Canadian maternity care strategy developed in collaboration with the provinces/territories, a pre-natal screening program, and a federal tax credit for reproductive technology expenditures similar to the provincial tax credit in Quebec.

Witnesses also commented on the importance of immunization. The Committee was informed that immunization is the most effective means of preventing serious communicable diseases and remains one of the most cost-effective types of medical intervention. We were told that, according to the U.S. Centers for Disease Control and Prevention, every dollar spent on vaccines results in savings of up to $27 in medical and societal costs. The Association of Obstetricians and Gynecologists of Quebec, the Canadian Coalition for Immunization Awareness & Promotion, the Canadian Paediatric Society and the Canadian Public Health Association, among others, supported continued federal funding of at least $10 million per year for the National Immunization Strategy and at least $100 million per year for the provincial/territorial governments to maintain ongoing immunization programs. The federal government was encouraged to ensure equal immunization access to all Canadian children through the adoption of a uniform immunization schedule across the provinces/territories and the appropriate use of First Nations and Inuit immunization program funding for Aboriginal children and youth.

Witnesses also encouraged additional federal funding for future immunization programs, with Merck Frosst Canada Inc. and the Federation of Medical Women of Canada specifically requesting $300 million per year. Some witnesses advocated the adoption of an annual process to determine the budget requirements for upcoming vaccines that are recommended by the National Advisory Committee on Immunization. Several witnesses specifically recommended a universal vaccination program for the recently approved vaccine against Human Papilloma Virus.

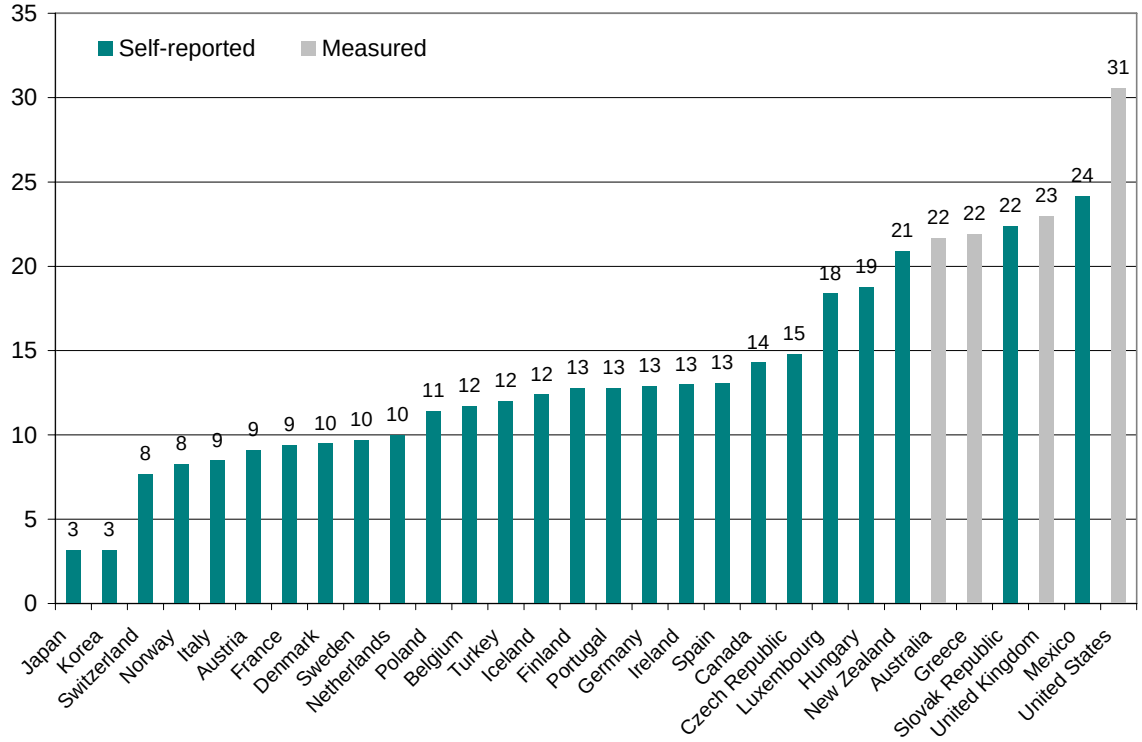
The Committee heard that injury is the leading cause of death for Canadians under 45 years of age, and is the fourth leading cause of death overall. According to the Insurance Bureau of Canada, injuries result in an estimated $3.9 billion annually in direct health care costs, not including the cost of lost productivity. Consequently, witnesses recommended that the federal government invest in the development of a

federal-provincial/territorial strategy on injury prevention and commit to multi-year implementation funding.

The Canadian Dental Association, among others, supported federal reinvestment in tobacco denormalization and reduction strategies, including Health Canada's Tobacco Control Programme and comprehensive mass media campaigns. Noting that tobacco control programs are the most effective means of preventing death and disability caused by lung cancer and Chronic Obstructive Pulmonary Disease, the Canadian Lung Association urged the federal government to strengthen tobacco control legislation in federal government buildings.

Witnesses also informed the Committee about the importance of healthy lifestyles, noting that physical inactivity and obesity are key risk factors for chronic disease. According to the Canadian Medical Association, the cost of obesity in Canada is approximately $9.6 billion per year. Figure 1 shows how Canada's rate of obesity compares to rates in other Organisation for Economic Co-operation and Development (OECD) countries.

Figure 1: Rate of Obesity Among Individuals, Aged 15 Years and Older, Organisation for Economic Co-operation and Development Countries, 2003 or Most Recent Year Available



Notes: Obesity is defined as a body mass index greater than 30.
Source: Organisation for Economic Co-operation and Development (OECD), "Obesity," *OECD Factbook 2006*.

In order to promote healthy lifestyles among Canadians, witnesses requested federal investment in a variety of areas, including public awareness and education programs, wellness initiatives, chronic disease management programs, and physical infrastructure such as bicycle paths, walking trails, and sports and recreation facilities. The Committee was asked to recommend funding for, and implementation of, the Pan-Canadian Physical Activity Strategy developed by the Coalition for Active Living. The Chronic Disease Prevention Alliance of Canada, the Sport Matters Group and Sport Nova Scotia urged the federal government to allocate 1% of federal health spending to physical activity and sport, and some witnesses requested dedicated funding for infrastructure that promotes healthy living.

The potential role for non-governmental organizations was also identified. Witnesses, including Community Foundations of Canada, highlighted opportunities for the federal government to partner — financially or otherwise — with community foundations and/or private organizations to encourage health and fitness among Canadians. One example of a potential partnership would be the construction of the Lourdéon Wellness Centre, which requested federal investment to supplement contributions from the community, the province of Manitoba and private foundations. Another recommendation involved a federal investment of $40 million to facilitate the implementation of comprehensive school-based strategies for preventive health, in collaboration with the provinces/territories.

Such witnesses as the Canadian Health Food Association, the Heart and Stroke Foundation, the Fitness Industry Council of Canada, the Canadian Meat Council, Ms. Margaret Azevedo, the Sport Matters Group, J.D. Irving, Limited and the Centre for Science in the Public Interest advocated tax incentives to promote healthy lifestyles. Proposals included:

- expanded eligibility for the federal medical expense deduction to include natural health products;
- an increase in the value of the proposed Children's Fitness Tax Credit from $500 to $1,000;
- expanded eligibility for the proposed Children's Fitness Tax Credit to include Canadians of all ages and/or all forms of physical activity;
- a federal tax deduction for gym memberships;
- an increase in the value of the federal tax deduction for the sponsorship of community sport by private corporations from 100% to 150%;

- a non-refundable federal tax credit for parents supporting high-performance athletes;

- taxes on sales of high-caloric, nutrient-poor foods;

- removal of the Goods and Services Tax/Harmonized Sales Tax (GST/HST) from products that promote physical activity, natural health products and healthy foods;

- a tax exemption for employer reimbursement of employee expenditures on certified fitness, smoking cessation and approved weight loss programs; and

- differential limits regarding the deductibility of advertising expenditures for food products, depending on the nutritional quality of the food being advertised.

Tax-based approaches to encouraging healthy lifestyles were not supported by all witnesses, however. The Canadian Restaurant and Foodservices Association encouraged an emphasis on public education and awareness rather than on tax-based solutions such as a “fat tax” or onerous nutrition labeling initiatives in restaurants.

The Committee heard that preventive programs that address the determinants of health are essential to improving the health of the general population and to decreasing health inequities. While some measures might have relevance for the entire population, more targeted measures may be needed for certain groups. The Canadian Cancer Society, among others, expressed concern about the recent elimination of funding for the First Nations and Inuit Tobacco Control Strategy and supported the implementation of a replacement program. We learned that 60% of on-reserve First Nations people between the ages of 18 and 34 smoke, as do 70% of Inuit in the North between the ages of 18 and 45.

In addition to comments about tobacco use among First Nations, witnesses requested increased federal funding for other components of Aboriginal health. The Nishnawbe Aski Nation, for example, asked that First Nations health funding be increased by 10% annually over the next three years.

3. Health Professionals and Caregivers

Witnesses told the Committee that the national shortage of health professionals must be resolved. We heard that all of our health strategies, including new investments in health infrastructure and technologies, risk being compromised without the appropriate number and distribution of health professionals across regions and health fields.

The federal government was urged to develop, in collaboration with the provinces/territories and other relevant stakeholders, a pan-Canadian, long-term health human resources strategy and related mechanisms to facilitate and coordinate health human resources planning. The Canadian Nurses Association advocated a federal investment of $10 million in a mechanism that would build on existing networks and databases, provide analytical support to governments, and link human resources planners, educational institutions, employers and health professionals. Witnesses also recommended that the federal government provide sufficient funding to implement a report prepared by the Joint Task Force on Public Health Human Resources, entitled *Building the Public Health Workforce for the 21st Century: A Pan-Canadian Framework for Public Health Human Resources Planning*.

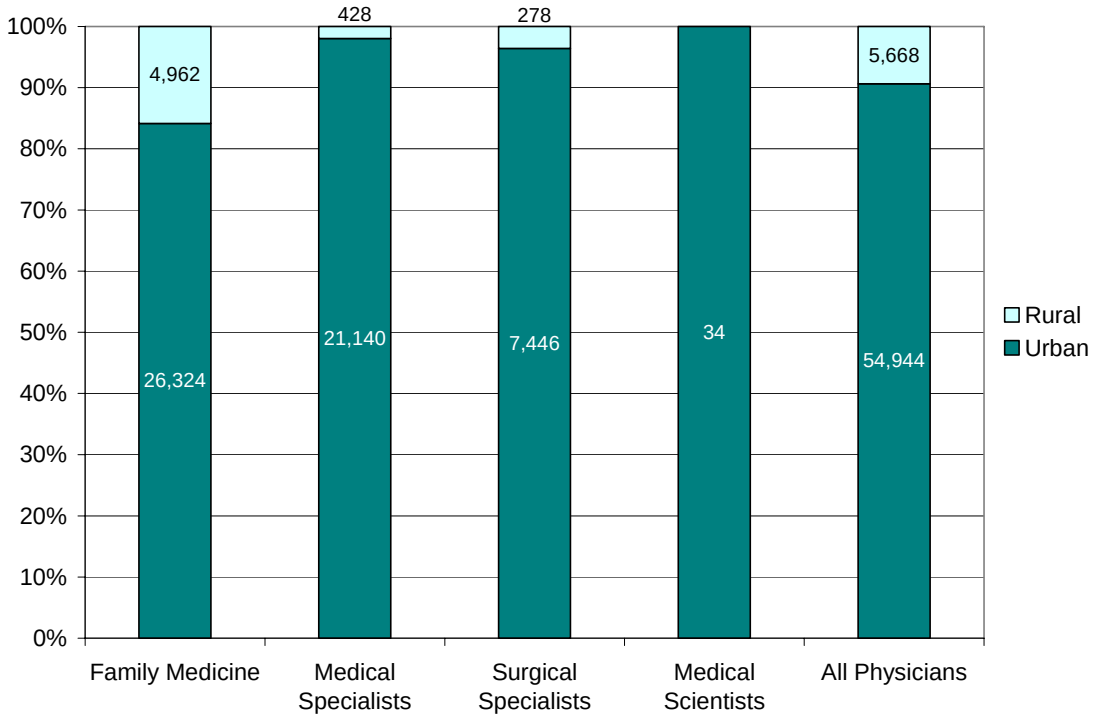
Witnesses highlighted the need to expand the capacity — both in terms of infrastructure and faculty — of Canada's medical and nursing schools in order to train sufficient health care professionals in order to help address the current and anticipated shortage of nurses, physicians and other health professionals. The Association of Canadian Academic Healthcare Organizations and the Association of Faculties of Medicine of Canada urged the federal government to provide funding to the provinces/territories in order to improve the capacity to train health professionals in Canada.

Other proposals for either attracting new health care professionals or encouraging the labour force participation of existing health care professionals were also presented to the Committee. To encourage Canadians to pursue careers in health care, it was suggested that the federal government fund pilot projects through the Workplace Skills Initiative, such as a mentorship program for new graduates, and create “return-of-services” programs that provide tuition subsidies to nursing students in exchange for service in areas under federal jurisdiction when they graduate. Witnesses noted the importance of recruiting Aboriginal Canadians into health care professions, as well as the opportunity to support existing health care providers to progress into nursing and other professions.

To encourage the labour force participation of existing health care professionals, the Saskatchewan Union of Nurses recommended federal incentives to persuade trained and experienced health professionals — nurses, in particular — to re-enter the labour force. Another suggestion presented to the Committee was a direct advertising campaign to encourage the repatriation of Canadian physicians, nurses and other health care professionals practising in the United States. Finally, the Greater Kitchener Waterloo Chamber of Commerce recommended allowing physicians to employ international medical graduates in training and other qualified health professionals in order to expand the volume of services delivered.

The unique health human resources challenges in rural and remote communities were also noted. The Committee was told that while 31% of Canadians live in rural areas, about 17% of family physicians and 4% of specialists practise in these areas, as indicated in Figure 2.

Figure 2: Number of Physicians in Urban and Rural Regions, Canada, By Specialty, 2004



Source: Canadian Institute for Health Information, *Geographic Distribution of Physicians in Canada: Beyond How Many and Where*, 11 January 2006.

Since approximately 50% of medical students from rural communities choose rural practice compared to 5% of urban-based students, the Society of Rural Physicians of Canada suggested measures aimed at increasing the percentage of medical students from rural communities from the current level of 8%, such as scholarships to increase access to medical education for rural and remote residents as well as funding to universities with medical schools to develop mechanisms to increase rural representation. The Northern Lights Health Region also advocated the creation of programs and tax incentives to encourage health professionals to seek employment in rural and remote regions of Canada.

Other suggestions to improve rural health and health care services included increased funding to the provinces/territories to hire more health care professionals, increased rural medicine procedural and skills training in medical school programs, enhanced training of residents in rural residency programs, and the creation of a national rural medical round table of licensing, teaching, accrediting and professional medical associations.

The Committee also learned that the inability of physicians to recover the GST/HST paid on goods and services for their practices is a deterrent to investment, including in the technologies required to improve wait time management. The Canadian Medical Association requested that a GST/HST rebate be allowed on costs related to health care services provided by a medical practitioner and reimbursed by a province or provincial health plan.

Proposals to support caregivers were also presented to the Committee. Mothers on the Rampage stressed the importance of recognizing the value of unpaid work — care work, in particular — as a valuable contribution to the economy through such actions as the creation of a ministry for unpaid labour. The federal government was also encouraged to support caregivers by investing in a "caregiver portal initiative" and a 24-hour, toll-free information hotline.

Several tax measures to support caregivers were identified, including extending the Caregiver Tax Credit to spouses of infirm individuals, creating tax provisions to reimburse caregivers for their expenses, and allowing the Attendant Care Deduction to be used in respect of spouses, common law partners or other parties not necessarily in the business of supplying attendant care.

Witnesses also suggested various changes to compassionate care benefits made available to caregivers under the Employment Insurance (EI) program as of 1 January 2004. These changes included extending eligibility to caregivers of individuals who are severely disabled or who suffer from chronic — but not necessarily palliative — conditions, and extending benefits beyond six weeks to include other crisis times during which care must be given.

The Committee also heard recommendations regarding the Canada/Quebec Pension Plan (C/QPP) as it applies to caregivers. It was suggested that the federal government increase the financial security of caregivers by allowing them to contribute to the C/QPP when they are providing care rather than participating in the labour market. Moreover, such witnesses as the Multiple Sclerosis Society of Canada and VON Canada suggested that the C/QPP contain a caregiver drop-out provision similar to the child rearing drop-out provision, which excludes years spent raising children under the age of seven years from the calculation of benefits.

In addition, VON Canada recommended that the federal government provide higher levels of continuing care in First Nations and Inuit communities by investing substantial and sustainable funding in home and community care for this group of Canadians. Noting that families continue to be the primary caregivers in many First Nations and Inuit communities, recommendations were also made regarding support, training and compensation aimed at meeting the specific needs of these caregivers. Finally, the federal government was encouraged to extend the exemption from program review, which has been granted to the Department of Indian and Northern Affairs, to the First Nations and Inuit Health Branch of Health Canada.

4. Health Care

While the Committee received requests for increased long-term public funding for health care, we also heard about the importance of increased accountability regarding the efficient and effective use of funding. The Canadian Institute of Actuaries recommended the creation of an office of the chief medicare actuary to report annually on the financial status of health care in Canada as well as to provide analysis on the financial sustainability of the current public health care system and the financial implications of proposed actions. To gauge progress against federal-provincial/territorial health care objectives and to facilitate resource allocation decisions, witnesses such as the Greater Kitchener Waterloo Chamber of Commerce advocated the reporting of comparable health care indicators and benchmarks.

Differing views regarding private sector involvement in the provision of health care services in Canada were presented to the Committee. The Vancouver Board of Trade advocated planned involvement by the private sector to enable the provision of timely and high-quality health care. Others, however, expressed reservations about the privatization of health care, and urged increased monitoring and enforcement of the *Canada Health Act*. The Canadian Healthcare Association took a neutral position, supporting an evidence-based approach regarding when, where and how private funding and/or delivery should occur, assuming access to health services on the basis of health need is not jeopardized.

Witnesses also spoke about the issue of wait times, with a suggestion made about the adoption of pan-Canadian wait time guarantees. To improve the capacity of health care professionals to provide timely care to Canadians, it was suggested that the federal government create a health delivery infrastructure fund; the Canadian Federation of Nurses Unions recommended that such funding be dedicated only to publicly owned and operated facilities. Other suggestions for reducing health care waiting lists included increasing the efficiency of the public health care system, implementing the recommendations of the Federal Advisor on Wait Times, and enhancing the skills, abilities and number of health care providers. The Committee was reminded, however, that wait times are only one of multiple health care issues requiring resolution.

The Committee learned that Canada lags other industrialized countries in the adoption of electronic medical records and was, therefore, encouraged to recommend accelerated implementation of information technology to support the delivery of health services. Specific recommendations included federal investment in the Canada Health Infoway in support of the recommendation of the Federal Advisor on Wait Times, targeted federal investments in physician office automation and technology in the home and community care sector respectively, and a federal guarantee that every Canadian will have a personal electronic health record within five years.

Witnesses acknowledged that there may be instances in which Canadians pay for medical expenses that are covered neither by a provincial/territorial health care plan nor a private insurance plan. To encourage individual saving for health care, the creation of a tax-sheltered long-term health care savings plan was recommended. In addition, it was suggested that the federal government create a federal tax deduction, rather than a non-refundable tax credit, for medical expenses incurred directly by Canadians.

5. Home and Community Care

The federal government was urged by the Dalhousie University, School of Social Work, among others, to create a comprehensive national home and community care program. While the 2004 Ten-Year Plan to Strengthen Health Care provided first-dollar coverage for certain acute home care services, witnesses recommended the inclusion of chronic care services as well. To achieve this objective, the Canadian Healthcare Association recommended an initial federal investment of $1 billion over three years. In making their recommendations, witnesses acknowledged the need to respect provincial/territorial jurisdiction regarding the delivery of care, but encouraged transparency and accountability as well as the linking of federal funds to pan-Canadian objectives for home and community care.

VON Canada made several additional recommendations regarding home care, including funding for community support services, financing to retrain and recruit high-quality labour, and an examination of the appropriate use of technology.

Investment in a palliative and end-of-life care strategy was also encouraged. In developing this strategy, the federal government was asked to re-evaluate the structure, eligibility requirements and public awareness of the existing Compassionate Care Benefits program, which the Committee learned has had low participation since its introduction in 2004.

6. Pharmaceuticals

Several of the Committee's witnesses mentioned the establishment, in October 2004, of a ministerial task force comprised of the federal and provincial/territorial ministers of health to guide the development and implementation of the National Pharmaceutical Strategy announced as part of the 2004 Ten-Year Plan to Strengthen Health Care. A number of witnesses, including the Canadian Diabetes Association, the Canadian Labour Congress and the Canadian Federation of Nurses Unions, supported the expeditious implementation of a national pharmacare program by the federal and provincial/territorial governments in order to ensure that all Canadians have full and equitable access to drug treatment and care, both in and out of hospital. Witnesses identified specific program attributes in their vision of a national pharmacare program, including first-dollar coverage for prescription drugs, catastrophic drug coverage, bulk purchasing, and/or a national drug formulary.

The Committee also heard recommendations for enhancing drug safety in Canada. The Canadian Association of Chain Drug Stores supported the suggestion of the Canadian Pharmacists Association for a federal investment of $150 million over 10 years to improve drug safety and effectiveness. Another recommendation encouraged the federal government — in consultation with the provincial/territorial governments — to establish a national prescription drug agency under the *Canada Health Act* as a means of evaluating new and existing drugs, controlling costs, and ensuring the quality, safety and cost-effectiveness of all prescription drugs. The Committee was also urged to recommend changes to improve the timeliness and transparency of Health Canada's existing drug review process and to ensure that adequate funds are available for effective implementation of the progressive drug licensing framework currently under development.

The Canadian Pharmacists Association requested a federal investment of $50 million for an electronic adverse drug reactions (ADR) reporting system that integrates reporting forms into software used by health care professionals at the point of care, and an additional $10 million annually for five years to establish and promote a related training program for health professionals.

7. Oral Health

Witnesses informed the Committee that new research is beginning to demonstrate that oral conditions have implications for overall health; for example, periodontal diseases have been implicated in pre-term, low-birth-weight babies and cardiovascular disease. Currently, oral care accounts for 6.8% of total public and private health spending in Canada, or $9.7 billion dollars in 2005. We also learned that Canada is the second lowest among OECD countries in terms of public oral health expenditures per capita, since most oral health care is financed through private health insurance and the private sector.

Since oral disease is almost entirely preventable, witnesses made recommendations designed to improve awareness about oral health and access to oral health services. In order to increase information and awareness about oral health, the Canadian Dental Association recommended that the federal government dedicate 3.5% of funding for the CIHR to oral health research and that it work with relevant stakeholders to promote oral health through public awareness campaigns.

Witnesses such as the National Anti-Poverty Organization advocated a national oral health care program that provides basic dental care services as one option to address oral health disparities between low-income and other Canadians. It was also suggested that the federal government give financial support to dental schools, which provide affordable dental care services to many low-income Canadians.

To address oral health disparities between Aboriginal and non-Aboriginal Canadians, witnesses supported continuation of the Non-Insured Health Benefits (NIHB) program for eligible First Nations and Inuit Canadians. The Canadian Dental Hygienists Association suggested that funding for the NIHB program be increased annually by 10.9%, a figure that is consistent with program projections by the Assembly of First Nations in its 2005 action plan.

Witnesses also suggested measures to increase accessibility for other groups, including investigating the merit of a new medical savings plan that would allow retired persons to place part of their Registered Retirement Savings Plan funds into a special account to be spent free of taxes on medical expenses that are not covered under the *Canada Health Act*, such as oral care, and amending the Public Service Dental Care Plan and the Veterans Affairs Canada Dental Services Program to allow direct payment to licensed dental hygienists, which the Committee was told would reduce the cost of oral health services and enable the provision of services in homes or long-term care facilities.

8. Mental Health

The Committee was informed that 20% of Canadians will experience an episode of mental illness in their lifetime and that 3% of Canadians live with a serious, persistent mental illness. Witnesses also noted that the direct and indirect costs of mental illness and addiction in Canada are approximately $33 billion per year. In May 2006, the Standing Senate Committee on Social Affairs, Science and Technology released its report, entitled *Out of the Shadows at Last: Transforming Mental Health, Mental Illness and Addictions Services in Canada*, which received support from a number of witnesses.

Noting that Canada is the only Group of Eight (G8) country without a national mental health strategy, the Canadian Mental Health Association, the Canadian Mental Health Association — Central Region and the Canadian Alliance on Mental Illness and Mental Health were among the witnesses that supported the establishment of a mental health commission to develop and implement a pan-Canadian strategy for mental health and mental illness, as recommended in the Senate report. In addition, the British Columbia Alliance for Accountable Mental Health and Addictions Services encouraged a federal investment of $5.36 billion over 10 years to establish a mental health transition fund, comprising a mental health housing initiative, community services and other strategic investments. Some witnesses supported certain elements of this proposal. Other suggestions included the development of an anti-stigma campaign and initiatives to promote mental health literacy.

To facilitate a better understanding of the incidence and burden of mental illness in Canada, the Canadian Alliance on Mental Illness and Mental Health recommended an annual federal investment of $25 million for research into clinical, health services and population health aspects of mental health, mental illness and addiction.

The Alliance to End Homelessness urged amendments to the *Canada Health Act* to uphold the portability clause to include urgent, out-of-province/territory mental health care provided in a psychiatric hospital or institution.

9. Specific Diseases

Witnesses provided the Committee with a number of recommendations regarding specific diseases.

Last year, the Committee was told that cancer is expected to become the single greatest cause of premature death by 2010. The Canadian Cancer Society estimates, however, that the 2006 federal budget commitment of $260 million over five years for a Canadian strategy for cancer control will prevent more than 1.2 million Canadians from developing cancer, save the lives of more than 420,000 Canadians, result in health care savings of more than $39 billion, and prevent the loss of more than $101 billion in wage-based productivity over the next 30 years. The Canadian Cancer Society, along with the Canadian Coalition for Action on Tobacco, requested an increase in federal tobacco taxes equal to $10 per carton of 200 cigarettes, elimination of the tax loophole for roll-your-own tobacco, and federal actions to address the problem of low-priced contraband cigarettes.

To advance understanding of the current state of respiratory disease and the effectiveness of existing national and international measures, the Canadian Lung Association recommended that the federal government invest $3 million over two years to support the development of a national framework on respiratory health. Similarly, the Parkinson Society of Canada advocated a federal investment of $5 million to acquire baseline and projected data on the economic and social burdens of Parkinson's disease, which would increase understanding of the disease and facilitate better public policy decisions.

The Committee learned about dystonia, a crippling neurological disorder with no cure. Because dystonia is an "orphan disease," pharmaceutical companies appear to have less interest in bringing cures to market due to return-on-investment concerns. As a result, the Dystonia Medical Research Foundation of Canada hoped to increase opportunities for the CIHR to fund dedicated clinical and statistical research initiatives for dystonia by requesting increased federal investment in the Research Translation, Commercialization and Innovations Special Program and the Institute of Neurosciences, Mental Health and Addiction.

The Committee also heard about research which suggests that some First Nations communities in Canada have Fetal Alcohol Spectrum Disorder (FASD) incidence rates of 16%. The Canadian Teachers' Federation advocated the importance of accessible, culturally relevant intervention programs for families of children with FASD in order to receive adequate training and to develop community-based supports.

Finally, the Committee was informed that Canada has one of the highest rates of juvenile (type 1) diabetes in the world. The Juvenile Diabetes Research Foundation of Canada requested a federal investment of $25 million annually for the next five years to fund the Juvenile Diabetes Research Foundation's priorities. In addition, we learned that diabetes occurs in First Nations adult populations three times more often than in non-First Nations populations. With type 2 diabetes accounting for about 78% of diabetes cases among First Nations adults and becoming increasingly common among First Nations children, it was suggested that the federal government establish community-operated and culturally relevant diabetes programs in Aboriginal communities that recognize the factors contributing to an increased incidence of type 2 diabetes.

B. WHAT WE BELIEVE

The Committee believes that people are more productive, are better able to contribute to the nation's competitiveness and enjoy a higher quality of life when they are healthy. From this perspective, we feel it is critically important that our health care system ensure good health outcomes. We urge ongoing vigilance in order to ensure that accountability, transparency, efficiency and effectiveness characterize the expenditure of moneys committed to health care. Good health outcomes benefit individuals and their families, employees and employers, and the community. They also enhance the quality of life and productivity of Canadians.

With the relatively recent development of the Ten-Year Plan to Strengthen Health Care, which provides for improved access to home care, community care, and safe and affordable drugs, the Committee believes that the health care focus should now shift — to a greater extent — to prevention in a number of areas.

Good nutrition and physical activity lead to reduced health problems such as obesity, diabetes, cancer, heart disease and strokes, among others. In the Committee's view, expansion of the proposed Children's Fitness Tax Credit to Canadians of all ages and to a broad range of physical activity should be considered. Immunization results in reduced human costs and lower health care costs, and we believe that there is an urgent need to ensure the existence and adequate funding of a universal vaccination program for Canadians of all ages residing in all regions, including — as one component — the vaccine against Human Papilloma Virus.

Moreover, the Committee feels that tobacco control and smoking cessation measures lower the risk of cancer and improve the health status of those with respiratory problems. This area is also one in which we believe existing federal measures must be safeguarded and augmented.

Although the Committee could provide other examples, these suggestions illustrate our point: prevention is better than a cure. It is for this reason that the Committee recommends that:

RECOMMENDATION 1

The federal government — in conjunction with provincial/territorial governments, the Canadian Institutes of Health Research, health agencies, not-for-profit health charities and other stakeholders — help to ensure the existence of adequate financing for all elements of preventive programs focused on measures that will improve the health outcomes of Canadians. Such measures should provide Canadians of all ages residing in all regions with an incentive to improve their choices with respect to nutrition, physical activity, immunization and smoking cessation.

Moreover, the government should continue to allocate funds for the National Immunization Strategy and should establish a dedicated fund, in the amount of $300 million over three years, for future immunization programs and new vaccines.

The Committee also believes that inadequate attention has been paid to mental health and mental illness. Good health outcomes in this area, too, will help to ensure a high quality of life for citizens and will contribute to both productivity growth and competitiveness. Consequently, the Committee recommends that:

RECOMMENDATION 2

The federal government, in conjunction with the provincial/territorial governments, help to develop a national mental health strategy. This strategy — which should include the creation of a Canadian mental health commission — should address the mental health needs of all Canadians, but particularly those who are determined to be at higher risk. The strategy should be completed no later than 31 October 2007.

Moreover, the Committee believes that inadequate attention has been paid to rare diseases and to diseases for which a relatively small investment now would result in significant returns in terms of reduced health care costs. From this perspective, the Committee recommends that:

RECOMMENDATION 3

The federal government, in conjunction with the provincial/territorial governments, help to develop a plan for research and funding related to rare diseases and such diseases as hepatitis C, HIV/AIDS, Parkinson's disease, dystonia and type 1 diabetes. The plan should be developed no later than 30 June 2007.

The Committee believes that chronic diseases — which include diabetes, depression, hepatitis and asthma, among others — affect both physical and mental well-being and have significant human and economic costs. Since chronic diseases often do not improve, and are rarely cured completely, we feel it is particularly important that Canadians are aware of the risk factors for chronic diseases — such as physical inactivity and obesity — and that the federal government has clear and comprehensive information about the nature, magnitude and effects of chronic diseases in Canada. In our view, it is only with this type of complete information that the federal and provincial/territorial governments can take appropriate action. For this reason, the Committee recommends that:

RECOMMENDATION 4

The federal government, in conjunction with the provincial/territorial governments, help to develop a more comprehensive pan-Canadian chronic disease surveillance system. This enhanced system should be developed no later than 1 September 2007.

Finally, in the Committee's view, caregivers are an invaluable aid to family members who are ill. They provide much-needed emotional support as well as health-related services that might otherwise have to be provided by health care professionals. While some federal mechanisms already exist, we believe that more could be done to support family members who provide assistance to their loved ones who are ill. Therefore, the Committee recommends that:

RECOMMENDATION 5

The federal government develop and implement a family caregivers support strategy. This strategy should ensure the existence of tax measures that support caregivers.

LIFELONG LEARNING

A well-educated and highly skilled workforce fulfills a crucial role in a productive and competitive economy, generating innovation and facilitating the adoption of new

technologies by businesses, among other functions. In addition to specialized knowledge applicable to a particular task or job, general skills and competencies related to literacy, numeracy and communication are also important for day-to-day living and labour force participation.

Because individuals develop skills and acquire knowledge throughout their lives, in both formal and informal settings, there are a variety of opportunities for the federal and other orders of government to facilitate lifelong learning and education with investments and incentives in such areas as early learning and child care, primary and secondary school, post-secondary education, skilled trades, on-the-job training and skills development, and literacy.

A. WHAT WE HEARD

1. Early Learning and Child Care

Since decisions about early learning and child care for Canadian children have important implications for the first stages of human capital development and parents' labour market participation, such witnesses as the Canadian Child Care Federation and the Child Care Coalition of Manitoba encouraged the federal government — in collaboration with the provincial/territorial governments — to develop a national family or social policy framework with national child care as a cornerstone.

Regarding child benefits, witnesses suggested that:

- the Universal Child Care Benefit (UCCB) be expanded to include children between the ages of 6 and 12 years;
- benefits paid through the taxable UCCB be redirected to the Canada Child Tax Benefit (CCTB) to ensure that families in which both partners work outside the home are not penalized;
- the maximum value of the CCTB be increased, with many groups advocating $4,900 or $5,000 per child, indexed for inflation; and
- the federal government work with the provinces/territories to end the clawback of the federally funded National Child Benefit Supplement (NCBS) from low-income families with children.

Such witnesses as the Child Care Coalition of Manitoba, the Coalition of Child Care Advocates of BC, First Call: BC Child and Youth Advocacy Coalition, the Manitoba Government and General Employees Union, Make Poverty History, the Canadian Co-operative Association, Communities for Children, and Dalhousie University, School of Social Work supported the development of a pan-Canadian,

publicly funded early learning and child care (ELCC) system that respects the QUAD principles of quality, universality, accessibility and development.

Some witnesses expressed their preference for regulated and/or not-for-profit child care or, in the case of the Canadian Co-operative Association, for the development of child care co-operatives. It was suggested that federal investments be sufficient and appropriately allocated to ensure that an ELCC system meets the needs of all regions of Canada (including urban, rural and remote communities), of all children (including children aged 6 to 12 years, disabled children and Aboriginal children who live on- and off-reserve), and of all parents (regardless of the type of child care their situation requires).

While the requested level of federal investment in an ELCC system varied among witnesses, many groups advocated sustained and dedicated multi-year funding to the provinces/territories. Some witnesses, including SpeciaLink, specifically advocated the reinstatement of the federal-provincial/territorial Moving Forward on Child Care Agreements. The Coalition of Child Care Advocates of BC, First Call: BC Child and Youth Advocacy Coalition and the BC Child Care Advocacy Forum stated their preference for shifting child care costs from users to governments over time, with some groups advocating a short-term goal of reducing total user fee contributions to a maximum of 20% of the total cost of child care.

Witnesses, including the Manitoba Child Care Association, told the Committee about the need to ensure, through monitoring and reporting requirements, that the provinces/territories are held accountable for their expenditure of federal ELCC funds. Other witnesses argued for guarantees that federal funds be used to supplement — rather than replace — provincial/territorial spending. To this end, several groups supported the enactment of federal child care legislation. The Child Care Advocacy Association of Canada, the Ontario Coalition for Better Child Care and the New Brunswick Child Care Coalition suggested that any legislation adopted respect the rights of Quebec and First Nations to establish their own child care systems.

The need for additional affordable and high-quality child care spaces was noted by a number of groups, including the National Children's Alliance and the National Council of Welfare, TLC Centre Inc. and the Portage Day Care Center. Witnesses shared their suggestions about how the $250 million identified in the 2006 federal budget should be used to create child care spaces. The Fraser Valley KAIROS Group supported tax incentives to encourage business to create child care spaces, while other witnesses — including the Ontario Municipal Social Services Association and the Ontario Coalition for Better Child Care — preferred that the provinces/territories receive funding in the form of dedicated transfers for child care. The Committee was reminded by the Human Early Learning Partnership, among other witnesses, about the importance of investing in the ongoing operation of child care spaces once the initial capital investment has been made.

Not all witnesses supported a national ELCC strategy, however. REAL Women of Canada shared with the Committee the results of a 2005 survey by the Vanier Institute of the Family, which found that 90% of Canadians believed that, in two-parent families, one parent should ideally stay at home and raise the children. Furthermore, the survey revealed that parental care ranked first and child care centres ranked fifth when parents were asked whom they would prefer to care for their preschoolers.

Some witnesses, such as Mothers on the Rampage, the Kids First Parent Association of Canada, the Care of the Child Coalition and REAL Women of Canada, believed that federal child care-related funds should be provided directly to individuals and families, who could then direct them to the caregiver of their choice. Proponents of this approach suggested that it would provide more equitable treatment of women who choose to stay in the home and those who work in the paid labour force. To this end, REAL Women of Canada and the Kids First Parent Association of Canada advocated the creation of a refundable tax credit for all children in order that families would be compensated for expenses incurred, regardless of the child care method they choose.

There was also no consensus on the appropriate role, if any, for the federal government with respect to child care associations. The Manitoba Child Care Association requested that the federal government sufficiently fund national and provincial/territorial child care associations, which provide research and resources to regulated ELCC programs. Other witnesses advocated the elimination of federal funding for child care lobbyists and advocates.

The Committee also heard suggestions related to the child care workforce. The Canadian Child Care Federation recommended the development of a national human resources strategy for the child care sector to address such issues as wages and benefits as well as national standards for training to facilitate the inter-provincial/territorial movement of workers. To enhance the quality and stability of the child care workforce, incentives for ongoing professional development as well as prior learning assessment and recognition to allow experienced child care providers to gain needed educational requirements were also advocated. The Face of Poverty Consultation was among the witnesses that encouraged increased salaries and/or benefits for professionally trained early childhood educators and caregivers.

2. The K-12 Years

Witnesses spoke about several issues regarding education from kindergarten through Grade 12, including school board finances, the use of technology and the Internet in classrooms, and the role for schools in the lives of Aboriginal and other Canadian children.

The Canadian School Boards Association and the Toronto District School Board requested that the federal government provide a 100% GST rebate on school board purchases. The Committee heard that the system of GST rebates, claims and payments currently made available to school boards has become increasingly

complex and onerous. In addition, the creation of a joint federal-provincial/territorial emergency reserve program to assist school boards in financial crisis was recommended.

Witnesses, including the Canadian Children's Rights Council, noted the educational opportunities offered by technology. Recognizing the importance of the Internet as a teaching tool in the modern classroom, the need for clarity on the issue of digital rights and the use of Internet materials for educational purposes was highlighted as an important priority. The Canadian School Boards Association and the Canadian Teachers' Federation recommended that the *Copyright Act* be amended to provide teachers and students with legal access to publicly available Internet materials for which there is no expectation of payment on the part of the creators. In order to enhance access to technology, federal funding was requested for Computers for Schools, a program that involves Canadian youth in the refurbishment and distribution of computers to Canada's neediest schools, libraries and communities.

Regarding the role of schools in children's lives, Communities for Children encouraged support for the capacity of schools to keep children in school, prevent substance abuse, and teach life and work skills.

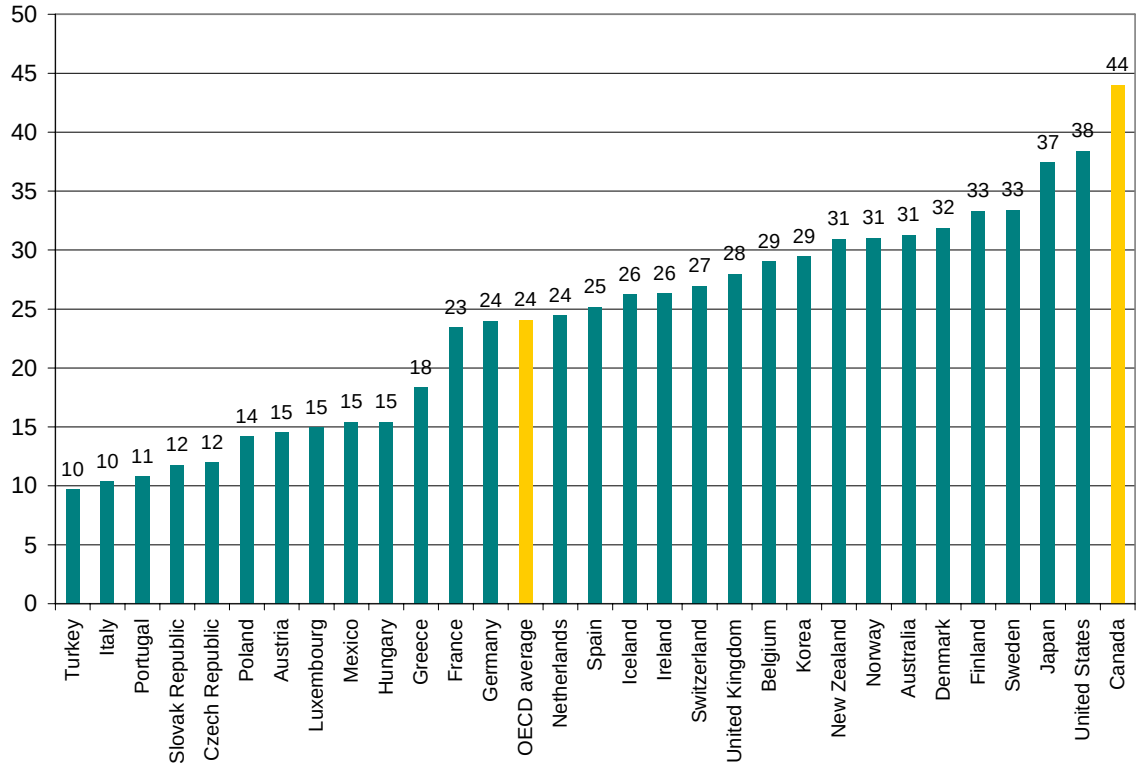
The Committee also heard concerns about the disparity in education achievement levels between Aboriginal and non-Aboriginal children and the consequences for subsequent employment. According to the Council of CEO's of Saskatchewan's Regional Colleges, 37% of Aboriginal Canadians without a high school diploma participate in the labour force; this figure increases to 65% among Aboriginal Canadians with a high school diploma. Witnesses requested a federal investment of $1 billion over three years for a comprehensive Aboriginal education strategy, as well as federal assistance in developing the capacity of First Nations' authorities to deliver high-quality education. The University of Winnipeg requested a federal investment of $60 million in its Partners for Aboriginal Education initiative, a partnership approach to an integrated educational strategy for Aboriginal Canadians of all ages.

Nunavut Tunngavik Inc. noted that, despite the high rate of unemployment in Nunavut, employers have difficulty hiring and retaining qualified staff, including Inuit educators. The development of long-term strategies for education and training was encouraged as a means of addressing the shortage of qualified labour.

3. Post-Secondary Education

The Committee heard about the importance of developing a highly educated and skilled population to enable Canada to compete in global markets. As Figure 3 illustrates, Canada's rate of post-secondary attainment is currently the highest of any OECD country. Witnesses provided us with suggestions for maintaining and improving upon this success.

Figure 3: Percentage of Individuals, Aged 25 to 44 Years, with Tertiary Education, Organisation for Economic Co-operation and Development Countries, 2003



Source: Organisation for Economic Co-operation and Development (OECD), "Tertiary Attainment," *OECD Factbook 2006*.

While witnesses acknowledged the need to respect provincial/territorial jurisdiction in the area of education, some witnesses — including the Canadian Alliance of Student Associations, the College Student Alliance and the Association of Nova Scotia University Teachers — advocated the creation of a pan-Canadian accord on post-secondary education or a post-secondary education act that would outline national guidelines, principles, responsibilities and expectations for both federal and provincial/territorial governments, as well as a funding formula, among other things. Furthermore, it was recommended by witnesses — including the Ontario Undergraduate Student Alliance — that the Canada Social Transfer (CST) be divided into a social transfer and a post-secondary education transfer as a means of increasing transparency and provincial/territorial accountability for the use of funds.

Witnesses generally advocated increased federal funding for post-secondary education. Some groups, including Yukon College and the Fédération des cégeps, recommended that the CST be restored to its pre-program review level, adjusted for inflation and population growth.

To ensure that those provinces/territories that are net importers of students receive sufficient funding, the Alliance of Nova Scotia Student Associations and the

Association of Nova Scotia University Teachers encouraged the allocation of federal post-secondary funding on a per-student, rather than a per-capita, basis. McMaster University also encouraged the federal government to consider providing operating funding related to highly mobile students, including graduate students. The Université Laval, the Regroupement des cégeps de la région de Québec and the Fédération des cégeps urged the federal government to increase post-secondary education funding for Quebec in particular.

Noting the success of U.S. post-secondary institutions at securing funding through private gifts, donations and endowments, the Toronto Board of Trade encouraged the federal government to work with Canadian post-secondary institutions and the private sector to increase the attractiveness of private sector investment in post-secondary education in Canada.

The Committee learned that between 1980 and 2004, average inflation-adjusted earnings increased by 6.7% and average tuition fees increased by approximately 20%. It is estimated that undergraduate students in Canada will pay, on average, $4,347 in tuition fees for the 2006-2007 academic year, compared to $1,464 in 1990-1991. We were also told that approximately 350,000 students in Canada borrow to finance their education each year, with the average student debt for a four-year program totaling almost $25,000. The Nova Scotia Government and General Employees Union recommended that the federal and provincial/territorial governments jointly adopt a short-term objective to reduce tuition fees in Canada with the longer-term goal of eliminating tuition fees completely. Other witnesses advocated tuition fee freezes, with some groups suggesting that increased federal funding for post-secondary education should be made contingent on stable or reduced rates of tuition fees.

In light of increased tuition fees, witnesses expressed concern about the accessibility of post-secondary education. The Canadian Alliance of Student Associations proposed that the federal government, in collaboration with the provincial/territorial governments and other relevant stakeholders, conduct a holistic review to assess the effectiveness of federal support for students. In its opinion, the review should focus on improving access for under-represented groups and allowing all students to obtain a post-secondary education without accumulating an unreasonable amount of debt. Other suggestions for improving accessibility included increased funding for needs-based grants and other forms of non-repayable financial aid, such as bursaries and scholarships.

The Committee learned that more than 80% of children with Registered Education Savings Plans (RESPs) pursue post-secondary education, compared to 74% of children with some form of education savings and 50% of children without any education savings. Between 1997 — when the Canada Education Savings Grant program was introduced — and 2004, assets held in RESPs increased by 518%. Moreover, the number of children with an RESP increased by more than 200% between 1997 and 2006, from 700,000 to more than 2.2 million.

The RESP Dealers Association of Canada made several proposals to enhance the success of RESPs and related programs, including marketing the importance of saving for higher education to low- and moderate-income families, eliminating administrative barriers to starting RESPs, developing flexibility in RESP contribution limits, and encouraging other provinces/territories to create programs like the Alberta Centennial Education Savings Plan, which pays a $500 grant into the RESPs of all children born in 2005 or later and provides subsequent grants at key points in the child's development. The Committee was also encouraged to recommend that RESP proceeds be exempt from exposure under the *Bankruptcy and Insolvency Act*, as recommended by the Standing Senate Committee on Banking, Trade and Commerce.

Not all witnesses, however, believed that RESPs are the most effective means of assisting Canadians from lower-income families to obtain post-secondary education. Some suggested that federal resources currently allocated to such measures as RESPs, Canada Education Savings Grants and Canada Learning Bonds instead be distributed in the form of needs-based grants to support high-need and under-represented groups.

Education-related tax credits also did not receive unanimous support from witnesses. On the one hand, the Yukon Child Care Association recommended that the value of the education tax credit be increased, and the Canadian Council of Chief Executives advocated increases in both the rates for the tuition and education tax credits and the amount of these credits that can be transferred from students to parents. On the other hand, the Canadian Association of Student Financial Aid Administrators requested a review of education-related tax credits with a view to reallocating a portion of the federal fiscal cost of these measures to means-tested programs to support high-need and under-represented groups.

In addition, the Fédération étudiante universitaire du Québec requested that, for those provinces/territories with tuition fees below the Canadian average, the federal government provide additional funding for post-secondary education to compensate for the relatively reduced benefits received by their students from education-related tax credits.

There was also no consensus among witnesses regarding the Canada Millennium Scholarship Foundation (CMSF). The Committee was informed that the CMSF represents 27% of needs-based student financial aid Canada-wide and more than 40% of needs-based aid in many provinces, including Manitoba, Newfoundland and Labrador, Nova Scotia and Prince Edward Island. Created by an Act of Parliament in 1998 with a one-time investment of $2.5 billion, CMSF funds will be exhausted by 2009-2010.

Several witnesses supported an extension of the CMSF mandate, with various suggestions for the length of the mandate, the size of the endowment, and the frequency of reviews and audits. Witnesses, including the Ontario Undergraduate Student Alliance, the Alliance of Nova Scotia Student Associations and the

Canadian Association of Student Financial Aid Administrators, also supported a continuation of the CMSF or, failing that, the creation of another program providing the same level of non-repayable assistance in its place. Other witnesses, including the Canadian Federation of Students and the Canadian Association of University Teachers, urged that the CMSF be converted into a national program for needs-based grants.

Witnesses expressed support for the Canada Access Grants program, which finances 50% of the cost of tuition fees — to a maximum of $3,000 — for first-year students from low-income families, but offered suggestions for improvement. For example, they suggested that the grants be permitted beyond the first year of education, with several groups advocating support for the duration of students' studies. Other suggestions included calculating the grants on the basis of the total cost of education rather than on tuition fees alone, and allowing the value of the grants to vary depending on the students'/families' income and number of family members.

Regarding student loans, the College Student Alliance and the Alma Mater Society of the University of British Columbia advocated a comprehensive review of the Canada Student Loans Program to ensure the accessibility and affordability of Canada's post-secondary education system and to mitigate a trend toward indebtedness.

Witnesses urged the federal government to work with the provincial/territorial governments to harmonize and integrate student loan programs and to develop loan remediation programs. Because student loans are an investment in productivity, the federal government was encouraged to reduce interest rates for Canada Student Loans to prime plus ½% (floating) and prime plus 3% (fixed). Noting that the current weekly student loan limit of $210 is insufficient to meet rising educational and living costs, several witnesses suggested that the limits be reviewed periodically — with suggestions ranging from annual to triennial — to ensure that they meet the financial needs of students. The Committee was also encouraged to recommend an increase in the lifetime assistance limits to facilitate the completion of graduate and doctoral programs.

Witnesses also expressed concern that the Canada Student Loans Program assessment process does not adequately account for students' financial situations. The Canadian Association of Student Financial Aid Administrators proposed that all needs-based awards provided by post-secondary institutions be excluded from the needs-assessment calculation for Canada Student Loans, that the in-study work exemption be increased from the current level of $50 per week to $100 per week in order to allow students to earn additional income without jeopardizing their level of financial assistance, and that an unsubsidized parental loan program be created. Mr. Ed Granger supported changes to the Canada Student Loans Program that would remove the penalties associated with part-time work, and also encouraged reconsideration of the existing limits on students' ability to own or lease vehicles.

For borrowers who are having difficulty repaying student loans, witnesses suggested a variety of measures, including forgiving all student loans, making debt remission programs more user-friendly and increasing their profile among students, increasing the income threshold for determining eligibility for student loan interest relief and the maximum allowable amount of debt reduction, and removing the limitation in the *Bankruptcy and Insolvency Act* that prevents students from applying for bankruptcy for 10 years after they cease to be students. For students who choose to obtain a student loan from a financial institution, it was suggested that interest payments be deductible from income for purposes of taxation.

Mr. Jeremy Amott proposed the creation of a student insurance trust (SIT) program in collaboration with the life insurance industry. The SIT would essentially be a group life insurance program in which all students receiving federal loans would be required to enroll; the federal government would pay the premiums, based on the percentage of students whose loans are deemed to be uncollectible, and would also be the sole beneficiary. Through the SIT, the federal government could eliminate losses from irretrievably defaulted loans, extend a fair and cost-effective form of debt relief to borrowers with no prospects of repaying their loans, and generate revenues over the long term. Because the SIT would require a number of changes to existing federal government expenditure management and fiscal processes, Mr. Amott encouraged the federal government to conduct an in-depth, interdepartmental study of the idea.

Several witnesses noted what they perceived to be a confusing array of student financial assistance mechanisms. The Association of Canadian Community Colleges, among others, promoted the creation of a learner support system to simplify existing mechanisms and to address the needs of specific groups of Canadians, including Aboriginal peoples, immigrants and individuals with low literacy skills. In addition, to assist in student financial counseling, it was suggested that the federal government and relevant stakeholders centralize all information regarding student assistance provided by the federal and provincial/territorial governments and make it accessible to students, governments, service providers and post-secondary institutions.

Citing the importance of international educational exchanges for personal development and the international reputation of Canadian universities, witnesses such as the University of Alberta provided ideas for encouraging Canadians to study abroad and for foreign students to study in Canada.

To encourage Canadians to study abroad, it was recommended that the federal government create a national graduate student research exchange program, permit students to use Canada Graduate Scholarships to study abroad, and provide increased student financial assistance for international education. The Committee was informed by the Canadian Association for Graduate Studies that funding for academic programs managed by the Department of Foreign Affairs and International Trade, including Canada's participation in the Canada-United States Fulbright Program and the Commonwealth Scholarships, has been terminated;

consequently, we were encouraged to recommend the continuation of funding for these programs.

To encourage foreign students to study in Canada, it was recommended that the federal government assist in the promotion of Canadian university graduate programs abroad, use existing offshore partnerships to provide pre-departure assistance, and improve the efficiency of student visa processing.

The Committee heard that, in 2003, American universities awarded 19 times more master's degrees and 12 times more doctoral degrees than Canadian universities, despite having only 9 times more people in the 25-34 year-old age cohort. McGill University suggested that the federal science and technology strategy include an action plan to encourage more students — both domestic and international — to undertake graduate studies in order to address the shortage of graduate degree holders in Canada. In order to monitor progress in this regard, the Canadian Association for Graduate Studies encouraged continued federal funding for Statistics Canada's Survey of Earned Doctorates.

Witnesses encouraged the federal government to work with the provinces/territories to develop a plan to increase post-secondary participation and completion among Aboriginal persons, a group of Canadians that is currently under-represented in post-secondary institutions. The Committee heard a number of requests for increased financial aid in order to improve access to post-secondary education for Aboriginal Canadians, both on- and off-reserve. While the provision of full, non-taxable financial assistance to all qualified First Nations was advocated, others recommended expanding aid through existing programs. Witnesses, including the Nishnawbe Aski Nation and the Aboriginal Institutes' Consortium, encouraged the federal government to increase funding and to expand eligibility for the Post-Secondary Student Support Program for on-reserve Aboriginal Canadians. In addition, the Canadian Alliance of Student Associations encouraged increased grant funding for Aboriginal students through the Canada Student Loans Program and the Canada Millennium Scholarship Foundation.

As well, the University of Ottawa noted its recent development of a special program in medicine for Aboriginal students and encouraged the federal government to continue to work with universities and colleges to develop programs that respond to the needs of Aboriginal persons and communities.

McMaster University also spoke about the importance of ensuring access to post-secondary education for Canadians with disabilities. Specifically, federal funding to develop an office of accommodation that would support research on disability supports, provide information and resources to students with disabilities, and allocate financing to enable post-secondary institutions to meet the needs of these students was encouraged.

Although witnesses tended to focus on improving access to post-secondary education, the Committee was also informed that investments are needed in post-secondary infrastructure. According to Brandon University, a 1999 survey of Canadian universities and colleges revealed accumulated deferred maintenance among respondents valued at $3.6 billion. Contingent on the existence of sufficient funds in the 2005-2006 federal budgetary surplus, the 2006 federal budget announced the creation of the Post-Secondary Education Infrastructure Trust, a one-time $1 billion investment to support critical and urgent investments in infrastructure, equipment and related institutional services in Canadian universities and colleges. While they supported this investment, several witnesses encouraged the development of a mechanism to provide ongoing funding to support the infrastructure needs of post-secondary institutions in order to ensure the availability of the facilities needed for learning, teaching and conducting research.

Some witnesses advocated infrastructure funding for specific types of post-secondary institutions. The Association of Universities and Colleges of Canada, the Council of CEO's of Saskatchewan's Regional Colleges, Polytechnics Canada, Seneca College of Applied Arts and Technology, and Red River College of Applied Arts, Science and Technology, for example, urged the creation of a dedicated infrastructure fund to address the specific facility and equipment modernization needs of colleges and technical institutes, which support skills training in Canada. The Association of Colleges of Applied Arts and Technology of Ontario indicated its desire to have federal funding for infrastructure development supplied directly to post-secondary institutions.

Witnesses also advocated funding for specific types of infrastructure. For example, Université Laval requested that the federal government commit $120 million annually to the development of sports infrastructure, while other witnesses — including Yukon College and Polytechnics Canada — focused on investment in information and communication technologies and e-learning infrastructure both to improve access in rural and remote areas and to increase access for adult learners, particularly in areas of skills shortages.

The Committee heard about Indigenous Institutions of Higher Learning (IIHLs), which are public post-secondary institutions that are legally controlled by Indigenous people and/or communities, that may or may not be affiliated with a recognized college or university, that primarily serve an Indigenous student population and Indigenous people regardless of nation-affiliation and/or legal status, and that develop and offer courses, programs, certificates, degrees or diplomas that may or may not be transferable to other post-secondary institutions. The National Association of Indigenous Institutes of Higher Learning and the Aboriginal Institutes' Consortium informed us that IIHLs — or First Nations-controlled post-secondary institutions — are seeking official recognition of their role in Canada's system of post-secondary education, recognition of their rights to grant degrees, diplomas and certificates, grants for program and curriculum development and delivery, and access to the funding made available to other post-secondary institutions, including infrastructure funding.

Concerns regarding part-time faculty and graduate students working as teaching assistants, demonstrators and markers in Nova Scotian universities were also brought to the Committee's attention. The Canadian Union of Public Employees, Local 3912 informed us that hourly pay for graduate students is about 35% below the national average and starting salaries for part-time instructors are about 25% lower than the national average. To address these concerns, designated federal funding for improved wages and benefits for graduate students, as well as improved income, benefits and job security for part-time academic faculty, were recommended. Additional funding was requested to encourage part-time faculty to increase their educational qualifications.

Noting that credit and credential recognition is a barrier to the inter-provincial/territorial mobility of students, Université Laval, Polytechnics Canada and Seneca College of Applied Arts and Technology advocated the development of a national credentials framework and accreditation/recognition system.

4. Skilled Trades

The Committee heard about the growing skills shortage in Canada, with specific reference to construction and resource industries. The federal government was encouraged by Red River College of Applied Arts, Science and Technology and the Atlantic Provinces Community College Consortium to support and enhance access to apprenticeship programs in colleges as a means of overcoming this labour challenge. The Northern Alberta Institute of Technology (NAIT) shared its vision for its Centres for Apprenticeship Technologies, which would increase apprentice-training capacity by approximately 34% or 29,000 apprentices. Federal funding of $22 million was requested to complement a $44 million investment by the province of Alberta and other investments by the NAIT, business and unions.

Several suggestions for broadening the proposed Apprenticeship Job Creation Tax Credit and the Apprenticeship Incentive Grant program announced in the 2006 federal budget were presented to the Committee. The Canada West Equipment Dealers Association suggested extending eligibility for the proposed tax credit to include journeymen as well as apprentices. In addition, the Canadian Construction Association and the Information Technology Association of Canada requested that the list of trades eligible for the proposed tax credit and the grant be expanded to include other occupations in the areas of construction and information and communication technology respectively.

The Committee also heard about an element of the Employment Insurance (EI) program that creates financial hardship for apprentices and may deter Canadians from pursuing careers in trades. Apprentices who experience a work interruption in order to complete the in-school portion of their training are subject to a two-week waiting period before they receive EI benefits. The Canadian Construction Association requested that the federal government eliminate the two-week waiting period for apprentices in this situation or, alternatively, allow apprentices who are enrolled in a registered apprenticeship program to defer their waiting period to the

final year of their apprenticeship when they may be in a more stable financial position and thereby better able to manage this delay in benefits.

Red River College of Applied Arts, Science and Technology noted the increasing share of Aboriginal peoples in Manitoba's population and highlighted the importance of federal support for access initiatives to increase the participation of Aboriginal Canadians in apprenticeship programs as well as in applied education and training.

5. On-the-Job Training and Skills Development

In order for investments in human capital to result in improved productivity, the skills of the labour force must match the needs of the labour market. Polytechnics Canada advocated the development of a national people and skills strategy to identify how Canada can best compete in the world market and how we can ensure appropriate skills development in the labour force.

The Committee also heard from The Alliance of Sector Councils about the role of sector councils, which bring together representatives from business, labour, educational and other professional groups to analyze and address sector-wide human resources issues, such as developing sector and career awareness strategies, facilitating school-to-work transitions, anticipating skills shortages, recruiting and retaining workers, developing occupational standards, and promoting on-the-job learning. The Canadian Plastics Industry Association requested continued funding for the Canadian Plastics Sector Council, while the Biotechnology Human Resource Council advocated continued federal support for sector councils more generally, noting their potential role in enhancing the integration of Aboriginal peoples and immigrants into the workforce, facilitating the development of national skills and occupational standards, and supporting the creation of a national qualifications framework, among other areas.

Other groups suggested more specific strategies for aligning labour force needs and the skills of Canadians. The Certified Management Accountants of Canada, for example, urged increased interaction between the business community and academia through the establishment of a fellowship program that provides work experience and scholarships to students and that promotes exchanges between industry and post-secondary institutions.

In addition to a proposal by the Nova Scotia Government and General Employees Union that worker training rights be legislated in federal and provincial/territorial labour law, the Committee was presented with a number of proposals designed to increase on-the-job training and skills development, ranging from tax incentives for individuals and businesses to direct federal investment.

Some witnesses proposed tax incentives for individuals to invest in their own training and skills development, although it was noted that individual tax incentives shift the burden of adult learning to the employee. For example, the Canadian

Dental Hygienists Association urged the federal government to expand certain definitions in the *Income Tax Act*, including “designated educational institution” and “qualifying education program,” as well as the Department of Human Resources and Social Development’s criteria for a “certified educational institution,” in order to allow individuals to claim the education tax credit for conferences and short-term, online courses offered by professional associations.

Other witnesses suggested that employers be required to invest in the training and skills development of their workforce. The University of Montréal advocated the creation of tax incentives for organizations that permit employees to participate in university courses or research internships, as well as a tax deduction for organizations that invest in work terms for university students, as a means of simultaneously enhancing labour force skills and encouraging the development of local networks and industry clusters. Other witnesses supported the creation of a training tax credit to assist employers with the financial burden of upgrading the skills and capabilities of their employees. Noting the surplus available in the Employment Insurance (EI) program, such witnesses as the Canadian Council of Chief Executives, Canadian Manufacturers & Exporters, Canadian Manufacturers & Exporters — Ontario Division and Canadian Manufacturers & Exporters — British Columbia Division advocated the application of the proposed training tax credit against employers’ EI premiums.

The Committee heard that, while many large businesses already make significant investments in employee training, small and medium-sized enterprises may face greater financial constraints. Consequently, La Chambre de commerce de Québec proposed that small and medium-sized enterprises with fewer than 100 employees be permitted to deduct training expenses at twice the value invested or be granted a refundable tax credit equal to 50% of the cost of the training.

Witnesses also advocated federal investment in training and skills development initiatives. The use of Labour Market Partnership Agreements to provide labour market programming to individuals who are not eligible for EI was supported by several groups, including the Canadian Union of Public Employees, the Consortium of Women’s Organizations of Nova Scotia and Opera.ca. Other witnesses supported the launch of a pilot project that would offer paid training leaves of absence for employed workers funded through the EI program. The Canadian Labour Congress noted that the health care sector, with its looming skills shortages, could particularly benefit from a pilot project that would allow current workers — including many recent immigrants — to upgrade their skills.

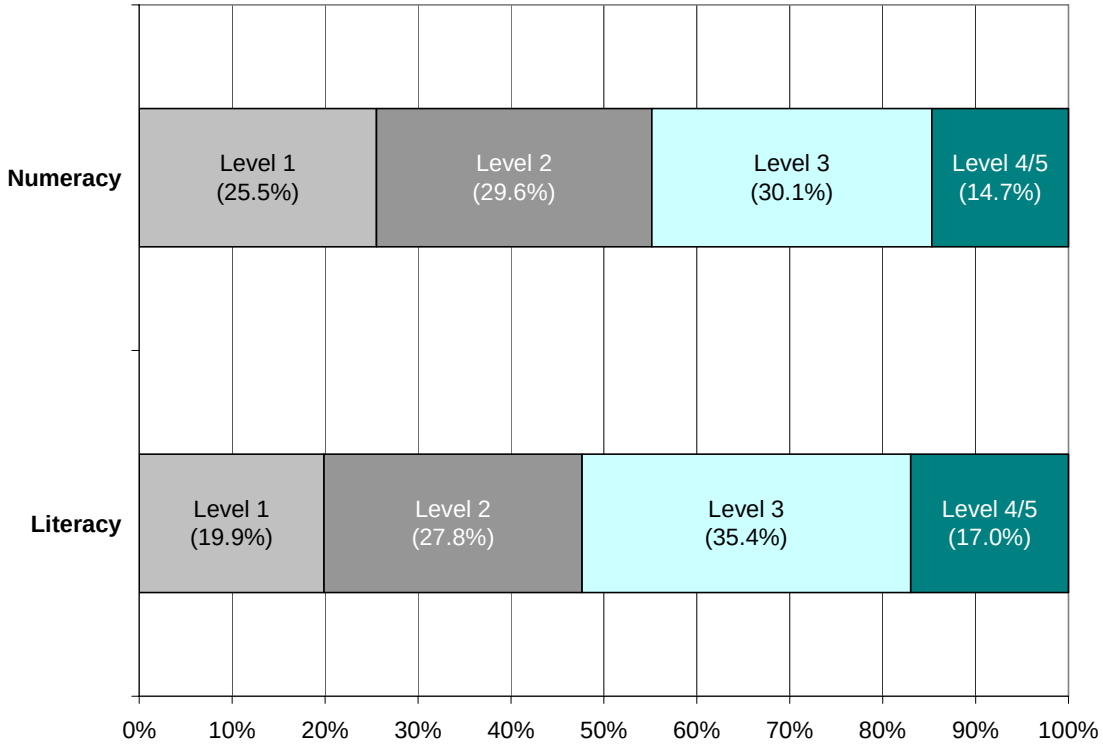
The Committee also heard testimony specific to the training of federal public servants. The Purchasing Management Association of Canada indicated its support for provisions contained in the Federal Accountability Action Plan which indicate that the federal government will provide accreditation and training for procurement officers, and requested that sufficient funding be allocated to achieve this goal. In addition, the federal government was encouraged to endorse professional standards in the day-to-day operation of governments and to provide funding to

recruit and train public servants to meet those standards. Response: A Thousand Voices also recommended the establishment of standards regarding minimum qualifications for civil servants in departments that interact directly with low-income Canadians.

6. Literacy

The Committee was told that there is a direct correlation between literacy and employability: people with low literacy skills are about twice as likely to be unemployed and one in four people with the lowest level of literacy are unemployed. As a result, Canadians with low literacy skills are more likely to live in low-income situations or to require social assistance. Witnesses informed us about a 2004 study, entitled *International Adult Literacy Survey: Literacy Scores, Human Capital and Growth Across Fourteen OECD Countries*, which considered literacy scores between 1960 and 1995 in OECD countries. The results indicated that a country which achieved literacy scores that were 1% above the international average had labour productivity that was 2.5% higher than other countries and Gross Domestic Product per capita that was 1.5% higher, on average. Figure 4 shows selected results for Canada from the 2003 International Adult Literacy and Skills Survey.

Figure 4: Literacy and Numeracy of Canadians, Aged 16 Years and Older, 2003



Notes: Higher levels correspond to higher test scores. Level 3 performance is generally chosen as a benchmark because, in developed countries, performance above Level 2 is associated with such positive outcomes as increased employment opportunities and higher civic participation.
Source: Statistics Canada, "International Adult Literacy and Skills Survey," *The Daily*, 9 November 2005. Data are from the 2003 International Adult Literacy and Skills Survey. Chart prepared by the Library of Parliament.

Witnesses also explained the link between literacy and health. In particular, Canadians with low literacy skills are more likely to report poorer health status, experience higher rates of chronic diseases, have less or inaccurate knowledge of disease management and health-promoting behaviours, and be hospitalized or use emergency services.

The Council of CEO's of Saskatchewan's Regional Colleges and the Yukon Literacy Coalition were among the witnesses that presented results from the recent International Adult Literacy Survey, which found that 40% of Canadians do not have the literacy skills needed to learn new job skills or to participate fully in the workplace, and 20% do not have the literacy skills needed to follow the directions on their medication or to participate fully in society.

Several witnesses requested federal leadership on the issue of literacy in the form of investment and a national literacy action plan with goals and targets. It was also suggested that all federal policies, programs and legislation be developed and implemented using a literacy lens.

The Canadian Nurses Association and the Canadian Public Health Association encouraged continued federal investment in the Adult Learning, Literacy and Essential Skills Program. Other witnesses requested increased federal funding for the National Literacy Secretariat, with ABC CANADA Literacy Foundation recommending that the Secretariat's budget be doubled from its current level of $35 million. It was also suggested that additional investment in cross-departmental initiatives occur. In addition, the Social Planning Council of Winnipeg and the Yukon Literacy Coalition recommended that the $17.7 million in federal funds identified by the federal government as savings on 25 September 2006 be restored and allocated to the most effective literacy enhancement programs.

The Atlantic Provinces Community College Consortium advocated the unique position of colleges — both in terms of their mandates and their physical presence in communities — as institutions that could potentially play a critical role in improving Canadian literacy.

The Committee also heard about other types of literacy. The Alliance of Sector Councils, for example, advocated an "essential skills" program to ensure that all Canadian adults have the nine essential skills, including reading text, document use, numeracy, writing, oral communication, working with others, computer use, continuous learning, and thinking skills. We also learned about financial literacy and the correlation between economic and financial knowledge and the skills and capacity of individuals to achieve economic well-being. Believing that the existing education system is deficient in providing Canadians with financial literacy skills, the Canadian Foundation for Economic Education urged the development and implementation of a national strategy to improve the financial and economic capabilities of Canadians.

B. WHAT WE BELIEVE

Lifelong learning — beginning at birth and continuing into retirement — is, in the Committee's view, a key contributor to productivity growth, competitiveness and a high quality of life. We believe that children and youth of all ages, beginning at birth and continuing until age 18, must be supported in a manner that is appropriate to their circumstances and to those of their parents. Moreover, in our opinion, adults must be provided with incentives to engage in the lifelong learning that will ensure ongoing productivity for their employer as well as enhancements to their quality of life and the choices available to them.

With a focus on the productivity growth that is needed for the nation's future and on the competitiveness that we seek, the Committee believes that parental participation in the productive endeavours of society — whether in the paid labour market, in volunteer activities or otherwise — are enhanced when parents know that their children are receiving quality care that is suited to their needs. Quality care also helps to ensure that the children of today become the highly productive workers of tomorrow. In recognizing the costs of quality care and the options that should be available to parents in selecting that care, the Committee recommends that:

RECOMMENDATION 6

The federal government amend the *Income Tax Act* to increase the value of the Canada Child Tax Benefit. Following this increase, the value of the tax benefit should be increased annually to reflect changes in the cost of living as measured by the Consumer Price Index.

Moreover, the government — in conjunction with the provincial/territorial governments — should fund a national, accessible, affordable, high-quality, publicly regulated child care system. This system should respect any provincial/territorial child care programs already in effect, recognizing the leadership of the province of Quebec.

The Committee supports the need to invest in the education and skills required to participate fully in society, to enhance workplace-based skills development, and to increase access to — and the affordability of — post-secondary education. We believe that a highly literate, highly skilled and well-educated workforce and population will be critical for improved productivity growth and enhanced competitiveness, particularly in light of the technological changes that lie ahead. We also feel, however, that other actions are required.

While the Committee believes that a range of measures are needed to support education and training, we are not convinced that the measures and programs that currently exist — which include a complex system of grants, bursaries, scholarships,

loans, bonds, transfers and tax incentives, among others — are necessarily well-integrated. Moreover, we are skeptical that, despite the allocations in these areas, the desired outcomes — including access and affordability — are being achieved. The problem may be particularly acute for Aboriginal Canadians, those with low incomes and persons with disabilities. Among the existing measures that enhance post-secondary access and affordability, we feel that the Canadian Millennium Scholarship Foundation and the Canada Access Grant program should be recognized for the contribution they make in enhancing the educational outcomes of some Canadian students. It is from this perspective, and bearing in mind comments about a modernized student financial assistance system and increased investments in graduate scholarship support made by the Minister of Finance in his 23 November 2006 appearance before us, that the Committee recommends that:

RECOMMENDATION 7

The federal government — in conjunction with the provincial/territorial governments and such stakeholders as educational institutions, student associations, employers and groups representing employees — review the full range of federal measures that support students, educational institutions and their physical infrastructure, employees and employers engaged in post-secondary education and training in Canada. This review should be undertaken with a view to ensuring that the measures are coordinated in a manner that maximizes outcomes for Canadians.

Moreover, on a priority basis and bearing in mind the review of federal measures that support post-secondary education and training, the government should — with the aim of eliminating economic barriers to post-secondary education — provide direct funding assistance to post-secondary students through a comprehensive system of needs-based grants and loans. These grants and loans should be available to students enrolled in university, college and qualified training programs. As well, the province of Quebec should be permitted to opt out of participation in this system of needs-based grants and loans, with full compensation. This system should be developed and funded no later than 31 August 2007.

Finally, the government should extend the mandate of the Canada Millennium Scholarship Foundation and expand the Canada Access Grants program to finance the cost of tuition for all years of undergraduate education. The province of Quebec should be permitted to opt out of participation, with full compensation.

Finally, the Committee believes that greater transparency and accountability must exist with respect to the manner in which post-secondary education funds are spent. We feel that a separate education transfer is needed and that guidelines, principles, responsibilities and accountabilities for the federal and provincial/territorial governments would help to meet the intended goals. From this perspective, and bearing in mind the Minister of Finance's comments to us on 23 November 2006 about stable and predictable funding for post-secondary education and training, the Committee recommends that:

RECOMMENDATION 8

The federal government, once a long-term strategy for federal support of post-secondary education and training has been concluded among the federal and provincial/territorial governments, divide the Canada Social Transfer into a post-secondary education transfer and a social assistance and services transfer.

Once the Canada Post-Secondary Education Transfer has been created, the government should introduce guidelines, principles, responsibilities and accountabilities with respect to post-secondary education.

INCENTIVES TO WORK

Canada's competitive position can be improved and — at the same time — the effects of an ageing population can be mitigated by providing individuals with incentives to work or, at a minimum, by removing any disincentives to work. Incentives should be provided in order to create an environment conducive to labour force participation and attachment from all groups in society — including women, low-income Canadians, retirement-age individuals, Aboriginal Canadians, immigrants and persons with disabilities — and the focus must be existing labour force participants, older workers who wish to engage in paid employment, and those who are not currently in the labour force but wish to engage in paid employment.

When considering the incentives to work, it is also important to consider the measures needed to ensure immigrant settlement and integration in order to meet both moral considerations and demographic priorities, the nature and extent of supports for disabled Canadians wishing to participate in paid employment, and the extent to which the design of social assistance systems affects the incentive to engage in labour market activity. Finally, along with health and education — which were discussed earlier — access to appropriate and affordable housing is a consideration that affects the quality and enjoyment of life as well as the nature and quality of labour force participation.

A. WHAT WE HEARD

1. Personal Income Taxation

Several witnesses noted their preference for personal income tax reductions rather than other possible actions by the federal government. For example, the Canadian Printing Industries Association, the Canadian Hardware & Housewares Manufacturers Association and the Canadian Retail Building Supply Council supported personal income tax relief as a priority over increased program spending by the federal government, and the St. John's Board of Trade favoured personal and corporate income tax relief to Goods and Services Tax/Harmonized Sales Tax (GST/HST) relief in the future. Although the Retail Council of Canada believed that personal income tax relief would be more beneficial to Canadians, it supported the federal government's commitment to reduce further the GST/HST rate.

Some witnesses, such as the Canadian Taxpayers Federation, the Winnipeg Chamber of Commerce, the Certified General Accountants Association of Canada and the Canadian Federation of Independent Business, advocated broad-based personal income tax relief in the form of tax rate reductions, expansion of income tax brackets and/or an increase in the basic personal amount.

Other witnesses proposed personal tax changes targeting a specific group or groups. The Tenant's Rights Action Coalition and First Call: BC Child and Youth Advocacy Coalition, for example, recommended that the personal income tax system be made more progressive, while KAIROS: Canadian Ecumenical Justice Initiatives urged the creation of a Blue Ribbon Panel on Fair and Equitable Taxation.

A number of witnesses, including The Alliance to End Homelessness, the Fraser Valley KAIROS Group, the Retail Council of Canada and the Manitoba Chambers of Commerce, urged the Committee to recommend tax relief for low-income and, in some cases, middle-income Canadians in the form of reduced tax rates and/or an increase in the basic personal amount. In addition to supporting an increase in the basic personal amount, REAL Women of Canada proposed that the spousal amount be made equal in value to the basic personal amount.

There was no consensus among witnesses about tax relief for high-income Canadians. Some recommended that the threshold for the highest marginal tax rate be increased, while others advocated that it be decreased.

Because of the nature of their work, truck drivers have meal expenses that, unlike many other employees, are necessary work expenses. Questioning the fairness of a restriction on what may be seen as a legitimate business expense, the Canadian Trucking Alliance asked that the tax deductibility for meals, which was decreased from 80% to 50% in the 1990s, be restored to 80%.

Since Canada's existing system of personal income taxation uses the individual as the basic unit of taxation, families whose income is distributed unevenly between two individuals tend to be taxed more heavily, in aggregate, than families whose income is divided evenly between two individuals. Mothers on the Rampage and REAL Women of Canada advocated the elimination of what they believe to be inequitable tax treatment between single- and dual-income families. They urged a change to the taxation system that would allow single-income families to split family income for the purposes of taxation or that would permit the filing of joint or family-based tax returns.

The Committee was informed that the Department of Finance has estimated the federal revenue loss from allowing income splitting for all age groups to be approximately $4 billion. Many witnesses, however, advocated a targeted approach focused on Canadian seniors. Witnesses argued that the existing system of taxation penalizes senior couples who, in the past, had one spouse remain in the home as a caregiver as well as those who remain married; filing for divorce enables senior couples to split their pensions. Moreover, witnesses cited the precedent that has been set by allowing income splitting of Canada/Quebec Pension Plan (C/QPP) benefits.

Consequently, witnesses — including Air Canada Pionairs, the Canadian Activists for Pension Splitting, Canada's Association for the Fifty-Plus, the Royal Canadian Legion, the General Motors Salaried Retirees Association, the Canadian Association of Retired Teachers, SenTax, the Federal Superannuates National Association and the Royal Canadian Legion — encouraged the federal government to give seniors aged 65 years or older the option to split all registered retirement income.

2. Labour Force Participation Rates and Labour Force Attachment

Witnesses informed the Committee that labour force participation among all Canadians must be encouraged in order to address the imminent demographic challenge and skills shortages. In addition to providing suggestions specific to certain groups of Canadians — including women, retirement-age individuals, persons with disabilities, Aboriginal Canadians and new immigrants to Canada — witnesses also shared general ideas for improving labour force participation and productivity.

The Committee was told that employers will be required to respond to the needs and demands of their employees through workplace innovations in order to attract and retain the needed number of personnel with the right skills. To this end, the Manitoba Child Care Association encouraged the federal government to work with the provinces/territories to promote family-friendly practices in the workplace, including parental leave, full- and part-time centre-based and home child care, part-time preschool programs and family resource programs.

To encourage labour force participation among retirement-age Canadians, several witnesses urged the Committee to recommend the elimination of mandatory retirement at age 65, and such groups as the Certified General Accountants Association of Canada and the Canadian Restaurant and Foodservices Association encouraged the removal of public pension incentives for early retirement.

3. Employment Insurance

The Committee was told by several witnesses that the Employment Insurance (EI) program should return to its original goal of providing insurance against unintended unemployment. The establishment of an independent insurance fund that is separate from federal government accounts was advocated. The Canadian Federation of Independent Business also suggested that the federal government review the cost-effectiveness of existing EI programs and prohibit the expansion of non-regular benefits without adequate consultation and consensus.

Other witnesses expressed concern that a growing proportion of the Canadian labour force — including the self-employed, part-time workers, casual and contract workers, recent immigrants and precariously employed women — is not eligible for EI benefits and the associated employment supports and training. According to the Confédération des syndicats nationaux, for example, 32% of female and 38% of male workers currently qualify for EI benefits. A number of witnesses, including Citizens for Public Justice, Make Poverty History, the Sustained Poverty Reduction Initiative, the Nova Scotia Association of Social Workers, the National Council of Welfare and the Ontario Municipal Social Services Association, suggested increasing the accessibility and coverage of the EI program to reflect better the current labour market reality.

Witnesses also advocated lower eligibility thresholds, higher income replacement rates and/or longer benefit periods in the EI program. For example, the Canadian Labour Congress and the Canadian Union of Public Employees recommended lowering the eligibility threshold for all EI benefits to 360 hours of work, regardless of the regional unemployment rate or the type of benefit. The Committee also heard proposals to increase weekly EI benefits to at least 66.67% of the individual's highest 12 weeks of insurable earnings and to extend the maximum benefit period from 45 to 50 weeks.

The Canadian Actors' Equity Association and the Canadian Conference of the Arts urged the Committee to rectify what they believe to be inequitable treatment of self-employed individuals — artists, in particular — under the EI program, since self-employed individuals — who are classified as independent contractors — are required to pay both the employer and employee share of EI contributions but do not have access to all of the program's benefits. It was suggested that the federal government explore ways of providing maternity and parental leave benefits to parents who currently do not qualify for EI benefits. The Canadian Dental Association suggested that individuals be permitted to withdraw funds from their RRSPs, penalty-free, with provisions for repayment.

The Committee also heard EI-related recommendations from an employer's perspective. A number of witnesses suggested that the employer's EI contribution rate be reduced so that employers and employees contribute equally, a change that the Committee was told would increase the real wages received by employees and would reduce real wage costs to employers, thereby increasing the attractiveness of hiring additional labour. Moreover, it was proposed that a system be implemented to allow over-contributions by employers to be refunded.

Other suggestions for change to the EI program for employers included the phasing in of an experience rating system for employers, the reintroduction of the EI New Hires Program that would recognize the costs associated with hiring and training new employees by exempting employers from paying EI premiums on new employees for up to one year, and the introduction of a yearly basic exemption of $3,000 on which no premiums would be paid by either the employer or the employee, a change that the Committee was told would make EI premiums more progressive and reduce the burden on labour-intensive industries.

The Vancouver Board of Trade urged the federal government to phase out the seasonal component of the EI system, believing that it encourages Canadians to remain in areas of high unemployment and can discourage skills development.

4. Federal Minimum Wage and Labour Laws

Although the federal government aligned the minimum wage for employees within federal jurisdiction with the provincial/territorial general adult minimum wage rate in each jurisdiction in 1996, the Citizens for Public Justice, Make Poverty History and the National Council of Welfare, among others, advocated the reinstatement of a federal minimum wage for the approximately 10% of Canadian workers under federal jurisdiction, with some groups specifically requesting a rate of $10 per hour, indexed to inflation. Other witnesses, including the Campaign Against Child Poverty and the Face of Poverty Consultation, stressed the importance of a "living wage" that enables Canadians to afford daily living.

Maple Leaf Foods Inc. informed the Committee that the fragmented nature of Canadian labour legislation complicates business operations and creates labour recruitment and retention problems.

5. Labour Mobility

The Committee heard that reducing barriers to labour mobility is crucial to the resolution of Canada's labour market challenges. To this end, the creation of a national agency to facilitate both the inter-provincial/territorial and international movement of labour was suggested.

Canadian Manufacturers & Exporters — Ontario Division urged federal government leadership in the creation of a multilateral inter-provincial trade agreement on labour mobility, which it believes would be beneficial not only for the manufacturing and exporting sector but for the entire Canadian economy. The

Canadian Association of Petroleum Producers also encouraged the federal government to work with the provincial/territorial governments to strengthen and achieve commitments regarding labour mobility contained in the Agreement on Internal Trade. Bilateral progress on this issue, including the British Columbia–Alberta Agreement on Trade, Investment and Labour Mobility and the Ontario–Quebec Labour Mobility Agreement, was also noted and supported.

The Committee also heard about the value of consistent and integrated social assistance rates and supports across the country. To facilitate inter-provincial/territorial migration for work or health reasons, Response: A Thousand Voices proposed the creation of a database containing relevant information about service users, which could serve as a resource for case workers regarding prior case appeals and decisions.

The Canadian Construction Association informed the Committee about the Federal Government Worker Mobility Program which, in the mid-1970s, offered grants to workers in order to help mitigate the costs of travel and accommodation associated with seeking employment elsewhere in the country. Tax incentives for workers and employers who incur the costs of seeking either employment or workers in other regions of the country, as the case may be, were suggested as an alternative, although the delay associated with a tax benefit as opposed to an upfront grant was noted.

In order to provide an incentive for increased labour mobility, the Canadian Real Estate Association suggested that the federal government amend the *Income Tax Act* to permit Canadians to deduct the fees paid directly to buyer brokers as a moving expense. In addition, the Provincial Building and Construction Trades Council of Ontario, the International Brotherhood of Electrical Workers, Local Union 353, and the International Brotherhood of Electrical Workers, Construction Council of Ontario encouraged the federal government to allow workers to deduct reasonable travel and room and board expenses incurred to travel to temporary work locations.

In order to provide workers with an incentive to locate in northern areas, which typically have higher costs of living, the Makivik Corporation and Kativik Regional Government recommended that the Northern Residents Deduction be increased to recognize changes in the cost of living since 1990 and be made a refundable tax credit.

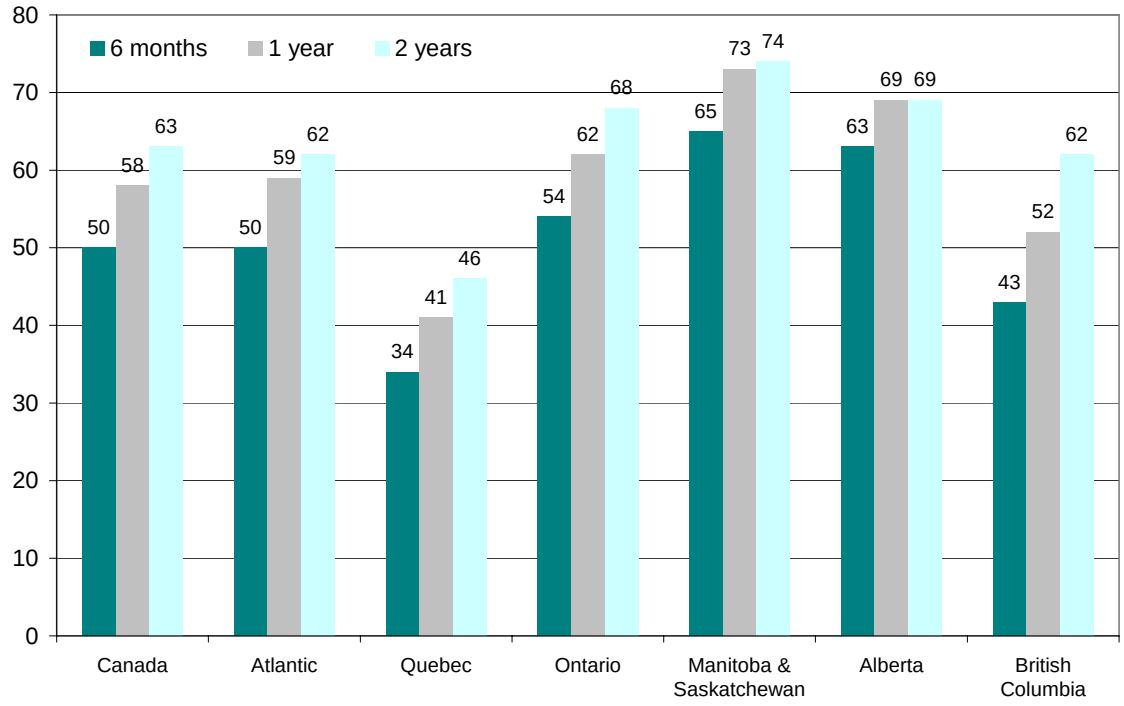
The Committee also heard about barriers to labour mobility in specific professions and/or trades. For example, we learned that bureaucratic procedures and costs are deterring Canadian geoscientists from joining professional associations. In order to maintain standards and protect the public interest, the Prospectors and Developers Association of Canada urged the co-operation of all orders of government in harmonizing the necessary legislation to accommodate the development of an internationally recognized, Canada-wide system of registration for geoscientists, administered by the provinces/territories.

With respect to skilled trades, the Ontario Chamber of Commerce asked the federal government to work with the provinces/territories in order to develop uniform national training and certification procedures and requirements to facilitate a streamlined process for national certification of apprentices through the Red Seal Program.

6. Immigrant Settlement and Integration

Witnesses told the Committee that the federal government has an important role to play in immigrant settlement and integration. As Figure 5 demonstrates, new immigrants to Canada often do not find employment immediately upon their arrival. Witnesses provided us with a number of suggestions for assisting new immigrants with their entry into the labour force and their integration into Canadian society more generally.

Figure 5: Percentage of Immigrants, Aged 25 to 44 Years, Employed After Six Months, One Year and Two Years of Residence in Canada, Provinces/Regions, 2003



Source: Statistics Canada, *Longitudinal Survey of Immigrants to Canada: A Regional Perspective of the Labour Market Experiences*, January 2006, Table 1, p. 37. Chart prepared by the Library of Parliament.

To ensure that new immigrants have the opportunity and means to become productive members of Canadian society, witnesses supported increased federal investment in immigration settlement and integration services. The Affiliation of Multicultural Societies and Service Agencies of BC requested that all provinces receive immigrant settlement funding comparable to the amount that will be received by Ontario and Quebec in 2007-2008 and that a process be established to ensure the provision of equitable settlement services throughout Canada. In addition, the Federation of Canadian Municipalities asked that the federal

government provide resources to assist communities in attracting and retaining new Canadians and engage municipalities in discussions regarding immigration policy and programs more generally. In all immigration-related interactions with not-for-profit agencies, the federal government was asked to adhere to the Voluntary Sector Initiative Codes of Good Practice for Funding and Policy Dialogue.

The Committee heard from several witnesses, including the Certified General Accountants Association of Canada, about the need for the federal government to identify occupations or industries where there is high demand for labour and/or skills shortages, and to attract immigrants who are qualified in these areas.

To facilitate the inflow of qualified workers, the Canadian Electricity Association suggested that the immigration point system be aligned with Canadian labour market information and that visa restrictions be eased for certain countries. Several witnesses also supported expediting the process by which temporary foreign workers can enter Canada, especially those workers destined for sectors currently experiencing labour shortages. The Canadian Meat Council recommended specific changes to the Temporary Foreign Worker Program, including a simplified and efficient application process, an approval process that cannot be blocked by unions and/or competitors, and a clear process by which foreign workers can become permanent residents.

Witnesses also presented ideas for improving the existing delivery of immigrant services. The Canadian Immigrant Settlement Sector Alliance encouraged the adoption of national standards for settlement and integration services, based on research into the optimal duration of services and differences in the needs of various types of immigrants, among other considerations. Other recommendations included the establishment of a central organization to coordinate all federal and provincial/territorial policies and services, the adoption of a case management approach that provides services to new Canadians through a single access point according to their profession, and the provision of pre-departure assistance to immigrants before they arrive in Canada.

Other witnesses supported an increased role for certain organizations in the settlement and integration process. For example, the Biotechnology Human Resource Council and the Hotel Association of Canada advocated federal support for sector councils as a means of facilitating the labour force integration of foreign workers and immigrants, while Red River College of Applied Arts, Science and Technology and Seneca College of Applied Arts and Technology urged the federal government to support college initiatives for new Canadians.

There was also support from such witnesses as the Ontario Chamber of Commerce and The Alliance of Sector Councils for continued — and in some cases, increased — federal funding for the certification, licensing and accreditation of internationally trained professionals and tradespeople. Seneca College of Applied Arts and Technology, however, urged the Committee to recommend that funding for foreign credential recognition be targeted at unregulated professions as a priority.

Such witnesses as the Canadian Council of Professional Engineers and the Canadian Printing Industries Association supported the establishment of a Canadian agency for the assessment and recognition of foreign credentials, as announced in the 2006 federal budget. The Committee heard that, in establishing such an agency, the federal government should ensure that the jurisdiction of licensing bodies is respected and that duplication with existing processes is minimized.

In addition to ensuring the integration of skilled immigrant adults, witnesses also stressed the importance of providing support and integration services for other family members, including children and youth, in order to ease their transition into Canadian society. The Canadian School Boards Association identified schools as a key point of contact for immigrant children and youth, and recommended a variety of measures to assist them, including expansion of the federal Settlement Workers in School program, federal-provincial/territorial-community partnerships to provide essential supports such as school readiness, measures to assist immigrant youth in making the transition to post-secondary education, focused supports for refugee students, and language supports, including translation and interpretation resources. The Canadian Teachers' Federation noted many of the same needs and suggested that services targeting children and youth in immigrant families be included in federal-provincial/territorial agreements concerning immigrants and refugees.

7. Disability Supports in the Workplace

Witnesses urged the federal government to develop appropriate programs for persons with disabilities that either enable their labour force participation or that provide appropriate income security and supports, depending on the abilities of the individual.

In order to promote labour force participation among brain-injured Canadians, the Brain Injury Association of Nova Scotia proposed that the federal government use Australia's Acquired Brain Injury Act as a model and provide job coaches to brain-injured individuals who return to work as well as information and support to employers of brain-injured employees.

The Committee learned that the relatively high cost of wheelchairs can affect the education and labour force participation decisions of persons with disabilities and can create a barrier to their meaningful contribution to Canadian society. Muscular Dystrophy Canada advocated the creation of a national phone service and website to provide single-window access to information about provincial/territorial wheelchair access programs, as well as the adoption of national standards to ensure that persons in need of a wheelchair receive equal levels of service and funding regardless of where they live in Canada.

The Committee also heard about the labour force participation challenges faced by people with episodic disabilities; that is, disabilities characterized by unpredictable periods of illness and wellness. The Committee was informed that individuals who are eligible to receive disability benefits through the Canada

Pension Plan (CPP) or through private insurance may be required to forgo these benefits if they engage in limited participation in the labour force. To facilitate the labour force participation of Canadians with episodic disabilities, the Multiple Sclerosis Society of Canada suggested that the federal government enhance flexibility in the rules regarding part-time or occasional work so that recipients of CPP disability benefits can increase their labour force participation without risking their eligibility for benefits. In addition, it was suggested that the federal government redefine sickness benefits provided under the EI program in terms of 75 days or 150 half-days, instead of 15 weeks.

Because persons with disabilities are now outliving their parents, the Committee was told that parents need new tools that, should they die, would help to ensure a good life for their family members with disabilities. The Planned Lifetime Advocacy Network and Families Matter Co-operative Inc. encouraged the creation of a flexible, tax-deferred savings vehicle — a registered disability savings plan (RDSP) — to encourage contributions from family members and to enhance self-reliance and planning among Canadians with disabilities.

In addition, while there was support for the recent policy that allows families to transfer funds from their Registered Retirement Savings Plans or Registered Retirement Income Funds into a discretionary trust to benefit their relatives with disabilities on a tax-deferred basis, the Committee heard that the tool would be more useful and flexible if it were not contingent on the purchase of an annuity and if the proposed RDSPs were accepted as an alternative to discretionary trusts. It was also suggested that revenue from trusts established for persons with disabilities and from the proposed RDSPs be exempt from the calculation of the amount of Guaranteed Income Supplement benefits.

Finally, the Planned Lifetime Advocacy Network requested that the federal government make a one-time, $50 million investment in a “no one alone” fund, which would be used to end isolation and loneliness among persons with disabilities through the development of relationships and the creation of inclusive communities.

8. Poverty and Equality

KAIROS: Canadian Ecumenical Justice Initiatives advocated the creation of a task force to develop a new social architecture for adult income security in Canada in consultation with the public. In 2004, the Toronto City Summit Alliance, St. Christopher House and a coalition of civic leaders in the Toronto region created the Task Force on Modernizing Security for Working Age Adults to address the issue of income security reform. The Nova Scotia Association of Social Workers recommended that the federal government implement the Task Force’s proposal for a working-age adult benefit, comprised of an income-tested refundable tax credit for all low-income, working-age adults and a working income supplement delivered through the tax system to low-income wage earners; each component would be phased out as income rises. Other witnesses, including the Sustained Poverty Reduction Initiative, advocated comparable benefits.

The Committee was told that low- and moderate-income Canadians can face marginal tax rates that exceed 60% due to the clawback of public transfers. In addition to raising incomes, the Committee heard that a working-age adult benefit would remove impediments to making the transition from social assistance to work and would reduce the number of unemployed people who rely on social assistance.

The Ontario Chamber of Commerce urged the federal government to expedite the distribution of federal funding committed in the November 2005 Labour Market Development and Labour Market Partnership Agreements to the province of Ontario for employment programs and services.

The Campaign Against Child Poverty informed the Committee that all countries that have reduced child poverty to a rate below 5% have used benchmarks and targets, and recommended that the federal government adopt a target of reducing child and family poverty in Canada from 14.9% to 9.9% by 2010. Figure 6 shows how Canada's rate of child poverty compares with rates in other countries.

Figure 6: Child Poverty, By Country, Various Years

Country	Children living in relative poverty (%)	Change in child poverty rates during the 1990s (%)
Denmark	2.4	0.6
Finland	2.8	0.5
Norway	3.4	-1.8
Sweden	4.2	1.2
Switzerland	6.8	n/a
Czech Republic	6.8	4.1
France	7.5	-0.2
Belgium	7.7	3.9
Hungary	8.8	1.9
Luxembourg	9.1	4.2
Netherlands	9.8	1.7
Germany	10.2	2.7
Austria	10.2	n/a
Greece	12.4	-0.2
Poland	12.7	4.3
Spain	13.3	2.7
Japan	14.3	2.3
Australia	14.7	-1.7
Canada	**14.9**	**-0.4**
UK	15.4	-3.1
Portugal	15.6	3.2
Ireland	15.7	2.4
New Zealand	16.3	2.0
Italy	16.6	2.6
USA	21.9	-2.4
Mexico	27.7	3.0
Average	11.6	1.4

Notes: Relative poverty is defined as households with income below 50% of the national median income. The relative poverty rates in the second column refer to the following years: 2001 (Switzerland, France, Germany, New Zealand), 2000 (Denmark, Finland, Norway, Sweden, Czech Republic, Luxembourg, Japan, Australia, Canada, Portugal, Ireland, Italy, USA), 1999 (Hungary, Netherlands, Greece, Poland, UK), 1998 (Mexico), 1997 (Belgium, Austria) and 1995 (Spain). The change in child poverty in the third column is measured from the year 1991 or 1992, except in the case of Belgium (1988), Germany (1989) and Australia (1993/94).
Source: United Nations Children's Fund, *Child Poverty in Rich Countries 2005*, Report Card No. 6, 2005, pp. 4-5.

A number of witnesses — including the National Anti-Poverty Organization, the Nova Scotia Association of Social Workers, the Saskatchewan Council for International Cooperation, the National Council of Welfare and KAIROS: Canadian Ecumenical Justice Initiatives — identified the reduction in, and ultimately the

elimination of, poverty as a priority. As a means of achieving this goal, witnesses advocated the creation of a national anti-poverty strategy with supporting legislation, targets and timetables, and a system to monitor results. It was suggested that the federal government provide leadership by setting standards and providing funding, but that the provincial/territorial governments be permitted to develop their own programs and policies to achieve the targets. Make Poverty History also stressed the importance of involving groups where poverty is predominant — including women, youth, seniors, persons with disabilities, Aboriginal Canadians and persons who are a visible minority — in the design and implementation of the strategy in order to ensure that their needs are met.

The Committee heard several suggestions designed to alleviate poverty among Canada's elderly. In addition to the suggestion by the Canadian Association of Retired Teachers that Old Age Security (OAS) and Guaranteed Income Supplement (GIS) benefits should be non-taxable, Canada's Association for the Fifty-Plus advocated OAS/GIS reform to address the rising cost of living and the clawback of GIS benefits.

The National Anti-Poverty Organization urged the federal government to ensure that Canadians apply for, and receive, the government benefits to which they are entitled, including those provided under the OAS/GIS program. To this end, the Canadian Association of Retired Teachers recommended the revision of restrictions on retroactive payment of benefits to match the penalties levied against unpaid taxes.

With respect to persons with disabilities who are unlikely to enter the paid labour force, such witnesses as the Nova Scotia Association of Social Workers and the Task Force on Modernizing Security for Working Age Adults encouraged the creation of a national disability income support program. SpeciaLink advocated the development of a comprehensive disability strategy focused on program expenditures rather than tax measures.

The Health Charities Coalition of Canada recommended that the current list of qualifying expenses within the disability supports deduction be replaced by a general statement of principle that eligible medical expenses would include all reasonable amounts paid for any goods and services that are certified as medically necessary by a qualified medical practitioner. Other suggestions for improving the lives of these Canadians included harmonization of the application processes for the Disability Tax Credit and CPP disability benefits, other administrative improvements to the Disability Tax Credit and to CPP disability benefits, refundable tax credits to recognize the lower incomes and higher expenses that Canadians with disabilities may face, and elimination of the clawback by some insurance companies of the benefits that dependent children receive if a parent is a long-term disability recipient.

The Committee also heard about the unique challenges for Canadians with episodic disabilities. In order to facilitate access to benefits, it was recommended that the eligibility criteria for CPP disability benefits and the Disability Tax Credit be

modified to take into consideration the episodic nature of disabilities resulting from such diseases as multiple sclerosis, HIV/AIDS, lupus, muscular dystrophy and mental illness. In addition, we learned that Canadians with episodic disabilities who reduce their labour force participation to part-time status may be disadvantaged by the CPP contribution rule, which bases CPP disability benefits on the amount of contributions credited to an individual's CPP account and the length of time the individual has contributed. The federal government was urged to allow the development of CPP pilot projects to test new approaches for the provision of benefits to individuals with episodic disabilities.

In November 2005, the federal government, the provincial/territorial governments and Aboriginal leaders signed the Kelowna Accord, a 10-year plan to improve the socio-economic conditions of Aboriginal Canadians. Such witnesses as Campaign 2000 and Dalhousie University, School of Social Work encouraged the federal government to honour the 2005 Kelowna Accord. Make Poverty History specifically advocated the implementation of poverty reduction measures contained in the Accord.

Other Aboriginal poverty-alleviation measures were also proposed to the Committee. Nishnawbe Aski Nation urged the development of a comprehensive Aboriginal poverty strategy with targets and timelines and a federal investment of more than $3 billion dedicated to new Aboriginal poverty measures. Noting its role in providing services to Aboriginal peoples living in poverty in urban areas, the National Association of Friendship Centres recommended that the federal government increase funding for, and continue to work with, the Aboriginal Friendship Centre Program. Finally, to support economic development strategies in Atlantic First Nations communities in particular, the Atlantic Policy Congress of First Nation Chiefs Secretariat Inc. requested an annual federal investment of between $10 million and $15 million.

The Committee learned that, since 1997-1998, spending increases for core services for Aboriginal Canadians have been limited to 2% per year. The Assembly of First Nations requested that the spending cap be removed and replaced by guaranteed funding escalators that reflect the costs of population and inflation growth, and which are administered through non-discretionary funding frameworks. When allocating funding for Inuit programs, the federal government was urged to provide financial recognition of the special needs and circumstances facing Inuit Canadians.

To improve federal programming for Aboriginal Canadians, Mr. Daniel Brant recommended increasing the emphasis on program outcomes in terms of benefits to communities rather than program administration, using measures of Gross

Reserve Product to set program targets and goals and to monitor progress, improving access to capital, and increasing private sector involvement in Aboriginal development through the use of incentives.

The Committee also heard requests from certain Aboriginal organizations, including Pauktuutit Inuit Women of Canada and the National Association of Friendship Centres, for federal recognition commensurate with other organizations. The Pauktuutit Inuit Women of Canada also encouraged federal support for inter/multi-departmental program partnerships that ensure gender equity.

Witnesses, including the Canadian Federation of University Women, the Federation of Medical Women of Canada and Ms. Janet Goldie, requested that the federal government renew the mandate of Status of Women Canada and increase its funding. Other suggestions for advancing women's equality included:

- the application of gender-based analysis within federal departments;
- the creation of a minister for the status of women or minister of women's equality with full cabinet status;
- electoral reform to increase the representation of women in politics; and
- adoption of the recommendations of the Expert Panel on Accountability Mechanisms for Gender Equality.

Witnesses noted the recent elimination of the Court Challenges Program of Canada, a national, non-profit organization that provides financial assistance for court cases that advance language and equality rights guaranteed under the Canadian Constitution. They advocated its reinstatement.

9. Homelessness and Affordable Housing

The Committee was reminded of the federal role in homelessness prevention and elimination. A number of witnesses supported the continuation and/or expansion of existing federal homelessness and affordable housing initiatives and, in some cases, encouraged additional actions. The North End Community Health Centre suggested that the federal government review and build on the past success of multi-sectoral, cross-jurisdictional collaborations.

As well, the Committee heard requests for renewal — and, in some cases, expansion — of both the Affordable Housing Initiative and the Residential Rehabilitation Assistance Program (RRAP); groups generally advocated a minimum three-year extension of federal funding. As well, the British Columbia

Real Estate Association recommended that the federal government honour its commitment to work with the province of British Columbia for fair relief for owners of leaky condominiums.

Witnesses also requested renewed — and, in some cases, increased — federal funding for the National Homelessness Initiative, including the Supporting Communities Partnership Initiative (SCPI), with some witnesses specifically advocating a minimum five-year extension and the Réseau solidarité itinérance du Québec requesting annual funding for Quebec of at least $50 million under the initiative.

A number of witnesses, including the Nova Scotia Association of Social Workers, the Front d'action populaire en réaménagement urbain, the Registered Nurses' Association of Ontario and Citizens for Public Justice, encouraged increased federal investment in affordable and social housing. Such witnesses as Make Poverty History and the Canadian Federation of University Women requested an estimated $1.5 billion in federal funding for the construction and operation of 25,000 new social housing units each year.

The Canadian Housing & Renewal Association spoke about the "legacy savings" that are now beginning to accrue on previously funded social housing as mortgages are retired and debt costs are reduced, and encouraged the federal government to reinvest these funds in the preservation and expansion of social housing stock.

A one percent solution was advocated by the Toronto Disaster Relief Committee and the National Housing and Homelessness Network, whereby a federal investment of $2 billion per year — the 2006 federal budget allocation of $466 million plus the balance in new funding — would be matched by the provinces/territories and the funds would be used to supply new homes and to provide rent supplements in order to increase the affordability of homes.

Since housing insecurity can jeopardize the health, education and social development of Canadians, such witnesses as Campaign 2000, the Greater Vancouver Regional District, the Tenant's Rights Action Coalition, the Toronto Board of Trade, the National Housing and Homelessness Network, the Association of Municipalities of Ontario and The Alliance to End Homelessness urged the development of a comprehensive national housing strategy supported by long-term funding.

The Fraser Valley KAIROS Group advocated funding disbursements through a single, central organization. A number of witnesses discussed the importance of collaboration among the federal, provincial/territorial and municipal governments, as well as communities, to ensure that federal funding provided for homelessness and affordable housing is invested appropriately and responds to local needs.

Nunavut Tunngavik Inc. requested additional funding for housing in Nunavut, noting that the recent federal investment of $200 million will provide approximately 700 new units, compared to an estimated demand of 3,000 units, and will not cover ongoing operating and maintenance costs.

The Committee was informed that homeownership forms the basis for the economic well-being of families and individuals and, as a result, witnesses suggested actions to assist Canadians in purchasing homes. For example, the British Columbia Real Estate Association, the Toronto Real Estate Board, the Fédération des chambres immobilières du Québec and others advocated an increase in the maximum loan available under the Home Buyers' Plan from the existing $20,000 to perhaps $25,000, with periodic adjustments for inflation.

In addition, noting that the housing price thresholds under the GST/HST New Housing Rebate have remained unchanged since the GST/HST was introduced in 1991, several witnesses suggested that the thresholds be indexed and adjusted annually based on changes in the New Housing Price Index.

Witnesses also observed that, in several municipalities, municipal charges — such as development cost charges — comprise at least 50% of the total levies, fees, charges and taxes on a typical modest new home. The Committee was urged to recommend federal investment in municipal infrastructure as a means of reducing the dependence of municipal government on taxes on new development.

For low-income Canadians, the Canadian Real Estate Association supported the implementation of a 10-city demonstration project of the Home$ave Initiative. Under this program, low-income Canadians would deposit funds in a specialized savings account for the purchase of a home and have their savings matched to pre-established limits within a specified timeframe.

In order to promote competition in the mortgage insurance market, Genworth Financial Canada encouraged the federal government to introduce market conduct rules similar to legislation currently in place in the United States and Australia and to provide all public and private mortgage insurers with an equal guarantee of 100% in the event of bankruptcy.

The Committee heard support for the efforts by the Canada Mortgage and Housing Corporation (CMHC) to set aside retained earnings from its mortgage insurance business to meet the Office of the Superintendent of Financial Institutions' capital adequacy guidelines.

The Committee also learned about proposals designed to increase the private sector supply of affordable housing. Using the Home Buyers' Plan as a model, the Canadian Hardware & Housewares Manufacturers Association and the Canadian Retail Building Supply Council suggested that Canadians be permitted to use RRSP savings of up to $40,000 to finance residential retrofits to meet seniors' needs or

residential repairs and renovations. The Toronto Board of Trade urged the federal government to create a tax and regulatory environment that encourages the building of affordable housing, and the Tenant's Rights Action Coalition noted the potential value in offering tax incentives for non-profit housing and market rental units, among other areas. It was also suggested that the GST/HST be refunded to businesses that invest in rental housing by zero-rating rental housing.

Several witnesses also suggested that the federal government encourage the development of secondary or accessory suites as an affordable housing alternative; these suites are typically rented at a lower cost than conventional rental apartments and can improve the affordability of homeownership. Specifically, witnesses requested that "substantial renovation" be redefined under the GST/HST New Housing Rebate to include renovations for the creation of secondary or accessory suites. Furthermore, it was suggested that the value of the secondary or accessory suite alone be used to determine eligibility for the rebate.

The Committee learned from the Union of Ontario Indians that 65% of on-reserve Aboriginal households occupy houses that fall below Canadian housing standards for suitability, adequacy and affordability, while 49% of off-reserve households live below housing standards and 73% are in core need. Witnesses such as the British Columbia Real Estate Association recommended increased federal funding for Aboriginal housing, including a suggestion of annual increases, for five years, to levels that would be sufficient to reduce current housing shortages. Specific allocations for on- or off-reserve housing were requested. The federal government was encouraged to ensure that housing programs are responsive to the needs of local communities and to explore opportunities for private sector involvement.

The Nishnawbe Aski Nation urged the federal government to invest an additional $1 billion per year to address on-reserve Aboriginal housing needs. Other suggestions received by the Committee regarding on-reserve housing included the transfer of responsibility to Aboriginal housing authorities and the immediate resolution of the mold problem.

The Committee also received several suggestions regarding the housing needs of Aboriginal Canadians living in urban areas. In particular, the New Brunswick Non-Profit Housing Association supported continuation of the Urban Aboriginal Strategy, which is designed to address the socio-economic needs of Aboriginal Canadians living in urban areas. Moreover, the National Association of Friendship Centres urged the federal government to expand its existing housing-related commitments to include the implementation of urban Aboriginal affordable housing agreements and to involve the Friendship Centres in the design, delivery and administration of affordable housing programs for Aboriginal Canadians. In addition, the Canadian Real Estate Association encouraged the provinces to develop specific programs in consultation with Aboriginal communities to address off-reserve housing needs.

The Union of Ontario Indians encouraged the implementation of a three-part structure for Aboriginal housing management, financing and operational delivery, developed by the Assembly of First Nations. The First Nation Housing Investment Trust would consolidate federal funding for First Nations housing and provide funding — through members of the First Nation Housing Authority Network — to local housing service providers supported by the First Nation Housing Institute. The Committee was informed that this strategy would require neither additional federal funding nor legislative, policy or program changes.

The Committee learned that First Nations land tenure does not permit owners to sell homes and fails to provide sufficient certainty to attract development. To resolve this issue, the Indian Taxation Advisory Board proposed the creation of a $250 million, five-year First Nations mortgage support program for leasehold houses to increase the number of first-time First Nations homebuyers, the establishment of an institutional framework to support long-term leasehold residential tenure, and the development of a First Nations land title system.

The Committee was told that current methods for securing title on First Nations lands do not provide sufficient certainty and, as a result, deter investment and reduce land values. To improve the marketability and attractiveness of First Nations lands, the Indian Taxation Advisory Board urged the Committee to support the development of First Nations land title legislation, which would replace the authority of the *Indian Act* over land registry, at an estimated cost of $10 million over three years.

Witnesses, including the Council of Yukon First Nations, also advocated the settlement of outstanding Aboriginal land claims, noting the importance of land claim settlement for such projects as the development of a major fuel pipeline and the construction of a transnational rail line. Other groups encouraged progress on treaties, jurisdictional issues, self-government initiatives and matrimonial property rights, among other issues.

B. WHAT WE BELIEVE

The focus for the pre-budget consultations in 2006 is competitiveness. In the Committee's view, providing Canadians with appropriate incentives to work is a critical contributor to the productivity growth required for enhanced competitiveness as well as a high standard of living and quality of life in the future. In this context, it is important to recognize that labour market contributions are enhanced when individuals are healthy, well-educated and appropriately housed, and when they have all needed workplace supports, whether in the form of legislation/regulation or assistive devices.

An important tool that can be used to provide individuals with an incentive to engage in labour market activity is the personal taxation system. The Committee believes that changes to the system would provide individuals with an incentive to

work by increasing their disposable incomes. Changes in personal taxation could also make Canada a more attractive location for those in other countries who are seeking to emigrate. In essence, we view the personal taxation system as a key mechanism with which we can attract and retain the skilled workers and entrepreneurs needed for our future competitiveness.

While not everyone supports broadly based changes to personal taxation, the Committee believes that such changes — in conjunction with certain targeted changes — are among a number of incentives to work that are important if Canada is to experience higher levels of productivity growth and improved competitiveness. From this perspective, and bearing in mind the changes to personal taxation and the Working Income Tax Benefit announced by the Minister of Finance in his 23 November 2006 appearance before us, the Committee recommends that:

RECOMMENDATION 9

The federal government amend the *Income Tax Act* to reduce personal income taxes. Consideration should also be given to additional tax relief for low-income Canadians as well as to a working income supplement and other personal income tax changes that would provide incentives to work and to remain employed within Canada.

As the population continues to age, it will be important to ensure that all individuals who want to work have an opportunity to do so, and that they receive needed supports in the workplace. Consequently, the Committee believes that no one should suffer discrimination in the workplace, that persons with disabilities as well as older workers and workers more generally should be provided with any assistive devices or other supports that they need, and that immigrants to Canada should have their internationally obtained credentials recognized. It is for these reasons, and bearing in mind the 15 November 2006 announcement about the Temporary Foreign Worker Program as well as the foreign credentials recognition agency mentioned by the Minister of Finance in his 23 November 2006 appearance before us, that the Committee recommends that:

RECOMMENDATION 10

The federal government — in conjunction with the provincial/territorial governments and relevant stakeholders — develop a plan to ensure that appropriate, properly funded and equitable immigration settlement and integration services are available throughout Canada. As well, a plan should be developed to recognize and reconcile the educational and professional qualifications of immigrants obtained in countries other than Canada.

In the Committee's view, our productivity as a people and our competitiveness as a nation are improved if we have a society that nurtures, supports and cares for one another. This type of society helps Canadians to overcome the challenges they may face in order to ensure their contribution to society. As well, this type of society may be valued by those seeking to invest — thereby providing us with foreign direct investment that can enhance productivity and competitiveness — and by those seeking to emigrate to another country — thereby providing us with future citizens and future employees.

A supportive society includes many of the elements that already exist in Canada: social assistance and social services; an employment insurance system; and measures to alleviate poverty, among others. Such a society also directs assistance to particular groups in society that need help, including persons with disabilities and Aboriginal Canadians.

The Committee is aware that there are certain groups in society that continue to experience unacceptable poverty despite the program spending, taxation and other federal measures that are designed to help them; these groups include children, Aboriginal Canadians and seniors. In our view, dialogue is needed among all stakeholders in order to determine the best methods for helping these Canadians. Although moral considerations and economic priorities require us to ensure that no Canadian lives in poverty, we believe that particular priority must be given at this time to ensuring that our children — who are our future — are able to escape poverty. From this perspective, and recognizing that there are a variety of relative and absolute measures of poverty that are used by various groups and individuals, the Committee recommends that:

RECOMMENDATION 11

The federal government adopt the target of reducing child poverty in Canada to 9.9% by 2010. The government should meet with the provincial/territorial governments and groups assisting and/or representing disadvantaged Canadians, among other stakeholders, to develop a strategy for achieving that target. The strategy should be developed no later than 30 June 2007.

In the Committee's view, a number of federal programs and non-committed funds that were eliminated by the federal government on 25 September 2006 make a valuable contribution — either directly or indirectly — to the lives of many Canadians. In light of the contribution they make, and because they were eliminated without any consultation with affected stakeholders, the Committee recommends that:

RECOMMENDATION 12

The federal government reinstate the programs and funds that were eliminated by it on 25 September 2006 in the areas of literacy, the social economy, youth, assistance to museums, Status of Women Canada, the Law Commission of Canada, volunteerism and the Court Challenges Program.

The Committee believes that appropriate housing is also an important contributor to the productivity of a nation's residents and to the competitiveness of a country, since residents and employees must be well-rested if they are to be productive in society, and children and students must be appropriately housed if they are to concentrate in school as well as to grow and thrive. Moreover, we feel that housing must be affordable.

In the Committee's view, housing insecurity — which we interpret to mean housing that is not appropriate and/or not affordable — can jeopardize the health, education and social development of Canadians. It also limits their productivity in society. We believe that greater efforts are needed with respect to affordable housing, both generally and particularly with respect to the housing deficiencies experienced by Aboriginal Canadians and low-income families. From this perspective, the Committee recommends that:

RECOMMENDATION 13

The federal government, on a priority basis, extend the Supporting Communities Partnership Initiative and the Residential Rehabilitation Assistance Program.

Moreover, the government should — in conjunction with the provincial/territorial governments — develop a national housing strategy and, on a priority basis, take action in order to ensure that the housing needs of Aboriginal Canadians and low-income families are met.

INCENTIVES TO SAVE

By creating an environment that encourages Canadians to save for their retirement, the federal government can mitigate public retirement-related costs in such areas as public pensions and, in this way, contribute to the prosperity of future generations of Canadians. While decisions with respect to retirement savings are largely made privately, the federal government has the opportunity to influence choices through changes to personal income taxation, the benefits provided under the Canada/Quebec Pension Plan (C/QPP), the types of retirement savings

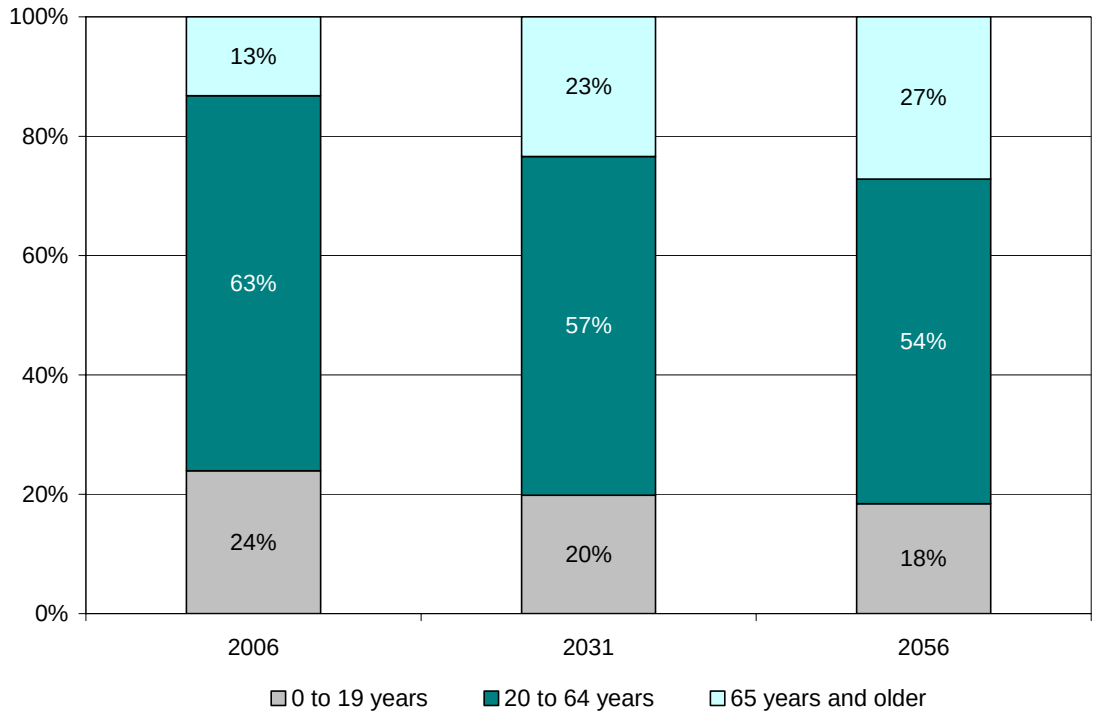
vehicles offered, and the terms and conditions of existing retirement savings vehicles.

A. WHAT WE HEARD

1. Pensions and the Ageing Population

Witnesses noted Canada's changing demographics and commented on the implications of an ageing population for public finances. As Figure 7 shows, the proportion of the Canadian population aged 65 years and older is projected to increase from 13% in 2006 to 27% in 2056.

Figure 7: Projected Change in Canadian Demographics, 2006-2056



Notes: Projections are based on a medium growth and medium migration trends scenario.
Source: Statistics Canada, Population Projections for Canada, the Provinces and Territories.

The Committee heard that a comprehensive review of the Canadian retirement income system is needed in order to ensure that our ageing population will be financially self-sufficient with minimum support from governments. While recognizing that pensions are regulated primarily by the provinces, witnesses noted several opportunities for federal leadership regarding pension reform, including a federal review of the weaknesses of Canada's existing retirement income system and the creation of a national mechanism for discussing pensions. In addition, the federal government was urged to develop pension reform options for consideration by Parliament and to encourage the provinces to review and update their pension plan legislation.

2. Canada/Quebec Pension Plan

The Canadian Federation of Independent Business requested that the federal government freeze the maximum pensionable earnings for the Canada/Quebec Pension Plan (C/QPP) at its current level of $42,100 as a means of restricting payroll taxes.

The Canadian Conference of the Arts and the Canadian Independent Record Production Association urged the Committee to rectify what they believe to be inequitable treatment of self-employed artists under the Canada Pension Plan (CPP). Self-employed Canadians, who are classified as independent contractors, are required to pay both the employer and employee share of CPP contributions but do not have access to all of the same benefits as employees.

The Committee was also urged to recognize the contribution of the Canadian Forces through improvements to the financial situation of surviving spouses and senior members. Currently, surviving spouses of Canadian Forces personnel receive 50% of the members' Superannuation benefits, which we heard is insufficient to cover basic living expenses. In addition, when Canadian Forces members reach 65 years of age and are eligible to receive CPP retirement benefits, their Superannuation benefits are reduced because of the integration of their Superannuation Plan with the CPP. The Royal Canadian Legion argued that this abatement of Superannuation benefits occurs when benefits would be most useful to members.

Mr. Verne McComas suggested to the Committee that there are errors and other irregularities that have caused Royal Canadian Mounted Police constable widows and orphans to be left without a pension under the 1934 constable survivor pension plan, and urged the federal government to take actions to rectify this situation.

3. Defined Benefit Pension Plans

The Committee heard about the importance of protecting defined benefit pension plans, a component of Canada's retirement income system that a number of witnesses and the Governor of the Bank of Canada believe is increasingly vulnerable. Witnesses urged the Committee to recommend that the federal government, in close co-operation with stakeholders, assess the current status and long-term sustainability of defined benefit pension plans.

Several suggestions for reducing the risk of solvency deficiencies in defined benefit pension plans were received, including legislating solvency, introducing regulations that require pension plans to establish the minimum and maximum range for the reserve funding for each plan, and changing the *Income Tax Act* to accommodate the establishment of a reserve fund account and to allow actuaries to establish maximum funding limits for this reserve.

On the issue of surpluses in defined benefit pension plans, the Canadian Institute of Actuaries urged the introduction of legislation that would permit the accumulation of appropriate levels of surplus as a means of safeguarding benefits. The Committee learned that uncertainty regarding ownership of pension plan surpluses can be a disincentive to prudent planning by pension plan sponsors. To resolve this issue, the introduction of legislation that clarifies plan sponsors' and contributors' rights to surpluses was advocated. Bell Pensioners' Group Inc. suggested that the concept of "pension surplus" for ongoing plans be replaced with a "reserve fund" owned by plan contributors.

The Committee was told that key federal legislation — including the *Canada Business Corporations Act*, the *Companies' Creditors Arrangement Act* and the *Bankruptcy and Insolvency Act* — should be modified in order to ensure that retirees' pension benefits receive maximum protection if a pension plan sponsor fails financially when the plan is under-funded.

4. Registered Retirement Savings Plans and Registered Pension Plans

Because Canadians are living and working longer, the Committee was told that the federal government must adopt policies that promote retirement savings. It was recommended that the contribution limits for Registered Retirement Savings Plans (RRSPs) and Registered Pension Plans (RPPs) be increased. The Retirement Income Coalition advocated an increase in the limits to $22,000 immediately and to $30,000 by 2008, with a indexation to wages annually thereafter.

Witnesses, including the Canadian Association of Retired Teachers, Canada's Association for the Fifty-Plus, the Retirement Income Coalition and the Canadian Federation of Independent Business, urged the federal government to increase the age at which RRSPs must be converted to annuities or to Registered Retirement Income Funds (RRIFs), with specific proposals to increase the age of conversion from the current age of 69 years to either 71 years — which was the applicable age until 1997 — or to 73 years. It was also suggested that seniors be allowed to determine the level of their annual withdrawals from RRIFs and Locked-in Retirement Income Fund (LRIFs) or that the compulsory minimum withdrawal rates be lowered.

The Investment Counsel Association of Canada requested that the federal government expedite the process by which investments in issuers listed on foreign exchanges, such as the Alternative Investment Market (AIM), become qualified investments for RRSP and other tax-deferred plans.

With the aim of providing equal access to retirement savings vehicles for employees and self-employed individuals, the American Federation of Musicians of the United States and Canada encouraged amendments to the *Income Tax Act* that would permit self-employed Canadians — in particular, artists — to belong to RPPs.

5. Tax Pre-paid Savings Plans

To encourage Canadians — especially low- and modest-income individuals — to save more for retirement, the Canadian Chamber of Commerce, the Manitoba Chambers of Commerce, the Investment Funds Institute of Canada, the Vancouver Board of Trade and the C.D. Howe Institute advocated the introduction of tax pre-paid savings plans (TPSPs). Whereas RRSP contributions are deductible from taxable income in the year that they are made and withdrawals are subject to taxation, TPSP contributions are taxable in the year that they are made but withdrawals are tax-free.

The Investment Funds Institute of Canada also advocated a federal supplement to TPSP contributions by low-income Canadians, similar to the Canada Education Savings Grant for Registered Education Savings Plans.

6. Interest Income Deduction

The Canadian Association of Retired Teachers expressed concern that Canadians — particularly seniors — who choose interest-producing investments over stocks or mutual funds, for example, pay higher taxes on the return on their investments. Consequently, reinstatement of the interest income deduction to ensure equitable tax treatment of different types of investments was advocated.

B. WHAT WE BELIEVE

The Committee believes that Canadians should have appropriate incentives to save, both generally and for their retirement. While we recognize that incentives to save involve short-term federal fiscal costs, we believe that long-term benefits would accrue through the alleviation of future fiscal pressures. With the ageing Canadian population, and bearing in mind the comments by the OECD in its *Economic Survey of Canada, 2006* about sustainable fiscal and social policies, the need to ensure that our public pension costs are sustainable is even greater. In essence, the greater the extent to which individuals save for their own retirement, the greater the extent to which the Old Age Security/Guaranteed Income Supplement/Spouse's Allowance (OAS/GIS/SA) program will be fiscally sustainable without the requirement to raise taxes, reduce spending or incur a federal budgetary deficit.

In the Committee's view, while the three pillars of our retirement income system — the OAS/GIS/SA, the Canada/Quebec Pension Plan and Registered Retirement Savings Plans/Registered Pension Plans — work reasonably well together for many, there are elements of all three pillars that provide those who wish to work with disincentives to do so. These disincentives could have important implications if continued population ageing results in labour shortages and pressures on older workers to remain in the workforce longer.

For example, the Guaranteed Income Supplement program contains a clawback provision, the actuarial adjustment that currently exists in the Canada Pension Plan provides an incentive to retire earlier than age 65, and *Income Tax Act* provisions related to RPPs limit the ability of individuals to collect pension and employment income from the same employer at the same time.

That being said, the Committee continues to feel that it is important to save both generally and for retirement, but believes that the elements of the retirement income system must provide individuals with the opportunity to make decisions suited to their circumstances, regardless of whether that involves labour force participation. While we recognize that many seniors wish to cease employment at the normal age of retirement, we also know that there are many seniors who wish to continue their attachment to the labour force; this latter group of Canadians must not be penalized for their continued employment. Moreover, we are aware of the 17 October 2006 announcement by the Minister of Human Resources and Social Development of the Targeted Initiative for Older Workers, which will assist some older workers.

There are also concerns about the extent to which some groups, such as caregivers, are able to save for their retirement and about the ability of parents, should they die, of providing financial support for the care of their disabled children. For these reasons, and bearing in mind the measures announced by the Minister of Finance on 31 October 2006 regarding pension splitting and the increase in the age credit and his comments on 23 November 2006 about reduced taxes on savings, including capital gains, the Committee recommends that:

RECOMMENDATION 14

The federal government, in consultation with the provincial/territorial governments and relevant stakeholders, undertake a comprehensive review of the Canadian retirement income system with a view to determining the adequacy of the system in meeting the retirement income needs of seniors.

The focus of the review should also include incentives for saving and the extent to which these incentives ensure that the financial and other needs — of both current and future pensioners as well as of labour force participants and those who engage in unpaid work — are being, and will continue to be, met.

The review should also focus on any incentives and disincentives in the retirement income system to continued labour force participation by older workers, on the manner in which caregivers might receive retirement income and the feasibility of a caregiver drop-out provision within the

Canada Pension Plan, and on the means by which parents — particularly older parents — can provide financial support for the care of their disabled children, such as through a registered disability savings plan.

Moreover, during the review, consideration should be given to returning, to 71 years, the age at which Registered Retirement Savings Plans must be converted into Registered Retirement Income Funds and the extent to which greater flexibility should be given with respect to Locked-in Retirement Accounts and federally regulated pensions.

The review should be completed no later than 31 August 2007 and any legislative/regulatory amendments needed as a consequence of the review should be enacted no later than 31 December 2007.

CHAPTER THREE: COMPETITIVE COMMUNITIES

Quality of life is an important aspect of a country's competitiveness. Communities affect the social and economic opportunities available to individuals and families, and influence the ability of businesses to provide goods and services to their customers and the desirability of locating in a particular region. More than 80% of the Canadian population lives in an urban area. Today, cities compete globally to attract the human, physical and financial capital needed for businesses and entrepreneurial activity to prosper and for the nation to be competitive.

Competitiveness is enhanced when communities have the characteristics and services that enable them to attract and retain individuals from other locations within Canada and from other countries, and when they are seen as desirable locations in which to operate a business. Quality infrastructure, a clean environment, a sense of caring for one another, and a vibrant artistic and cultural sector all help to ensure that our communities are desirable places within which to work and live, as well as within which to operate a business. From this perspective, federal policies on infrastructure, the environment, charitable giving and volunteerism, and arts and culture — which are all aspects of "community" — can enhance both quality of life and competitiveness.

INFRASTRUCTURE

The state of a country's infrastructure is an important influence on economic growth and competitiveness. In general, the more desirable is a community's or a region's infrastructure, the greater is the extent to which people and businesses wish to live, work and locate within that community or region. While definitions of the term "infrastructure" vary, they may include transportation (roads, railroads, urban transit, air, pipelines, etc.), telecommunications (telephone and broadcasting cables, satellites, Internet access, etc.), utilities (electric power and gas distribution, water and sewer systems, etc.), and recreational facilities and public buildings (schools, libraries, hospitals, museums, etc.).

Governments are involved in infrastructure as a sole provider, as a partner with the private sector, or as a regulator of private entities in markets considered to be natural monopolies. Furthermore, the economic and social benefits resulting from public infrastructure investments may lead to increases in domestic and foreign capital investment, both human and financial.

In 2002, the federal government established Infrastructure Canada, which coordinates federal efforts focused on cities and communities, and supports infrastructure initiatives across Canada. The department manages existing major federal infrastructure programs, which are described in Figure 8. As well, the federal

government contributes to infrastructure and communities through such measures as the Goods and Services Tax rebate to municipalities and the transfer of federal gas tax revenues, equivalent to 5 cents per litre, to the municipalities through the provinces/territories.

Figure 8: Federal Infrastructure Programs, Canada, 2006

Program Name	*Description*	*Total Budget*
Canada Strategic Infrastructure Fund	***Directed to projects of major federal and regional significance in areas that are vital to sustaining economic growth and enhancing the quality of life of Canadians.***	***$4 billion plus an additional $2 billion in new funding announced in the 2006 federal budget.****
Border Infrastructure Fund	***Targeted to selected Canada-United States border crossing points in order to recognize that Canada's border crossings and their highway approaches are vital for economic growth and prosperity.***	***$600 million (the 2006 federal budget announced the creation of the Highways and Border Infrastructure Fund with a commitment of $2.4 billion).***
Municipal Rural Infrastructure Program	***Supports smaller-scale municipal infrastructure projects such as water and wastewater treatment systems, or cultural and recreation projects for smaller and First Nations communities.***	***$1 billion plus an additional $2.2 billion in new funding announced in the 2006 federal budget.****
Infrastructure Canada Program	***Created in 2000 to enhance infrastructure in Canada's urban and rural communities and to improve quality of life through investments that protect the environment and support long-term community and economic growth.***	***$2.05 billion (virtually all of the program funding has been committed and more than 3,500 Infrastructure Canada Program-funded projects have been announced).***

*Consultations took place during summer 2006 regarding these renewed programs.
Source: Infrastructure Canada, http://www.infrastructure.gc.ca/ip-pi/index_e.shtml.

Each year, the International Institute for Management Development (IMD) compares the adequacy of infrastructure — defined as the "extent to which basic, technological, scientific and human resources meet the needs of business" — across countries. According to the *IMD World Competitiveness Yearbook 2006*, in 2006 Canada ranked 12th among 61 countries/regions in the IMD's infrastructure category, dropping from 6th place in 2004 and 9th place in 2005, and lagging

countries such as the United States, Switzerland, Japan, Finland, Germany, Norway and Sweden. In the World Economic Forum's *Global Competitiveness Report 2006-2007*, Canada ranked 17th among 125 countries in terms of overall infrastructure quality, down from a ranking of 10th among 117 countries in 2005-2006. While aggregated measures such as these are generally based on survey data and should be interpreted cautiously, they do — nevertheless — provide an indication of Canada's relative performance in terms of infrastructure.

A. WHAT WE HEARD

1. Public Infrastructure

Witnesses told the Committee that Canada's public infrastructure is deteriorating and needs relatively sizable investments. For example, the Association of Consulting Engineers of Canada informed us that Canada's total accumulated infrastructure debt now exceeds $60 billion and is growing by more than $2 billion annually; in 20 years, about 50% of Canada's stock of public infrastructure will have reached the end of its serviceable lifespan. A number of witnesses, including The Road and Infrastructure Program of Canada (TRIP), recommended that the federal government commit to long-term and predictable infrastructure funding, and that the government provide $1 million per year for a minimum of five years to the newly created National Round Table on Sustainable Infrastructure (NRTSI).

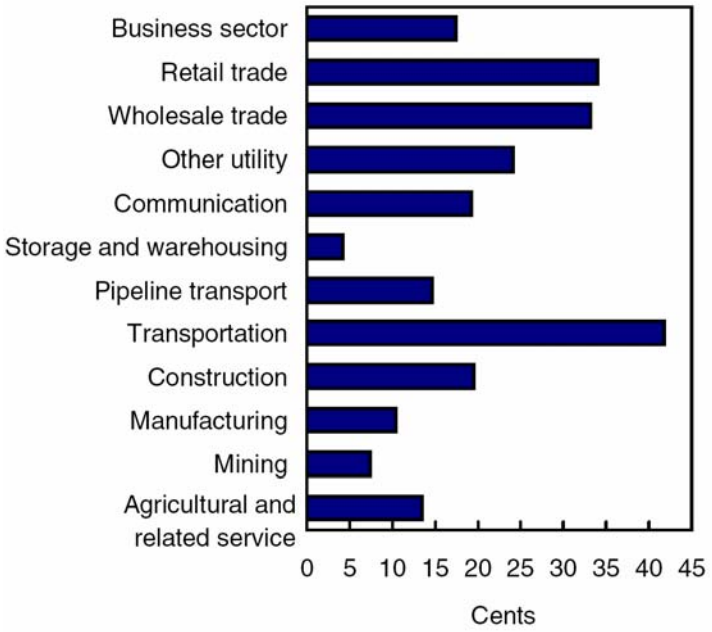
Moreover, the Federation of Canadian Municipalities urged the federal government to develop, in co-operation with the provincial/territorial and municipal governments, a long-term national plan to eliminate the municipal infrastructure deficit within 20 years. In particular, a national plan with a clear intergovernmental accountability framework and flexibility to meet the specific needs and capabilities of small, rural and remote communities was advocated.

The Canadian Association of Petroleum Producers, among others, observed that governments need to ensure an adequate availability and condition of public infrastructure in order to help maintain Canada's competitiveness. Consequently, the need for the federal government to continue to work with the provinces/territories in order to ensure that the availability and quality of public infrastructure do not constrain continued economic growth and the development of the oil and gas industry was highlighted.

The Canadian Centre for Policy Alternatives spoke about a study published by Statistics Canada in 2003, entitled *Public Capital and Its Contribution to the Productivity Performance of the Canadian Business Sector*, that estimated the benefit to business of public investment in physical public infrastructure. The results of this study are shown in Figure 9. A $1 increase in the stock of physical public infrastructure — defined to include transportation systems, public transit, water supply and wastewater treatment facilities — generated, each year between 1961 and 2000, an average of 17 cents in cost savings for Canada's business sector. The largest benefit accrued to sectors generally regarded as the most intensive users of

infrastructure. For example, the transportation sector was estimated to benefit the most from public investment in physical public infrastructure, for which a $1 increase in the stock of such infrastructure resulted in 42 cents in cost savings, followed by savings of about 34 cents for the wholesale and the retail trade sectors, and of about 20 cents for the construction sector.

Figure 9: Marginal Benefit of $ 1 Increase in the Stock of Physical Public Infrastructure, By Business Sector, 1961-2000 Period (average cents)



Source: Statistics Canada, *The Daily*, 12 November 2003, p. 3.

Witnesses also shared their views about how infrastructure projects should be funded. Some witnesses, including the St. John's Board of Trade, argued that the federal government should explore alternative means of addressing Canada's infrastructure needs, such as through the use of public-private partnerships. The Road and Infrastructure Program of Canada (TRIP) recommended that the federal government create an office for the purpose of facilitating public-private partnerships using federal infrastructure funds to leverage investment from the private sector. Other witnesses, however, such as the Canadian Centre for Policy Alternatives, cautioned against using public-private partnerships, suggesting that the result would be higher costs.

A number of witnesses, including the City of Saskatoon, recommended that the federal gas tax-sharing program be continued indefinitely. Such witnesses as the Association of Yukon Communities urged expansion in the types of infrastructure projects funded under the program to include municipal initiatives for economic development, sport and recreational facilities such as parks, and cultural and other social infrastructure. As well, witnesses — including the City of Fort St. John and the Winnipeg Chamber of Commerce — argued that municipalities should have greater authority over their financial means, and recommended that the federal government consider other tax-sharing arrangements using the model of the

federal gas tax-sharing program in order to provide municipalities with additional revenues.

The Regional Municipality of Wood Buffalo informed the Committee that, as a result of six years of population growth exceeding 8% per year, the community needs infrastructure capacity and infrastructure repair, including wastewater treatment, recreational facilities and landfill sites. Special grant funding from both the federal and provincial governments in order to raise existing infrastructure and services to the standard of other Alberta municipalities was requested. The Fort McMurray Chamber of Commerce urged the federal government to commit the financing needed to meet the special infrastructure requirements of the region of Fort McMurray.

The Committee learned that Halifax is currently developing a bid to host the 2014 Commonwealth Games. Sport Nova Scotia and the Halifax Regional Municipality urged the federal government to support the bid, recognizing that the 2014 Games would have an important impact on Nova Scotia as well as on sport infrastructure and athletic development in Atlantic Canada.

2. Transportation Infrastructure

The Committee heard about the importance of transportation infrastructure for trade, tourism and competitiveness. Witnesses, including the Saskatchewan Association of Rural Municipalities, told us that transportation costs are a critical determinant of provincial, national and global competitiveness. Witnesses also noted the importance of transportation and border infrastructure for ensuring access to markets, particularly export markets.

Witnesses indicated that transportation infrastructure should be viewed in terms of networks, noting the connections between and among various modes of transportation. Canadian Manufacturers & Exporters — Ontario Division highlighted the importance of federal involvement in working to improve and expand Canada's transportation networks. The Canadian Meat Council stressed that, particularly because of the perishable nature of meat products, the highly efficient inter-modal transportation systems and dependable transportation infrastructure needed to serve domestic and global markets are important factors affecting productivity and competitiveness.

Moreover, witnesses supported the federal government's development and financing of the Pacific Gateway Strategy, although Canadian Manufacturers & Exporters — British Columbia Division indicated that additional funding is required to ensure that the Pacific Gateway can become a global hub for logistics and tradeable services on par with Hong Kong, Singapore and Rotterdam. The Prince Rupert Port Authority informed the Committee that it requires one of the following two options to pursue its expansion plans: additional federal funding of at least $100 million or structural changes to the Authority's governing legislation to improve its ability to raise funds on public capital markets.

The Greater Halifax Partnership observed that Halifax is an alternative to the Pacific Gateway for Asian cargo entering Canada. The Committee was told that the distance between Halifax and Hong Kong is about equivalent to the distance between Vancouver and Hong Kong; consequently, Halifax is already an option for those that ship Asian cargo. The Greater Halifax Partnership recommended that the federal government adopt a two-ocean gateway policy, a suggestion that was supported by the Halifax Regional Municipality.

The Committee was informed that about 90% of consumer goods and about two-thirds of Canada's trade with the United States are shipped by truck. A number of witnesses, including the Canadian Automobile Association, the Manitoba Hotel Association and the Hotel Association of Canada, identified the need for a strategic plan that includes a significant and long-term federal investment in the renewal and maintenance of Canada's National Highway System (NHS), and stressed the importance of incorporating intelligent transportation systems and encouraging environmentally responsible driving habits. It was argued that improvements in Canada's road infrastructure would yield benefits in the form of reduced health care costs, increased trade and tourism, higher productivity, reduced safety risks, and lower greenhouse gas emissions. Several witnesses, including the Canadian Trucking Alliance, suggested that the federal government dedicate a substantial portion of its fuel excise tax revenues to predictable, long-term funding for Canada's roads and highways.

The Association of Manitoba Municipalities and the Saskatchewan Association of Rural Municipalities told the Committee that the Prairie Grain Roads Program (PGRP) has played a significant role in supporting grain transportation infrastructure. The Association of Manitoba Municipalities explained that the PGRP encourages neighbouring municipalities to identify optimal trucking routes and to shift traffic to these regional corridors. This strategic planning has spin-off benefits, since the use of dedicated routes reduces stress on other provincial and municipal roads.

The Saskatchewan Association of Rural Municipalities identified the creation of a province-wide primary weight haul corridor as important to reducing transportation costs and to expanding market opportunities for rural Saskatchewan. Through PGRP funding, a grain corridor system has been mapped for the province of Saskatchewan. The Committee was told that a new PGRP initiative is required in order to ensure that grain transportation infrastructure is properly completed and maintained in Manitoba and Saskatchewan.

The Canadian Association of Railway Suppliers argued that rail transportation provides an opportunity to reduce the environmental impacts of transportation, while the Canadian Fertilizer Institute observed that rail is the only cost-effective transportation mode available to those — particularly in the resource sector — that ship commodities long distances. The Railway Association of Canada requested that the federal government commit to funding rail infrastructure through the Canada Strategic Infrastructure Fund in partnership with the provincial

governments and short-line railways. The British Columbia Chamber of Commerce asked that the federal government include funding for rail infrastructure development in future expansion projects in order to increase rail movement throughout British Columbia.

A number of witnesses — including the Greater Vancouver Transportation Authority (TransLink), the City of Calgary, the Canadian Urban Transit Association and the Federation of Canadian Municipalities — supported the creation of a permanent national urban transit plan that would provide ongoing federal funding for municipalities with transit services. The various programs related to public transit would be integrated under the proposed plan, which could take effect in 2008-2009 when existing federal commitments for public transit expire.

Witnesses, including the Greater Kitchener Waterloo Chamber of Commerce and the City of Calgary, also requested that the Canada Strategic Infrastructure Fund continue to support large-scale projects of regional or national significance, such as inter-city rail links, other rapid-transit projects and urban renewal projects. For example, witnesses mentioned a proposed rapid-transit system within the region of Waterloo's central transit corridor and the revitalization of the Rivers District in the city of Calgary. Several witnesses, such as the Toronto Board of Trade, recommended that the federal government invest an additional $1 billion annually in public transit through the Canada Strategic Infrastructure Fund.

The Fraser Valley KAIROS Group suggested that a larger share of federal gas tax revenues be used to fund the development of transit systems, recognizing that better and more efficient transit systems would lead to increased use of public transit and to fewer personal vehicles on the roads, thereby reducing congestion for commercial traffic. The Greater Vancouver Transportation Authority (TransLink) told the Committee that, in the Greater Vancouver area, recent investments in public transportation have resulted in a 24% increase in transit ridership since 2002.

Witnesses, including the Chronic Disease Prevention Alliance of Canada, the Heart and Stroke Foundation of Canada and the Canadian Cancer Society, supported increases in active transportation among Canadians, such as walking and cycling. The Committee was informed that active transportation has the potential to reduce obesity and improve public health, while contributing to less congestion as well as reduced pollution and greenhouse gas emissions. To promote active transportation, witnesses recommended that 7% of all federal infrastructure funding allocated to transportation be earmarked for active transportation infrastructure, such as sidewalks and trails/paths for biking and walking.

Regarding air transportation, the Greater Toronto Airports Authority (GTAA) supported the recent Open Skies bilateral agreement with the United States, and noted that Canada has negotiated more liberalized agreements with the United Kingdom, India and China. The GTAA recommended that Canada’s international air policy ensure that both passenger and cargo services operate in an open market environment.

While new Open Skies agreements present opportunities for Canadian air carriers and consumers, WestJet and Air Canada reminded the Committee that an open market environment also results in increased competition from foreign air carriers. We were informed that these foreign carriers often pay fewer charges and lower taxes than their Canadian counterparts. Witnesses indicated that Toronto's Pearson International airport is the most expensive airport in the world for airline operations.

The Committee heard that airport rent harms the competitive position of Canada's airports, since airport rent is a significant portion of many airport authorities' expenses and is a determining factor in the setting of annual fees and charges. Witnesses maintained that the new airport rent formula announced in May 2005 — which is based on a progressive rate, from 0% to 12%, of gross airport revenues — resulted in significant rent reductions for most Canadian airports, but that Toronto's Pearson International airport will — in 2010, at the end of the transition period — be paying more than 60% of the total airport rent collected by the federal government, even though less than 35% of air traffic will pass through that airport.

A number of witnesses from the aviation and tourism industries, including the Regina Airport Authority, advocated a review of the federal airport rent policy and a reduction in, if not elimination of, airport rents. The Greater Toronto Airports Authority maintained that the airport rent formula should be changed so that airport rent would be calculated on the basis of airport revenues net of the cost of servicing the debt incurred as a result of necessary investments in airport infrastructure. Currently, airport rents are calculated on the basis of airport gross revenues, regardless of airports' cost of servicing the debt raised on public capital markets in order to fund infrastructure investments.

The Atlantic Canada Airports Association spoke about the needs of Canada's smaller airports, especially airports located in Atlantic Canada. The Committee was informed that airports and air carriers are required to pay for Canada Border Services Agency (CBSA) services when they are provided outside regular working hours, and it was argued that the federal government has not adequately provided for the infrastructure needs of small airports. The Atlantic Canada Airports Association recommended that increased federal funding be allocated to the CBSA in order that the needs of Canadian airports could be met, at no extra cost to them, after the normal hours of service. The Canadian Airports Council made a similar recommendation, and requested increased funding for the CBSA in order to meet the growing needs of airports.

The Atlantic Canada Airports Association also requested that the federal government increase the funding allocated to the Airports Capital Assistance Program and create a small airports infrastructure program.

As well, the Committee was reminded that duty-free or tax-free sales at Canadian airports are available only for persons who are about to leave Canada.

The Canadian Airports Council argued that the prohibition on arrivals duty-free sales creates a competitive disadvantage for Canadian airports, reducing their potential revenues from duty-free sales to international visitors and returning residents. Consequently, legislative and regulatory modifications in order to permit arrivals duty-free sales at Canadian airports were recommended.

3. Water Infrastructure

The Committee was reminded that a safe and reliable water supply is important both for the personal consumption of Canadians and for agriculture and industrial development. Consequently, the Association of Manitoba Municipalities suggested that the federal government create a national program for water infrastructure, with $180 million available over 10 years.

As well, the Committee was told that the National Water Supply Expansion Program was an important source of funding for many water infrastructure projects. Consequently, the Association of Manitoba Municipalities urged the federal government to provide additional funding for Manitoba water infrastructure during the two-year extension of the National Water Supply Expansion Program.

The Fraser Valley KAIROS Group proposed that the federal government create a national water policy that would ban the export of water and the privatization of water services, create national standards for potable water delivery systems, and commit federal funding to help municipalities and Aboriginal communities upgrade their water infrastructure. The National Children's Alliance observed that, for Canada's Aboriginal communities, contaminated water is repeatedly identified as a major source of concern and an ongoing cause of illness.

4. Northern Infrastructure

The Committee learned about the unique infrastructure challenges facing the communities of Nunavut. There are 25 communities in Nunavut, and they are isolated from each another; consequently, it is virtually impossible for communities to share critical infrastructure such as health centres, policing, civic offices, schools, etc. Nunavut Tunngavik Inc. told us that the public provision of a basic level of infrastructure consistent with national standards in every Nunavut community far exceeds the financial capacity of the government of Nunavut. Moreover, we were informed that, in addition to the requirement for new infrastructure, there is a growing need to replace and maintain existing infrastructure.

The Nunavut Association of Municipalities (NAM) informed the Committee about the immense natural resources and mining potential of Nunavut, and noted that while Nunavut is resource-rich, its residents and its communities do not receive significant benefits from their resource wealth under the current federal fiscal regime, since most of the public resource revenues from the resources in the Northwest Territories and Nunavut go directly to the federal government. The NAM advocated better federal resource revenue-sharing with Nunavut through the territorial and local governments, as well as federal financial assistance for the ongoing implementation of community development plans.

The Indian Taxation Advisory Board noted that First Nations have been slow to develop their economic potential because they are unable to finance infrastructure at the level required for profitable business activity. Consequently, the establishment of a First Nations economic infrastructure program that would address policy, fiscal and capacity constraints to infrastructure development for First Nations was recommended, at a cost of $125 million over five years.

As well, the Prospectors and Developers Association of Canada suggested that infrastructure development in Northern Canada is crucial to the mineral industry's competitiveness and provides opportunities for northern communities to improve their quality of life. The federal government was urged to implement a 20% deep drilling tax credit to encourage exploration below 300 metres in order to discover deeper mineral deposits and to replenish reserves, thereby extending the economic life of existing mines.

Witnesses also highlighted the importance of geological mapping in attracting mineral exploration and discoveries. The Committee was told that more than 70% of Nunavut's territory remains unmapped, and that some regions of Labrador have not been adequately surveyed. The Newfoundland and Labrador Chamber of Mineral Resources, the Mining Association of Canada and the Prospectors and Developers Association of Canada recommended that the federal government urgently and adequately fund the Co-operative Geological Mapping Strategies across Canada. The Newfoundland Ocean Industries Association (NOIA) requested targeted federal funding for the Geological Survey of Canada in order to develop a marketing program based on geological data reflecting the region off the coast of Newfoundland and Labrador.

Other witnesses, however, were less supportive of mining exploration and development because of potentially negative impacts on the environment. The Yukon Conservation Society and the Green Budget Coalition recommended the cancellation of both the Super Flow-Through Share program for mineral exploration and the Investment Tax Credit for Exploration; in their view, fiscal savings should be reinvested in programs encouraging mineral recycling and conservation.

5. Border Infrastructure

The Committee heard that delays at Canada-U.S. border crossings reduce economic activity. Several witnesses, including Canadian Manufacturers & Exporters — British Columbia Division and the Association of Equipment Manufacturers, mentioned the need to accelerate investments in Canada-U.S. border infrastructure.

The Ontario Chamber of Commerce and the Greater Kitchener Waterloo Chamber of Commerce urged the federal government to work with the provincial and municipal governments to expedite improvements to the infrastructure at the Windsor-Detroit border crossing. The Ontario Tourism Council believed that new Canada-U.S. border crossings should be constructed.

A number of witnesses commented on the consequences for trade and tourism of recently implemented Canada-U.S. border security initiatives. Several noted the U.S. Western Hemisphere Travel Initiative (WHTI) and its requirement for a passport or other form of approved documentation at the border. The Ontario Chamber of Commerce urged the federal government to work with the provincial governments and U.S. government officials to develop a comprehensive strategy designed to mitigate the potential economic impacts of the WHTI in both countries. The Greater Kitchener Waterloo Chamber of Commerce recommended that the federal government collaborate with the U.S. government to expand the Free and Secure Trade (FAST) and NEXUS programs, which identify pre-approved and low-risk travellers, with the intention of having them finalized by 2008 or by the land implementation date of the WHTI.

6. Emergency Service Providers and Preparedness

The Committee heard a broad range of suggestions, from emergency service providers, insurers and others, for improving the country's preparedness and the safety of Canadians. To recognize the contributions made by emergency service providers, the International Association of Fire Fighters proposed the creation of a national public safety officer compensation benefit that would provide a one-time payment of $300,000 per family to the families of fire fighters, police officers and other public safety officials who are killed or permanently disabled in the line of duty, at an estimated total annual cost of $5.1 million to $6.6 million.

The Committee learned that when municipal resources are used in responding to an emergency, the federal government compensates municipalities that assist in disaster recovery for the use of municipal equipment at the rate of 16% of the cost incurred and municipal labour for overtime only; when contracted or non-municipal labour and equipment costs are incurred, 100% of the costs are eligible for federal compensation. To acknowledge the costs incurred by municipalities and to provide an incentive to minimize the costs of disaster recovery, the Association of Manitoba Municipalities recommended that the rate of compensation for the use of municipal equipment and labour in disaster recovery efforts be increased from 16% to 65%.

The Insurance Bureau of Canada supported the establishment of a natural disaster protection fund that would assist communities in strengthening their capacity to withstand the effects of natural disasters. It was proposed that the federal government contribute between $100 million and $150 million annually. As well, the Committee was told that Canadian communities are increasingly at risk from both natural and human-induced disasters, and that the economic costs of natural disasters in Canada continue to rise, partly as a result of the absence of a national program for disaster mitigation. The Canadian Centre for Emergency Preparedness and the Insurance Bureau of Canada recommended that the federal government invest in disaster mitigation activities and programs on an ongoing basis.

Since the 2001 federal budget provided five years of funding for the purchase of specialized equipment to strengthen Canada's ability to respond to chemical, biological, radiological and nuclear (CBRN) threats, the five-year period has now almost expired. The Canadian Association of Fire Chiefs identified an acute need for an extension to the program, and recommended that the federal government provide $10 million annually for four years for the purchase of CBRN equipment.

Witnesses also requested federal funding for:

- the purchase of handheld communications devices for first responders;
- the Joint Emergency Preparedness Program to ensure that funding remains responsive to rising equipment costs for fire services;
- a personal income tax credit of $500 for individuals actively serving as volunteer firefighters or officers;
- the establishment of an office of the national fire advisor within Public Safety and Emergency Preparedness Canada; and
- the implementation of the International Association of Fire Fighters' Hazardous Materials Training for First Responders and Emergency Response to Terrorism Operations programs in Canada.

In addition, the Police Association of Ontario urged the federal government to demonstrate a commitment to policing by funding the introduction of at least 2,500 new police officers in Canada's cities and communities, and requested that Ontario be given its share of this funding based on population. The City of Calgary proposed that the federal government collaborate with the provincial/territorial and municipal governments to develop a new deal for policing which would define an accountability framework for each order of government in terms of policing roles, responsibilities and expected results from funding.

The Halifax Regional Municipality supported the establishment, by the Department of National Defence, of the Standing Contingency Task Force. This new initiative, comprised of existing maritime, land, air and special operations components of the Canadian Forces, responds to emerging Canadian and global crises. The federal government was urged to ensure that funding is available for the continued progress of this initiative.

The Conference of Defence Associations supported the recent increases in defence funding to meet the capital expenditure needs and the ongoing operational requirements of the Canadian Forces. Nevertheless, concern remains about the long-term sustainability of the Canadian Forces' capabilities to meet its future foreign, defence and security policy objectives. Consequently, the implementation of a comprehensive long-term strategic defence capability plan, which would explore the remaining Canadian Forces' capital and operational requirements over the next 15 years, was urged.

B. WHAT WE BELIEVE

The Committee believes that our nation's infrastructure — including transportation, utilities, telecommunications, hospitals, schools, libraries and museums — is critically important to the productivity of businesses and individuals, our economy and the competitiveness of Canada. Businesses must be able to move their goods to domestic and international markets, and employees and others must be able to travel to work and to participate in sports, cultural and other activities.

Without sound, reliable infrastructure, the productivity growth and competitiveness that we seek will not be possible. The Committee supports continued and enhanced financing of the range of Infrastructure Funds that currently exists, but we feel that additional actions are also needed.

The Committee believes that there is a need to ensure ongoing sharing of federal gas tax revenues with municipalities through the establishment of a permanent program. Proper planning by municipalities requires the certainty that would be associated with a more permanent program. Moreover, we feel that since infrastructure needs vary among communities and regions of Canada, it is important that funding allocation mechanisms not be based solely on per-capita calculations. From this perspective, and bearing in mind the comments made by the Minister of Finance about public-private partnerships, gateways, border crossings, and long-term, predictable funding and transparent funding allocation mechanisms for infrastructure during his 23 November 2006 appearance before us, the Committee recommends that:

RECOMMENDATION 15

The federal government, in conjunction with the provincial/territorial governments, help to fund existing infrastructure initiatives at a level designed to reduce the public infrastructure deficit.

As well, the government should make permanent a program for the sharing of gas tax revenues with municipalities.

Finally, the government should develop an allocation mechanism for federal infrastructure support that considers not only population, but also the unique strategic and economic development needs of communities.

In the Committee's view, we now live — and, for the foreseeable future, will continue to live — in an era where international, domestic and personal security are of paramount importance. Certainly, the Royal Canadian Mounted Police, the Canadian Security Intelligence Service, and provincial and municipal police forces, among others, play a significant role in contributing to our security. In our opinion, these efforts must be supported. Lessons were learned as a consequence of the 11 September 2001 terrorist attacks, and hurricanes Katrina and Rita, among other disasters: the ability to communicate and the availability of the proper equipment are critically important. We believe that, at times, relatively small investments can significantly enhance our security. It is for this reason that the Committee recommends that:

RECOMMENDATION 16

The federal government, in conjunction with the provincial/territorial governments, allocate funds sufficient for chemical, biological, radiological and nuclear equipment and training.

The government should also work with relevant stakeholders in order to ensure the development and adequate funding of a national emergency preparedness plan.

ENVIRONMENT

The state of a nation's environment, and measures implemented to preserve the environment, have implications for prosperity and competitiveness. For example, compliance costs associated with environmental regulation and other forms of government intervention can affect businesses, placing those with relatively higher costs and more stringent requirements at a relative disadvantage. Nevertheless, environmental regulation and compliance costs may induce businesses to be more innovative and to make better use of resources, thereby resulting in higher productivity.

Economic development must be sustainable in the long term. Sustainable development requires both sustainable production and sustainable consumption. From a production perspective, the notion of long-term sustainability has led governments to intervene — through taxes, environmental standards and other measures — to ensure that businesses incur all costs, including environmental

costs, associated with their activities, resulting in a level of production that is more socially desirable and sustainable in the longer term.

From a consumption perspective, the notion of long-term sustainability has led governments to provide consumers with incentives to act in a sustainable manner; consequently, governments may encourage recycling, impose consumption taxes, and fund energy conservation programs, among other measures.

A. WHAT WE HEARD

1. The Natural Environment

The Committee heard several suggestions for increasing conservation of the natural environment. The Canadian Parks and Wilderness Society and the Green Budget Coalition advocated federal investment in nature conservation in four priority areas:

- Northern Canada's ecosystems, through a $25 million federal investment over five years, and $4 million annually, in a network of protected areas through the Northwest Territories Protected Areas Strategy, national parks proposals and regional land use plans, with the investment required prior to approving any large-scale developments such as the proposed Mackenzie Gas Project;

- ocean ecosystems, through a $600 million federal investment over five years in an oceans agenda for Canada in order to complete a national system of marine protected areas and to develop an integrated oceans management plan;

- protected areas across Canada, through federal investments over 5 to 10 years, to complete, expand and preserve the national parks system and other federal protected areas and to implement fully the recommendations of the Panel on the Ecological Integrity of Canada's National Parks; and

- the *Species at Risk Act,* through a federal investment of $275 million over five years.

Furthermore, the Green Budget Coalition told the Committee that the presence of toxic substances in the air and water is a serious threat to human health, especially for children, and recommended that the federal government:

- increase resources to implement the *Canadian Environmental Protection Act*;

- measure, monitor and understand the presence of toxins in the environment;

- direct resources to a pollution prevention research fund with a focus on product life cycle; and

- restore and enhance the Great Lakes and St. Lawrence Region.

Ducks Unlimited Canada also made recommendations about Canada's natural capital, and told the Committee that Canada should adopt a new approach with respect to the conservation and preservation of natural assets in order to maintain Canada's competitive advantage. Consequently, it was recommended that the federal government establish financial disincentives in order to discourage further destruction or degradation of our natural capital. Moreover, it was suggested that federal taxation and spending programs related to infrastructure require mitigation for the loss of natural capital on all projects that receive federal funding or that are conducted on Crown lands. Furthermore, Ducks Unlimited Canada recommended that the federal government:

- expand incentives to agricultural landowners and other land managers to protect the quality of source water;

- ensure that the natural attributes of Crown lands continue to provide public benefits for future generations;

- coordinate and fund efforts to measure the value of Canada's natural capital;

- increase support for conservation cover programs, such as Greencover Canada; and

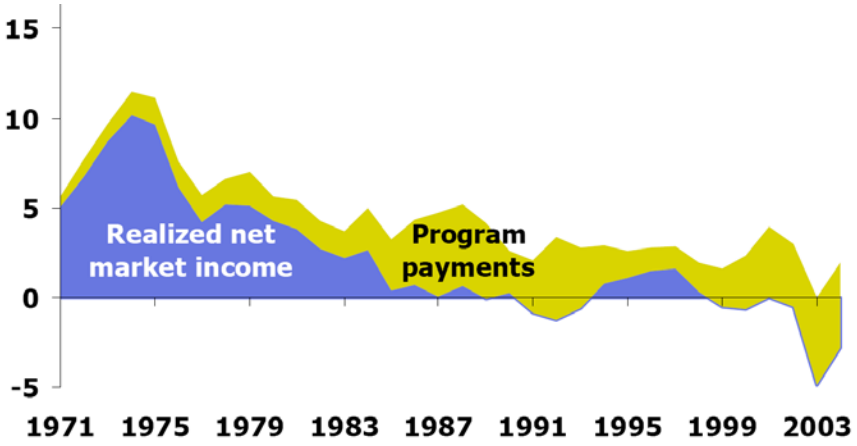
- consistently apply provisions for the mitigation of wetland loss under the Canadian Wetland Policy.

The British Columbia Real Estate Association indicated its disappointment about the recent federal decision to withdraw $11.7 million in unused funds for the Mountain Pine Beetle Initiative, and recommended that this funding be reinstated. On the other hand, the Forest Products Association of Canada supported the $400 million federal investment for the forestry sector to help combat the pine beetle infestation.

The Committee heard that Canadian agricultural producers are facing challenging market conditions as a result of the relatively strong Canadian dollar, low market prices for commodities, rising energy costs, and challenges related to bovine spongiform encephalopathy (BSE) and avian influenza. Figure 10 shows the

decline in realized net market income in the agriculture industry since the 1970s and the importance, in recent years, of government program payments in ensuring that the real aggregate income of farmers is not negative.

Figure 10: Real Aggregate Farm Income[1] in Canada, 1971 - 2004 (billions of dollars[2])



Notes: 1. Realized net market income accounts for depreciation of farm assets.
2. 2003 dollars.

Source: Federal/Provincial/Territorial (FPT) Working Group (WG) on Economic Analysis, *Long Term Challenges and Opportunities: Future Competitiveness and Prosperity of the Agriculture and Agri-Food Industry*, Progress Report, February 2006, p. 17.

The Union des producteurs agricoles commented on the deteriorating financial situation of farmers and the difficulties they encounter with rising levels of farm debt and declining levels of farm income, and proposed measures that would assist farmers, including:

- an additional $111 million in federal funding for the grain sector;
- an additional $150 million for the province of Quebec in order to ensure that the province receives its fair share, in 2006, of the financial assistance delivered through the Canadian Agricultural Income Stabilization (CAIS) program;
- reintegrating federal funding into provincial programs; and
- introducing a production insurance program in the livestock sector.

Witnesses, including the Saskatchewan Association of Rural Municipalities and Genome Prairie, spoke about the importance of federal initiatives to encourage value-added agriculture. The implementation of measures designed to facilitate the participation of agricultural producers in Canadian biofuels production was recommended by witnesses, including the Saskatchewan Association of Rural Municipalities. The Committee was told that the emerging biofuels industry,

including ethanol and biodiesel, is an economic and environmental opportunity for agricultural producers, especially in the context of low profits in primary agricultural production and the growth in biofuels production capacity in the United States. The Canadian Federation of Agriculture highlighted the potential contribution of increased value-added processing and distribution in the agricultural sector in generating greater wealth, jobs and opportunities in rural communities.

The Canadian Health Food Association mentioned food regulations, and advocated increased funding for Agriculture and Agri-Food Canada for the development and administration of functional food regulations, including for organic food. Moreover, the federal government was urged to provide the necessary support to agricultural producers as they transition to organic farming and to encourage producers to expand sales internationally.

The Canadian Federation of Agriculture also urged the development of a new federal agricultural policy framework, in collaboration with the provincial/territorial governments and the agriculture and agri-food industry, which would be comprised of three pillars:

- the public goods and services pillar, which would consist of environmental programs and food safety programs;

- the business risk management pillar, which would consist of programs that provide stability in situations related to disease as well as climate and major market fluctuations; and

- the strategic growth pillar, which would coordinate policies aimed at generating growth and strength in the industry.

The Canadian Meat Council proposed that Canada adopt a new long-term agricultural policy framework which, instead of being reactive and crisis-driven, would support sustainable growth, innovation, competitiveness and wealth creation for the entire agri-food industry.

Ducks Unlimited Canada supported an integrated approach to agricultural policy which would ensure that environmental implications and agricultural sustainability are considered in the development of agricultural programs. The Newfoundland and Labrador Federation of Agriculture noted the need to build and maintain the stock of agricultural infrastructure in Newfoundland and Labrador in order to enable sustainable growth for the agriculture industry in that province.

Several witnesses commented on the CAIS program. The Canadian Federation of Independent Business indicated that the program requires an excessive amount of paperwork and has many regulatory requirements, leading most farmers to hire professionals to complete their forms. The Credit Union Central of Canada commented on the level of complexity in the CAIS program, and asked

the federal and provincial governments to improve the program. The Saskatchewan Association of Rural Municipalities urged the federal government, as it develops a successor to the CAIS program, to consider the need of farmers for a business risk management program that is separate from disaster assistance.

The Credit Union Central of Canada also asked the federal government, on a priority basis, to proceed with reform of the *Farm Improvement and Marketing Cooperatives Loans Act*, which affects the availability of loans for farm improvements as well as the processing and marketing of farm products.

The Grape Growers of Ontario told the Committee that the grape-growing industry has experienced difficulty in the last three years because of cold winters; the result has been severe crop damage. We heard that, in 2005, members of the Grape Growers of Ontario recorded their lowest crop yield in 58 years. Consequently, the federal government was urged to invest $100 million over seven years in a proposed national replant program, in co-operation with the industry and the provincial governments. The goal of the program would be the renewal of 25% of Canada's orchards and vineyards over seven years, at a total cost of $300 million.

The Atlantic Policy Congress of First Nation Chiefs Secretariat Inc. told the Committee that the 1999 Supreme Court decision in *Marshall* confirmed a constitutionally protected right of First Nations to access commercial fisheries, thereby allowing many Aboriginal Canadians to become active participants in the Atlantic economy. It was suggested that, in order to build on that success and to increase access and capacity, the federal government invest at least $40 million annually over five years in First Nations fisheries.

The Yukon Conservation Society requested enhanced federal funding for the clean-up of orphaned/abandoned mine sites.

2. Brownfield Sites

The Committee heard that brownfield sites are often located on prime real estate in Canada’s urban centres and, as such, their remediation would have environmental, social and economic benefits. Since it is estimated that there are more than 30,000 brownfield sites in Canada, the Canadian Real Estate Association suggested that the redevelopment of brownfield sites would yield many benefits, including rising property values and consequently an increased property tax base as well as slowing urban sprawl.

While acknowledging the federal commitment to provide low-interest loan funding for remediation projects, the Canadian Real Estate Association provided suggestions to encourage brownfield site redevelopment, including:

- a coordinated approach among the federal, provincial/territorial and municipal governments for the removal of Crown liens and tax arrears on qualifying brownfield sites;

- federal-provincial/territorial collaboration on the removal of impediments to liability transfer on qualifying brownfield sites as recommended in the report of the Canadian Council of Ministers of the Environment;

- amendments to the *Income Tax Act* to allow the deductibility of remediation expenses in the year that costs are incurred; and

- an amendment to the Canada Mortgage and Housing Corporation's mandate to include mortgage guarantees at commercial lending rates for brownfield site redevelopment.

3. Energy Consumption and Air Emissions

A number of witnesses supported the notion that Canada could increase its long-term competitiveness through development that is more sustainable. The David Suzuki Foundation told the Committee that ecological fiscal reform (EFR) — which is achieved by introducing economic factors and tax incentives into environmental policy-making — could be a tool that would result in improved competitiveness in the long term. We heard that EFR concepts are underutilized in Canada relative to such other developed nations as the United Kingdom, Germany, France, Japan, and the Scandinavian countries.

Witnesses presented a number of proposals designed to improve energy efficiency and to reduce Canada's air emissions. The Association of Municipalities of Ontario reminded the Committee that the Canadian economy is less efficient in its energy usage than is the U.S. economy, and that investing in energy efficiency results in many environmental benefits.

Canada's Association for the Fifty-Plus told the Committee that water pollution and air pollution are global problems requiring international collaboration. It was suggested that Canada play a leading role within the global community in creating and protecting safe, healthy and sustainable clean air and water.

The Canadian Electricity Association urged the federal government to establish a federal energy efficiency grant program in order to fund a variety of energy efficiency programs and to give these programs a national focus. KAIROS: Canadian Ecumenical Justice Initiatives believed that the federal government should fund education and incentive programs designed to influence individual behaviours and attitudes toward energy conservation and efficiency.

The Committee was presented with a range of suggestions regarding household energy consumption. The Canadian Real Estate Association commented

on the cancellation of the EnerGuide programs in May 2006, and indicated that the programs had potentially important social, environmental and economic benefits. The Canadian Real Estate Association and the Yukon Conservation Society recommended that federal funding for the EnerGuide for Houses and the EnerGuide for Low-Income Households be reinstated.

The Green Budget Coalition and the David Suzuki Foundation proposed the implementation of an appliance feebate — Switch Green: ENERGY STAR — in order to reduce the energy consumption of household appliances. The appliance feebate would offer a 6% rebate on appliances that meet the ENERGY STAR criteria and would levy a 6% fee on those appliances that do not comply, thus eliminating the price discrepancy between energy-efficient and -inefficient appliances.

The Toronto Disaster Relief Committee recommended that federal funding for housing renovation be increased in order to assist low-income homeowners and tenants with energy conservation. The Canadian Housing and Renewal Association suggested the introduction of a federal energy efficiency program for low- and moderate-income households. The Canadian Gas Association proposed that the federal government review its current programs intended for Canadian homeowners, landlords and tenants, particularly those with lower incomes, to ensure that opportunities to realize energy efficiencies by switching household energy sources are fully explored.

With respect to motor vehicles, the Canadian Vehicle Manufacturers' Association told the Committee that the most effective means of reducing air pollution in Canada is to remove older, higher-polluting and less fuel-efficient vehicles from our roads and replace them with newer, more environmentally friendly vehicles. The Committee learned that vehicles manufactured about 20 years ago emit 37 times more emissions than current vehicles, and that there are more than one million of these older vehicles on Canadian roads at this time. The Canadian Vehicle Manufacturers' Association recommended the introduction of broad-based consumer incentive programs for the purchase of advanced technology vehicles.

The Canadian Courier and Logistics Association and Electric Mobility Canada advocated a tax credit or funding program in order to facilitate the adoption of hybrid-electric and electric vehicles in large commercial and metropolitan fleets. The Committee learned that the impact of 10,000 new hybrid commercial vehicles on the roads — which could be achieved with a federal investment of about $200 million — would be a reduction in greenhouse gas emissions of 109,870 tonnes.

The Green Budget Coalition and the David Suzuki Foundation suggested the implementation of a company car tax shift program — Drive Green — which would encourage employees who drive a company car to choose lower emission vehicles. Currently, employees who receive company cars pay additional income tax based solely on the cost of the vehicle. The proposed program would give a tax reduction

to employees driving a lower emission, more energy-efficient vehicle while those employees choosing less efficient cars would be taxed at a higher rate.

The Canadian Vehicle Manufacturers' Association noted that motor vehicles that use alternative fuels, such as propane and natural gas, have received only limited consumer acceptance because of inadequate access to fuelling infrastructure. Consequently, the federal government was urged to implement measures designed to encourage the development of the infrastructure needed to support alternative fuel vehicles. Furthermore, the Fraser Valley KAIROS Group recommended that the federal government improve fuel efficiency standards and provide a tax incentive for those who replace an existing vehicle with a vehicle that is more fuel efficient.

Witnesses also discussed climate change and greenhouse gas (GHG) emissions. The Canadian Fertilizer Institute supported the need for a "made-in-Canada" plan to reduce GHG emissions as well as efforts to reduce other air emissions. Enbridge Inc. suggested that the GHG emission targets for Canada in the Kyoto Protocol are likely unattainable, and favoured broad-based programs that would encourage the replacement of less-efficient industry infrastructure with infrastructure that is more efficient. La Chambre de commerce de Québec argued that the federal government should give corporations more recognition for their environmental initiatives; recognition could take the form of a refundable tax credit for any business investment undertaken to improve corporate environmental performance.

Other witnesses supported the inclusion of indoor air quality in the federal plan to reduce air pollution. The Canadian Lung Association told the Committee that air quality is closely related to lung health, and requested a federal commitment to address environmental effects on lung health by supporting the inclusion of indoor air quality in Bill C-30, An Act to amend the Canadian Environmental Protection Act, 1999, the Energy Efficiency Act and the Motor Vehicle Fuel Consumption Standards Act (Canada's Clean Air Act). In addition, it was requested that the federal government participate in the National Lung Health Framework in order to estimate the cost and impact of air quality on the lung health of Canadians.

Some witnesses highlighted the importance for Canada of meeting our commitments under the Kyoto Protocol. The Canadian Labour Congress believed that Canada's plan to address climate change should be consistent with the nation's Kyoto commitments. The Registered Nurses' Association of Ontario said that the federal government should reaffirm Canada's dedication to the Kyoto Protocol and should continue to fund programs related to climate change that are found to be cost-effective. KAIROS: Canadian Ecumenical Justice Initiatives advocated federal regulation of GHG emission levels by industry, with financial penalties for non-compliance. The Green Budget Coalition urged the federal government to implement a regulated GHG emissions targets-and-trading system for large industrial emitters, effective January 2008. The Canadian Renewable Fuels Association and the Canadian Petroleum Products Institute suggested that all

carbon credits associated with renewable fuels be tradeable, not just those generated by blending biofuels in excess of the level required by government regulation.

The Canadian Council of Professional Engineers requested increased federal funding for climate change research in order to enhance the reliability of scientific data used by engineers. The federal government was urged to invest in such existing initiatives as the Public Infrastructure Engineering Vulnerability Committee (PIEVC), which is conducting a comprehensive assessment of the vulnerability of Canada's infrastructure to the impacts of climate change. The Yukon Conservation Society advocated continued federal involvement with the United Nations Intergovernmental Panel on Climate Change and the Arctic Council's Arctic Climate Impact Assessment.

Several witnesses supported the proposed tax credit for public transit passes, and some — including the Canadian Urban Transit Association and the Greater Vancouver Transportation Authority (TransLink) — suggested that the proposed measure be expanded to include employer-provided transit passes; currently, employees who receive employer-paid transit passes must include the value of this benefit on their tax return while employees who receive free parking from their employer do not have to include the value of such a benefit. An extension of the age of eligibility of the proposed credit to 23 years was also requested.

4. An Energy Strategy

A number of witnesses supported the development of a national renewable fuels strategy. The Canadian Renewable Fuels Association and the Canadian Petroleum Products Institute believed that a renewable fuels strategy should be founded on internationally competitive tax treatment of the biofuels industry as well as fair and equitable rules for all sources of renewable fuels and marketers of fuels.

Witnesses also advocated incentives to encourage the production and adoption of renewable energy. For example, Enbridge Inc. urged the continuation of the Renewable Power Production Incentive, or an equivalent tax-based measure, with the eligibility criteria broadened to include alternative energy.

As well, the Committee was told that the Wind Power Production Incentive (WPPI) is an efficient fiscal measure that induces businesses to invest in the development of wind power energy, currently the fastest-growing source of electricity generation in Canada. Since the WPPI is currently being reviewed, the federal government was urged to continue the WPPI or to implement an equivalent tax-based measure in order to encourage continued growth in wind power production capacity, with a goal of 10% of total electric power generation capacity in the country.

Other witnesses argued that the federal government should recognize and encourage new technologies for producing renewable fuels. The Forest Products

Association of Canada recommended the establishment of a direct incentive program that would support investment in both thermal and cogeneration biomass technologies, noting that industrial conversion to renewable energy requires major capital investments and that Canada's government-sponsored incentives for renewable energy are not internationally competitive.

The Canadian Gas Association recommended increased federal funding for the demonstration, deployment and adoption of integrated energy technology solutions in order to address Canada's environmental challenges and energy needs. The Committee was informed that natural gas fuel cells, combined heat and power systems, and compressed natural gas vehicles are examples of such integrated technology solutions.

Several witnesses urged the development of a Canadian energy strategy. The Canadian Fertilizer Institute informed the Committee that demand for natural gas has been growing in North America, and urged governments to support natural gas exploration or the development of new sources of supply; secure and cost-effective energy is needed in order to ensure the future competitiveness of energy-intensive industries. We were also told that nitrogen and potash producers depend on a steady supply of natural gas, and a streamlined federal process for regulatory approvals for energy and pipeline projects was recommended

The Halifax Regional Municipality spoke to the Committee about the Community Energy Project which would, if implemented, generate electricity using clean-burning natural gas; as an indirect benefit, it would provide steam and hot water heating for government and university buildings. We were told that a federal investment of $20 million — which would match the province of Nova Scotia's commitment — is required in order to bring this project to fruition.

The Canadian Association of Petroleum Producers told the Committee that the federal government should provide increased funding to the Petroleum Human Resources Sector Council in order to allow the Council to continue and to expand its contribution to addressing the long-term labour force needs of the industry. The Committee heard that a growing shortage of skilled workers is becoming a serious impediment to investment in the oil and gas industry.

The Pembina Institute told the Committee that while subsidies to the oil sands sector accelerate economic growth, they are not socially beneficial because the sector is associated with large and rapidly growing GHG emissions. Such witnesses as the Yukon Conservation Society and KAIROS: Canadian Ecumenical Justice Initiatives recommended that the federal government reduce, if not eliminate, subsidies that support the oil and gas industry and nuclear power. Furthermore, increased federal investment in non-fossil fuel and non-nuclear energy production, through tax incentives and a new energy policy, were urged.

B. WHAT WE BELIEVE

The Committee believes that climate change and environmental issues are continuing — and will continue — to have both significant and long-lasting effects. We also feel that these effects will have an impact on the quality of life enjoyed by Canadians as well as on our nation's productivity and competitiveness. Ongoing vigilance will be required to ensure continued progress toward meeting our environmental objectives and commitments while facilitating the productivity growth needed for our future. In our view, clean air and water should be a right enjoyed by all Canadians in all regions of the country. Moreover, economic sustainability will, we believe, be tied to environmental sustainability.

The Committee also feels that the federal government should continue to lead by example: by purchasing fuel-efficient vehicles for government use, by ensuring energy efficiency in government buildings, and by encouraging public servants to use public transit. As well, the government should continue its efforts to redevelop federal brownfield sites.

While there are a number of environmental issues that require action, the Committee believes that renewable energy measures as well as incentives for energy efficiency and conservation are particularly important at this time. For this reason, and bearing in mind the comments made to us by the Minister of Finance on 23 November 2006 regarding clean air, environmental technologies, renewable energy and energy efficiency, the Committee recommends that:

RECOMMENDATION 17

The federal government, in conjunction with the provincial/territorial governments, conclude a Canadian energy strategy and an associated plan for implementation no later than 1 January 2008.

This strategy should be developed in the context of Canada's Kyoto objectives and the need to reduce greenhouse gas emissions. It should also recognize the importance of a diverse energy supply and the need for enhanced incentives regarding renewable energy sources, including biomass, biofuels and wind. These incentives should include the Renewable Power Production Incentive and the Wind Power Production Incentive or equivalent tax-based measures.

The government should also explore incentives for enhanced energy efficiency and conservation by consumers and businesses, including measures to promote home and building energy efficiency and the purchase of fuel-efficient

vehicles. The incentives should include renewal of energy efficiency assistance programs for Canadians.

The Committee is concerned about the future health and prosperity of our agriculture and agri-food industry, which continues to suffer from relatively high levels of farm debt, low commodity prices, rising input costs and — at times — international trade challenges. We believe that all sectors of our economy have an important role to play in our future competitiveness and must be supported. In the context of our agriculture and agri-food industry, we feel that support should include the development of an agricultural policy framework and agricultural programs that truly meets the needs of farmers. From this perspective, the Committee recommends that:

RECOMMENDATION 18

The federal government, in conjunction with the provincial/territorial governments and stakeholders in the agriculture and agri-food industry, ensure that the program developed as the successor to the Canadian Agricultural Income Stabilization program contains business risk management measures that are separate from disaster assistance measures.

Finally, the Committee feels that a variety of measures could — and, perhaps, should — be taken to preserve better our natural habitat. In our view, our natural assets contribute to our competitiveness and must be protected. We are not convinced, however, that incentives are sufficient to bring about the desired result: disincentives are, we believe, needed. For this reason, the Committee recommends that:

RECOMMENDATION 19

The federal government establish financial disincentives in order to discourage continued destruction or degradation of the nation's natural capital. Moreover, federal spending programs related to infrastructure and agriculture should require mitigation for the loss of natural capital on all projects that receive federal funding or that are conducted on Crown lands.

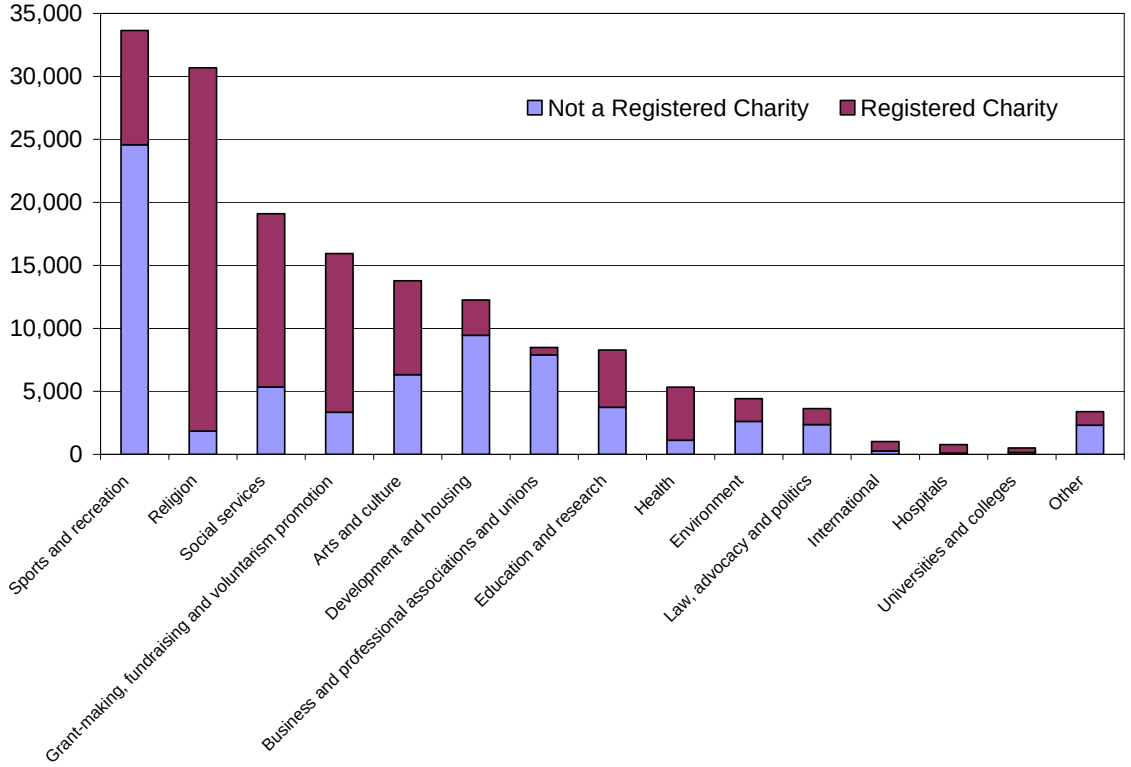
CHARITABLE GIVING AND THE VOLUNTARY SECTOR

Charities and volunteers contribute to the well-being of Canadian communities, playing a role in such areas as poverty relief, immigrant integration, health and wellness, arts and culture, international development, and sports and recreation, among others. As such, a society that supports charitable giving, and in

which individuals volunteer their time to help others, is likely to have a higher quality of life and, consequently, higher productivity and competitiveness.

In recognizing the role that charities and volunteers play in society, the federal government has developed incentives and supported activities in these areas. Figure 11 shows the number and types of non-profit and voluntary organizations in Canada. At this time, there are more than 80,000 charitable organizations in Canada registered under the *Income Tax Act*.

Figure 11: Number of Non-profit and Voluntary Organizations, Canada, By Primary Activity and Charitable Status, 2003



Source: Statistics Canada, *Cornerstones of Community: Highlights of the National Survey of Non-profit and Voluntary Organizations*, 2004, Tables 1.1-1.2, pp. 13-14.

The federal government provides tax assistance for charitable donations, and donations of publicly listed securities and ecologically sensitive lands to public charities receive preferential tax treatment.

A. WHAT WE HEARD

1. Charitable Giving

Witnesses — including Philanthropic Foundations Canada, the Canadian Association of Gift Planners, Imagine Canada and the Association of Fundraising Professionals — made recommendations about the capital gains tax on charitable donations. The Committee heard proposals about extending the exemption from capital gains tax to donations of other asset classes, such as real estate or

appreciated assets more generally, and to certain donations to private foundations. Witnesses argued that the preferential tax treatment that exists for donations of publicly listed securities and ecologically sensitive lands has resulted in an increased level of donations in Canada, and urged the federal government to build on that success by extending the preferential treatment to donations of real estate and to donations to private foundations.

Non-tax-related suggestions for increasing levels of charitable giving were also proposed. For example, the Association of Fundraising Professionals advocated the creation of a federal government-sponsored national philanthropy day to recognize and increase public awareness of the importance of the voluntary sector and charitable giving.

Imagine Canada proposed that the $200 threshold on individual donations be eliminated, resulting in the 29% tax credit being applied to all donations. The Committee was informed that this change would increase the incentive for Canadians to make their first $200 worth of donations, and would simplify donor tax calculations and planning by eliminating the need to pool donations with a spouse or to accumulate receipts over multiple years in order to access the higher tax credit rate.

The Multiple Sclerosis Society of Canada proposed that the requirement to mail tax receipts by first-class mail be removed, which the Committee was told would result in estimated savings of 40%. The Multiple Sclerosis Society of Canada and the Health Charities Coalition of Canada also suggested that registered charities be exempt from the requirement to issue receipts for income tax purposes when donations are less than $250. As well, the Health Charities Coalition of Canada argued that donors should be permitted to make charitable contributions for 60 days beyond the end of the calendar year for inclusion in that year's income tax return.

VON Canada and the Canadian Association of Retired Teachers argued that charitable donations, like political contributions, should be permitted to be claimed as a tax deduction rather than as a non-refundable tax credit.

The Committee learned that a lack of clarity in Canadian law has deterred the use of Charitable Remainder Trusts (CRT), which allow donors aged 65 years or older to create a trust, retain a life income and have any remaining interest go to charity upon their death; a current tax receipt for the future value of the capital in the trust is received. A number of witnesses, including the Canadian Association of Gift Planners and the Canadian Bar Association, encouraged the federal government to implement the necessary changes — legislative or otherwise — to promote donor and advisor confidence in CRTs while ensuring their proper regulation.

Proposals designed to reduce operating costs and the regulatory burden for registered charities were also presented to the Committee. The Canadian Bar

Association noted the increased complexity in the regulation of registered charities under the *Income Tax Act*, and urged the federal government to eliminate unnecessary complexities and inconsistencies.

2. The Voluntary Sector

The Committee heard that the work of volunteers and voluntary organizations throughout Canada makes a significant contribution to the Canadian economy, totaling about 7% of Canada's Gross Domestic Product in 1999. Witnesses, such as the Canadian Cancer Society, the National Children's Alliance and VON Canada, recommended that the federal government provide funding to the voluntary sector in order to support civic engagement and volunteerism in Canada.

A number of witnesses advocated the creation of a sector investment strategy for the community not-for-profit sector, which would address the sector's urgent need for capital infrastructure investment. Imagine Canada told the Committee that there is no long-term, comprehensive federal framework for investment in the voluntary sector, with resulting inconsistencies and inefficiencies both for the sector and for the government. As well, we learned that the types of investment that are urgently needed are not consistent with the current federal funding model for not-for-profit organizations. Philanthropic Foundations Canada encouraged the federal government to examine alternative financing instruments and other measures to increase public or private capital infrastructure investments in the charitable sector.

The Committee also heard other suggestions with respect to the voluntary sector. The United Way of Canada advocated greater coordination among federal departments and agencies that work with the voluntary sector. The Community Services Council Newfoundland and Labrador proposed that the federal government employ technology better in its relationships with the voluntary sector. The Sports Matter Group proposed renewed funding for the Canada Volunteerism Initiative, which was implemented in 2002 and funded for five years, while the Social Planning Council of Winnipeg and Quinte United Immigrant Services commented on the recently announced elimination of support to the Canada Volunteerism Initiative and the Canadian Policy Research Network.

Finally, the Committee learned that the federal government intends to cease its funding of International Social Service Canada, which is a not-for-profit organization that provides worldwide linkages to social service agencies and that helps to resolve individual and family issues resulting from the international movement of people. As a result, International Social Service Canada told the Committee that it will be forced to terminate its operations unless the federal government agrees to provide funding of $150,000 annually for three years.

B. WHAT WE BELIEVE

The Committee believes that charitable organizations and volunteers provide important services to Canadians, and are generously supported by the charitable giving of Canadians. We support the federal incentives that exist to encourage charitable giving by individuals and corporations, and are pleased that Canada is a nation in which individuals care for one another through their charitable and volunteer activities. These activities benefit volunteers, donors, charitable organizations and the recipients of the charitable organizations' and volunteers' activities.

Nevertheless, in the Committee's view, changes could be made to the tax treatment of charitable donations to bring about even greater levels of generosity. We believe that greater flexibility regarding the asset classes and the charitable organizations to which the preferential capital gains provision applies should exist, and that such a change would result in higher levels of charitable giving. Moreover, we feel that charitable donations should be treated in the same manner as Registered Retirement Savings Plan contributions: donations made in the first 60 days of a taxation year should be able to be claimed in the previous taxation year. Consequently, the Committee recommends that:

RECOMMENDATION 20

The federal government amend the *Income Tax Act* to eliminate, on a five-year trial basis, the capital gains tax on donations of publicly listed securities and ecologically sensitive lands to private foundations. The extent to which charitable giving to these foundations has increased should be assessed after five years, and the measure should be made permanent if suitable.

The government should also amend the *Income Tax Act* to eliminate the capital gains tax on donations of real estate and land to public charities as well as to private foundations during the five-year trial period and beyond if deemed to be appropriate.

Finally, the government should allow donors to make charitable contributions for 60 days beyond the end of the calendar year for inclusion in the previous year's income tax return.

The Committee believes that volunteers — and the hours of service they give — are important to the fabric of our nation. In some cases, such as emergency service workers, they provide essential services that otherwise would not be performed, or that would be performed by municipalities and funded by higher tax

rates. Volunteer service is, in our view, an activity that deserves recognition. From this perspective, the Committee recommends that:

RECOMMENDATION 21

The federal government study the feasibility of a tax measure that would recognize and reward the hours of volunteer activity. This study should be completed no later than 30 September 2007.

ARTS AND CULTURE, AND THEIR INFRASTRUCTURE

A region's artistic and cultural life may be an important factor in attracting and retaining employees and businesses, who may be drawn to locations with artistic and cultural amenities that enhance well-being, quality of life, diversity and prosperity.

A 2002 study published by the Canada West Foundation, entitled *Culture and Economic Competitiveness: An Emerging Role for the Arts in Canada,* identified several ways in which arts and culture can contribute to global economic competitiveness:

- urban areas with a strong arts presence tend to undergo community revitalization and urban redevelopment relatively more quickly;
- strong arts and culture tend to increase community identity and to favour demographic diversity, which help to attract and retain employees and residents;
- the arts and cultural sector generates substantial economic activity; and
- by helping to attract employees, the arts and cultural sector contributes to the development of new technology hubs and inflows of venture capital.

A. WHAT WE HEARD

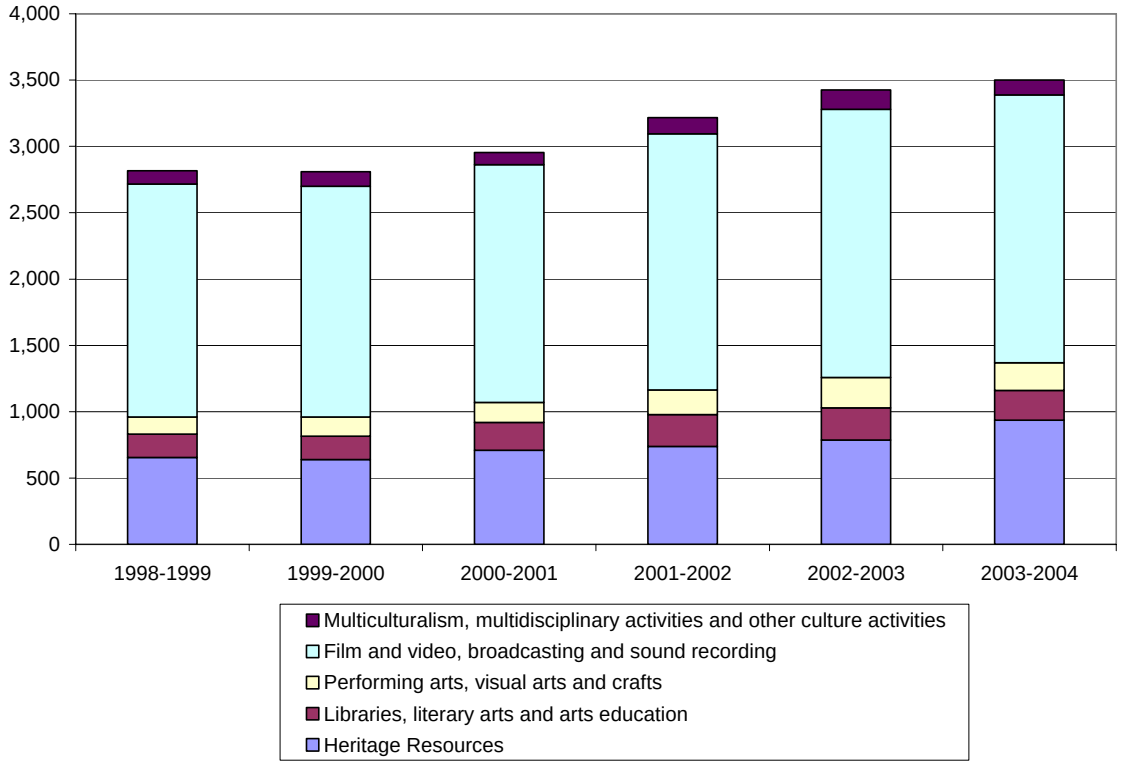
1. The Contribution to Society and the Gross Domestic Product

Witnesses told the Committee that the value of the arts and cultural sector to Canadian society, and to Canadians, is inextricably linked to enhancing our overall quality of life, including our cultural, social and economic well-being. The Association of Cultural Industries of Newfoundland and Labrador spoke about the demonstrable

benefits of public spending on culture — which may take the form of higher levels of employment, greater access to cultural products, enhanced cultural tourism, and increased Canadian pride and identity — and argued that the benefits eventually exceed the initial investment.

The Committee was informed that the arts and cultural sector's contribution to the Canadian economy is significant. The American Federation of Musicians of the United States and Canada noted that between 1996 and 2001, the arts and cultural sector's contribution to the Gross Domestic Product (GDP) was almost 4%. Furthermore, the total contribution to the arts and cultural sector by the federal government increased from $2.8 billion in 1998-1999 to $3.5 billion in 2003-2004, the latest year for which data are available. Figure 12 shows federal expenditures on cultural activities in Canada, from 1998-1999 to 2003-2004, by sector.

Figure 12: Federal Government Expenditures on Cultural Activities, Canada, By Sector, 1998-1999 to 2003-2004 (millions of dollars)



Source: Statistics Canada, CANSIM Table 505-0001.

Recommendations made by witnesses about arts and culture, and their infrastructure, tended to be of three types: development or renewal of artistic and cultural infrastructure; investment in, or incentives for, the production of artistic and cultural goods and services; and a reduced tax burden on producers and suppliers of artistic and cultural goods and services.

2. Artistic and Cultural Infrastructure

To encourage the preservation and restoration of heritage buildings, the Heritage Canada Foundation recommended that the federal government develop a tax credit or institute an accelerated capital cost allowance rate for the costs of redevelopment/restoration on the completion of a conservation project. The Committee learned that there are about 20,000 revenue-producing heritage buildings that could potentially be eligible for such a rehabilitation incentive. Furthermore, the Heritage Canada Foundation pointed out that while a tax incentive is important for revenue-producing buildings, approximately 70% of heritage buildings in Canada are owned by not-for-profit organizations, institutions and private individuals who would not be eligible for the proposed tax incentive. As a result, a federal program of direct funding to assist not-for-profit organizations, public agencies and private individuals in the stewardship of heritage buildings was advocated.

The Yukon Historical and Museums Association commented on the Commercial Properties Heritage Incentive Fund, which is now fully subscribed and has not been renewed. The Committee was told that this fund is very important for the preservation of Canadian heritage places and should be renewed.

A number of witnesses — including the Canadian Museums Association, Visual Artists Newfoundland and Labrador and the MacBride Museum — told the Committee that the Museums Assistance Program, which currently operates at 1972 funding levels, requires additional resources to address the challenges of ageing museum infrastructure. The Canadian Museums Association told the Committee about its disappointment that federal funds allocated to the Museums Assistance Program will be reduced by $4.6 million.

Witnesses, including the Ontario Museum Association, advocated the development and implementation of a new national museums policy, and recommended more predictable, long-term funding for national and community-based Canadian museums. The Town of Morden, in Manitoba, argued for increased funding for museums and heritage sites in rural Canada, suggesting that an equitable distribution between urban and rural regions must occur.

The Independent Media Arts Alliance noted that many arts groups and organizations locate in less expensive neighbourhoods in Canadian cities, seeking affordable space in vacated, formerly industrial buildings. Often, however, these neighbourhoods are revitalized and the arts groups — frequently the cause of the revitalization — are unable to afford the increases in their rent. Therefore, it was suggested that the federal government increase capital support for arts groups seeking to purchase their spaces and institute a program for guaranteeing mortgages for arts and cultural organizations. Furthermore, New Media BC urged the federal government, in collaboration with industry partners, to create a world centre for digital media to be a meeting place for digital companies.

The Committee was told that libraries have become more than a location to consult and borrow books; libraries are the most heavily used sites for public Internet access. The Community Access Program, created in 1995, has been instrumental in expanding access to the Internet in libraries across Canada and in developing the skills needed to use the Internet properly. The Canadian Library Association advocated renewal of the Community Access Program in order to ensure that individuals and communities will not lack access to the Internet and communication technologies.

According to the Canadian Association of Science Centres, at the base of an innovative society is a society with wide knowledge and significant interest in science. The Committee was informed that science centres foster an interest in science for students and allow them to develop their own relationship with science. With this concept in mind, witnesses — including Telus World of Science — Calgary and Creative Kids Museum, the Newfoundland and Labrador Science Centre and the Canadian Association of Science Centres — recommended a federal financial commitment to Canada's network of science centres, recognizing that current sources of funding for science centres are limited. Moreover, the Boîte à science told us that Québec City is the only city among the largest 20 Canadian cities that lacks a science centre. The Boîte à science requested a federal commitment of $38 million over 10 years to fund its project to build a science centre for Québec City.

The Ontario Tourism Council maintained that Canada is losing market share as a tourist destination. Furthermore, the Committee was told that investment in tourism marketing increases tourism, which in turn creates new jobs and increases tax revenues. A number of witnesses, including the Tourism Industry Association of Canada, Tourism Saskatchewan, the Hotel Association of Canada, the Tourism Industry Association of the Yukon and the Ontario Tourism Council, recommended that the federal government increase the annual funding for the Canadian Tourism Commission by $100 million.

Finally, the Canadian Conference of the Arts supported the proposed Children's Fitness Tax Credit, and noted that the proposed credit would likely capture some artistic activities, such as dance and some circus arts. Nevertheless, the Canadian Conference of the Arts and Visual Artists Newfoundland and Labrador urged the federal government to include all artistic activities in the proposed credit.

3. Artistic and Cultural Goods and Services

A number of witnesses told the Committee that funding for the Canada Council for the Arts should be increased in light of significant year-over-year increases in the number of applications from arts and cultural organizations as well as from individuals seeking funding. Such witnesses as the Canadian Arts Coalition, the Mouvement pour les arts et les lettres, Opera.ca and Orchestras Canada urged the federal government to invest an additional $100 million in new arts funding through the Canada Council for the Arts. Witnesses also stressed the importance,

for the arts and cultural sector, of a stable and predictable source of long-term funding, which could be achieved by making permanent the proposed funding increase for the Canada Council for the Arts.

The Canadian Conference of the Arts, the Visual Artists Newfoundland and Labrador, and the Canadian Independent Record Production Association supported the Tomorrow Starts Today initiative under the Department of Canadian Heritage. Witnesses, including the Literacy Press Group of Canada, suggested that funding for the program be made permanent, and an additional investment of $50 million per year for the program, with an emphasis on the Canada Music Fund, was also proposed.

The Association of Canadian Publishers told the Committee that Canadian publishers lack adequate access to financing because financial institutions are reluctant to offer credit to most publishing firms as a consequence of the nature of the industry. It was proposed that the federal government develop a federal loan guarantee program for the publishing industry, in consultation with major financial institutions and industry associations.

The Committee was told that, since 1998, there have been about 365 independent bookstore closures in Canada. We heard that independent bookstores are important for Canadian writers, since they tend to order a higher percentage of Canadian literary titles and a wider diversity of Canadian-authored titles than bookstores from major commercial chains. In order to ensure that Canadian booksellers remain competitive, the Canadian Booksellers Association and the Association of Canadian Publishers requested continued funding for the Book Publishing Industry Development Program. The Canadian Printing Industries Association commented that some publishers receive funding under this program but have their books printed outside of Canada; consequently, it was suggested that recipients of subsidies provided to publishers be required to manufacture all components of the resulting books in Canada.

According to Magazines Canada, Canada Post intends to withdraw its $15 million financial contribution to the Publications Assistance Program, which the Committee was told would result in a 31% increase in postage costs for an average magazine. The Committee was urged to recommend that Canada Post's financial contribution be maintained until a proper review is conducted.

The Committee learned that a number of festivals and other events are experiencing financial difficulty, in part because of the elimination of tobacco advertising and the sponsorship program. The economic impact of festivals in Canada is substantial in terms of benefits to communities from tourism and taxes, and the Canadian Festivals Coalition recommended that the federal government create a development program for Canadian festivals with annual funding of $50 million; the program would be governed by eligibility criteria based on the number of years of existence, the proportion of government funding in relation to the total budget, the duration of programming and anticipated tourist attendance.

A number of witnesses — including the Writers Guild of Canada, the Alliance of Canadian Cinema, Television and Radio Artists and the Directors Guild of Canada — recommended either sustained or increased funding for the Canadian Television Fund (CTF), with some witnesses seeking — at a minimum — a permanent extension of the current funding level of $100 million per year indexed for inflation and others seeking a sustained increase of $95 million.

Regarding Telefilm Canada, witnesses recommended that funding levels remain at least stable at $230 million annually for a five-year period, indexed for inflation. As well, the Writers Guild of Canada urged the federal government to increase funding to the Canadian Feature Film Fund and the Canadian New Media Fund, both administered by Telefilm Canada. The former fund helps to develop and promote Canadian feature films, while the latter fund contributes to the development, production, marketing and distribution of interactive or online Canadian cultural new media works.

A number of the Committee's witnesses, including the Writers Guild of Canada, the Directors Guild of Canada and the Friends of Canadian Broadcasting, recommended increased federal support for the Canadian Broadcasting Corporation (CBC), noting that the organization's funding was reduced by $400 million, or approximately 33%, between 1993 and 1997. Although funding for the CBC has been increasing in recent years, witnesses argued that the increases have been insufficient to restore the level of funding that was provided in the early 1990s. In addition, the Friends of Canadian Broadcasting requested that resources be deployed across the country rather than concentrated in the CBC's Montréal and Toronto operations.

Witnesses also made recommendations about tax incentives available to the arts and cultural sector. A number of witnesses recommended that the rate of the Canadian Film or Video Production Tax Credit be increased from the current level of 25% to 30%, and that the Film or Video Production Services Tax Credit be broadened to cover all expenditures on Canadian goods and services, rather than labour costs alone. The Alliance of Canadian Cinema, Television and Radio Artists also suggested the development of a new labour tax credit for film development in order to encourage producers to hire Canadian writers, directors and other creative professionals.

The Committee heard that arts and cultural organizations, although fully supportive of accountability measures, find it increasingly difficult to deal with support the administrative burden placed on the recipients of federal funding. We were informed that staff and board members in these organizations — often volunteers — have difficulty finding the resources needed to fulfill their primary role, which is to produce plays, orchestra and ballet series, festivals, and media and visual arts exhibitions. In their view, an inordinate amount of time is taken from their primary role in order to meet administrative requirements to access funding.

Consequently, the Canadian Conference of the Arts, the Canadian Independent Record Production Association and RIDEAU recommended that the federal government address their concerns about an excessive administrative burden.

The Northern Native Broadcasting, Yukon, spoke about Aboriginal broadcasting, and urged the federal government to recognize Aboriginal contributions to Canadian public broadcasting. The Committee heard that core funding for the Northern Native Broadcasting, Yukon, has not kept pace with inflation, and that there is no funding available for the upgrading of transmission and production equipment.

Odyssey Showcase asked the federal government to contribute financially to the presentation of a bilingual production called *A Musical Taste of Our Canadian Heritage/Notre Héritage Canadien, Une Odyssée Musicale*, which would be presented permanently in Ottawa at the National Arts Centre. This production would also be presented in Montréal for 10 shows and in Vancouver for the 2010 Winter Olympics.

4. Artistic and Cultural Producers

The Committee heard that many Canadians, particularly those working in the arts and cultural sector, are self-employed and combine multiple sources of income in order to meet their financial needs. Witnesses, including the Union des artistes, argued that self-employed cultural performers need fiscal measures tailored to their particular circumstances. We were told that the social and economic situation of performing artists has stagnated in the last 20 years, and remains inferior to that of many other occupations.

A number of witnesses, including the Alliance of Canadian Cinema, Television and Radio Artists, the Writers' Union of Canada, the Canadian Conference of the Arts and the Union des artistes, shared their concerns about the personal taxation of artists. Witnesses — including the Writers' Union of Canada — recommended that the federal government implement a system of income averaging as a means of providing, in their view, fair and equitable tax treatment for self-employed Canadians in the arts and cultural sector whose incomes tend to fluctuate from year to year.

Witnesses — including Visual Artists Newfoundland and Labrador, the Independent Media Arts Alliance and the Canadian Actors' Equity Association — also urged the federal government to provide a tax exemption for income derived from copyright, neighbouring rights and/or other income derived from the sale of any creative work. Some witnesses suggested that this tax exemption be limited to annual copyright income of $30,000, while others suggested a limit of $60,000 and a further tax exemption for subsistence grants awarded to artists by the Canada Council for the Arts.

The need for training for the cultural workforce was also mentioned. The Committee was told that ensuring that artists and cultural workers are properly trained is vital in order for Canada's cultural industries to remain competitive in global markets. The Cultural Human Resources Council requested that the federal government continue its ongoing support for it, while the Canadian Independent Record Production Association proposed a federal investment of $10 million annually for national arts organizations to support professional development seminars and workshops across Canada.

B. WHAT WE BELIEVE

The Committee believes that Canada's arts and cultural sector contributes to our productivity, to our national prosperity and to our competitiveness in a number of important ways. The sector itself contributes to our Gross Domestic Product, and a vibrant arts and cultural sector fosters a sense of community and enhances our social and economic well-being as a nation. Moreover, we feel that a country that supports its arts and cultural sector may be viewed as a desirable location in which to undertake business investment and to which to emigrate.

The Committee feels that there is a need for increased federal support of the arts and cultural sector — broadly defined to include the symphony, live theatre, opera, books, magazines, television, movies, radio, museums, science centres, aquariums, zoos, fairs and exhibitions, among other activities that occupy the leisure time of Canadians — and believes that support should be predictable, stable and long term. Moreover, in our view, the arts and cultural sector requires infrastructure and other investments. Given the breadth of undertakings in the sector, we also feel that there is a need for ongoing dialogue among all sector participants.

In the Committee's opinion, the existence of a healthy arts and cultural sector adds value to the lives of Canadians and to the international community. We also believe that a higher quality of life leads to higher productivity growth and improved competitiveness. It is from this perspective that the Committee recommends that:

RECOMMENDATION 22

The federal government increase funds allocated to the arts and cultural sector. In particular, funding increases should be considered for the Canada Council for the Arts, the Canadian Broadcasting Corporation, the Canadian Television Fund and Telefilm Canada. Funding for the Canada Council for the Arts should reach $300 million over two years.

The government should also increase the funds allocated to the federal regional development agencies and to projects

for Canada's northern territories in order that they have the resources to finance, to a greater degree, the infrastructure and growth needs of such entities as zoos, aquariums, fairs, exhibitions and festivals. The amount of the increased funding and the manner in which it will be allocated should be announced no later than 30 April 2007.

Finally, the government should identify ways in which the current federal tax and spending initiatives supporting the arts and cultural sector could be simplified and better coordinated, as well as develop a plan for the long-term financial sustainability of the sector.

Finally, the Committee believes that we have a moral responsibility to preserve and restore our heritage buildings for future generations. In some sense, we are the temporary stewards of these buildings, and must safeguard them for the enjoyment and benefit of our children and our children's children. Consequently, the Committee recommends that:

RECOMMENDATION 23

The federal government review the range of federal measures and programs that support and encourage the preservation and restoration of heritage buildings.

The review, which should be completed no later than 30 April 2007, should focus on the eligibility of not-for-profit organizations, public agencies and private individuals for the measures and programs.

CHAPTER FOUR: COMPETITIVE BUSINESSES

In Chapters Two and Three, the focus is two important aspects of competitiveness: the competitiveness of our people and the competitiveness of the communities in which our people live and our businesses operate. While the people and communities of a country are important influences on the extent to which countries can compete successfully in today's increasingly global and competitive environment, the role played by businesses — and the extent to which they contribute to competitiveness — must also be considered.

In a capitalistic economy such as ours, economic growth and a rising standard of living depend on the ability of businesses to transform — effectively and efficiently — scarce resources into the goods and services desired by consumers. If Canadians are to continue to have a high standard of living, a good quality of life and the government programs they desire, the competitiveness of Canadian businesses must — at a minimum — be maintained, and ideally enhanced.

As noted in Chapter One, the World Economic Forum's *Global Competitiveness Report 2006-2007* indicated that Canada's overall position has declined since 2005. On the World Economic Forum's Business Competitiveness Index in particular, Canada's ranking fell from 13th in 2005 to 15th in 2006. This relatively low ranking, when considered alongside the growing importance of emerging economies and increased international competition, highlights the need for Canadian businesses to be as competitive as possible. Some believe that businesses should move away from competing on the basis of endowments or comparative advantages — that is, low-cost labour or natural resources — to competing on the basis of superior or distinctive products and processes. Certainly, Canadian businesses should consider this shift in emphasis.

In the same way that governments have an important role to play in ensuring that our people and our communities are competitive, they can help to ensure a business environment that facilitates competitiveness. They should both provide the right incentives and remove any barriers that impede the ability of businesses to be competitive. In particular, governments should provide businesses with a competitive taxation system, programs and other measures that promote research and innovation, and a regulatory environment that is not burdensome.

CORPORATE TAXATION

Corporate taxation affects the after-tax rate of return on an investment, and differences among countries in the nature and level of corporate taxation can influence the location of new business investment as well as the incentive to invest.

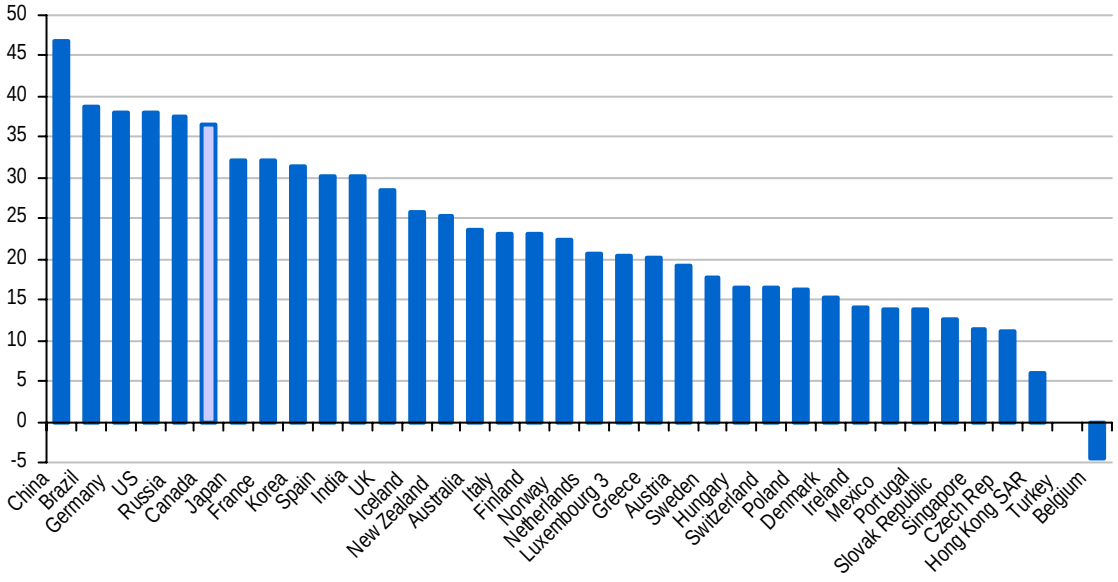
As a result, many countries have reduced their corporate taxes in order to attract foreign direct investment that is increasingly mobile.

A. WHAT WE HEARD

1. Effective Tax Rate on Capital

Witnesses told the Committee that corporate taxation in Canada must be competitive with other countries for the benefit of domestic businesses and in order to attract foreign direct investment. A number of witnesses — including the Business Tax Reform Coalition, the Canadian Association of Petroleum Producers, the Canadian Bankers Association, the Canadian Chemical Producers' Association, Canadian Manufacturers & Exporters and Caisses Desjardins Group — referred to a C.D. Howe Institute report that ranked 36 countries according to their effective tax rate on capital, which is the amount of corporate income and other capital-related taxes paid by a business as a percentage of the pre-tax rate of return on capital. According to the C.D. Howe Institute's *The 2006 Tax Competitiveness Report: Proposals for Pro-Growth Tax Reform*, in 2006 Canada has the sixth highest effective tax rate on capital among 36 industrial and leading developing countries, as shown in Figure 13.

Figure 13: Effective Tax Rate on Capital, Selected Industrial and Leading Developing Countries, 2006 (percentage)



Source: C.D. Howe Institute, *The 2006 Tax Competitiveness Report: Proposals for Pro-Growth Tax Reform*, September 2006.

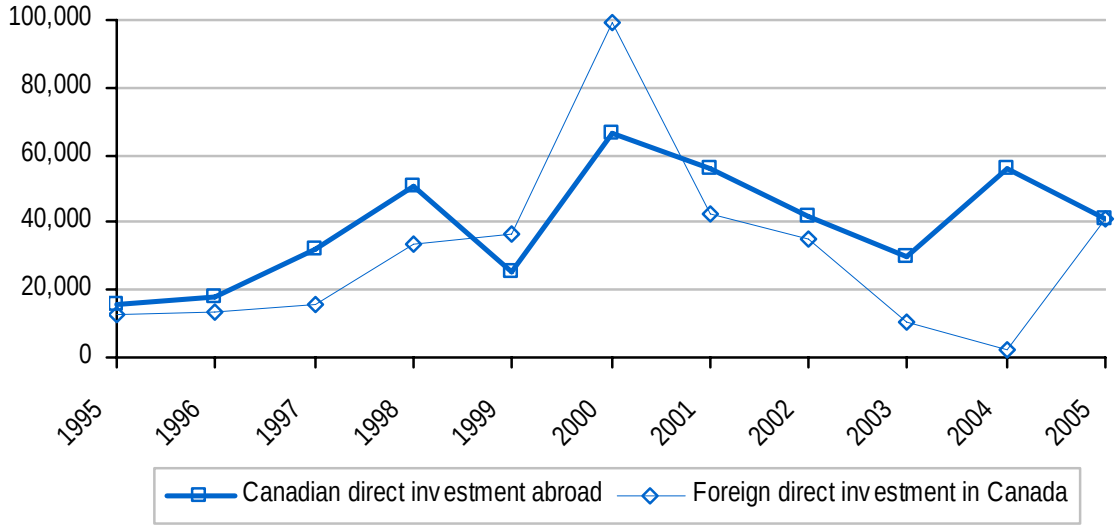
While our ranking has improved since 2005, when Canada had the second highest effective tax rate on capital, many witnesses argued that the federal government should take action in order to provide a more competitive fiscal framework for businesses operating in Canada. Witnesses told the Committee that the effective tax rate on capital has important implications for our country, especially

since Canada is an open economy that relies heavily on international trade and global capital markets.

Caisses Desjardins Group noted that high effective tax rates on capital limit the number of economically viable investments, since higher rates of return are needed in order for a project to be undertaken. Less investment in new equipment and technology may, in turn, result in lower productivity growth. Furthermore, the Canadian tax base may be eroded as corporations shift their capital and profits from jurisdictions with relatively high taxes to those with relatively low taxes.

Other witnesses, including the Canadian Chamber of Commerce, argued that high effective tax rates can reduce the level of foreign direct investment (FDI) that a country is able to attract, and may limit the job creation often associated with FDI. According to Canadian Manufacturers & Exporters, Canada accounted for approximately 25% of all foreign direct investment coming into North America in 1990; today, this share has fallen to less than 10%. Such witnesses as the Business Tax Reform Coalition told the Committee that Canada is a net exporter of FDI. As illustrated in Figure 14, since 2001, Canadians have invested more abroad than foreigners have in Canada.

Figure 14: Net Flow of Foreign Direct Investment in Canada and Canadian Direct Investment Abroad, 1995 to 2005 (millions of dollars)



Source: Statistics Canada Table 376-0015.

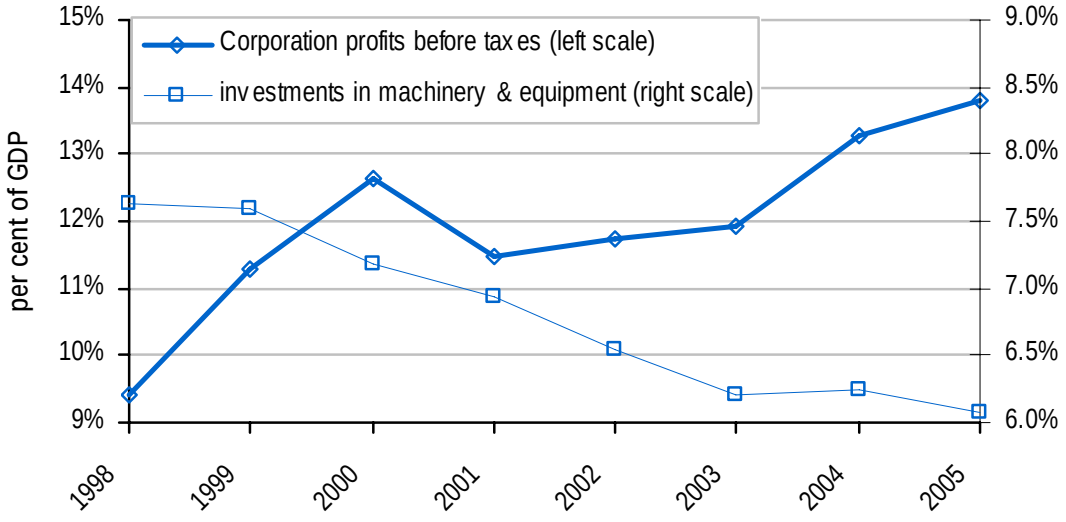
The Canadian Chemical Producers' Association commented that Canada must restore its attractiveness to foreign investors. The Committee was told by the Canadian Chemical Producers' Association, the Canadian Institute of Chartered Accountants and the Saskatchewan Chamber of Commerce that Canada could follow the example of Ireland, which significantly reduced its corporate taxes and, as a consequence, attracted relatively large amounts of FDI; the result was high rates of economic growth. The Manitoba Chambers of Commerce noted that Ireland also

relied on what has been described as a genuine and enlightened partnership among government, business and labour.

Not all witnesses agreed, however, that lower corporate tax rates necessarily result in increased competitiveness. The Canadian Centre for Policy Alternatives told the Committee that a number of non-fiscal factors — such as the availability of a skilled workforce, proximity to markets and transportation availability — also influence decisions about where to locate, and that Canada already performs relatively well in terms of international competitiveness.

The Canadian Centre for Policy Alternatives, and such other witnesses as the Confédération des syndicats nationaux and the Canadian Labour Congress, also argued that corporate tax reductions do not necessarily result in enhanced business investment. As an example, the Committee was told that the recent corporate tax reductions in Canada did not lead to higher business capital investment. As Figure 15 illustrates, corporate tax reductions since 1999 coincide with record levels of corporate profits and declining business investment in buildings, machinery and equipment as a share of Gross Domestic Product (GDP) between 1999 and 2005.

Figure 15: Corporate Profits and Investment in Machinery & Equipment as a Share of Gross Domestic Product, Canada, 1999-2005



Source: Statistics Canada and computations by the Library of Parliament.

The Canadian Labour Congress advocated targeted incentives in the form of direct grants or temporary investment tax credits to encourage new investments, particularly in the manufacturing sector, while the United Steelworkers suggested that the federal government focus on tax measures which favour those industries that provide well-paid jobs and that are facing international competition, rather than on broadly based corporate tax reductions. Witnesses also noted that corporate tax

reductions erode the federal tax base, which affects the extent to which the federal government is able to invest in programs that enhance competitiveness.

A number of witnesses, such as First Call: BC Child and Youth Advocacy Coalition and the Social Planning Council of Winnipeg, noted that Scandinavian countries attain high rankings in the World Economic Forum's *Global Competitiveness Report* even though, overall, they have relatively high levels of taxation and spending. These countries, however, distinguish between capital income and non-capital income for taxation purposes, and tax capital income at a lower rate.

2. Corporate Income Tax Rates

A number of witnesses advocated further reductions in the corporate income tax rate as well as in the tax rate applied to qualifying small business income, believing that such changes would enhance Canada's competitiveness. Some witnesses told the Committee that they support the reductions in the general corporate income tax rate announced in May 2006, but many — including the Canadian Council of Chief Executives, the Canadian Federation of Independent Business, the Canadian Electricity Association, the Canadian Hardware & Housewares Manufacturers Association, the Canadian Retail Building Supply Council, the Canadian Printing Industries Association, the Greater Kitchener Waterloo Chamber of Commerce, the Canadian Bankers Association, the Toronto Board of Trade and the Toronto Financial Services Alliance — requested that the corporate income tax rate reduction be expedited.

Such witnesses as the British Columbia Chamber of Commerce, the Canadian Plastics Industry Association, the Canadian Vehicle Manufacturers' Association and Canadian Manufacturers & Exporters requested further reductions in the corporate income tax rate, with suggestions ranging from a rate of 15% to a rate of 17%. A number of witnesses also urged the immediate elimination of the corporate surtax.

The Canadian Labour Congress indicated its opposition to the corporate income tax reductions announced in May 2006, suggesting that many of the benefits of these changes would accrue to the shareholders and executives of certain sectors rather than support new investments in the industries that are most in need of assistance.

The proposed reduction in the small business income tax rate was also mentioned by witnesses. The Canadian Construction Association and the St. John's Board of Trade, among others, argued for further reductions in the small business income tax rate. The Canadian Automobile Dealers Association told the Committee that the current small business income tax rate, which is phased out on a straight-line basis for companies having between $10 million and $15 million of taxable capital employed in Canada, is unfair to capital-intensive industries. Consequently, a

proposal for a reduced income tax rate for all privately owned businesses with revenue less than $50 million was presented to the Committee.

With the $300,000 limit on qualified business income that can be taxed at the small business tax rate proposed to increase to $400,000 as of 1 January 2007, the Certified Management Accountants of Canada advocated an additional increase of $100,000 in the limit on qualified business income that can be taxed at that rate.

3. Capital Taxes

A number of witnesses, including the Canadian Bankers Association, told the Committee that the federal government should encourage the elimination of provincial capital taxes as part of federal-provincial negotiations. Furthermore, the Canadian Life and Health Insurance Association, the Toronto Financial Services Alliance, the Canadian Council of Chief Executives and the Canadian Bankers Association urged the government to reduce or eliminate the capital tax on financial institutions, which was originally introduced in 1986 as a temporary measure to help reduce the federal budgetary deficit.

4. Capital Cost Allowance Rates

Witnesses expressed a variety of concerns about the federal government's capital cost allowance (CCA) rate structure, which allows the cost of business-related assets to be deducted from income over a prescribed number of years. Canadian legislation currently sets out more than 40 classes of assets and their associated CCA rates, which are expressed in percentage terms.

According to such witnesses as the Canadian Chamber of Commerce, if corporations are permitted to write off an investment more quickly, they are more likely to invest in productivity-enhancing assets. Witnesses argued that it is essential that CCA rates reflect the true economic life of assets if Canada's businesses are to remain competitive.

Nevertheless, some witnesses also indicated to the Committee that, in certain instances, a CCA rate that reflects the economic life of the asset is inadequate: some assets should be depreciated at an accelerated rate in order to stimulate investment. Many witnesses focused, in particular, on the CCA rates that they believe should apply to investments in productive technologies, which have significant implications for the productivity and competitiveness of Canadian businesses.

The Business Tax Reform Coalition and the Canadian Chemical Producers' Association argued for a straight-line two-year CCA rate for productive technologies. The Canadian Federation of Independent Business proposed that businesses be allowed to expense (that is, a 100% CCA rate) up to $100,000 in technology costs in the year of purchase.

A number of witnesses, including the Canadian Council of Chief Executives, the Business Tax Reform Coalition and Canadian Manufacturers & Exporters, highlighted the need for accelerated CCA rates for the manufacturing sector in order to encourage productivity-enhancing investments in the sector, which is facing rising input costs, a relatively high Canadian dollar and intense competition from emerging markets. The Canadian Plastics Industry Association, for example, advocated a two-year CCA rate for investments in new manufacturing capital expenditures, while the Canadian Vehicle Manufacturers' Association and J.D. Irving, Limited supported a 50% straight-line CCA rate for manufacturing and processing equipment.

Witnesses also commented on the available-for-use rule in accordance with which assets can be depreciated for tax purposes only when they become available for use and not necessarily in the year in which they are purchased. Canadian Manufacturers & Exporters and J.D. Irving, Limited, among others, argued that eliminating this rule would encourage investment in large capital projects that require significant expenditures over prolonged periods but that do not generate income in the short term. Furthermore, J.D. Irving, Limited also stated that the half-year rule — which is an *Income Tax Act* provision that limits, to one-half, the normal CCA rate that can generally be claimed during the first year that an asset is acquired or first used — should be eliminated in order to reduce risk and improve the return on large capital investments.

A number of witnesses proposed enhanced CCA rates for environmentally friendly investments. The Union des producteurs agricoles argued that investments in farm assets that would have beneficial environmental impacts should have a CCA rate of 40%. The Canadian Trucking Alliance advocated the establishment of accelerated CCA rates for the acquisition of near-zero emission trucks, with a sunset clause to encourage the rapid introduction of the technology. The Forest Products Association of Canada suggested to the Committee that accelerated CCA rates to encourage investment in biomass cogeneration technologies and investment targeted at emissions reductions be implemented.

Moreover, the Canadian Electricity Association argued that "Smart Meters" — which allow customers to see, and react to, the higher prices typically incurred during peak hours of consumption — and related Advanced Metering Infrastructure (AMI) equipment should have a CCA rate of 45% for communication software, firmware and related information technology components, and a CCA rate of 12% for hardware. A CCA rate of 12% for new electricity transmission and distribution assets was also proposed. Furthermore, Direct Energy suggested a new CCA class for investment in demand-side management systems which help retail customers reduce their energy consumption.

Such witnesses as the Pembina Institute and the Green Budget Coalition advocated a reduction in the 100% CCA rate that is currently available to oil sands projects so that it would be consistent with the CCA rate for conventional oil and gas projects. The accelerated CCA rate for oil sands projects was established in order to

encourage capital investment at a time when oil prices were low; since technological knowledge related to the oil sands has increased and the current high price of oil provides an incentive to invest in oil sands projects, the Committee was told that the federal government should remove this accelerated CCA rate. The Pembina Institute proposed that the federal fiscal savings resulting from the elimination of the accelerated CCA rate be allocated to investment in renewable energy and energy efficiency.

The Canadian Printing Industries Association argued that CCA rates for the printing industry should be adjusted to enable businesses to depreciate equipment at a rate similar to their U.S. competitors. The Railway Association of Canada and the Canadian Association of Railway Suppliers also informed the Committee that Canadian railways and leasing companies are at a relative disadvantage when compared to their U.S. counterparts.

The Credit Union Central of Canada told the Committee that, in order to align better the tax treatment of revenues from the leasing of grain bins and the CCA rate that can be claimed on the purchase of them, grain bins should be included in at least Class 10, which has a CCA rate of 30%. The Canada West Equipment Dealers Association proposed an acceleration in the CCA rate to 40% for all investments in new agricultural equipment, and the Association of Equipment Manufacturers also argued for an accelerated CCA schedule for the agricultural sector — as well as for the forestry, mining, construction and utility sectors — to allow full depreciation over three years for investment in new equipment.

The Canadian Federation of Independent Business suggested that businesses be allowed to expense the first $75,000 in annual business capital costs, while the Retail Council of Canada proposed that retailers be permitted to write off fully the investment they make in computers, peripheral equipment and software in the year in which they are purchased. La Chambre de commerce de Québec proposed that small and medium-sized enterprises with fewer than 100 employees be able to deduct 100% of their investment in equipment, machinery and production-related computer equipment.

Finally, the Canadian Gas Association recommended an increase in the CCA rate for natural gas distribution pipelines to 8%, and the Canadian Home Builders' Association argued for the deductibility of land carrying costs (that is, the cost of maintaining inventories, such as interest payments) as expenses.

5. Excise Taxes and Duties

Excise taxes and duties include the Goods and Services Tax (GST), energy taxes (such as the excise tax on gasoline), customs import duties, and other excise taxes and duties (such as the Air Travellers Security Charge). Witnesses presented proposals to the Committee in a number of these areas.

Such witnesses as the Canadian Federation of Independent Business, the Canadian Vintners Association, the Nova Scotia Home Builders Association, the Canadian Restaurant and Foodservices Association and the Retail Council of Canada supported the proposed reduction in the GST rate to 5%, but some witnesses noted that the federal fiscal cost of this measure may affect other fiscal decisions taken by the government. The Canadian Hardware & Housewares Manufacturers Association suggested that the proposed reduction in the GST rate not occur at the expense of other tax reductions, such as changes to personal income taxes.

A number of witnesses commented that the recent rise in oil prices, coupled with the federal excise tax on fuel, has hampered the competitiveness of their industry. For example, Air Canada, WestJet, the Air Transport Association of Canada, the International Air Transport Association, the Air Transport Association of America, and the Tourism Industry Association of the Yukon advocated the removal of the excise tax on aviation fuel. The Canadian Federation of Independent Business argued for a 1.5 cents per litre reduction in the excise tax on gasoline as well as a change that would allow the GST to be charged only on the basic price of oil and not on the federal excise tax and provincial tax.

The 2006 federal budget increased the excise duties on tobacco and alcohol in order to leave the after-tax retail price of such goods unchanged as a consequence of the one percentage point reduction in the GST rate. The Brewers Association of Canada noted its concern with the increase in the excise duties on tobacco and alcohol that occurred when the GST rate was reduced to 6%. While the duties were increased to keep the after-tax retail price of these goods unchanged, the consequences have been pressure on an industry experiencing stagnant growth and unfair treatment of the lower-priced value product segments of the tobacco and alcohol markets, since the excise tax is imposed on the basis of volume rather than price.

Furthermore, Spirits Canada/Association of Canadian Distillers told the Committee that the current federal excise duty structure undermines the competitiveness of the Canadian beverage alcohol market because of non-standardized units of measurement and rate complexity, among other things. Consequently, the imposition of beverage alcohol excise duties based on the level of alcohol, rather than on the manufacturing process, was advocated. Moreover, the Canadian Vintners Association urged a reduction in the federal excise duty on wine to 56.2 cents per litre.

The Canadian Cancer Society and the Chronic Disease Prevention Alliance of Canada suggested that federal tobacco taxes increase by, for example, $10 for each carton of 200 cigarettes and that similar levels of taxation be imposed on roll-your-own tobacco and tobacco sticks as on cigarettes.

The Canadian Real Estate Association and the Canadian Home Builders' Association informed the Committee that the price thresholds associated with the GST rebate on the sale of new homes have not been adjusted since the GST was introduced in 1991. Consequently, it was suggested that the price thresholds be indexed to inflation. The Canadian Real Estate Association also argued that the requirements which must be met in order to be considered a “substantial renovation” under the *Excise Tax Act* should be amended to include renovations for the creation of secondary suites.

The Committee was informed, by the Canadian Automobile Dealers Association, that if an automobile dealer purchases a used car from an individual, the GST is applied; however, if the individual sells the car to another individual, no GST is applied. To correct this perceived inequity, we were presented with three options: eliminate the GST on the sale of all used vehicles; apply the GST to the sale of all used vehicles; or restore the system of a notional input tax credit to dealers.

A number of witnesses, such as the Manitoba Hotel Association, the Ontario Tourism Council and the Tourism Industry Association of the Yukon, commented on the federal announcement that the Goods and Services Tax/Harmonized Sales Tax Visitor Rebate Program would be eliminated. The federal government was urged to reverse its decision because of the anticipated negative consequences for visitors to Canada.

The Canadian Health Food Association and the Direct Sellers Association suggested that natural health products not have the GST applied to them. The Canadian Health Food Association told the Committee that the benefit of this measure would exceed the loss in tax revenues once savings in health care costs are considered. Regarding natural health products, the need for the Natural Health Products Directorate of Health Canada to receive adequate and sustained funding to fulfill its mandate was also identified.

The Canadian Electricity Association informed the Committee that wind energy project developers are required to pay the GST on land-lease payments to GST-registered landowners, which is believed to be inequitable when compared to the treatment of developers of other natural resources. A proposed amendment to the *Excise Tax Act* to provide GST relief for wind energy project developers on payments for rights to use wind resources was presented to us.

The Toronto District School Board argued that the GST rebate for school boards should be increased to 100%, which would provide financial assistance to schools and reduce the administrative burden associated with the current system of monthly rebates. It was also argued that the issue is one of fairness since municipalities, among others, already receive a 100% rebate for the GST paid on their purchases. The Face of Poverty Consultation proposed the removal of the

GST on the Nova Scotia portion of the Harmonized Sales Tax (HST) on family necessities, such as children's clothing and basic utilities.

The Committee was told, by the Canadian Association of Research Libraries, that university libraries receive a full rebate on the GST paid on printed books as well as on subscriptions to magazines and periodicals containing advertising under a certain threshold. Since much scholarly research material is now delivered in electronic format, it was suggested that section 259.1 of the *Excise Tax Act* be amended to permit scholarly materials in electronic format to qualify for the full rebate.

The Direct Sellers Association proposed that the Direct Sellers Mechanism, which allows the pre-collection of GST/HST by the direct selling companies and hence removes the need to be GST/HST registered, also be available to independent sales contractors who operate on a sales agent basis.

The Association of Canadian Airport Duty-Free Operators informed the Committee that the duty-free industry has faced a number of challenges in recent years, including the war on Iraq and the forthcoming documentary requirements to enter the U.S. associated with the Western Hemisphere Travel Initiative. Consequently, an increase in the 24- and 48-hour duty-free allowance to $250 and $500 respectively, as well as the introduction of a dual quantitative limit on spirit and wine/beer, were advocated.

A number of witnesses, including the Hotel Association of Canada and the Tourism Industry Association of Canada, urged a reduction in, or elimination of, the Air Travellers Security Charge. According to witnesses, this charge has generated more revenue for the federal government than has been spent on the delivery of airport security services.

Finally, the Indian Taxation Advisory Board argued for measures that would increase First Nations' revenues, such as expanding the First Nations GST to more reserves. The Makivik Corporation and Kativik Regional Government suggested that the GST credit consider the high cost of living for residents of northern Canada compared to other Canadians.

6. Capital Gains and Dividend Taxation

The Canadian Federation of Independent Business informed the Committee that the limit on the lifetime capital gains exemption, which is $500,000, has not changed since 1985 and has lost value in real terms. Consequently, an increase in the limit to $1 million in increments of $100,000 over five years was advocated.

Moreover, a number of witnesses, including the Canadian Automobile Dealers Association, La Chambre de commerce de Québec and l'Association des Propriétaires de Québec Inc., argued that a business owner should be permitted to

defer capital gains taxes associated with the transfer of their business to their child, which is already permitted for farmers under certain conditions. The Canadian Automobile Dealers Association also argued that such business transfers should be eligible for a lifetime capital gains exemption of $5 million.

The Union des producteurs agricoles also spoke about the capital gains deduction in the context of the transfer of farm businesses that remain in operation, and recommended that the limit on this capital gains deduction be raised to $1 million.

A number of witnesses, including the Canadian Home Builders' Association, the Vancouver Board of Trade and the Investment Funds Institute of Canada, argued that an investor should be able to defer capital gains taxes on the sale of an asset provided the proceeds are reinvested within a limited timeframe. The Toronto Real Estate Board and the Real Property Association of Canada made a similar recommendation for investment properties in particular. Moreover, Canada's Venture Capital & Private Equity Association proposed that Canadian shareholders be able to defer capital gains when cross-border mergers occur.

Some witnesses, including the Canadian Association of Petroleum Producers and the Canadian Bankers Association, supported the reduction in the tax rate applied to dividends of large corporations, and urged the federal government to take a leadership role in encouraging the provinces to introduce similar measures.

Finally, a number of witnesses expressed concern with the income trust structure. The National Pensioners and Senior Citizens Federation, for example, argued that the distributions of income trusts are inaccurately measured, and urged the federal government to ensure that the distribution of capital is clearly differentiated from the distribution of income.

7. Withholding Taxes

Some witnesses, including the Canadian Chemical Producers' Association, informed the Committee that Canada is now a net exporter of foreign direct investment, and that capital investment per worker in Canada is lower than in the United States, China and a number of other Organisation for Economic Co-operation and Development countries.

In terms of attracting foreign investment into Canada, witnesses highlighted the importance of a competitive tax system and spoke about withholding taxes imposed on investment income flowing to foreign resident investors. A C.D. Howe Institute study that suggested a strong link between increased foreign direct investment and the elimination of withholding taxes on interest and dividends for both related and unrelated parties was mentioned by witnesses. The Institute's study concluded that the elimination of withholding taxes on interest and dividends

would result in increased capital investment in Canada of approximately $28 billion, and an increase in the income of Canadians of more than $7.5 billion annually.

The Tax Executives Institute, Inc. advocated the expeditious negotiation and implementation of a provision in the Income Tax Convention with the United States that would eliminate withholding taxes on interest and dividends for both related and unrelated parties. The Committee heard that the United States has recently negotiated similar agreements with other trading partners, including the United Kingdom, Japan, Mexico, Australia and the Netherlands.

Other witnesses — including the Canadian Chamber of Commerce, the Manitoba Chambers of Commerce, the Canadian Institute of Chartered Accountants and the Canadian Bankers Association — presented a somewhat narrower proposal, and maintained that withholding taxes on interest payments between investors in Canada and the United States should be eliminated through treaty negotiations or that, at a minimum, withholding taxes imposed by Canada on arm's-length interest payments should be completely eliminated through changes to the *Income Tax Act*. Currently, the United States generally exempts, from withholding taxes, interest income from arm's-length portfolio investment — passive investment in foreign debt securities of an unrelated party — while Canada does the same only for certain long-term investments. Witnesses argued that the elimination of withholding taxes would greatly improve Canadian companies' ability to attract foreign capital and to compete effectively with other jurisdictions.

8. Other Tax Issues

The Canadian Association of Mutual Insurance Companies told the Committee that foreign-owned property and casualty insurance companies doing business in Canada often benefit from tax provisions in other countries that allow them to set aside tax-free reserves to meet their obligations in cases of catastrophes. Consequently, it was suggested that catastrophe reserves be established in Canada, free from income tax and similar to the catastrophe reserves found in many European countries, in order to provide the Canadian mutual insurance industry with the opportunity to compete with foreign competitors on a level playing field.

The Direct Sellers Association argued that such programs as Employment Insurance should be changed in order to minimize the clawback on benefits received when income increases, a measure that the Committee was told would encourage people who benefit from such programs to earn extra income by establishing their own direct selling business.

Canada's Venture Capital & Private Equity Association informed the Committee that the limited liability corporation structure is the most common form of corporate organization among U.S.-based private investment firms but that its flow-through character has not been recognized by Canadian tax authorities; consequently, many U.S. investors avoid the Canadian market. It was

recommended that Canadian-based fund managers be permitted to file the necessary tax return on behalf of all of their foreign investors collectively, where no taxes are payable, because many very large pools of international capital are prohibited from investing in jurisdictions which impose a requirement to file a tax return.

The Horse Racing Alliance of Canada told the Committee that the Canadian horse racing industry is unfairly treated by the *Income Tax Act,* which weakens its competitive position with respect to other Canadian sport and entertainment industries as well as its U.S. counterpart. While losses that are incurred while operating a business generally are fully deductible against other sources of income if it can be shown that there is a reasonable expectation that the business will generate a profit, section 31 of the *Income Tax Act* restricts the ability of part-time farmers — that is, taxpayers for whom the income derived from their farming business, including the maintaining of horses for racing, does not constitute their main source of income — to deduct all of their losses against other income. With the restriction imposed by section 31, race horse breeders can deduct a maximum loss of $8,750 against income from other sources in any given year. It was suggested that the *Income Tax Act* be amended to remove taxpayers engaged in the breeding and maintaining of horses for racing from the application of section 31.

Regarding the deductibility of losses, the Union des producteurs agricoles told the Committee that private forest operators are also adversely affected by section 31 of the *Income Tax Act*. While private forest operators harvest the wood from their forests on a cyclical basis that may be as long as 50 or 60 years in order to follow sustainable management practices, they incur regular expenses for the maintenance of the forest. The differential timing of income and expenses results in a situation where, for many years, business income is insufficient to deduct expenses for tax purposes. Because these operators are considered to be part-time farmers for the purpose of section 31 of the *Income Tax Act*, they are restricted in the amount of losses that they can deduct against other sources of income and, since they have high income in a small number of taxation years, there is a significant increase in their tax burden for those years. Since this situation discourages sustainable forest operation, it was recommended that the federal government consider allowing private forest operators to average taxable income over a period of 10 to 20 years and to be exempted from the application of section 31.

The Canadian Construction Association recommend that driving a company vehicle to and from a personal residence not be considered to be a taxable benefit, provided certain conditions are met.

Finally, witnesses commented on what is, in essence, inequitable treatment regarding taxes owed by taxfilers to the Canada Revenue Agency and rebates owed by the Canada Revenue Agency to taxfilers. According to the Canadian Federation of Independent Business and the Canadian Chamber of Commerce,

equality should exist and the interest rate that is applied should be the same in each case.

B. WHAT WE BELIEVE

The Committee feels that the business environment — in terms of taxation, access to capital, regulation, incentives to undertake research and development as well as to innovate and train employees, and trade agreements and market access — must encourage businesses to make decisions that will enhance their prosperity, the productivity of their workers and the productivity growth of the nation. Prosperous businesses, productive workers and Canadian productivity growth are — we believe — key contributors to the nation's competitiveness.

From this perspective, the Committee believes that the federal government must act to encourage business capital investment, to assist employers in training their employees, to support industry and negotiate secure market access during international trade negotiations, to ensure that businesses are able to access the capital they need to grow, prosper and be competitive, and to provide incentives for research, development and innovation. Once actions are taken, we feel that ongoing review of all federal measures in each area is needed to ensure that Canada is seen to be — and is — competitive with the rest of the world.

The Committee believes that, at a minimum, Canada's capital cost allowance rates must meet three criteria: similar asset classes are treated equitably; Canadian rates are similar to the rates for comparable asset classes in the United States and other countries; and Canadian rates at least reflect the useful life of these assets. We also feel that regular review of these rates is needed in order to ensure that they continue to meet the three criteria identified.

The Committee's view, as indicated above, is that these criteria are a minimum standard that should be met. If our nation is committed to the goal of competitiveness, then we believe that a comprehensive review of capital cost allowance rates is needed, and that the current approach of examining the rates on a case-by-case basis is inadequate. We also feel that, in the case of assets that have environmental benefits, setting the rate at the useful life of the asset is not sufficient: an accelerated rate is needed. From this perspective, and bearing in mind the Minister of Finance's comments to us on 23 November 2006 about CCA rates that reflect the useful life of assets, the Committee recommends that:

RECOMMENDATION 24

The federal government, by 30 June 2007, complete a comprehensive review of capital cost allowance rates in Canada with a view to determining the extent to which similar asset classes are treated equitably, Canadian rates

are comparable with those in other countries, and rates reflect the useful life of assets. The government should also review the feasibility of eliminating the available-for-use and half-year rules, and should study the feasibility of reducing the capital cost allowance rate for oil sands projects to 25%.

Following this review, the government should, no later than 31 October 2007, indicate whether accelerated capital cost allowance rates would, in general, enhance productivity. If the review concludes that accelerated rates would enhance productivity, changes to capital cost allowance rates should be made.

As well, the government should, no later than 31 October 2007, permit environmentally friendly assets, and rail equipment that reduces noise pollution and vibration as well as related nuisances, to be reduced at a rate faster than their useful life. The accelerated rate should be available on a time-limited basis in order to encourage early adoption.

Thereafter, capital cost allowance rates should be reviewed at least once every two years.

In Chapter Two, the Committee highlighted the importance of high-quality health care and a well-educated population for a high quality of life for Canadians and for a competitive nation. At present, the lack of a full GST rebate for universities, colleges, school boards and hospitals, as well as for scholarly research materials, has the potential to undermine the quality of education and health care provided to Canadians. Consequently, the Committee recommends that:

RECOMMENDATION 25

The federal government amend the *Excise Tax Act* in order to ensure a full rebate on the Goods and Services Tax paid by universities, colleges, school boards and hospitals and on behalf of scholarly research materials.

The Committee believes that the proposed reduction in the Goods and Services Tax rate to 5% should not occur. We support the view of the Organisation for Economic Co-operation and Development, as indicated in its *Economic Survey of Canada, 2006*, that value-added taxes raise revenue more efficiently than personal or corporate income taxes, since the base is broader and the work, saving and investment disincentive effects are lower. As well, we feel that the fiscal cost of such a measure would unduly restrict other decisions that could be taken by the federal government. From this perspective, and bearing in mind the comments

made to us by the Minister of Finance on 23 November 2006 about the proposed reduction in the GST rate to 5%, the Committee recommends that:

RECOMMENDATION 26

The federal government not amend the *Excise Tax Act* in order to reduce the Goods and Services Tax rate to 5%.

Moreover, the Committee feels that fairness should be a hallmark of our taxation system. In our view, fairness in the system includes fairness when taxes are payable by taxfilers and when rebates are payable by the Canada Revenue Agency. In particular, we believe that the interest rate that is applied to late taxfilers and to taxfilers that incorrectly calculate their taxes owed should be the same as the rate that is applied to the Canada Revenue Agency when it is late in providing a rebate to a taxfiler or when it provides a rebate that is lower than the amount to which the taxfiler is entitled. From this perspective, the Committee recommends that:

RECOMMENDATION 27

The federal government amend relevant legislation/regulations in order to ensure that the interest rate applied is the same in situations where taxes are owed by taxfilers and rebates are owed by the Canada Revenue Agency.

Finally, while the Committee does not make any recommendations at this time regarding the range of other business tax measures brought to our attention, we urge the federal government to review the detailed — and, in some cases, technical — presentations made to us to determine whether the changes recommended by witnesses have merit and should be implemented.

INNOVATION, RESEARCH AND ENTREPRENEURIAL ACTIVITY

In a knowledge-based economy, productivity and competitiveness are a function of the rate of change and the amount of knowledge, training and education vested in workers, which in turn form the basis for technological advancement. Ensuring that the right incentives and the right environment exist can increase a country's ability to innovate, and thereby improve its level of productivity growth and competitiveness.

Although research and development (R&D) is undertaken by both the private and the public sectors, technological change is — in part — the result of actions taken by private businesses to earn profits. Technology may, however, be intangible, and may not be specifically attached to a physical location or to a

particular product or person. Furthermore, some technology can be reproduced at a very low or virtually no cost.

For many innovative ideas, it is not possible to use laws or other means to preclude others from using them. Thus, in general, private businesses investing in R&D cannot capture all of the benefits of a new technology developed by them. The part of a technology that is not captured exclusively by the developer becomes public knowledge.

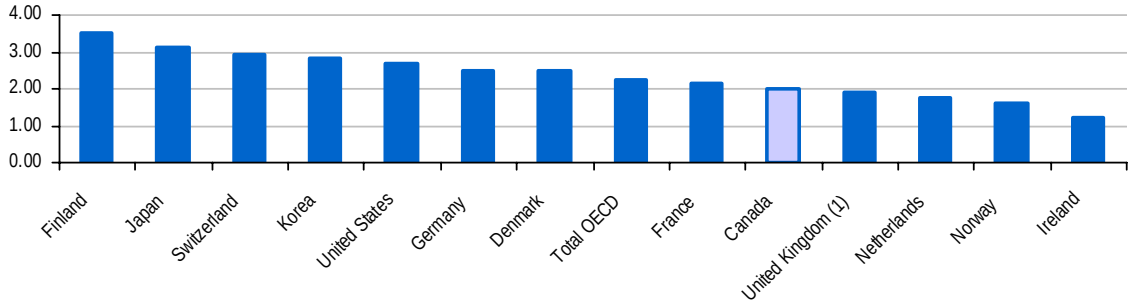
As a consequence of this inability to capture totally the full benefits of their R&D and technological innovation, economists believe that the private sector will generally invest in R&D to a lower extent than is socially optimal and that the role of governments has generally been to provide tax incentives and/or subsidies to encourage a level of spending on private R&D that is more socially desirable.

A. WHAT WE HEARD

1. Research, Development and Productivity Growth

The Committee was told that there is a strong correlation between R&D and productivity growth, which indicates that expanding Canada's R&D activities and capacity would likely result in new business opportunities and increased competitiveness. Witnesses, including the University of Manitoba and Queen's University, observed that — relative to most member countries of the Organisation for Economic Co-operation and Development (OECD) — Canada invests relatively less in R&D. As shown in Figure 16, Canada's gross domestic expenditure on R&D, as a percentage of GDP, was 2% in 2004, a figure that was lower than the average among OECD countries in that year.

Figure 16: Gross Domestic Expenditure on Research and Development as a Percentage of Gross Domestic Product, Selected Organisation for Economic Co-operation and Development Countries, 2004



Note: (1) 2003
Source: Organisation for Economic Co-operation and Development, Main Science and Technology Indicators, June 2006.

2. Publicly Funded Research and Development

The federal government provides significant support to basic research performed in Canadian universities and teaching hospitals, and the Committee was told that a large proportion of the research conducted in Canada is performed in the public sector. For example, McGill University informed us that Canada spends more on university research as a percentage of GDP than any other Group of Seven country. Queen's University indicated that Canadian universities conducted almost $9 billion worth of research in 2004-2005, which represented more than one-third of all of Canada's annual research undertakings.

According to the Association of Universities and Colleges of Canada, the investments made in recent years by the federal and provincial governments and universities themselves have transformed Canada from a country at risk of experiencing a major "brain drain" to one that is benefiting from a "brain gain." The Committee was told that a variety of federal supports contributed to this success:

- the federal granting councils fund research projects that generate new ideas, insights and understandings, as well as new applications;

- the Canada Research Chairs Program, Canada Graduate Scholarships and individual granting support programs administered by the three federal granting councils provide support to attract, retain and develop highly qualified researchers;

- the Canada Foundation for Innovation as well as Industry Canada, through its support of CANARIE, fund state-of-the-art research infrastructure; and

- the indirect costs program contributes to the institutional support that universities provide to researchers.

The Canadian Association for Graduate Studies, among others, recommended that funding of the three federal granting councils — the Natural Sciences and Engineering Research Council of Canada (NSERC), the Canadian Institutes of Health Research (CIHR) and the Social Sciences and Humanities Research Council of Canada (SSHRC) — continue to increase significantly. The Canadian Consortium for Research noted that increases to the budgets of the federal granting councils at or below the rate of inflation will not allow Canada to keep pace with competitors.

The Canadian Federation for the Humanities and Social Sciences advocated increased funding for the federal granting councils by amounts exceeding the rate of inflation. The NSERC argued that it requires more funding to realize fully the benefits of Canada's existing human and infrastructure resources for research, and believed that, by 2009-2010, an additional $400 million per year in funding will be

required. The National Council for Graduate Studies urged funding increases of $110 million for the NSERC and of $75 million for the CIHR in 2007-2008.

The Canadian Association of University Teachers advocated an increase in unrestricted research funding available through the federal granting councils, which the Committee was told should help to protect the integrity and independence of academic research. The Université Laval argued that the core budgets of the federal granting councils should be increased to a level sufficient to halt the exodus of researchers and to fund a growing number of students in graduate programs.

The University of Prince Edward Island suggested that funding for the three federal granting councils be increased to a level that would permit full funding of proposals judged by panels of experts to be worthy of funding. The Committee was told that, at present, about one-half of the proposals made are rejected, and the proposals that are accepted are not fully funded.

The Canadian Foundation for Innovation (CFI) informed the Committee that, after its last major competitions, its capacity to invest in cutting-edge research will largely be depleted. Consequently, additional funding of at least $1 billion between 2007 and 2010 was requested by such witnesses as the CFI, Research Canada: An Alliance for Health Discovery, the Association of Faculties of Medicine of Canada and the Hospital for Sick Children. Moreover, the Canadian Council of Chief Executives and the Université Laval argued that the federal government should extend the mandate of the CFI and expand its funding base.

Seneca College of Applied Arts and Technology urged an increase in the funding of the federal granting councils, but with a requirement that funds be dedicated to polytechnics and institutes in order to stimulate applied research. Other witnesses, such as the Alberta Association of Colleges and Technical Institutes, the Atlantic Provinces Community College Consortium, Red River College of Applied Arts, Science and Technology and the Yukon College, urged enhanced college or technical institute access to federal programs for research and innovation.

Furthermore, witnesses told the Committee that smaller universities do not receive their fair share of federal funding for research and innovation, and some — including the Association of Nova Scotia University Teachers and the University of Manitoba — recommended that regional inequities in research funding be addressed.

Moreover, the Canadian Consortium for Research told the Committee that the majority of research funding from federal programs is allocated to the natural, engineering and health sciences rather than the humanities and social sciences. The Canadian Federation for the Humanities and Social Sciences informed us that nearly 90% of the almost $5 billion in direct federal investment in university research is allocated to the natural, engineering and health sciences.

The National Association of Indigenous Institutes of Higher Learning argued that the federal government should ensure that institutions controlled by First Nations have access to all grants and special funding available to mainstream colleges and universities, such as research grants and research chairs. The Registered Nurses' Association of Ontario urged increased federal funding for nursing researchers, while the Université de Montréal suggested that Canadian fellows be allowed to use their fellowships to study at universities abroad and that similar fellowships be created for foreign students in order to facilitate the development of international networks.

McMaster University recommended continued and expanded funding for the Canada Research Chairs program, as well as the creation of Canada Learning Chairs, which would be dedicated to learning and educational innovation and modeled on the Canada Research Chairs program.

A number of witnesses, including the Association of Universities and Colleges of Canada, the Canadian Association of Research Libraries, Queen's University, the Association of Faculties of Medicine of Canada and the Hospital for Sick Children, suggested that the indirect costs of university research be funded at a minimum rate of 40% of every dollar of federally sponsored research. The National Council for Graduate Studies advocated funding at the rate of 65% in the 2007-2008 federal budget, while McMaster University advocated full federal funding of the indirect costs of research.

Witnesses, including the Canadian Cancer Society, the Health Charities Coalition of Canada, and the Heart and Stroke Foundation of Canada, argued that the federal government should support charities through the indirect costs of research program.

Recognizing the range of vehicles through which the federal government invests in basic research and the amount that has been invested over time, a number of witnesses highlighted the need for a clear and accountable framework in order to evaluate the return on federal investment in R&D. The Partnership Group for Science and Engineering, for example, proposed that the federal government — through the development of a new, forward-looking national science and technology (S&T) framework — evaluate the return to society on public investment in S&T and the efficacy of the investment mechanisms employed. Moreover, Intuit Canada recommended that the federal government examine how each federal program or agency can use public-private partnerships to further the delivery of federal programs.

Polytechnics Canada identified a need to rationalize research funding and to focus on investments that meet the needs of the marketplace. Precarn Incorporated advocated the incremental investment of S&T funds where they will have the greatest impact on industrial R&D and commercial outcomes. As well, the Committee was told that, even though an effective federal research base is

essential, the mandate of federal research institutions should be clarified and reinvestment should occur in those that are required to meet the government's regulatory responsibilities, to provide the government with the capacity to respond to emergencies, and to support private sector initiatives.

The Ottawa Centre for Research and Innovation argued that the federal government should increase funding to research grant programs in order to address commercialization at all stages of research. Furthermore, the Coalition for Canadian Astronomy urged the federal government to re-examine its approach to scientific funding in order to ensure that priority is given to disciplines with a proven record of success. The University of Alberta maintained that public policy choices as well as government investment must stimulate innovation by building bridges between universities and industry.

The Association of Canadian Academic Healthcare Organizations suggested that the federal government consider the unique characteristics of Canada's teaching hospitals/centres and their research institutes as well as the role they play in the commercialization process. BIOTECanada recommended that, considering the success of current immunization programs, the federal government continue to invest $100 million annually in existing immunization programs and an additional $100 million per year for new initiatives.

The Canadian International Polar Year National Committee informed the Committee that Canada is the only arctic nation without an arctic university, and urged the establishment of academic institutions in the Canadian North. The need to improve the research stations and platforms in the Canadian North was also identified.

The Canadian Foundation for Climate and Atmospheric Science argued for increased federal funding of university research and federal laboratories in order to address environmental challenges.

The Canadian Renewable Fuels Association and the Canadian Petroleum Products Institute advocated increased federal involvement in R&D efforts, in partnership with the private sector, to develop and advance biofuels in Canada.

Furthermore, Hydrogen & Fuel Cells Canada requested federal support for R&D in hydrogen and fuel cell technology at a level equal to the industry commitment of $130 million annually over the 2006-2015 period. The Committee was told that hydrogen and fuel cell technology has the potential to bring about cleaner air, innovation-based job creation and greenhouse gas reductions, among other benefits.

The Railway Association of Canada argued that, short of eliminating the federal excise tax on locomotive diesel fuel, the federal government should create a

rail technology development fund, which would help in the creation, acquisition and use of new rail fuel-saving and emissions-mitigation technologies.

In asking for the development of a new space plan for Canada, such Canadian space companies as MDA, COMDEV, Telesat and Bristol Aerospace informed the Committee that the last such plan was approved in 1994. The need for a consultative process leading to a new and invigorated national space plan was brought to our attention.

Genome Canada told the Committee that genomics can offer real solutions to real problems of daily life, and requested federal funding of $380 million over three years. Genome British Columbia and Genome Prairie, which are partly funded by Genome Canada, also asserted that genomics could address real challenges, including in such sectors as health care and agriculture, and supported the funding request made by Genome Canada.

The Fraser Valley KAIROS Group urged the federal government to fund fully and support the planned Canadian Index of Wellbeing, which could be used to develop policies and assess the effectiveness of tax and program spending by considering the notion of well-being.

The Canadian Council of Professional Engineers identified a need for increased funding of labour market studies in order to identify areas of skills shortage and the skills that will be required in the future in order to ensure Canada's competitiveness.

3. Privately Funded Research and Development

The Committee heard that private sector R&D in Canada lags other industrialized countries, and that most R&D undertaken by private businesses is directed to product development and commercialization, which is viewed by some as applied research.

Such witnesses as Precarn Incorporated urged the creation of additional incentives to encourage R&D and innovation by the private sector; suggestions included offering federal support to the private sector beyond monetary incentives, and identifying and encouraging the utilization of successful models.

Witnesses told the Committee that the federal government must ensure that all federal policies and regulations, including intellectual property protection, are appropriately aligned with Canada's commercialization efforts and innovation objectives. Canada's Research-Based Pharmaceutical Companies (R_x&D) indicated that the federal government should have a better understanding of the impact of regulatory requirements under the National Pharmaceutical Strategy and the Patented Medicine Prices Review Board, and suggested that both programs contribute to regulatory inconsistencies and discourage the introduction of new

innovative products. Merck Frosst Canada Inc. suggested that the federal government develop a national strategy on innovation that would target life sciences R&D and create a regulatory environment conducive to private sector innovation and commercialization.

Furthermore, witnesses discussed Canada's intellectual property rules and the need for effective and competitive protection of intellectual property, such as data protection and patent-term restoration. The Committee heard that Canada does not have a competitive data protection regime when compared to other countries; consequently, it is more difficult for Canadian pharmaceutical companies to attract foreign investment than it is for companies located in other countries. Canada's Research-Based Pharmaceutical Companies (R_x&D) urged the federal government to implement immediately data protection regulatory changes that would provide eight years of data protection for innovative research.

A number of the Committee's witnesses suggested that the federal Scientific Research and Experimental Development (SR&ED) investment tax credit be improved. The Canadian Chamber of Commerce, the Canadian Council of Chief Executives, Canadian Manufacturers & Exporters, Canadian Manufacturers & Exporters — Ontario Division, Canadian Manufacturers & Exporters — British Columbia Division, the Canadian Plastics Industry Association, the Forest Products Association of Canada and The Business Group for Improved Federal SR&ED Tax Credits recommended making the SR&ED investment tax credit refundable for every business, since foreign-controlled corporations, public corporations or businesses structured as partnerships cannot take full advantage of the benefits of the tax credit if they do not have sufficient taxable income. Witnesses indicated that this proposal would provide additional incentives for Canadian corporations, including small and large public companies and Canadian companies owned by foreign firms, to undertake R&D in Canada.

Furthermore, the Committee heard various other suggestions with respect to extending the types of expenses that can be claimed under the SR&ED investment tax credit. Canada's Research-Based Pharmaceutical Companies (R_x&D) and Merck Frosst Canada Inc. recommended that research in social sciences be considered to be an eligible expense, while such witnesses as Canadian Manufacturers & Exporters proposed greater recognition of R&D activity that is conducted on an international collaborative basis. Other witnesses proposed extension of the SR&ED investment tax credit to expenses incurred for activities such as patenting, prototyping and product testing.

The Union des producteurs agricoles recommended expansion of the SR&ED investment tax credit eligibility to support certain R&D activities in the agricultural sector, while the University of Prince Edward Island supported the inclusion of market research as an eligible expense under the SR&ED investment tax credit.

A number of witnesses, including the Canadian Chamber of Commerce and the Certified Management Accountants of Canada, recommended that corporations be permitted to apply their unused SR&ED investment tax credit to offset other federal taxes and levies, such as payroll remittances. Witnesses also proposed that the 10-year carry-forward period be extended.

Other SR&ED investment tax credit-related suggestions by witnesses — including BIOTECanada and the Canadian Electricity Association — included increasing the annual R&D expenditure limit to $10 million, raising the taxable income and taxable capital thresholds used to determine eligibility for refundability of the credit, and allowing the credit to flow through to limited liability partners.

4. Access to Entrepreneurial Capital and Commercialization

Witnesses highlighted the need to improve the rate at which innovative ideas emerging from publicly and privately funded R&D are transformed into commercialized products. The Committee was told that a key ingredient in the commercialization of new technologies is the availability of risk capital and management expertise for start-up firms.

The Committee heard that angel investors — that is, individual private investors who often are successful entrepreneurs — involved at the early stage of product development and commercialization can supply start-up firms with risk capital and expertise, both of which are critical to the success of emerging innovative firms. The Ottawa Centre for Research and Innovation advocated the creation of a 30% tax credit for angel investor investment in eligible start-up companies. It was argued that this proposal has the potential to generate a substantial increase in the rate of capital formation and commercial success for early-stage companies in Canada.

The Canadian Federation of Independent Business and the Canadian Medical Association proposed that the federal government allow entrepreneurs to borrow from their Registered Retirement Savings Plans (RRSPs) for business financing purposes, similar to the Home Buyers' Plan and the Lifelong Learning Plan.

Witnesses, such as the Certified General Accountants Association of Canada and Université Laval, also observed that increased federal funding for the commercialization of new technologies is needed, particularly in universities, colleges and research organizations. The Association of Canadian Community Colleges recommended the creation of a college and institute research development and commercialization support fund, which would be targeted exclusively for colleges and institutes in order to strengthen the innovation and commercialization capacities of applied research performed in these institutions.

Polytechnics Canada and Seneca College of Applied Arts and Technology urged the federal government to provide funding for applied research projects, capacity development, and commercialization chairs in polytechnic institutions, particularly targeting activities promoting partnerships with the business community.

The University of Prince Edward Island recommended that the federal government develop a program for Canadian entrepreneurship chairs in order to foster product development, market research, business management of early-stage companies, and best practices in the development and functioning of angel investment networks.

The Canadian Association of Railway Suppliers argued that the Freight Sustainability Demonstration Program and the Freight Incentives Program are useful in the commercialization of freight transportation research, and should be maintained and funded at a higher level.

The Partnership Group for Science and Engineering and the Canadian Council of Chief Executives proposed that the federal government create a business-led commercialization partnership board to review the various proposals for commercialization programs.

In terms of commercialization and early-stage business financing, Caisses Desjardins Group suggested that cross-border venture capital partnerships with the United States could benefit Canadian investors and high-tech companies. Canadian start-up firms could gain easier access to the United States for capitalization and marketing, and Canadian investors could gain from the experience of U.S. venture capital managers.

Caisses Desjardins Group, Canada's Venture Capital & Private Equity Association and BIOTECanada, however, told the Committee about an impediment in the Canadian tax system that makes such cross-border partnerships costly and difficult to establish. U.S. venture capital funds are often established under a limited liability company (LLC) structure that is not found in Canada, and the lack of recognition by Canada of U.S. LLCs under the Canada-U.S. tax treaty is a disincentive for these types of U.S. venture capital companies to invest in Canadian technology start-ups.

Witnesses recommended that Canada-U.S. tax treaty benefits apply to U.S. limited liability corporations. The Committee was reminded that U.S. venture capital investors can invest anywhere in the world; Canadian technology start-up companies, however, need improved access to U.S. venture capital and expertise in order to grow and prosper. As such, the federal government was urged to create a joint government-industry working group to study and propose market-based actions — such as the removal of regulatory barriers to foreign capital inflows — to

encourage the growth and competitiveness of the Canadian venture capital industry.

A number of witnesses told the Committee that the creation of the Labour Sponsored Venture Capital Corporation (LSVCC) program has contributed significantly to the development and stabilization of the Canadian venture capital industry. We were informed that in some periods of slow economic growth, LSVCCs were raising the majority of all new venture capital in Canada, and that LSVCCs represent approximately 50% of the venture capital in Canada.

GrowthWorks Capital Ltd. told the Committee that, on a per-capita basis, the value of venture capital assets in Canada is about 40% of that in the United States. We were also informed that the annual supply of new venture capital in Canada declined sharply from $4.5 billion in 2001 to $2.2 billion in 2005.

GrowthWorks Capital Ltd. and GrowthWorks Atlantic Ltd. recommended that the maximum amount an investor may claim for the LSVCC investment tax credit be increased to $1,500, which corresponds to an investment of $10,000, in order to ensure a steady source of venture capital investment in Canada. VenGrowth recommended that this amount be increased to $2,250, which corresponds to an investment of $15,000. The Association of Labour Sponsored Investment Funds and ENSIS Growth Fund requested that an investor be able to claim the LSVCC investment tax credit on an investment up to the maximum annual Registered Retirement Savings Plan contribution limit, which will gradually increase from $18,000 in 2006 to $22,000 in 2010.

Moreover, the Committee was told that co-operative enterprises are limited in their ability to raise equity capital. Canadian co-operatives make significant contributions to the economy and to rural communities, especially in the financial and agricultural sectors. A number of witnesses — including the Canadian Worker Co-operative Federation, the Co-operative Housing Federation of Canada, the Co-operators Group Limited, the Conseil canadien de la coopération and the Canadian Co-operative Association — recommended that a federal co-operative investment plan, based on a similar plan introduced in the province of Quebec in 1985, be adopted. The proposed plan would provide a tax deduction to co-operative members and employees who invest in their co-operative's preferred shares. Reinstatement of the Social Economy Initiative and the development of a new public-private partnership, based on the Co-operative Development Initiative, were identified as measures that would encourage the development of co-operatives and other community-based enterprises.

5. Federal Regulation

According to the Canadian Federation of Independent Business' 2005 report entitled *Prosperity Restricted by Red Tape*, which was brought to the Committee's attention, the cost to Canadian business of complying with regulations is at least $33 billion annually. This cost is relatively greater — when calculated on a per-

employee basis — for smaller businesses since, in most cases, they face the same regulatory requirements as larger businesses.

In spite of such federal measures as the Paperwork Burden Reduction Initiative and the BizPal Initiative, a number of witnesses told the Committee that the federal government should do more to reduce the regulatory burden on business. The Canadian Chamber of Commerce suggested that the federal government undertake a cost/benefit analysis of all existing and proposed federal regulations, while the Canadian Federation of Independent Business recommended that the federal government act quickly on paperwork burden reduction commitments in order to measure the government-wide regulatory impact and announce reduction targets. The Ontario Chamber of Commerce advocated the establishment of a five-year framework, in conjunction with the provincial/territorial and municipal governments, to reduce red tape, with annual benchmarks combined with a five-year sunset clause for new regulations.

The Canadian Conference of the Arts endorsed a less onerous but sufficiently rigorous accountability framework for recipients of arts and cultural funding, while the Canadian Meat Council and Maple Leaf Foods Inc. advocated a more up-to-date, flexible and straight-forward regulatory environment in the agri-food sector and clearer accountabilities among the three orders of government.

La Chambre de commerce de Québec recommended that the federal government reduce inter-provincial barriers to trade.

A number of the Committee's witnesses, including the Canadian Bankers Association and the Canadian Chamber of Commerce, argued that Canada should adopt a single securities regulator. The Committee was informed that the benefit of such a change would be greater consistency in the interpretation and enforcement of rules across the country, resulting in lower administrative and compliance costs. The Ontario Chamber of Commerce noted that Canada is the only Group of Seven country without a single securities regulator.

The Committee was told that overlapping tax regimes between different orders of government are a burden on business and individual taxpayers. A number of witnesses, including Bell Canada Enterprises and the Canadian Institute of Chartered Accountants, indicated that harmonizing the federal GST with the remaining provincial sales taxes would reduce the administrative burden and costs, since business would deal with only one tax authority and one set of tax laws. The federal government was urged to take a leadership role in negotiating with the provinces to harmonize the GST with the remaining provincial sales tax.

B. WHAT WE BELIEVE

The Committee believes that, in a very fundamental manner, research, development and innovation yield returns that exceed the initial investment in them. Moreover, we feel that these types of investments will be important as the nation attempts to attain the levels of productivity growth which will result in the standard of living that Canadians want and the competitiveness that our nation seeks.

While federal investments in research and development have been substantial in recent years, the Committee believes that — as the country moves forward and seeks enhanced competitiveness — organizations of all sizes and types, and in all regions of the country, must be able to access needed federal research funds. From this perspective, and bearing in mind the Minister of Finance's comments to us on 23 November 2006 about improved and targeted public investments in research and development, a comprehensive science and technology strategy, accessing the technology development and application capacity that exists in community colleges, the consolidation of research funding mechanisms and the Industry Canada review of the federal granting councils, among others, the Committee recommends that:

RECOMMENDATION 28

The federal government increase its support to research through all federal granting councils and research agencies and ensure that the indirect costs of research are funded at a minimum rate of 40% for every dollar of federally sponsored research. As well, the government should increase the base budget of the Canadian Institutes of Health Research by $350 million over three years.

The government should ensure that the federal granting councils and research agencies consider the concerns of smaller universities and colleges when disbursing funds, with a view to ensuring that they do not face discrimination.

Moreover, institutions in all regions of Canada should have meaningful access to funds, and the role that could be played by colleges — particularly with respect to applied research — should be recognized through the allocation of an appropriate share of research funds to them. The feasibility of Canada Research Chairs for colleges in Canada's northern territories should also be considered.

The Committee believes that Canada must fully explore all opportunities to be a leader in innovation. In our view, one area in which we currently enjoy an

advantage is astronomy, which has a variety of commercial applications. While past support in this area has been given through federal granting councils and research agencies, we feel that targeted funding is needed — at this time — for the Long Range Plan for Canadian Astronomy and Astrophysics if Canada is to continue to be a world leader and to benefit from its commercial spin-offs. From this perspective, the Committee recommends that:

RECOMMENDATION 29

The federal government allocate $235 million over seven years to fund the Long Range Plan for Canadian Astronomy and Astrophysics.

The Committee believes that changes to the Scientific Research and Experimental Development investment tax credit are needed. While the credit is an important measure by which private sector organizations are encouraged to engage in the research and development activities that will lead to productivity growth and enhanced competitiveness, the tax credit is only successful if it can be easily and usefully accessed by them. For this reason, the Committee recommends that:

RECOMMENDATION 30

The federal government, following consultations with relevant stakeholders, make changes to the Scientific Research and Experimental Development investment tax credit with a view to ensuring high levels of private sector research and development. Changes should be implemented no later than 30 June 2007.

The Committee feels that access to adequate, and appropriately priced, capital is important if our businesses — particularly our smaller, start-up businesses — are to grow and prosper. We know that these businesses are often seen as — and often are — more risky; consequently, they sometimes have difficulty accessing affordable financing. For them, access to expertise may also be a concern. Recognizing the valuable role played by Labour Sponsored Venture Capital Corporations in ensuring that some businesses have access to needed venture capital, the Committee recommends that:

RECOMMENDATION 31

The federal government amend the *Income Tax Act* to increase to $1,500 the labour-sponsored funds tax credit limit.

The Committee believes that co-operatives play a vital role, particularly in rural communities and in such sectors as financial services and agriculture. We realize, however, that they — like start-up companies — often face challenges in accessing needed capital. We feel that the federal government has a role to play in assisting them in meeting their need for capital and, for this reason, recommends that:

RECOMMENDATION 32

The federal government, in consultation with the co-operative sector, create a co-operative investment plan and develop a modified version of the Co-operative Development Initiative that extends beyond 2008. In the interim, the Initiative's advisory services component should receive increased funding.

In the Committee's view, access to microcredit could play an important role in enhancing the opportunities available to those who, for whatever reason, are unable or unwilling to access financing from traditional financial service providers. In some instances, traditional financial service providers may be unwilling to loan relatively small amounts, while in other cases they may be unwilling to loan based on the risk profile of the borrower or the venture. It might also be the case that the borrower wishes to access financing from non-traditional sources. Access to an alternative source of credit, such as microcredit, may enhance the ability of these individuals to contribute meaningfully to Canadian business and to society. From this perspective, the Committee recommends that:

RECOMMENDATION 33

The federal government create a tax incentive to encourage investment in microcredit initiatives.

The Committee feels that while research, development and innovation are useful in their own right, there is an urgent need to ensure that commercialization occurs. One aspect of commercialization is the ability to access risk capital, a topic that was discussed by us above. In that regard, we support federal efforts aimed at commercialization and the ability of Canadian firms to access Canada-United States partnerships, with their associated funding and expertise. From that perspective, and bearing in mind the comments made about the Canada-U.S. tax treaty and commercialization partnerships by the Minister of Finance in his appearance before us on 23 November 2006, the Committee recommends that:

RECOMMENDATION 34

The federal government expedite the review of the tax treaty between Canada and the United States. This review should

specifically address Canadian recognition of United States limited liability corporations.

The Committee is aware that, in our increasingly global economy, the movement of capital is generally viewed as positive to the extent that capital is able to flow to the most productive opportunities. The existence of tax havens — which are generally considered to be countries with low or no taxes on income and profits — can lead to decisions to invest capital based purely on a desire to avoid taxation. The result may be lower investment, reduced government tax revenues and diminished competitiveness for those countries that are not considered to be tax havens. Consequently, the Committee recommends that:

RECOMMENDATION 35

The federal government eliminate the use of tax havens in an effort to ensure that all corporations, businesses and individuals pay their fair share of taxes.

The Committee is of the view that while regulation is an important tool for such purposes as protecting health and safety and preserving the environment, regulatory efficiency is needed in order to ensure that businesses are as productive, and as competitive, as possible. We are aware of, and appreciate the efforts of, the Advisory Committee on Paperwork Burden Reduction and the External Advisory Committee on Smart Regulation, and believe that their recommendations have merit.

As well, the Committee believes that business productivity would also be enhanced if inter-provincial/territorial trade barriers were reduced, if not eliminated entirely. In our view, these barriers are problematic in a number of areas, including labour mobility. For that reason, bilateral efforts between British Columbia and Alberta and between Ontario and Quebec designed to reduce trade barriers between them are to be applauded. From this perspective, and bearing in mind the Minister of Finance's 23 November 2006 comments to us about the reduced paperwork burden on business, the elimination of unnecessary and costly regulations and red tape, a principles-based legislative framework to guide regulatory departments and agencies, and discussions about the elimination of internal barriers to trade, the Committee recommends that:

RECOMMENDATION 36

The federal government undertake a comprehensive cost-benefit analysis of existing and new federal regulations, as well as their cumulative effect, to ensure that their benefits clearly outweigh their compliance costs for business. This review should be completed no later than 31 December 2007.

The government should also take a leadership role and meet with the provincial/territorial governments, on a priority basis, with a view to eliminating unnecessary barriers to inter-provincial/territorial trade.

While the Committee believes that smart regulation is needed in all sectors, we feel that there is a particular and urgent need to ensure smart regulation in the area of securities. In our view, a commitment among the federal and provincial/territorial governments to a single securities regulator is needed. In this regard, we appreciate the efforts of the Council of Ministers of Securities Regulation and the Canadian Securities Administrators, and support the conclusion reached by the Wise Persons' Committee to Review the Structure of Securities Regulation in Canada and the Crawford Panel on a Single Canadian Securities Regulator. Feeling that Canada must not continue to be the only Group of Seven country without a single securities regulator, and bearing in mind the 23 November 2006 comments to us by the Minister of Finance about a common securities regulator, the Committee recommends that:

RECOMMENDATION 37

The federal government conclude an agreement with the provincial/territorial governments on a single securities regulator no later than 31 March 2007. The regulator should begin operations no later than 30 June 2007.

INTERNATIONAL TRADE AND INTERNATIONAL AID

Many observers believe that globalization has a positive impact on economic growth and competitiveness. The integration of world markets expands opportunities for products and people, while the international transmission of market information and labour mobility are thought to accelerate the rate of knowledge creation and transfer. As well, the competitive pressures associated with international trade may induce domestic firms to devote more resources to increasing their level of competitiveness.

Moreover, to the extent that the world's citizens live in an increasingly interconnected world, and bearing in mind the moral imperatives that may lead people to focus on poverty alleviation, the extreme poverty found in some less-developed countries may result in increased global insecurity, public health threats and environmental degradation, which could ultimately affect Canada's prosperity and competitiveness.

A. WHAT WE HEARD

1. International Trade

A number of the Committee's witnesses supported the view that globalization and international trade create both challenges and opportunities for Canadian businesses. The Canadian Meat Council argued that Canada should take a leadership role in reviving the suspended Doha Round of World Trade Organization (WTO) negotiations; the aggressive pursuit of bilateral trade agreements was also recommended in light of the suspension of the Doha Round, as were actions designed to eliminate trade remedy law within the North American Free Trade Agreement.

Witnesses expressed concern about how free trade in goods and services at the international level is currently affecting the Canadian economy. The Canadian Labour Congress, for example, spoke about the impact of the manufacturing crisis — which is, in part, due to increased international competition — on good jobs for working families. The Union des producteurs agricoles also noted that market openness, among other factors, has resulted in downward pressure on farm profit margins.

The Union des producteurs agricoles argued that the proposals under discussion in the Doha Round prior to the suspension of negotiations would not improve agricultural prices or enhance foreign market access for Canadian farmers. It was suggested that the WTO negotiations ensure real and transparent market access and that, as a result of negotiations, supply-managed sectors not be subject to any reduction in over-quota tariffs or to any increase in tariff quotas. Moreover, it was recommended that the final conditions of the agreement reached prevent WTO countries from bypassing rules on which the WTO member countries have agreed.

The Confédération des syndicats nationaux indicated that the lack of minimum environmental and labour standards in trade agreements is exacerbating the pressure experienced by some Canadian industries facing increased competition from emerging countries. The federal government was urged to ensure genuine reciprocity in trade relations with other countries.

The Association of Canadian Publishers urged the federal government to ratify the World Intellectual Property Organization Copyright Treaty, which provides additional copyright protections determined to be necessary in an information-based economy, including copyright in computer programs and databases, as well as the rights of authors to control the distribution, rental and public communication of their works.

The Fraser Valley KAIROS Group told the Committee that Canada should reduce its economic dependence on the United States. Consequently, the promotion of market diversification through a tax credit to companies involved in the

development of new markets, especially in Europe, South America and the Far East, was proposed.

2. Foreign Aid

A number of witnesses spoke about Canada's standard of living, and compared it with the quality of life in other countries that are less fortunate. The Committee heard that Canada would benefit from significant enhancements in the living and socio-economic conditions of the world's poorest populations; the benefits would include improved global security and the moral satisfaction associated with meeting our international responsibilities.

The Committee heard that a sizeable proportion of the world's population lives in absolute poverty, resulting in the death of 50,000 people every day. The Society of Obstetricians and Gynaecologists of Canada informed us that, each year, more than 500,000 women die from the complications of pregnancy and childbirth. Action Canada for Population and Development told us that a person dies of starvation every 3.6 seconds.

Many witnesses — including World Vision Canada, RESULTS Canada, the British Columbia Council for International Cooperation, the Canadian Council for International Cooperation, the Saskatchewan Council on International Cooperation, Action Canada for Population and Development, Association québécoise des organismes de coopération internationale, the Society of Obstetricians and Gynaecologists of Canada, the Canadian Paediatric Society, Health Partners International of Canada, the Canadian Federation of University Women, the Canadian Public Health Association, the Canadian Co-operative Association and KAIROS: Canadian Ecumenical Justice Initiatives — urged the federal government to uphold the commitment made to the Millennium Development Goals. A plan to devote at least 0.7% of Canada's Gross Domestic Product to foreign aid by 2015 was recommended, and witnesses observed that Canada should increase its funding to official development assistance by a proportion varying from 12% to 18% per year in order to meet that target. Action Canada for Population and Development noted that, among the European countries, five countries have already met that goal.

Furthermore, such witnesses as RESULTS Canada, the British Columbia Council for International Cooperation and the Saskatchewan Council for International Cooperation supported the passage of Bill C-293, An Act respecting the provision of development assistance abroad, which would ensure that Canadian development assistance abroad is directed to poverty reduction, and in a manner consistent with sustainable development and Canadian values and standards. Witnesses argued that as Canadian spending on foreign aid increases, the federal government must exercise caution in delivering quality foreign aid that is efficient and accountable in reducing global poverty.

Other witnesses highlighted the need to improve the health of poor populations and to increase the level of medical aid. The Canadian Public Health Association suggested that public health and its determinants be emphasized. RESULTS Canada recommended that the federal government commit an additional $60 million to the Global Fund Against AIDS, Tuberculosis and Malaria, stressing that this fund is crucial for the global fight against the two preventable diseases of tuberculosis and malaria. World Vision Canada maintained that Canada should increase its foreign aid funding to care for the children of families devastated by AIDS and HIV, while the Society of Obstetricians and Gynaecologists of Canada recommended that the federal government invest $30 million in the Safe Motherhood and Newborn Health strategy with the objective of achieving the Millennium Development Goal related to maternal health.

The Committee heard that foreign aid goals can also be achieved in partnership with Canadian industries. Health Partners International of Canada noted that gift-in-kind foreign assistance does not technically contribute to the 0.7% commitment, and that the United States proportionately provides more private donations than does Canada; the creation of a tax incentive that would encourage manufacturing, pharmaceutical and medical companies to donate urgently needed products out of inventory or manufactured specifically for that purpose was recommended.

The Association of Consulting Engineers of Canada argued that Canada's foreign aid strategy should specifically include direct investment in physical infrastructure in the poorest countries. The Committee was told that Canada has gradually moved away from providing such direct foreign assistance, which would help to alleviate the pressing infrastructure needs in the developing world while helping the federal government to meet the goal of being active in sectors that can add the greatest value in the form of Canadian expertise. The Canadian Co-operative Association recommended that the role of Canadian co-operative organizations in the delivery of Canadian aid be reinforced by increasing the share of Canadian foreign aid going to the Canadian Partnership Branch of the Canadian International Development Agency.

B. WHAT WE BELIEVE

Another area where efforts must be directed toward ensuring that the business environment is appropriate is with respect to international trade. The Committee believes that while it is inevitable that certain sectors or regions will be harmed by liberalized trade in the short run, international trade is beneficial in the longer term, provided the signatories to trade agreements respect the obligations imposed on them by such agreements.

The Committee feels that, on balance, fair and free trade is beneficial and should contribute to enhanced competitiveness. Consequently, we support the

negotiation of bilateral and multilateral trade agreements. We also believe, however, that some sectors — for example, agriculture and forestry — are harmed, from time to time, by the actions taken by other countries in the global marketplace, particularly with respect to frivolous trade challenges and unfair subsidization. For this reason, and bearing in mind the comments made to us by the Minister of Finance on 23 November 2006 about the creation of a global commerce strategy as well as bilateral and regional trade, investment, and science and technology agreements, the Committee recommends that:

RECOMMENDATION 38

The federal government vigorously defend Canadian interests in the negotiation and administration of international trade agreements, including through support for the Canadian International Trade Tribunal.

Moreover, the government should ensure that industries that suffer as a result of unfair trade actions by other countries receive the assistance needed in order to combat the negative effects of those actions.

Finally, it is also important that Canada play a role in the international community by helping those individuals and nations that are less fortunate. Canada cannot stand by as other nations and their residents suffer. As world citizens, we have an obligation to help them overcome the challenges they face.

Canada must also view these other countries as potential trading partners: their prosperity will help to ensure ours. Moreover, we must consider them as potential sources for the immigrants that Canada will need as we attempt to address the implications of our ageing population. While the federal government provides financial aid, there are many ways in which assistance can be given, and both public and private sector foreign aid have a role to play. From this perspective, the Committee recommends that:

RECOMMENDATION 39

The federal government adopt a foreign aid target of 0.7% of Canada's Gross Domestic Product by 2015. A plan for reaching this target should be developed no later than 31 December 2007.

The government should also consider the range of means by which the Canadian private sector could play an expanded role in helping to meet Canada's goal of assisting less developed nations.

CHAPTER FIVE: FINANCING MEASURES THAT WOULD ENHANCE THE NATION'S COMPETITIVENESS

As discussed in Chapters Two, Three and Four, there are a variety of measures that might be taken by the federal government to enhance the competitiveness of Canada's people, communities and businesses. Most of these measures involve a federal cost, whether in the form of program expenditures or forgone tax revenues. Consequently, it is important to ensure that the fiscal position of the government, both now and in the future, is such that the government has the resources to invest in our people, our communities and our businesses in order to ensure the competitiveness of our nation.

This fiscal goal could be achieved through a commitment to prudent fiscal planning, sustainable growth in federal budgetary program and tax expenditures, balanced federal budgets, repayment of the accumulated federal deficit, and periodic review of the effectiveness and desirability of federal programs. While federal finances are currently relatively sound, the financing of measures designed to enhance our competitiveness through investments in our people, our communities and our businesses may require that choices be made, particularly if the cost of existing programs and services continues to grow, if federal revenues are reduced, or if other unforeseen events that affect federal revenues and expenditures occur.

ECONOMIC CONTEXT

During his 19 October 2006 appearance before the House of Commons Standing Committee on Finance, the Governor of the Bank of Canada indicated that the Canadian economy is thought to be operating just above its production capacity. The Bank estimates that the Canadian economy will grow by 2.8% in 2006 and by 2.5% in 2007, following a 3.3% and 2.9% increase in real Gross Domestic Product (GDP) in 2004 and 2005 respectively, as shown in Figure 17. These estimates are lower than those presented in the Bank's July 2006 *Monetary Policy Report* and mostly reflect a weaker near-term U.S. economic outlook that could negatively affect the level of Canadian exports.

The Bank of Canada's economic growth estimates are similar to those presented by the Minister of Finance in *The Economic and Fiscal Update* on 23 November 2006. According to *The Economic and Fiscal Update*, real Canadian GDP is expected to grow by 2.75% in both 2006 and 2007.

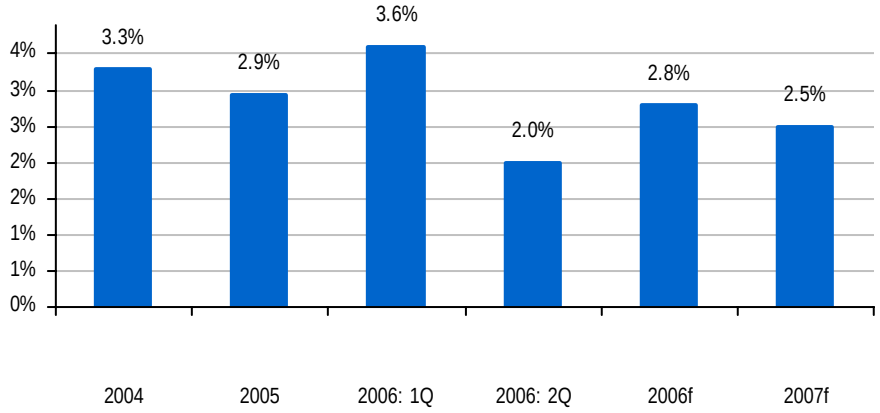
Economic projections are subject to both downside and upside risks. According to the Governor of the Bank of Canada, the main downside risk to the Bank's projections is that U.S. economic growth could be lower than expected,

leading to lower Canadian exports. The main upside risk to the projections is stronger-than-anticipated household spending in Canada, in the event that housing prices are higher than expected or the link between consumer credit and housing prices is stronger than currently assumed by the Bank.

The Minister of Finance identified the risks to the Canadian economic outlook presented on 23 November 2006 as largely external. In his view, the risks are related to the U.S. housing market, select commodity prices and global current account imbalances.

As well, the Minister indicated that domestic demand growth has been solid, employment growth is at a record high, the unemployment rate is close to its 31-year low, and income growth has been sound. From a business perspective, business non-residential investment growth has remained solid, corporate profit growth has been strong, world demand has continued to increase, and export prices have improved.

Figure 17: Real Gross Domestic Product Growth, Canada, 2004 to 2007



f: Forecast from the October 2006 *Monetary Policy Report*.

Source: Statistics Canada Table 380-0017 and Bank of Canada, *Monetary Policy Report*, October 2006.

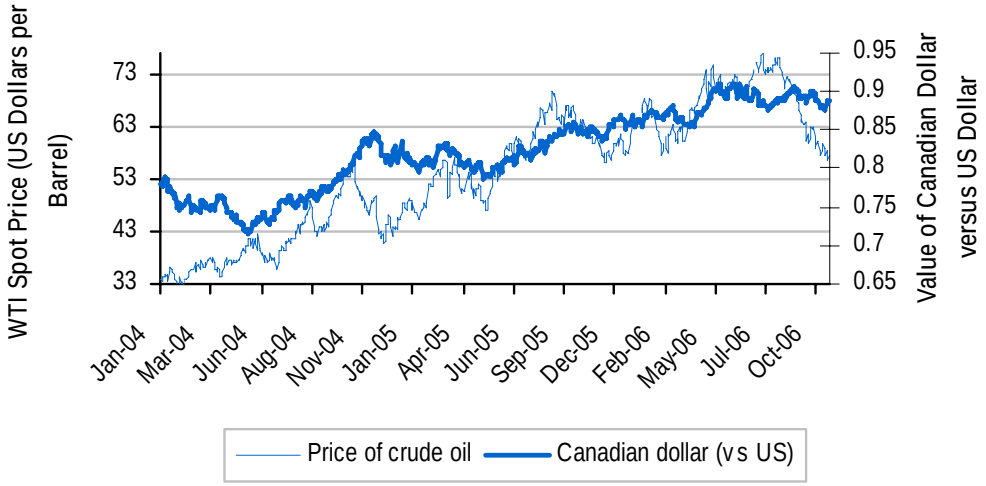
While the economic projections suggest continued economic stability, the Canadian economy may face relatively significant challenges in the future. For example, more intense competition from lower-cost, knowledge-intensive countries such as China, continued globalization, and demographic change resulting in skill shortages create challenges for Canadian businesses and for Canadians. Negative effects may be experienced by some lower-skilled Canadians and by Canadian businesses unable to adapt to new competitive realities.

Furthermore, many Canadian businesses — as well as individual Canadian consumers — may continue to feel the effects of the recent increases in the price of crude oil and in the relative value of the Canadian dollar, as shown in Figure 18. The rise in the relative value of the Canadian dollar has had negative implications for some Canadian businesses that export their goods and services, particularly those

in the manufacturing sector. The appreciation in the relative value of the Canadian dollar has also, however, resulted in less expensive foreign goods and services for Canadian consumers. High oil prices, while beneficial for oil-producing provinces, have exacerbated the financial difficulties experienced by some Canadian businesses, affected consumer spending, and led to speculation about inflation.

The Governor of the Bank of Canada has indicated that Canadian workers and businesses have shown impressive resilience in recent years; this resilience is a reflection of the flexibility of the Canadian economy. Enhanced flexibility — as evidenced, for example, by the movement of workers from region to region — should allow the Canadian economy to respond better to economic shocks and should enable the nation to remain competitive in a changing economic environment.

Figure 18: Daily Price of Crude Oil and the Relative Value of the Canadian Dollar, January 2004 to October 2006



Source: Bank of Canada and the U.S. Department of Energy.

FISCAL OUTLOOK

From an historical and an international perspective, federal finances are — at present — sound, and current estimates project continued federal balanced budgets or better for the foreseeable future. In 2005-2006, the federal government reported a budgetary surplus of $13.2 billion, as shown in Figure 19. According to the Organisation for Economic Co-operation and Development, Canada was the only Group of Seven country to record a surplus in 2005.

The Economic and Fiscal Update presented by the Minister of Finance on 23 November 2006 projects federal budget planning surpluses of $4.2 billion and $3.5 billion in 2006-2007 and 2007-2008 respectively, after considering annual planned debt reduction of $3 billion. The planning surplus for the subsequent four years is expected to be $2.4 billion for 2008-2009, $2.0 billion for 2009-2010, $3.6 billion for 2010-2011 and $2.9 billion for 2011-2012, again considering $3 billion in annual planned debt reduction.

In *The Economic and Fiscal Update*, the Minister of Finance announced a federal commitment to reduce the federal debt-to-GDP ratio to 25% by 2012-2013, one year earlier than indicated in *The Budget Plan 2006*. The Minister also said that unanticipated federal budgetary surpluses would be used to accelerate federal debt repayment, and that the country should aim to eliminate total government net debt in less than a generation.

Fiscal projections are also subject to risks. According to the Minister of Finance, the current risks are associated with the economic outlook, federal departmental spending, and changes in the relationship between economic growth and tax revenues.

Figure 19: Fiscal Outlook, Federal Government, Canada, 2004-2005 to 2007-2008 (billions of dollars)

	2004-2005	2005-2006	2006-2007p	2007-2008p
Budgetary revenues	211.9	222.2	229.4	238.0
Program Expenditures	176.4	175.2	187.6	196.1
Public Debt Charges	34.1	33.8	34.6	34.7
Total Expenses	210.5	209.0	222.2	230.8
Planned Debt Reduction	1.5	13.2	3.0	3.0
Remaining Surplus			4.2	3.5

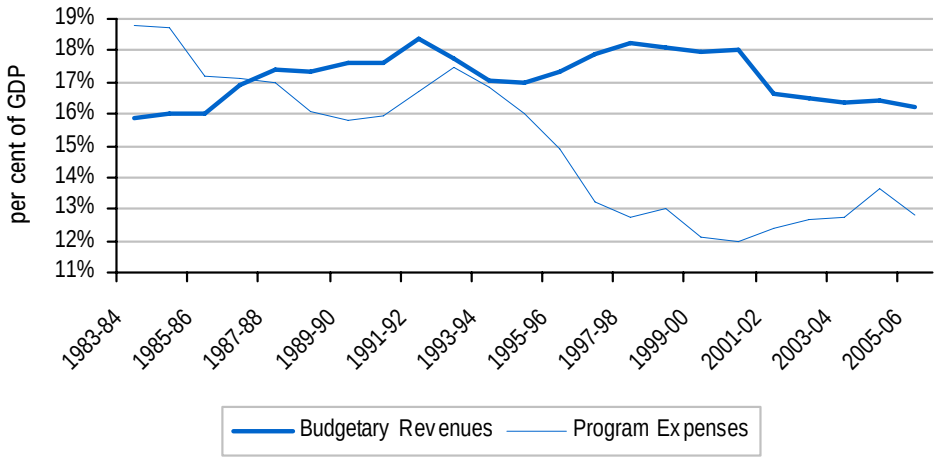
p: Projections contained in *The Economic and Fiscal Update,* 23 November 2006.
Source: *The Economic and Fiscal Update,* 23 November 2006 and the *2005-2006 Annual Financial Report of the Government of Canada*.

FEDERAL SPENDING AND THE BUDGET-MAKING PROCESS

A. WHAT WE HEARD

A number of witnesses commented that federal spending has increased significantly in recent years. For example, the Canadian Institute of Chartered Accountants informed the Committee that if program spending had grown at the rate of inflation and population growth between 1999-2000 and 2004-2005, total federal spending in 2004-2005 would have been $36 billion lower. In the view of some witnesses, high rates of growth in federal spending could compromise the federal government's ability to reduce personal and corporate taxes and to address the challenges associated with demographic change. When expressed as a percentage of Gross Domestic Product, however, federal program expenses are not particularly high from an historical perspective, although there has been an upward trend since 2000-2001, as shown in Figure 20.

Figure 20: Federal Budgetary Revenues and Program Expenses as a Percent of Gross Domestic Product, Canada, 1983-1984 to 2005-2006



Source: Department of Finance Canada and Statistics Canada Table 380-0017.

Given the rate of growth in federal spending, witnesses proposed limits on spending growth. The St. John's Board of Trade proposed to limit federal program spending growth to about 3% per year, while the Canadian Institute of Chartered Accountants advocated the establishment of a framework whereby overall spending would not exceed the rate of inflation after adjustments for population growth. Other witnesses, including the Business Tax Reform Coalition, the Canadian Chemical Producers' Association and the Winnipeg Chamber of Commerce, supported the idea of limiting the rate of federal spending growth to that of the economy, as measured by the rate of growth in the Gross Domestic Product. Witnesses told the Committee that when program spending growth exceeds economic growth, Canada's competitiveness is reduced.

Other witnesses, however, argued that additional federal spending could enhance Canada's competitiveness. The Canadian Centre for Policy Alternatives suggested that additional investment in skills and education, affordable housing, and adequate public transportation and infrastructure would have had a relatively more beneficial effect on competitiveness than the recent tax reductions. The Canadian Labour Congress informed the Committee that recent international experience demonstrates that high levels of public investment as well as high labour and social standards result in superior economic and social development outcomes when compared to low taxes, minimal levels of social investment and weak regulation of business.

Some witnesses advocated a more inclusive budget-making process. The Canadian Union of Public Employees said that Canada has one of the most secretive budget processes in the western world. KAIROS: Canadian Ecumenical Justice Initiatives proposed the establishment of a commission to study the means by which opportunities for public deliberation and the determination of consensus opinions on values and priorities in the budget-making process might be increased. Witnesses also acknowledged the contribution made by the Committee's pre-

budget consultations to the transparent and inclusive nature of the federal budget-making process.

A number of witnesses, including the Canadian Labour Congress and the Canadian Union of Public Employees, identified the need for greater consultation prior to reductions in federal program funding as a consequence of the federal government's reallocation of resources. Witnesses suggested that Canadians be given an opportunity to appear before the appropriate parliamentary committees before program reductions occur. The Canadian Institute of Chartered Accountants recommended that program spending be monitored through a system of outcomes-based performance measures reflecting best practices and benchmarks from other countries. Improved timeliness of reporting of the federal government's financial statements was also urged.

B. WHAT WE BELIEVE

The Committee supports federal program spending in areas that have been identified as priorities by Canadians. That being said, we do not support federal spending that would result in federal budgetary deficits. As noted below, Canadians have made sacrifices in order that the nation's budget could be balanced, and we do not want to return to budgetary deficits.

Because the federal budget sets out the taxation and program spending measures that affect all Canadians, the Committee believes that the federal budget-making process must be inclusive. Thus, we are of the view that, as the budget is being developed, formal consideration must be given to determining the impact of the proposed measures on various groups in our society and on various regions in our country. We also believe that since federal revenues are provided by taxpayers, some mechanism should exist whereby they are consulted before significant funding reallocation decisions are implemented.

The Committee believes in the importance of long-term planning. In our view, growth in federal program spending must be reasonable and must reflect the priorities of Canadians. We support a program expenditure review exercise that would aid in the identification of areas where funds could be reduced in order to be reallocated to other, higher-priority areas identified by Canadians. From this perspective, and bearing in mind the comments made to us by the Minister of Finance on 23 November 2006 about a forthcoming announcement by the President of the Treasury Board regarding an expenditure management system, growth in federal program expenditures below the rate of economic growth over the medium term and the need for program spending growth to exceed economic growth in some years, the Committee recommends that:

RECOMMENDATION 40

The federal government ensure that annual rates of increase in federal program spending not exceed the rate of growth in the nominal Gross Domestic Product, except in extraordinary circumstances.

The government should also institute a permanent mechanism by which federal taxation and program expenditures are reviewed annually. This mechanism should require consultations with Canadians about their priorities in the context of such considerations as public interest, the appropriate role of the federal government, federalism, fiscal balance, partnerships, value for money, efficiency and affordability.

Finally, the government should develop a mechanism by which Canadians are consulted prior to implementing decisions resulting from the review of federal taxation and program expenditures.

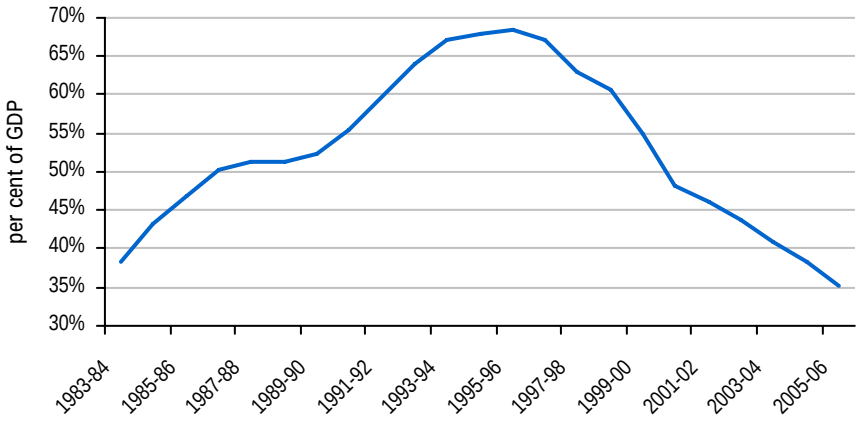
BALANCED FEDERAL BUDGETS AND THE USE OF BUDGETARY SURPLUSES

A. WHAT WE HEARD

A number of witnesses, including the Canadian Chemical Producers' Association, Canadian Manufacturers & Exporters and the Vancouver Board of Trade, told the Committee that the federal government should continue to pursue balanced budgets and to demonstrate fiscal prudence. Since 1997-1998, there has been a federal budgetary surplus each year. As shown in Figure 21, these surpluses have allowed the federal debt-to-GDP ratio to be reduced to 35.1% in 2005-2006, a reduction from its peak of 68.4% in 1995-1996.

Witnesses shared their views about how best to use any future federal budgetary surplus. Some witnesses, including the Saskatchewan Chamber of Commerce, told the Committee that interest charges on the federal debt limit the ability to invest in new programs or to provide further tax reductions. In 2005-2006, federal public debt charges totalled $33.8 billion or 16.2% of total federal expenditures. It was argued that lower public debt charges, in future, would allow the nation to finance better the budgetary priorities of Canadians.

Figure 21: Federal Debt-to-Gross Domestic Product Ratio, Canada, 1983-1984 to 2005-2006



Source: Department of Finance Canada and Statistics Canada Table 380-0017.

Consequently, a number of witnesses indicated that the federal government should allocate at least a portion of any federal budgetary surplus to debt repayment. While some witnesses, including the Canadian Vintners Association, the Credit Union Central of Canada and the Ontario Chamber of Commerce, said that they support the objective contained in *The Budget Plan 2006* to reduce the federal debt-to-GDP ratio to 25% by 2013-2014, others argued that the federal government should do more to reduce the size of the public debt.

The British Columbia Chamber of Commerce and the Greater Kitchener Waterloo Chamber of Commerce recommended that the federal debt-to-GDP ratio be reduced to below 25% by 2012, while the Canadian Institute of Chartered Accountants proposed that the federal government increase the amount of the planned annual debt repayment to $5 billion and that it reduce the debt-to-GDP ratio to 20% no later than 2013-2014; the Vancouver Board of Trade advocated a debt-to-GDP target of 20% by 2020. The Ontario Chamber of Commerce and the St. John's Board of Trade told the Committee that any unplanned federal budgetary surplus should be allocated to debt repayment.

Not all witnesses, however, supported the allocation of federal budgetary surpluses to debt repayment. For example, the Confédération des syndicats nationaux told the Committee that balanced budgets, coupled with sustained GDP growth, should be adequate to reduce the federal debt-to-GDP ratio, particularly in a context where many public services and social programs are under-funded and some sectors of the economy need special attention. The Consortium of Women's Organizations of Nova Scotia argued that debt repayment and tax reductions for high-income earners must not come at the expense of social programs that address, among other objectives, the high rate of poverty.

The Canadian Teachers' Federation suggested that investment in the health and well-being of Canada's children and youth will result in greater long-run benefits than will debt repayment and tax reductions. The Canadian Labour Congress suggested that increased government expenditure is a preferred alternative to debt repayment.

B. WHAT WE BELIEVE

The Committee believes that the federal government must, at a minimum, pursue balanced federal budgets. We recognize the sacrifices that were made by Canadians to end the cycle of budgetary deficits, and feel that the nation must not return to that pattern. Moreover, we support the practice of allocating a specified amount for planned debt reduction. Mindful of the desire by many Canadians to avoid federal budgetary deficits, and bearing in mind the 23 November 2006 comments to us by the Minister of Finance about planned annual debt reduction and balanced federal budgets, the Committee recommends that:

RECOMMENDATION 41

The federal government continue to pursue a balanced budget in order to avoid federal budgetary deficits.

As well, the government should continue to include, in its budget planning, an annual allocation of $3 billion for repayment of the accumulated federal deficit.

The Committee feels that at least some portion of any federal budgetary surplus must continue to be applied to the accumulated federal deficit in order to achieve several goals: to lower our debt servicing costs, to reduce the burden on future generations, and to remain the envy of the Group of Seven countries because of our fiscal performance.

While the Committee recognizes that some Canadians believe that federal budgetary surpluses should be allocated to purposes other than continued debt reduction, we believe that an ongoing effort to reduce the accumulated federal deficit is the correct approach. From this perspective, and bearing in mind the comments made to us by the Minister of Finance on 23 November 2006 about the allocation of unanticipated budget surpluses to debt repayment and the federal debt-to-GDP ratio, the Committee recommends that:

RECOMMENDATION 42

The federal government continue to allocate a portion of any federal budgetary surplus to a reduction in the accumulated federal deficit.

Moreover, the government should continue to take action to ensure progress with respect to reduction in the federal debt-to-Gross Domestic Product ratio.

FISCAL IMBALANCE AND TRANSFER PAYMENTS

A. WHAT WE HEARD

A number of witnesses told the Committee that a vertical fiscal imbalance exists between the federal and provincial/territorial governments, with the result that most provinces/territories have too few fiscal resources to meet their constitutional responsibilities, such as health care and education.

Caisses Desjardins Group recommended that the federal government limit its spending to its jurisdictional areas of responsibility while determining ways in which fiscal room can be transferred to the provinces/territories. Witnesses essentially presented two approaches to the Committee: federal tax-point transfers to the provinces/territories and/or increased federal cash transfers to the provinces/territories.

The Quebec Federation of University Students indicated that a balanced approach to the fiscal imbalance should include some form of federal tax-point transfer as well as an increase in federal cash transfers. Professor Luc Godbout of the Université de Sherbrooke indicated that a potential solution to the vertical fiscal imbalance would be to transfer the tax points of the federal Goods and Services Tax (GST) to the provinces while eliminating federal transfers for social programs and negotiating other concessions.

A number of witnesses emphasized the need for enhanced federal transfers to the provinces. The Canadian Alliance of Student Associations, the Canadian Consortium for Research, the Canadian Federation for the Humanities and the Social Sciences, the College Student Alliance, the National Council for Graduate Studies and the Ontario Undergraduate Student Alliance, among others, argued for increased levels of transfers for post-secondary education through a dedicated fund; other witnesses advocated increased federal transfers to the provinces to meet other social objectives.

The Association of Manitoba Municipalities, the City of Calgary, the City of Saskatoon and the Federation of Canadian Municipalities argued that municipalities also lack sufficient funds to pay for the services that residents expect of them. The Committee was told that municipal infrastructure is under-funded, which is undermining Canada's competitiveness and long-term economic prospects. The federal government was urged to develop a long-term plan to eliminate the municipal infrastructure deficit. The realignment of roles and responsibilities among the orders of government, the requirement for integrated approaches to rural and northern development, and the need for sufficient funding for transit systems were also mentioned.

Witnesses also discussed the issue of horizontal fiscal imbalance, since the provinces/territories have differing fiscal capacities. The Canadian Union of Public Employees and Professor Godbout proposed reform of the Equalization formula to a 10-province standard and the inclusion of resource revenues in the formula; the New Brunswick Business Council also supported the inclusion of resource revenues. The Committee was told that these changes to the Equalization formula would increase the total level of Equalization payments and, according to some witnesses, would reduce regional and social inequalities as well as enhance Canada's competitiveness.

The St. John's Board of Trade, however, argued that non-renewable resource revenues should not be included in the Equalization formula because such resources are depleted over time; consequently, provinces must maximize the benefits associated with these resources while they are able to do so.

Witnesses informed the Committee that because Equalization payments are reduced as a province's fiscal capacity increases, the Equalization program may discourage Equalization-receiving provinces from enhancing their fiscal capacity through reform or other means. The Canadian Chamber of Commerce advocated reform of the Equalization program to minimize these drawbacks by, for example, using a cash-flow standard where financial inflows minus outflows would be subject to Equalization.

The Ontario Chamber of Commerce advocated a principles-based approach which would, among other things, state that provinces which receive Equalization payments should not have a higher fiscal capacity than non-recipient provinces; nor should they have higher per-capita program expenditures than the average of contributing provinces. It was also suggested that the Equalization payment growth rate not be higher than the average real economic growth rate and that the Equalization program be reviewed periodically by the Auditor General of Canada.

B. WHAT WE BELIEVE

The Committee believes that the Canadian federation is, at least to some extent, unbalanced and requires rebalancing. While measures designed to address both the vertical and horizontal fiscal imbalances exist, it remains the case that the federal government is collecting more in tax revenues than it requires to fulfill its constitutional obligations, the provinces/territories have too few resources to meet their responsibilities, and municipalities have insufficient resources to finance the services that the public expects from them.

The question of the existence and extent of the fiscal imbalance, as well as requests for change to the federation's fiscal arrangements, are not new. The Committee believes that residents want, and deserve, high-quality public services for the taxes that they pay, and that they do not want to pay excessively high taxes in order to receive those public goods. Moreover, we feel that taxpayers often consider the aggregate paid in taxes and the aggregate received in public goods.

Individuals may not draw a clear link between the amount paid by them in taxes to a particular order of government and the quality, quantity or range of public goods provided to them by that order of government.

Nevertheless, the Committee believes that governments should spend in a manner consistent with their constitutional obligations, recognizing the need for joint funding by more than one order of government in certain circumstances. For this reason, and bearing in mind the 23 November 2006 comments to us by the Minister of Finance about limited federal spending power and a strengthened economic union, the Committee recommends that:

RECOMMENDATION 43

The federal government meet with the provincial/territorial governments with a view to assessing their relative fiscal capacity and the extent to which they are able to fulfill their constitutional responsibilities.

CHAPTER SIX: CONCLUSION

Having concluded our pre-budget consultations for 2006 on the theme of competitiveness, it is clear to the Committee that there is an urgent need to begin improving our productivity performance and to take other actions that will improve the nation's competitiveness. While the *Advantage Canada: Building a Strong Economy for Canada* initiative announced by the Minister of Finance on 23 November 2006 contains a number of elements that we believe will move the country forward, ongoing vigilance as well as some actions not identified in the initiative will be required if we are to meet our competitiveness objectives.

While productivity performance is not the only factor that contributes to competitiveness, it is an important consideration. Clearly, our productivity performance, our competitiveness and our standard of living are linked. The influence of productivity growth on competitiveness and on living standards accumulates over time, with some of its effects becoming apparent only over decades. We must act now to improve our productivity performance — and, ultimately, our competitiveness — in the future.

The sense of urgency is only enhanced when the importance of productivity growth as a tool to address the continued ageing of the Canadian population is considered. An annual productivity growth rate of 1% would lead to a doubling of living standards in 70 years; an annual growth rate of 3% would double living standards in 24 years.

A second observation is that the Committee heard a number of requests for the federal government to develop national strategies with stable, long-term, statutory funding. These requests were received on a wide variety of issues, many of which are not within federal jurisdiction. Witnesses, and perhaps Canadians more generally, are focused on the outcome of governments' decisions regarding taxation, spending and regulation. As such, they explore all channels available to them — federal, provincial/territorial, municipal and private sector — when seeking change on behalf of Canadians, Canadian businesses and the nation as a whole. In our view, Canadians believe that all orders of government must work together in the interests of Canada and Canadians.

During the pre-budget consultations, the Committee heard requests in the areas of health, lifelong learning, incentives to work and incentives to save that are designed to make our people more competitive, requests in the areas of infrastructure, the environment, charitable giving and volunteerism, and arts and culture that are designed to make our communities more competitive, and requests in the areas of corporate taxation, research and innovation, international trade and international aid that are designed to make our businesses more competitive.

The Committee's third — and final — observation is that witnesses presented us with an overwhelming number of innovative ideas for improving the competitiveness of our people, our communities and our businesses. While we are not able, in this report, to make recommendations about the full range of ideas, we thank the witnesses for contributing to the pre-budget consultation process for 2006, and urge the federal government to examine each submission that was made to us. Many ideas deserve further exploration as we seek to develop a strategic focus on the actions that must be taken to enhance our competitiveness as a nation.

Our productivity growth rate is too low. Our competitiveness is not as great as it should be. The time for action is now.

LIST OF RECOMMENDATIONS

RECOMMENDATION 1

The federal government — in conjunction with provincial/territorial governments, the Canadian Institutes of Health Research, health agencies, not-for-profit health charities and other stakeholders — help to ensure the existence of adequate financing for all elements of preventive programs focused on measures that will improve the health outcomes of Canadians. Such measures should provide Canadians of all ages residing in all regions with an incentive to improve their choices with respect to nutrition, physical activity, immunization and smoking cessation.

Moreover, the government should continue to allocate funds for the National Immunization Strategy and should establish a dedicated fund, in the amount of $300 million over three years, for future immunization programs and new vaccines.

RECOMMENDATION 2

The federal government, in conjunction with the provincial/territorial governments, help to develop a national mental health strategy. This strategy — which should include the creation of a Canadian mental health commission — should address the mental health needs of all Canadians, but particularly those who are determined to be at higher risk. The strategy should be completed no later than 31 October 2007.

RECOMMENDATION 3

The federal government, in conjunction with the provincial/territorial governments, help to develop a plan for research and funding related to rare diseases and such diseases as hepatitis C, HIV/AIDS, Parkinson's disease, dystonia and type 1 diabetes. The plan should be developed no later than 30 June 2007.

RECOMMENDATION 4

The federal government, in conjunction with the provincial/territorial governments, help to develop a more comprehensive pan-Canadian chronic disease surveillance

system. This enhanced system should be developed no later than 1 September 2007.

RECOMMENDATION 5

The federal government develop and implement a family caregivers support strategy. This strategy should ensure the existence of tax measures that support caregivers.

RECOMMENDATION 6

The federal government amend the *Income Tax Act* to increase the value of the Canada Child Tax Benefit. Following this increase, the value of the tax benefit should be increased annually to reflect changes in the cost of living as measured by the Consumer Price Index.

Moreover, the government — in conjunction with the provincial/territorial governments — should fund a national, accessible, affordable, high-quality, publicly regulated child care system. This system should respect any provincial/territorial child care programs already in effect, recognizing the leadership of the province of Quebec.

RECOMMENDATION 7

The federal government — in conjunction with the provincial/territorial governments and such stakeholders as educational institutions, student associations, employers and groups representing employees — review the full range of federal measures that support students, educational institutions and their physical infrastructure, employees and employers engaged in post-secondary education and training in Canada. This review should be undertaken with a view to ensuring that the measures are coordinated in a manner that maximizes outcomes for Canadians.

Moreover, on a priority basis and bearing in mind the review of federal measures that support post-secondary education and training, the government should — with the aim of eliminating economic barriers to post-secondary education — provide direct funding assistance to post-secondary students through a comprehensive system of needs-based grants and loans. These grants and loans should be available to students enrolled in university, college and qualified training programs. As well, the province of Quebec should be permitted to opt out of participation in this system of needs-based grants and

loans, with full compensation. This system should be developed and funded no later than 31 August 2007.

Finally, the government should extend the mandate of the Canada Millennium Scholarship Foundation and expand the Canada Access Grants program to finance the cost of tuition for all years of undergraduate education. The province of Quebec should be permitted to opt out of participation, with full compensation.

RECOMMENDATION 8

The federal government, once a long-term strategy for federal support of post-secondary education and training has been concluded among the federal and provincial/territorial governments, divide the Canada Social Transfer into a post-secondary education transfer and a social assistance and services transfer.

Once the Canada Post-Secondary Education Transfer has been created, the government should introduce guidelines, principles, responsibilities and accountabilities with respect to post-secondary education.

RECOMMENDATION 9

The federal government amend the *Income Tax Act* to reduce personal income taxes. Consideration should also be given to additional tax relief for low-income Canadians as well as to a working income supplement and other personal income tax changes that would provide incentives to work and to remain employed within Canada.

RECOMMENDATION 10

The federal government — in conjunction with the provincial/territorial governments and relevant stakeholders — develop a plan to ensure that appropriate, properly funded and equitable immigration settlement and integration services are available throughout Canada. As well, a plan should be developed to recognize and reconcile the educational and professional qualifications of immigrants obtained in countries other than Canada.

RECOMMENDATION 11

The federal government adopt the target of reducing child poverty in Canada to 9.9% by 2010. The government should meet with the provincial/territorial governments and groups

assisting and/or representing disadvantaged Canadians, among other stakeholders, to develop a strategy for achieving that target. The strategy should be developed no later than 30 June 2007.

RECOMMENDATION 12

The federal government reinstate the programs and funds that were eliminated by it on 25 September 2006 in the areas of literacy, the social economy, youth, assistance to museums, Status of Women Canada, the Law Commission of Canada, volunteerism and the Court Challenges Program.

RECOMMENDATION 13

The federal government, on a priority basis, extend the Supporting Communities Partnership Initiative and the Residential Rehabilitation Assistance Program.

Moreover, the government should — in conjunction with the provincial/territorial governments — develop a national housing strategy and, on a priority basis, take action in order to ensure that the housing needs of Aboriginal Canadians and low-income families are met.

RECOMMENDATION 14

The federal government, in consultation with the provincial/territorial governments and relevant stakeholders, undertake a comprehensive review of the Canadian retirement income system with a view to determining the adequacy of the system in meeting the retirement income needs of seniors.

The focus of the review should also include the incentives for saving and the extent to which these incentives ensure that the financial and other needs — of both current and future pensioners as well as of labour force participants and those who engage in unpaid work — are being, and will continue to be, met.

The review should also focus on any incentives and disincentives in the retirement income system to continued labour force participation by older workers, on the manner in which caregivers might receive retirement income and the feasibility of a caregiver drop-out provision within the Canada Pension Plan, and on the means by which parents — particularly older parents — can provide

financial support for the care of their disabled children, such as through a registered disability savings plan.

Moreover, during the review, consideration should be given to returning, to 71 years, the age at which Registered Retirement Savings Plans must be converted into Registered Retirement Income Funds and the extent to which greater flexibility should be given with respect to Locked-in Retirement Accounts and federally regulated pensions.

The review should be completed no later than 31 August 2007 and any legislative/regulatory amendments needed as a consequence of the review should be enacted no later than 31 December 2007.

RECOMMENDATION 15

The federal government, in conjunction with the provincial/territorial governments, help to fund existing infrastructure initiatives at a level designed to reduce the public infrastructure deficit.

As well, the government should make permanent a program for the sharing of gas tax revenues with municipalities.

Finally, the government should develop an allocation mechanism for federal infrastructure support that considers not only population, but also the unique strategic and economic development needs of communities.

RECOMMENDATION 16

The federal government, in conjunction with the provincial/territorial governments, allocate funds sufficient for chemical, biological, radiological and nuclear equipment and training.

The government should also work with relevant stakeholders in order to ensure the development and adequate funding of a national emergency preparedness plan.

RECOMMENDATION 17

The federal government, in conjunction with the provincial/territorial governments, conclude a Canadian energy strategy and an associated plan for implementation no later than 1 January 2008.

This strategy should be developed in the context of Canada's Kyoto objectives and the need to reduce greenhouse gas emissions. It should also recognize the importance of a diverse energy supply and the need for enhanced incentives regarding renewable energy sources, including biomass, biofuels and wind. These incentives should include the Renewable Power Production Incentive and the Wind Power Production Incentive or equivalent tax-based measures.

The government should also explore incentives for enhanced energy efficiency and conservation by consumers and businesses, including measures to promote home and building energy efficiency and the purchase of fuel-efficient vehicles. The incentives should include renewal of energy efficiency assistance programs for Canadians.

RECOMMENDATION 18

The federal government, in conjunction with the provincial/territorial governments and stakeholders in the agriculture and agri-food industry, ensure that the program developed as the successor to the Canadian Agricultural Income Stabilization program contains business risk management measures that are separate from disaster assistance measures.

RECOMMENDATION 19

The federal government establish financial disincentives in order to discourage continued destruction or degradation of the nation's natural capital. Moreover, federal spending programs related to infrastructure and agriculture should require mitigation for the loss of natural capital on all projects that receive federal funding or that are conducted on Crown lands.

RECOMMENDATION 20

The federal government amend the *Income Tax Act* to eliminate, on a five-year trial basis, the capital gains tax on donations of publicly listed securities and ecologically sensitive lands to private foundations. The extent to which charitable giving to these foundations has increased should be assessed after five years, and the measure should be made permanent if suitable.

The government should also amend the *Income Tax Act* to eliminate the capital gains tax on donations of real estate and land to public charities as well as to private foundations during the five-year trial period and beyond if deemed to be appropriate.

Finally, the government should allow donors to make charitable contributions for 60 days beyond the end of the calendar year for inclusion in the previous year's income tax return.

RECOMMENDATION 21

The federal government study the feasibility of a tax measure that would recognize and reward the hours of volunteer activity. This study should be completed no later than 30 September 2007.

RECOMMENDATION 22

The federal government increase funds allocated to the arts and cultural sector. In particular, funding increases should be considered for the Canada Council for the Arts, the Canadian Broadcasting Corporation, the Canadian Television Fund and Telefilm Canada. Funding for the Canada Council for the Arts should reach $300 million over two years.

The government should also increase the funds allocated to the federal regional development agencies and to projects for Canada's northern territories in order that they have the resources to finance, to a greater degree, the infrastructure and growth needs of such entities as zoos, aquariums, fairs, exhibitions and festivals. The amount of the increased funding and the manner in which it will be allocated should be announced no later than 30 April 2007.

Finally, the government should identify ways in which the current federal tax and spending initiatives supporting the arts and cultural sector could be simplified and better coordinated, as well as develop a plan for the long-term financial sustainability of the sector.

RECOMMENDATION 23

The federal government review the range of federal measures and programs that support and encourage the preservation and restoration of heritage buildings.

The review, which should be completed no later than 30 April 2007, should focus on the eligibility of not-for-profit organizations, public agencies and private individuals for the measures and programs.

RECOMMENDATION 24

The federal government, by 30 June 2007, complete a comprehensive review of capital cost allowance rates in Canada with a view to determining the extent to which similar asset classes are treated equitably, Canadian rates are comparable with those in other countries, and rates reflect the useful life of assets. The government should also review the feasibility of eliminating the available-for-use and half-year rules, and should study the feasibility of reducing the capital cost allowance rate for oil sands projects to 25%.

Following this review, the government should, no later than 31 October 2007, indicate whether accelerated capital cost allowance rates would, in general, enhance productivity. If the review concludes that accelerated rates would enhance productivity, changes to capital cost allowance rates should be made.

As well, the government should, no later than 31 October 2007, permit environmentally friendly assets, and rail equipment that reduces noise pollution and vibration as well as related nuisances, to be reduced at a rate faster than their useful life. The accelerated rate should be available on a time-limited basis in order to encourage early adoption.

Thereafter, capital cost allowance rates should be reviewed at least once every two years.

RECOMMENDATION 25

The federal government amend the *Excise Tax Act* in order to ensure a full rebate on the Goods and Services Tax paid by universities, colleges, school boards and hospitals and on behalf of scholarly research materials.

RECOMMENDATION 26

The federal government not amend the *Excise Tax Act* in order to reduce the Goods and Services Tax rate to 5%.

RECOMMENDATION 27

The federal government amend relevant legislation/regulations in order to ensure that the interest

rate applied is the same in situations where taxes are owed by taxfilers and rebates are owed by the Canada Revenue Agency.

RECOMMENDATION 28

The federal government increase its support to research through all federal granting councils and research agencies and ensure that the indirect costs of research are funded at a minimum rate of 40% for every dollar of federally sponsored research. As well, the government should increase the base budget of the Canadian Institutes of Health Research by $350 million over three years.

The government should ensure that the federal granting councils and research agencies consider the concerns of smaller universities and colleges when disbursing funds, with a view to ensuring that they do not face discrimination.

Moreover, institutions in all regions of Canada should have meaningful access to funds, and the role that could be played by colleges — particularly with respect to applied research — should be recognized through the allocation of an appropriate share of research funds to them. The feasibility of Canada Research Chairs for colleges in Canada's northern territories should also be considered.

RECOMMENDATION 29

The federal government allocate $235 million over seven years to fund the Long Range Plan for Canadian Astronomy and Astrophysics.

RECOMMENDATION 30

The federal government, following consultations with relevant stakeholders, make changes to the Scientific Research and Experimental Development investment tax credit with a view to ensuring high levels of private sector research and development. Changes should be implemented no later than 30 June 2007.

RECOMMENDATION 31

The federal government amend the *Income Tax Act* to increase to $1,500 the labour-sponsored funds tax credit limit.

RECOMMENDATION 32

The federal government, in consultation with the co-operative sector, create a co-operative investment plan and develop a modified version of the Co-operative Development Initiative that extends beyond 2008. In the interim, the Initiative's advisory services component should receive increased funding.

RECOMMENDATION 33

The federal government create a tax incentive to encourage investment in microcredit initiatives.

RECOMMENDATION 34

The federal government expedite the review of the tax treaty between Canada and the United States. This review should specifically address Canadian recognition of United States limited liability corporations.

RECOMMENDATION 35

The federal government eliminate the use of tax havens in an effort to ensure that all corporations, businesses and individuals pay their fair share of taxes.

RECOMMENDATION 36

The federal government undertake a comprehensive cost-benefit analysis of existing and new federal regulations, as well as their cumulative effect, to ensure that their benefits clearly outweigh their compliance costs for business. This review should be completed no later than 31 December 2007.

The government should also take a leadership role and meet with the provincial/territorial governments, on a priority basis, with a view to eliminating unnecessary barriers to inter-provincial/territorial trade.

RECOMMENDATION 37

The federal government conclude an agreement with the provincial/territorial governments on a single securities regulator no later than 31 March 2007. The regulator should begin operations no later than 30 June 2007.

RECOMMENDATION 38

The federal government vigorously defend Canadian interests in the negotiation and administration of international trade agreements, including through support for the Canadian International Trade Tribunal.

Moreover, the government should ensure that industries that suffer as a result of unfair trade actions by other countries receive the assistance needed in order to combat the negative effects of those actions.

RECOMMENDATION 39

The federal government adopt a foreign aid target of 0.7% of Canada's Gross Domestic Product by 2015. A plan for reaching this target should be developed no later than 31 December 2007.

The government should also consider the range of means by which the Canadian private sector could play an expanded role in helping to meet Canada's goal of assisting less developed nations.

RECOMMENDATION 40

The federal government ensure that annual rates of increase in federal program spending not exceed the rate of growth in the nominal Gross Domestic Product, except in extraordinary circumstances.

The government should also institute a permanent mechanism by which federal taxation and program expenditures are reviewed annually. This mechanism should require consultations with Canadians about their priorities in the context of such considerations as public interest, the appropriate role of the federal government, federalism, fiscal balance, partnerships, value for money, efficiency and affordability.

Finally, the government should develop a mechanism by which Canadians are consulted prior to implementing decisions resulting from the review of federal taxation and program expenditures.

RECOMMENDATION 41

The federal government continue to pursue a balanced budget in order to avoid federal budgetary deficits.

As well, the government should continue to include, in its budget planning, an annual allocation of $3 billion for repayment of the accumulated federal deficit.

RECOMMENDATION 42

The federal government continue to allocate a portion of any federal budgetary surplus to a reduction in the accumulated federal deficit.

Moreover, the government should continue to take action to ensure progress with respect to reduction in the federal debt-to-Gross Domestic Product ratio.

RECOMMENDATION 43

The federal government meet with the provincial/territorial governments with a view to assessing their relative fiscal capacity and the extent to which they are able to fulfill their constitutional responsibilities.

APPENDIX A
LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
Assembly of First Nations	09/19/2006	15
Richard Jock, Chief Executive Officer		
Bob Watts, Chief of Staff, Office of the National Chief		
Canadian Association of Petroleum Producers		
Pierre Alvarez, President		
Canadian School Boards Association		
Lance Bean, President		
Canadian Trucking Alliance		
Elly Meister, Vice-President, Public Affairs		
David Bradley, Chief Executive Officer		
Friends of Canadian Broadcasting		
Ian Morrison, Spokesperson		
Hotel Association of Canada		
Anthony Pollard, President		
Pauktuutit Inuit Women of Canada		
Jennifer Dickson, Executive Director		
Philanthropic Foundations Canada		
Hilary Pearson, President		
Railway Association of Canada		
Bruce Burrows, Vice-President, Public Affairs and Government Relations		
John Lynch, Assistant Vice-President, Taxation - Canadian Pacific Railway		
Royal Canadian Legion		
Jack Frost, Dominion President		
Pierre Allard, Director, Service Bureau, Dominion Command		
Sport Matters Group		
Ian Bird, Senior Leader		
Tourism Industry Association of Canada		
Christopher Jones, Vice-President, Public Affairs		
Randy Williams, President and Chief Executive Officer		

Organizations and Individuals	Date	Meeting
Air Canada Joseph Galimberti, Director, Government and Community Relations	09/19/2006	16
Air Transport Association of Canada Fred Gaspar, Vice-President, Policy and Strategic Planning		
Canadian Association of Railway Suppliers Glen Fisher, Executive Director		
Canadian Federation of Nurses Unions Linda Silas, President		
Canadian Lung Association Nora Sobolov, President and Chief Executive Officer		
Canadian Manufacturers Exporters Jayson Myers, Senior Vice-President and Chief Economist		
Canadian Meat Council James Laws, Executive Director		
Canadian Paediatric Society Gary Pekeles, Executive Director		
Care of the Child Coalition Sara Landriault		
Child Care Advocacy Association of Canada Monica Lysack, Executive Director		
Federation of Medical Women of Canada Gail Beck, President-Elect		
Make Poverty History Dennis Howlett, Coordinator		
Alliance to End Homelessness Mary-Martha Hale, Chair Marion Wright, Member of the Steering Committee	09/20/2006	17
Association of Canadian Academic Healthcare Organizations Glenn Brimacombe, Chief Executive Officer		
Canadian Association of Gift Planners Susan Manwaring, Chair, Government Relations Committee		

Organizations and Individuals	Date	Meeting
Canadian Bar Association	09/20/2006	17
James Parks, Chair, National Charities and Not for Profit Law Section		
Canadian Child Care Federation		
Yvonne Dionne, Director, Development, Marketing and Communications		
Canadian Foundation for Climate and Atmospheric Sciences		
Dawn Conway, Executive Director		
Jacques Derome, Professor, McGill University		
Canadian Mental Health Association		
Judy Watson, Vice-President		
Canadian Pharmacists Association		
Jeff Poston, Executive Director		
Imagine Canada		
Teri Kirk, Vice-President, Public Policy and Government Relations		
Multiple Sclerosis Society of Canada		
Deanna Groetzinger, National Vice-President, Communications		
Yassemin Cohanim, Volunteer		
National Children's Alliance		
Peter Dudding, Executive Director		
University of Montréal		
Luc Vinet, Rector		
Association of Fundraising Professionals	09/21/2006	18
Rob Peacock, President		
Bell Pensioners' Group		
Pam Went, President		
Business Group for Improved Federal SR & ED Tax Credits		
Nathalie Bourque, Vice-President, Global Communications, CAE Inc.		
Business Tax Reform Coalition		
Roger Larson, President, Canadian Fertilizer Institute		
Canadian Council for International Co-operation		
Gerry Barr, President and Chief Executive Officer		

Organizations and Individuals	Date	Meeting
Canadian Gas Association Michael Cleland, President and Chief Executive Officer	09/21/2006	18
Canadian Space Industry Executives John Keating, Chief Executive Officer, COM-DEV		
Canadian Urban Transit Association Michael Roschlau, President and Chief Executive Officer		
Coalition for Canadian Astronomy Pekka Sinervo, Co-Chair, Association of Canadian Universities for Research in Astronomy (ACURA) and Dean of Arts and Science, University of Toronto		
Health Partners International of Canada John Kelsall, President		
Nunavut Association of Municipalities Elisapee Sheutiapik, President Lynda Gunn, Chief Executive Officer Russell Banta, Consultant		
Writers' Union of Canada Ron Brown, Chair Deborah Windsor, Executive Director		
Canadian Centre for Emergency Preparedness Adrian Gordon, President	09/25/2006	20
Canadian Centre for Policy Alternatives Ellen Russell, Senior Research Economist Mathieu Dufour, Research Associate		
Canadian Dental Hygienists Association Bonnie Blank, President		
Citizens for Public Justice Greg deGroot-Maggetti, Analyst Socio-Economic Policy		
Community Foundations of Canada Monica Patten, President and Chief Executive Officer		
Heritage Canada Foundation Natalie Bull, Executive Director		
National Association of Indigenous Institutes of Higher Learning Trevor Lewis, Chair		

Organizations and Individuals	Date	Meeting
American Federation of Musicians of the United States and Canada Paul Sharpe, Director Freelance Services Division	09/25/2006	21
Canadian Construction Association Michael Atkinson, President		
Canadian Home Builders' Association Richard Lind, First Vice-President David Wassmansdorf, Immediate Past President		
Canadian Institute of Chartered Accountants Kevin Dancey, President and Chief Executive Officer		
Canadian Labour Congress Andrew Jackson, Senior Economist, Social and Economic Policy		
Canadian Renewable Fuels Association Kory Teneycke, Executive Director		
Canadian Teachers' Federation Harvey Weiner, Policy Advisor, Government and External Relations		
Heart and Stroke Foundation of Canada Sally Brown, Chief Executive Officer		
International Association of Fire Fighters Jim Lee, Assistant to the General President, Canadian Operations		
Intuit Canada Yves Millette, President and Chief Executive Officer		
Juvenile Diabetes Research Foundation Robert Hindle, Member of the Board of Directors, JDRF Canada and JDRF International		
National Anti-Poverty Organization Debbie Frost, President		
Police Association of Ontario Bruce Miller, Chief Administrative Officer		
Provincial Building and Construction Trades Council of Ontario Brett McKenzie, Executive Chairman, IBEW Construction Council of Ontario		

Organizations and Individuals	Date	Meeting
Association of Canadian Community Colleges Gerald Brown, President	09/26/2006	22
BIOTECanada Peter Brenders, President and Chief Executive Officer		
Canadian Association of Retired Teachers Helen Biales, Vice-President Pierre Drouin, Executive Director		
Canadian Chamber of Commerce Nancy Hughes Anthony, President and Chief Executive Officer Michael Murphy, Executive Vice-President, Policy		
Canadian Chemical Producers' Association Richard Paton, President and Chief Executive Officer		
Canadian Federation of Independent Business Catherine Swift, President and Chief Executive Officer Garth Whyte, Executive Vice-President		
Canadian Healthcare Association Sharon Sholzberg-Gray, President and Chief Executive Officer		
Canadian Library Association Linda Cook, President		
Natural Sciences and Engineering Research Council of Canada Suzanne Fortier, President		
Partnership Group for Science and Engineering Ian Rutherford, Executive Director Canadian Meteorological and Oceanographic Society		
REAL Women of Canada Diane Watts, Researcher		
Research Canada: An Alliance for Health Discovery Ronald Worton, Chair		
Society of Obstetricians and Gynaecologists of Canada Donald Davis, President André Lalonde, Executive Vice-President		
University of Ottawa Gilles Patry, President and Vice-Chancellor		
As an Individual Jeremy Amott, Independent Insurance Broker, Life Insurance	09/26/2006	23

Organizations and Individuals	Date	Meeting
Association of Labour Sponsored Investment Funds Les Lyall, President	09/26/2006	23
Association of Municipalities of Ontario Doug Reycraft, President		
Canadian Activists for Pension Splitting Frank Stokes, President		
Canadian Alliance of Student Associations Phillippe Ouellette, National Director Toby White, Government Relations Officer		
Canadian Association of Mutual Insurance Companies Normand Lafrenière, President		
Canadian Automobile Dealers Association Richard C. Gauthier, President		
Canadian Coalition for Immunization Awareness and Promotion Mary Appleton, Senior Manager		
Canadian Coalition for Immunization Awareness and Promotion Ian Gemmill, Co-Chair		
Canadian Museums Association Calvin White, Chairman John G. McAvity, Executive Director		
Ducks Unlimited Canada Barry Turner, Director, Government Relations Cynthia Edwards, National Manager, Industry and Government Relations		
Health Charities Coalition of Canada Wim Wolfs, Chair Deirdre Freiheit, Executive Director		
National Association of Friendship Centres Peter Dinsdale, Executive Director		
Association of Universities and Colleges of Canada Claire Morris, President and Chief Executive Officer	09/27/2006	24
Canada Foundation for Innovation Eliot Phillipson, President and Chief Executive Officer		

Organizations and Individuals	Date	Meeting
Canadian Association of Science Centres Tracy Ross, Executive Director	09/27/2006	24
Canadian Association of University Teachers James Turk, Executive Director		
Canadian Automobile Association David Flewelling, President		
Canadian Consortium for Research Roland Andersson, Chair		
Canadian Immigrant Settlement Sector Alliance (CISSA) Wai Young, Executive Director		
Canadian Medical Association Colin McMillan, President William Tholl, Secretary General and Chief Executive Officer		
Makivik Corporation / Kativik Regional Government Adamie Alaku, Vice-President, Economic Development Nancy Maloley, Treasurer		
Conseil national des cycles supérieures Philippe-Olivier Giroux, President, Quebec Federation of University Students		
Northern Alberta Institute of Technology William A. Shaw, President		
Polytechnics Canada Sharon Maloney, Executive Director		
Canada Millennium Scholarship Foundation Norman Riddell, Executive Director and Chief Executive Officer	09/28/2006	25
Canadian Association for Graduate Studies Mark Dale, Dean of Graduate Studies, University of Alberta		
Canadian Bankers Association Luc Vanneste, President, Financial Affairs Committee and Executive Vice-President and Chief Financial Officer, Bank of Nova Scotia		
Canadian Conference of the Arts Robert Spickler, President Alain Pineau, National Director		
Canadian Federation of Students - National Office Amanda Aziz, National Chair		

Organizations and Individuals	Date	Meeting
Canadian Institute of Actuaries Michael Hale, Chair Member, Services Council	09/28/2006	25
Canadian Institutes of Health Research Alan Bernstein, President		
Canadian Public Health Association Elinor Wilson, Chief Executive Officer		
Canadian Union of Public Employees Paul Moist, National President		
Nunavut Tunngavik Incorporated Joanasie Akumalik, Director, Government & Public Relations Alastair Campbell, Director		
RESP Dealers Association of Canada Peter Lewis, Chair, Government Relations		
The Road and Infrastructure Program of Canada (The) Jeff Morrison, Executive Director		
Association of Yukon Communities Doug Graham, President	10/02/2006	26
Canadian International Polar Year National Committee Ian Church, Chair		
City of Fort St. John Jim Eglinski, Mayor		
Council of Yukon First Nations Andy Carvill, Grand Chief		
MacBride Museum Patricia Cunning, Executive Director		
Northern Native Broadcasting, Yukon James Stanley, Chairman, Board of Directors Shirley Adamson, Chief Executive Officer		
Tourism Industry Association of the Yukon Rod Taylor, President		
Yukon Childcare Association Debbie Throssell, Conference Coordinator		
Yukon College Stu Mackay, Dean, Professional Studies		

Organizations and Individuals	Date	Meeting
Yukon Conservation Society Karen Baltgailis, Executive Director Lewis Rifkind, Energy Coordinator	10/02/2006	26
Yukon Council on Aging Roberta Morgan, President		
Yukon Historical and Museums Association Rebecca Jansen, Executive Director		
Yukon Literacy Coalition Sierra van der Meer, Communication Coordinator		
Alma Mater Society of the University of British Columbia Ian Patillo, Vice-President External	10/03/2006	27
British Columbia Alliance for Accountable Mental Health and Addictions Services Michael Clague, Executive Coordinator		
British Columbia Chamber of Commerce Jon Garson, President and Chief Executive Officer, Policy Development and Communication		
British Columbia Real Estate Association Janet Cunningham, Chair, Government Relations Committee		
Canadian Manufacturers & Exporters - BC Division Werner Knittel, Vice-President, B.C. Division		
Coalition of Child Care Advocates of British Columbia Sharon Gregson, Chair		
Fraser Valley KAIROS Group Kim Brandt, Representative		
Greater Vancouver Regional District Verna Semotuk, Senior Planner, Policy and Planning Department		
Greater Vancouver Transportation Authority Robert Paddon, Vice-President, Corporate and Public Affairs		
GrowthWorks Capital Ltd. David Levi, President and Chief Executive Officer		
Human Early Learning Partnership Paul Kershaw, Researcher		
Indian Taxation Advisory Board Manny Jules, Chair		

Organizations and Individuals	Date	Meeting
Kids First Parent Association of Canada Helen Ward, President	10/03/2006	27
New Media BC Lynda Brown, President		
Planned Lifetime Advocacy Network Susan Whittaker, Chair, Jack Styan, Executive Director		
Prince Rupert Port Authority Don Krusel, President and Chief Executive Officer		
Vancouver Board of Trade Janette Pantry, Director, Dave Park, Assistant Managing Director and Chief Economist		
BC Child Care Advocacy Forum Rita Chudnovsky, Facilitator	10/03/2006	28
British Columbia Council for International Cooperation Michael Loo, Director		
First Call: BC Child and Youth Advocacy Coalition Michael Goldberg, Chair		
Forest Products Association of Canada Avrim Lazar, President and Chief Executive Officer		
Genome British Columbia Alan Winter, President		
Hydrogen and Fuel Cells Canada John Tak, President and Chief Executive Officer		
Muscular Dystrophy Canada Ken Kramer, Chair		
RESULTS Canada Blaise Salmon, President		
Tenant's Rights Action Coalition Martha Lewis, Executive Director		
Alberta Association of Colleges and Technical Institutes Sam Shaw, President, Alberta Council of Presidents Doug MacRae, Executive Director	10/04/2006	29
Canadian Booksellers Association Steve Budnarchuk, President		

Organizations and Individuals	Date	Meeting
Fitness Industry Council of Canada David Hardy, President	10/04/2006	29
Fort McMurray Chamber of Commerce Mike Allen, President		
Mothers On The Rampage Beverley Smith, President		
Northern Lights Health Region Bernie Blais, Chief Executive Officer		
Regional Municipality of Wood Buffalo Melissa Blake, Mayor		
TELUS World of Science-Calgary Bill Peters, President		
University of Alberta Indira Samarasekera, President		
Canada West Equipment Dealers Association John Schmeiser, Executive Vice-President	10/05/2006	30
Canadian Fertilizer Institute Clyde Graham, Vice-President, Strategy and Alliances		
Canadian Nurses Association Marlene Smadu, President		
Council of CEOs of Saskatchewan's Regional Colleges Bryan Nylander, Chair		
Federation of Canadian Municipalities Gord Steeves, First Vice-President and Councillor, City of Winnipeg James Knight, Chief Executive Officer		
Genome Prairie Lisa Jategaonkar, Director of Communications		
Regina Airport Authority, Inc. Rob Slinger, Chief Executive Officer		
Saskatchewan Association of Rural Municipalities David Marit, President		
Saskatchewan Chamber of Commerce Colin Taylor, Co-Chair, Investment and Growth Committee		

Saskatchewan Council for International Cooperation Hamid Javed, Chair, Board of Directors	10/05/2006	30
Saskatchewan Union of Nurses Marlene Brown, First Vice-President		
Association of Manitoba Municipalities Lorne Boguski, Urban Vice-President	10/06/2006	31
Brandon University Louis Visentin, President and Vice-Chancellor		
Canadian Mental Health Association - Central (Manitoba) Region Don Boddy, President, CMHA - Central		
Child Care Advocacy Association of Canada Donna Riddell, Board Representative		
Child Care Coalition of Manitoba Susan Prentice, Member, Steering Committee		
ENSIS Growth Fund Inc. O. Ken Bicknell, Vice-President		
Lourdéon Wellness Centre Paul Cenerini, Chair, Steering Committee		
Manitoba Chambers of Commerce Graham Starmer, President		
Manitoba Child Care Association Karen Ohlson, President		
Manitoba Government and General Employees Union Gay Pagan, Organizer		
Manitoba Hotel Association Leo Ledohowski, President and Chief Executive Officer		
Red River College of Applied Arts, Science & Technology Jeff Zabudsky, President and Chief Executive Officer		
Social Planning Council of Winnipeg Sid Frankel, Member, Board of Directors		
SpeciaLink – The National Centre for Child Care Inclusion Debra Mayer, Project Manager		
University of Manitoba Emõke Szathmáry, President and Vice-Chancellor		

Organizations and Individuals	Date	Meeting
University of Winnipeg Hon. Lloyd Axworthy, President and Vice-Chancellor	10/06/2006	31
Winnipeg Chamber of Commerce Trevor Sprague, Chair		
As Individual Daniel Brant	10/16/2006	32
ACTRA - National Barry Blake, National Councillor		
Canadian Dental Association Andrew Jones, Director, Corporate and Government Relations		
Canadian Electricity Association Hans Konow, President and Chief Executive Officer		
Canadian Federation for the Humanities and Social Sciences Donald Fisher, President		
Canadian Federation of Agriculture Bob Friesen, President		
Canadian Retail Building Supply Council David Campbell, President, Canadian Lumber and Building Materials Association of Ontario		
Certified Management Accountants of Canada Michael Tinkler, Vice-Chair, Board of Directors		
Chronic Disease Prevention Alliance of Canada Jean Harvey, Interim Executive Director		
Green Budget Coalition Andrew Van Iterson, Program Manager		
Purchasing Management Association of Canada Robert Dye, President		
Retail Council of Canada Peter Woolford, Vice-President, Policy Development and Research		
United Steelworkers Ken Delaney, Research Department		
Action Canada for Population and Development Dina Epale, Public Affairs Officer	10/16/2006	33

Organizations and Individuals	Date	Meeting
Association of Canadian Publishers Jack Wayne, President, Canadian Scholars' Press Inc.	10/16/2006	33
Association of Consulting Engineers of Canada Claude Paul Boivin, President, National Office		
Canadian Association of Fire Chiefs Donald Warden, Fire Chief, Wasaga Beach		
Canadian Council of Professional Engineers Marie Lemay, Chief Executive Officer		
Canadian Health Food Association Valerie Bell, President		
Canadian Housing and Renewal Association Sharon Chisholm, Executive Director		
David Suzuki Foundation Pierre Sadik, Sustainability Specialist		
Dystonia Medical Research Foundation Canada Sarah Smith, National Director		
Enbridge Inc. Chuck Szmurlo, Vice-President, Energy Technology and Business Development		
Grape Growers of Ontario Debbie Zimmerman, Chief Executive Officer		
Horse Racing Alliance of Canada Michael Van Every, Chair		
Insurance Bureau of Canada Mark Yakabuski, Vice-President, Government Relations, Ottawa and General Manager		
ABC CANADA Literacy Foundation Margaret Eaton, President	10/17/2006	34
Aboriginal Institutes' Consortium Lu Ann Hill, Executive Director		
Canada's Association for the Fifty-Plus Judy Cutler, Director, Government and Media Relations William Gleberzon, Co-director, Government and Media Relations		

Organizations and Individuals	Date	Meeting
Canadian Alliance on Mental Illness and Mental Health Phil Upshall, National Executive Director	10/17/2006	34
Canadian Courier and Logistics Association Al Cormier, Executive Director, Electric Mobility Canada		
Canadian Worker Co-operative Federation Mark Goldblatt, President		
Conseil canadien de la coopération Michel Rouleau, Chair, Board of Directors		
Co-operative Housing Federation of Canada Ken Elliott, President		
Credit Union Central of Canada Mike Tarr, Chair, Board of Directors		
Investment Funds Institute of Canada Jamie Golombek, Chair, Taxation Working Group		
National Council of Welfare John Murphy, Chair		
Ontario Museum Association Gilles Séguin, Board Member		
Ottawa Centre for Research and Innovation Jeffrey Dale, President and Chief Executive Officer		
Alliance of Sector Councils Wendy Swedlove, Vice-Chair	10/17/2006	35
Canadian Association of Student Financial Aid Administrators Suzanne Brunette, President, Student Awards Office Judy Dyck, Past President, Director Awards and Financial Aid		
Canadian Cancer Society Kenneth Kyle, Director, Public Issues		
Canadian Co-operative Association Carol Hunter, Executive Director		
Canadian Taxpayers Federation John Williamson, Federal Director		

Organizations and Individuals	Date	Meeting
Conference of Defence Associations Richard Evraire, Chair Brian MacDonald, Senior Defence Analyst	10/17/2006	35
Co-operators Group Frank Bomben, Manager, Government Relations		
Co-operators Group Martin-Éric Tremblay, Senior Vice-President		
National Housing and Homelessness Network Michael Shapcott, Co-Chair		
Orchestras Canada Katherine Carleton, Executive Director		
Precarn Incorporated Paul Johnston, President and Chief Executive Officer		
Prospectors and Developers Association of Canada Patricia Dillon, President		
Queen's University Karen Hitchcock, Principal and Vice-Chancellor		
Association of Colleges of Applied Arts and Technology of Ontario Robert Gillett, President Algonquin College and ACAATO Member	10/18/2006	36
Canadian Airports Council Jim Facette, President and Chief Executive Officer		
Canadian Council of Chief Executives David Stewart-Patterson, Executive Vice-President		
Canadian Printing Industries Association Ward Griffin, Immediate Past President		
Canadian Real Estate Association Pierre Beauchamp, Chief Executive Officer James McKellar, Advisor		
Certified General Accountants Association of Canada Everett Colby, Chair, Tax and Fiscal Policy Committee		
College Student Alliance Tyler Charlebois, Director of Advocacy		

Organizations and Individuals	Date	Meeting
Families Matter Co-operative Inc. John Toft, Secretary	10/18/2006	36
Genworth Financial Canada Peter Vukanovich, President and Chief Executive Officer		
National Pensioners and Senior Citizens Federation Art Field, President		
Association of Canadian Duty-Free Operators Chuck Loewen, President, Frontier Duty Free Association	10/19/2006	37
Biotechnology Human Resource Council Colette Rivet, Executive Director		
Canadian Festivals Coalition Luc Fournier, Spokesperson		
Canadian Foundation for Economic Education Gary Rabbior, President		
Centre for Science in the Public Interest Bill Jeffery, National Coordinator		
Computers for Schools John May, Chair		
Investment Counsel Association of Canada Thomas Johnston, Executive Director		
Mining Association of Canada Paul Stothart, Vice President, Economic Affairs		
Odyssey Showcase Deborah Davis, Executive Director		
Parkinson Society Canada Joyce Gordon, Executive Director		
Pembina Institute Amy Taylor, Program Director		
Quinte United Immigrant Services Orlando Ferro, Executive Director		
Social Sciences and Humanities Research Council of Canada Chad Gaffield, President		

Organizations and Individuals	Date	Meeting
Writers Guild of Canada Sugith Varughese, Councillor	10/19/2006	37
Association of Cultural Industries of Newfoundland and Labrador Danielle Irvine, Executive Director	10/23/2006	39
Atlantic Canada Airports Association Rob Robichaud, President and Chief Executive Officer Patricia Devine, Executive Director		
Atlantic Policy Congress of First Nation Chiefs Secretariat Inc. John Paul, Executive Director		
Community Services Council Newfoundland and Labrador Penelope Rowe, Chief Executive Officer		
GrowthWorks Atlantic Ltd. Thomas Hayes, President and Chief Executive Officer		
Newfoundland and Labrador Chamber of Mineral Resources Gerry O'Connell, Executive Director		
Newfoundland and Labrador Federation of Agriculture Mervin Wiseman, President		
Newfoundland and Labrador Science Centre Nancy Griffiths, Executive Director		
Newfoundland Ocean Industries Association Ted Howell, President and Chief Executive Officer		
Society of Rural Physicians of Canada Michael Jong, President John Rourke, Dean of the Faculty of Medicine, Memorial University of Newfoundland		
St. John's Board of Trade Ken Birmingham, Chair, Finance and Taxation Policy Committee Mark King, Assistant General Manager, Policy and Communications		
Visual Artists Newfoundland and Labrador Marlene Creates, Co-Chair, Board of Directors		

Organizations and Individuals	Date	Meeting
Alliance of Nova Scotia Student Associations Spencer Keys, Executive Director	10/24/2006	40
Association of Nova Scotia University Teachers Chris Ferns, President		
Brain Injury Association of Nova Scotia Jane Warren, Interim President		
Canadian Federation of Students Chris Parsons, National Executive Representative		
Canadian Union of Public Employees Chris Ferns, Representative Local 3912		
Dalhousie University Jeanne Fay, Senior Lecturer School of Social Work		
Independent Media Arts Alliance Jennifer Dorner, National Director		
New Brunswick Business Council Donald Dennison, Executive Director		
North End Community Health Centre Paul O'Hara, Counsellor		
Nova Scotia Association of Social Workers Susan Nasser, Executive Director		
Nova Scotia Government and General Employees Union Ian Johnson, Policy Analyst, Researcher		
Response: A Thousand Voices Gayle McIntyre, Chair		
University of Prince Edward Island Katherine Schultz, Vice-President, Research and Development		
Association of Faculties of Medicine of Canada Nick Busing, President and Chief Executive Officer	10/24/2006	41
Canadian Association of Research Libraries William Maes, University Librarian		
Canadian Restaurant and Foodservices Association Robert Mckelvie, Chair		

Organizations and Individuals	Date	Meeting
Consortium of Women's Organizations of Nova Scotia Stella Lord, Representative, Co-Chair, Canadian Research Institute for the Advancement of Women	10/24/2006	41
Direct Sellers Association of Canada Ross Creber, President		
Face of Poverty Consultation Carolyn Earle, Co-chair		
Greater Halifax Partnership Fred Morley, Senior Vice President and Chief Economist		
Halifax Regional Municipality Dan English, Chief Administrative Officer		
JD Irving Limited Riley Pye, Vice-President, Administration		
Magazines Canada Jim Gourlay, Affiliated member		
New Brunswick Child Care Coalition Jody Dallaire, Coordinator		
New Brunswick Non-Profit Housing Association Alex Arseneau, Executive Director		
Nova Scotia Home Builders' Association Suzanne Bona, Past Président		
Spirits Canada / Association of Canadian Distillers Jan Westcott, President and Chief Executive Officer		
Sport Nova Scotia Jamie Ferguson, Chief Executive Officer		
Association of Obstetricians and Gynecologists of Quebec Diane Francoeur, President	10/25/2006	42
Canada's Research-Based Pharmaceutical Companies (Rx & D) Gilles Gagnon, President and Chief Executive Officer, Aeterna Zentaris Inc. Brigitte Nolet, Vice-President, Federal Affairs		
Chambre de commerce de Québec Alain Kirouac, General Director Denis Patry, President		

Organizations and Individuals	Date	Meeting
Confédération des syndicats nationaux Pierre Patry, Treasurer	10/25/2006	42
Genome Canada Martin Godbout, President and Chief Executive Officer		
Merck Frosst Canada Inc. Christian Blouin, Director, Public Health Policy and Government Relations		
Mouvement pour les arts et les lettres Bastien Gilbert, Chief Executive Officer, Regroupement des centres d'artistes autogérés du Québec Lorraine Hébert, Executive Director, Regroupement québécois de la danse		
Quebec Federation of Real Estate Boards Pierre Langlois, Director, Government operations		
Quebec Federation of University Students Trevor Hanna, Vice-President, Federal and International Affairs		
Association of CEGEPS of the Quebec City Region Denis Juneau, President		
Union des artistes Jack Robitaille, Vice-President		
University of Sherbrooke Luc Godbout, Professor		
Association of Canadian Community Colleges Serge Brasset, Executive Director	10/25/2006	43
Boîte à science Manon Théberge, Director General		
Canadian Arts Coalition Micheline McKay, Co-Chair Anne-Marie Jean, Executive Director		
Caisse Desjardins Group Yves Morency, Vice-President, Government Relations		
Fédération des cégeps Gaétan Boucher, Chief Executive Officer		
Front d'action populaire en réaménagement urbain Nicolas Lefebvre Legault, President François Saillant, Coordinator		

Organizations and Individuals	Date	Meeting
McGill University Heather Munroe-Blum, Principal and Vice-Chancellor	10/25/2006	43
Association des Propriétaires de Québec Marcel Tremblay, President		
Réseau SOLIDARITÉ Itinérance du Québec Nathalie Brisseau, Coordinator		
RIDEAU Colette Brouillé, Executive Director		
Union des producteurs agricoles Denis Bilodeau, Vice-President Serge Lebeau, Senior International Trade Manager		
Université Laval Michel Pigeon, President		
KAIROS: Canadian Ecumenical Justice Initiatives Michael Polanyi, Coordinator, Canadian Social Development Program	10/26/2006	44
Maple Leaf Foods Inc. Annalisa King, Senior Vice-President, Vertical Coordination		
Ontario Coalition for Better Child Care Elizabeth Ablett, Executive Director		
Ontario Municipal Social Services Association Rick Williams, President		
Seneca College of Applied Arts and Technology Rick Miner, President		
SenTax Daniel Braniff, Past Chairman and Co-founder		
Task Force on Modernizing Security for Working Age Adults Jill Black, Project Director and Co-Chair John Stapleton, Research Fellow and Co-Chair		
Toronto Board of Trade Cecil Bradley, Vice-President, Policy		
Toronto Disaster Relief Committee Rainer “Dri” Driemeyer, Steering Committee Member, Tanya Gulliver, Coordinator		

Organizations and Individuals	Date	Meeting
Toronto District School Board Bruce Davis, School Trustee, Ward 3 Etobicoke-Lakeshore	10/26/2006	44
Toronto Real Estate Board Calvin Weinfeld, Member, Government Relations Committee		
Union of Ontario Indians John Beaucage, Grand Council Chief, Anishinabek Nation		
Vengrowth Private Equity Partners Jay Heller, General Partner		
World Vision Canada Dave Toycen, President and Chief Executive Officer		
C.D. Howe Institute Finn Poschmann, Director of Research	10/26/2006	45
Campaign 2000 Laurel Rothman, Director, Social Reform and National Coordinator, Family Service Association of Toronto		
Campaign Against Child Poverty Caroline Di Giovanni, Director		
Canadian Children's Rights Council Grant Wilson, President		
Canadian Plastics Industry Association Atul Sharma, Chief Economist and Executive Director Ontario		
Canadian Vehicle Manufacturers' Association Mark Nantais, President		
Directors Guild of Canada Pamela Brand, National Executive Director and Chief Executive Officer		
Greater Kitchener Waterloo Chamber of Commerce Linda Korgemets, Senior, Management Tax, PricewaterhouseCoopers LLP Art Sinclair, Policy Analyst		
Greater Toronto Airports Authority John Kaldeway, President and Chief Executive Officer		
Greater Toronto Hotel Association Rod Seiling, President, Ontario Tourism Council		

Organizations and Individuals	Date	Meeting
Hospital for Sick Children Janet Rossant, Chief of Research	10/26/2006	45
Nishnawbe Aski Nation Alvin Fiddler, Deputy Grand Chief		
Opera.ca David Baile, Secretary-Treasurer		
Toronto Financial Services Alliance Janet Ecker, Executive Director		
Department of Finance Denis Gauthier, Assistant Deputy Minister, Economic Development and Corporate Finance Réal Bouchard, General Director, Federal-Provincial Relations and Social Policy Branch Serge Nadeau, General Director, Analysis, Tax Policy Branch Robert Dunlop, Acting General Director, Economic Development and Corporate Finance Gérard Lalonde, Assistant Director, Tax Legislation Division, Tax Policy Branch Colleen Barnes, Senior Chief Strategic, Planning and Trade, Financial Institutions Division Dan Calof, Senior Chief, Financial Sector Division Wayne Foster, Senior Chief, Financial Markets Division	11/07/2006	49

APPENDIX B
LIST OF BRIEFS

ABC CANADA Literacy Foundation

Aboriginal Institutes' Consortium

Action Canada for Population and Development

ACTRA - National

Affiliation of Multicultural Societies & Service Agencies of BC

Air Canada Pionairs

Air Canada

Air Transport Association of Canada

Alberta Association of Colleges and Technical Institutes

Alliance of Nova Scotia Student Associations

Alliance of Sector Councils

Alliance to End Homelessness

Alma Mater Society of the University of British Columbia

American Federation of Musicians of the United States and Canada

Assembly of First Nations

Association des Propriétaires de Québec Inc.

Association of Canadian Academic Healthcare Organizations

Association of Canadian Duty-Free Operators

Association of Canadian Community Colleges

Association of Canadian Publishers

Association of CEGEPS of the Quebec City Region

Association of Consulting Engineers of Canada

Association of Cultural Industries of Newfoundland and Labrador

Association of Equipment Manufacturers

Association of Faculties of Medicine of Canada

Association of Fundraising Professionals

Association of Labour Sponsored Investment Funds

Association of Manitoba Municipalities

Association of Municipalities of Ontario

Association of Nova Scotia University Teachers

Association of Obstetricians and Gynecologists of Quebec

Association of Universities and Colleges of Canada

Association of Yukon Communities

Association québécoise des organismes de coopération internationale

Atlantic Canada Airports Association

Atlantic Policy Congress of First Nation Chiefs Secretariat Inc.

Atlantic Provinces Community College Consortium

BC Child Care Advocacy Forum

Bell Canada Enterprises

Bell Pensioners' Group

BIOTECanada

Biotechnology Human Resource Council

Boîte à science

Brain Injury Association of Nova Scotia

Brandon University

Brewers Association of Canada

British Columbia Alliance for Accountable Mental Health and Addictions Services

British Columbia Chamber of Commerce

British Columbia Council for International Cooperation

British Columbia Real Estate Association

Business Group for Improved Federal SR & ED Tax Credits

Business Tax Reform Coalition

C.D. Howe Institute

Caisse Desjardins Group

Campaign 2000

Campaign Against Child Poverty

Canada Foundation for Innovation

Canada Millennium Scholarship Foundation

Canada West Equipment Dealers Association

Canada's Association for the Fifty-Plus

Canada's Research-Based Pharmaceutical Companies (Rx & D)

Canada's Venture Capital & Private Equity Association

Canadian Activists for Pension Splitting

Canadian Actors' Equity Association

Canadian Alliance of Student Associations

Canadian Alliance on Mental Illness and Mental Health

Canadian Arts Coalition

Canadian Association for Graduate Studies

Canadian Association of Chain Drug Stores

Canadian Association of Fire Chiefs

Canadian Association of Gift Planners

Canadian Association of Mutual Insurance Companies

Canadian Association of Petroleum Producers

Canadian Association of Railway Suppliers

Canadian Association of Research Libraries

Canadian Association of Retired Teachers

Canadian Association of Science Centres

Canadian Association of Student Financial Aid Administrators

Canadian Association of University Teachers

Canadian Automobile Association

Canadian Automobile Dealers Association

Canadian Bankers Association

Canadian Bar Association

Canadian Booksellers Association

Canadian Cancer Society

Canadian Centre for Emergency Preparedness

Canadian Centre for Policy Alternatives

Canadian Chamber of Commerce

Canadian Chemical Producers' Association

Canadian Child Care Federation

Canadian Children's Rights Council

Canadian Coalition for Action on Tobacco

Canadian Coalition for Immunization Awareness and Promotion

Canadian Conference of the Arts

Canadian Consortium for Research

Canadian Construction Association

Canadian Co-operative Association

Canadian Council for International Co-operation

Canadian Council of Chief Executives

Canadian Council of Professional Engineers

Canadian Courier and Logistics Association

Canadian Dental Association

Canadian Dental Hygienists Association

Canadian Diabetes Association

Canadian Electricity Association

Canadian Federation for the Humanities and Social Sciences

Canadian Federation of Agriculture

Canadian Federation of Independent Business

Canadian Federation of Nurses Unions

Canadian Federation of Students - National Office

Canadian Federation of Students

Canadian Federation of University Women

Canadian Fertilizer Institute

Canadian Festivals Coalition

Canadian Foundation for Climate and Atmospheric Sciences

Canadian Foundation for Economic Education

Canadian Gas Association

Canadian Hardware & Housewares Manufacturers Association

Canadian Health Food Association

Canadian Healthcare Association

Canadian Home Builders' Association

Canadian Housing and Renewal Association

Canadian Immigrant Settlement Sector Alliance (CISSA)

Canadian Independent Record Production Association

Canadian Institute of Actuaries

Canadian Institute of Chartered Accountants

Canadian Institutes of Health Research

Canadian International Polar Year National Committee

Canadian Labour Congress

Canadian Library Association

Canadian Life and Health Insurance Association Inc.

Canadian Lung Association

Canadian Manufacturers & Exporters - BC Division

Canadian Manufacturers & Exporters - Ontario Division

Canadian Manufacturers & Exporters

Canadian Meat Council

Canadian Medical Association

Canadian Mental Health Association - Central (Manitoba) Region

Canadian Mental Health Association

Canadian Museums Association

Canadian Nurses Association

Canadian Paediatric Society

Canadian Parks and Wilderness Society

Canadian Pharmacists Association

Canadian Plastics Industry Association

Canadian Printing Industries Association

Canadian Public Health Association

Canadian Real Estate Association

Canadian Renewable Fuels Association

Canadian Restaurant and Foodservices Association

Canadian Retail Building Supply Council

Canadian School Boards Association

Canadian Space Industry Executives

Canadian Taxpayers Federation

Canadian Teachers' Federation

Canadian Trucking Alliance

Canadian Union of Public Employees

Canadian Union of Public Employees – Local 3912

Canadian Urban Transit Association

Canadian Vehicle Manufacturers' Association

Canadian Vintners Association

Canadian Worker Co-operative Federation

Care of the Child Coalition

Centre for Science in the Public Interest

Certified General Accountants Association of Canada

Certified Management Accountants of Canada

Chambre de commerce de Québec

Chambre de commerce des entrepreneurs de Québec

Child Care Advocacy Association of Canada

Child Care Advocacy Association of Canada

Child Care Coalition of Manitoba

Chronic Disease Prevention Alliance of Canada

Citizens for Public Justice

City of Calgary

City of Fort St. John

City of Saskatoon

Coalition for Canadian Astronomy

Coalition of Child Care Advocates of British Columbia

College Student Alliance

Communities for Children

Community Foundations of Canada

Community Services Council Newfoundland and Labrador

Computers for Schools

Confédération des syndicats nationaux

Conference of Defence Associations

Conseil canadien de la coopération

Consortium of Women's Organizations of Nova Scotia

Co-operative Housing Federation of Canada

Co-operators Group

Council of CEOs of Saskatchewan's Regional Colleges

Council of Yukon First Nations

Credit Union Central of Canada

Cultural Human Resources Council

Dalhousie University

David Suzuki Foundation

Direct Energy

Direct Sellers Association of Canada

Directors Guild of Canada

Ducks Unlimited Canada

Dystonia Medical Research Foundation Canada

Elderly RCMP Widows — Verne McComas

Enbridge Inc.

ENSIS Growth Fund Inc.

Face of Poverty Consultation

Families Matter Co-operative Inc.

Federal Superannuates National Association

Fédération des cégeps

Federation of Canadian Municipalities

Federation of Medical Women of Canada

Federation of Mutual Fund Dealers

First Call: BC Child and Youth Advocacy Coalition

Fitness Industry Council of Canada

Forest Products Association of Canada

Fort McMurray Chamber of Commerce

Fraser Valley KAIROS Group

Friends of Canadian Broadcasting

Front d'action populaire en réaménagement urbain

General Motors Salaried Retirees Association

Genome British Columbia

Genome Canada

Genome Prairie

Genworth Financial Canada

Grape Growers of Ontario

Greater Kitchener Waterloo Chamber of Commerce

Greater Toronto Airports Authority

Greater Toronto Hotel Association

Greater Vancouver Regional District

Greater Vancouver Transportation Authority

Green Budget Coalition

GrowthWorks Atlantic Ltd.

GrowthWorks Capital Ltd.

Halifax Chamber of Commerce

Halifax Regional Municipality

Health Charities Coalition of Canada

Health Partners International of Canada

Heart and Stroke Foundation of Canada

Heritage Canada Foundation

Horse Racing Alliance of Canada

Hospital for Sick Children

Hotel Association of Canada

Human Early Learning Partnership

Hydrogen and Fuel Cells Canada

Imagine Canada

Independent Media Arts Alliance

Indian Taxation Advisory Board

Information Technology Association of Canada

Insurance Bureau of Canada

International Association of Fire Fighters

International Social Service Canada

Intuit Canada

Investment Counsel Association of Canada

Investment Funds Institute of Canada

JD Irving Limited

Juvenile Diabetes Research Foundation

KAIROS: Canadian Ecumenical Justice Initiatives

Kids First Parent Association of Canada

Literary Press Group of Canada

Living Oceans Society

Lourdéon Wellness Centre

MacBride Museum

Magazines Canada

Make Poverty History

Makivik Corporation/ Kativik Regional Government

Manitoba Chambers of Commerce

Manitoba Child Care Association

Manitoba Government and General Employees Union

Manitoba Hotel Association

Maple Leaf Foods Inc.

McGill University

McMaster University

Merck Frosst Canada Inc.

Mining Association of Canada

Mothers On The Rampage

Mouvement pour les arts et les lettres

Multiple Sclerosis Society of Canada

Muscular Dystrophy Canada

National Anti-Poverty Organization

National Association of Friendship Centres

National Association of Indigenous Institutes of Higher Learning

National Children's Alliance

National Council of Welfare

National Housing and Homelessness Network

National Pensioners and Senior Citizens Federation

National Roundtable on Poverty and Homelessness

Natural Sciences and Engineering Research Council of Canada

New Brunswick Business Council

New Brunswick Child Care Coalition

New Brunswick Non-Profit Housing Association

New Media BC

Newfoundland and Labrador Chamber of Mineral Resources

Newfoundland and Labrador Federation of Agriculture

Newfoundland and Labrador Science Centre

Newfoundland Ocean Industries Association

Nishnawbe Aski Nation

North End Community Health Centre

Northern Alberta Institute of Technology

Northern Lights Health Region

Northern Native Broadcasting, Yukon

Nova Scotia Association of Social Workers

Nova Scotia Government and General Employees Union

Nova Scotia Home Builders' Association

Nunavut Association of Municipalities

Nunavut Tunngavik Incorporated

Odyssey Showcase

Ontario Chamber of Commerce

Ontario Coalition for Better Child Care

Ontario Municipal Social Services Association

Ontario Museum Association

Ontario Tourism Council

Ontario Undergraduate Student Alliance

Opera.ca

Orchestras Canada

Ottawa Centre for Research and Innovation

Parkinson Society Canada

Partnership Group for Science and Engineering

Pauktuutit Inuit Women of Canada

Pembina Institute

Philanthropic Foundations Canada

Planned Lifetime Advocacy Network

Police Association of Ontario

Polytechnics Canada

Portage Day Care Center

Precarn Incorporated

Prince Rupert Port Authority

Prospectors and Developers Association of Canada

Provincial Building and Construction Trades Council of Ontario

Purchasing Management Association of Canada

Quebec Federation of Real Estate Boards

Quebec Federation of University Students

Queen's University

Quinte United Immigrant Services

Railway Association of Canada

Real Property Association of Canada

REAL Women of Canada

Red River College of Applied Arts, Science & Technology

Regina Airport Authority

Regional Municipality of Wood Buffalo

Registered Nurses' Association of Ontario

Research Canada: An Alliance for Health Discovery

Réseau SOLIDARITÉ Itinérance du Québec

RESP Dealers Association of Canada

Response: A Thousand Voices

RESULTS Canada

Retail Council of Canada

Retirement Income Coalition

RIDEAU

The Road and Infrastructure Program of Canada

Royal Canadian Legion

Saskatchewan Association of Rural Municipalities

Saskatchewan Chamber of Commerce

Saskatchewan Council for International Cooperation

Saskatchewan Union of Nurses

Seneca College of Applied Arts and Technology

SenTax

Social Planning Council of Winnipeg

Social Sciences and Humanities Research Council of Canada

Society of Obstetricians and Gynaecologists of Canada

Society of Rural Physicians of Canada

SpeciaLink – The National Centre for Child Care Inclusion

Spirits Canada / Association of Canadian Distillers

Sport Matters Group

Sport Nova Scotia

St. Christopher House

St. John's Board of Trade

Sustained Poverty Reduction Initiative

Tax Executives Institute, Inc.

TELUS World of Science-Calgary

Tenant’s Rights Action Coalition

TLC Centre Inc.

Toronto Board of Trade

Toronto City Summit Alliance

Toronto Disaster Relief Committee

Toronto District School Board

Toronto Financial Services Alliance

Toronto Real Estate Board

Tourism Industry Association of Canada

Town of Morden

Union des artistes

Union des producteurs agricoles

Union of Ontario Indians

United Steelworkers

United Way of Canada

Université de Sherbrooke

University of Alberta

University of Manitoba

University of Montréal

University of Ottawa

University of Prince Edward Island

University of Winnipeg

Vancouver Board of Trade

Visual Artists Newfoundland and Labrador

VON Canada

WestJet

Winnipeg Chamber of Commerce

World Vision Canada

Writers Guild of Canada

Writers' Union of Canada

Yukon Childcare Association

Yukon College

Yukon Conservation Society

Yukon Council on Aging

Yukon Historical and Museums Association

Yukon Literacy Coalition

A copy of the relevant Minutes of Proceedings (*Meetings Nos.15 to 37, 39 to 45, 49, 51 and 54)* is tabled.

Respectfully submitted,

Brian Pallister, M.P.
Chair

SUPPLEMENTARY OPINION OF THE CONSERVATIVE PARTY OF CANADA

During a five-week period, the House of Commons Standing Committee on Finance travelled the country and heard from hundreds of witnesses. Witnesses were asked to provide suggestions to improve "Canada's Place in a Competitive World".

While the Conservative Party supports the majority of the recommendations in this report, we feel that several threaten to diminish the report's overall intent as well as the progress already being made by Canada's New Government. It is for this reason that the Conservative Party feels it necessary to provide a supplementary opinion.

The government is committed to restraining the rate of growth in spending to a more sustainable level. Debt is being paid down. Canada is in a position to tackle the ongoing problems of productivity and competitiveness. The foundations for a strong future are being established.

The Conservative Party believes that it is important to have recommendations that are affordable, realistic, principled and most importantly, relevant to the issues that concerned the witnesses and the choice of Canadians who asked for change just 11 months ago.

Moving Forward

Last May, Canada's New Government delivered a budget that substantially reduced the tax burden for individual Canadians and business, and provided value for money.

While the Committee does provide some positive recommendations, it does not reflect the many submissions and presentations in support of these changes and evidence pointing to the positive results for Canadians. For that reason we oppose a number of recommendations.

For example, the Committee opposition members say they oppose another cut to the GST. This despite calls for such a cut both from business and low-income Canadians.

> (That) one policy move by the government (GST cut) did more than twice as much for Canadians' real disposable incomes than they'd been able to do for themselves over the last 15 years, and more than was done for themselves in a strong economy in 2005. This was a very powerful tool for increasing the incomes of Canadians.
>
> Peter Woolford, Retail Council of Canada, October 16, 2006

We do not support recommendations that direct money to advocacy rather than results, that resuscitate a child care plan that never created any spaces, or return to a flawed environmental plan that led to a 35% increase in greenhouse gas emissions.

There is no consistency within the opposition's attempt to roll back the tax reductions found in Budget 2006. Would they cancel the Fitness Tax Credit, the Transit Pass Tax Credit, and the reduction of the GST by 1% or the $1,000 Canada Employment Credit? Their recommendations do not account for how to pay for a host of recommendations that will cost Canadians billions of dollars.

Responsible Spending

During the last 5 years under the previous government, total program spending grew by an average of 8.2% annually. In 2004-05, growth in spending reached 14.4%. This growth was neither sustainable nor desirable. That is why we support the New Government's plan to hold spending increases to 5.4% in 2006-07 and 4.1% in 2007-08. The Conservative Party therefore welcomes the Committee's recommendation to introduce a mechanism to review federal tax and program expenditures.

Specifically, we want Budget 2007 to focus on value for money invested in tourism, literacy, aboriginals, the environment, and the child care spaces initiative; on implementing a national museum strategy rather than short-term, inconsistent funding; and ensure that the CBC and Radio-Canada continue to perform their vital role as national public service broadcasters.

Reducing the Tax Burden for All Canadians

> The message we want to send is that you should continue in this direction (cutting taxes). That will improve productivity, which will enhance the wealth of businesses, individuals and the government, because tax revenues will increase. So we encourage you to continue along this path. You mustn't stop; you must even go further in order to achieve the competitiveness levels of our main neighbors.
>
> Yves Morency, Vice-President, Caisse Desjardins Group, October 25, 2006

We endorse recommendations in the report calling for continued reductions in personal and corporate taxes. That is why we not only support reductions to personal income taxes but a further reduction to the GST within the next 4 years, corporate tax reductions, and tax incentives to encourage work. We also recommend that the government consider effective and fiscally sustainable approaches to reducing taxes on saving, including taxes on capital gains.

Paying Down Canada's Mortgage

The Conservative Party supports the Committee's recommendation to continue to pay down debt. We are also supportive of the government making a real commitment to ongoing debt repayment and the elimination of net debt by 2021.

Several witnesses lauded the recent $13.2 billion pay-down on the national debt and pushed the committee to continue this prudent fiscal management. Currently, the Federal and Provincial governments spend as much of their budgets on interest payments as they do on education: $55 billion.

> I think it's extraordinarily important that in periods when revenues are a little stronger than anticipated, that we use that opportunity to pay down debt. That's how the system is supposed to work... As I've said before, it's very important, this is important not only for the Government of Canada but it's important in provinces where there is very large revenue growth to take the opportunity to either pay down debt or put money aside for the future. That helps in the short run. It really helps in the long run.
>
> David Dodge, Governor of the Bank of Canada, October 19, 2006

We regret that the opposition ignored the spin-offs of such a plan and opposed the allocation of all unallocated surpluses to debt. The recent pay-down means permanent annual savings of almost $700 million a year – a total that will increase as government continues to tackle the debt.

Productivity and Competitiveness – Results and Excellence

> In 1998, Canada stood sixth in this ranking of our business competitiveness and in 2001 we stood 11th. Over the years we've drifted down in the rankings as countries like Norway and Japan have stepped up their competitiveness.
>
> Roger Martin, Chairman of the Institute for Competitiveness & Prosperity
> Dean of the Rotman School of Management, September, 2006

Budget 2006 made great strides in addressing ongoing productivity and competitiveness challenges.

We are therefore encouraged by the committee's recognition of the need to re-invest in research and development and in post-secondary education with a dedicated transfer. We believe that spending in these areas must focus on results and excellence, focusing our attention on what governments and the private sectors do best. Investments in R&D should be targeted to areas where Canada has the potential to be a world leader, such as energy, environmental technologies, and health sciences.

We encourage the government to explore public-private partnerships, strengthening links between universities, colleges and the private sector. In order for commercialization of research to become a priority we must better align the needs of businesses with Canada's post-secondary educations research capacity.

Fiscal Balance

Intricately linked to improving Canada's place in a competitive world is action to restore fiscal balance.

Canada's New Government has long recognized the existence of a fiscal imbalance between the federal government and provincial governments. The report includes several measures that are part of a solution. However we believe that a stronger focus in this area needs to be done to ensure an efficient and competitive economic union and effective collaborative management of the federation including labour mobility.

A strong and prosperous economic union is essential if we are to remain ahead of the productivity and competitiveness curve.

Creating Equal Opportunities for Canadians

We heard from witnesses that federal spending designated to help disadvantaged Canadians is often lost in outdated bureaucracy. The spending is often funneled through programs that have outlived their purpose or not achieving intended results.

The Conservative Party is concerned that the final report of the Standing Committee is out of balance. A number of opposition-led recommendations added together suggest a return to larger government and unfocussed spending. But what we heard from witnesses is not consistent with parts of the report. We heard that government should lower taxes to create incentives and opportunities for Canadians to work, save and succeed. Submission after submission confirmed for the Committee that administrative programs that focused only on advocacy do nothing to address the delivery of needed services.

Advocacy was the staple of the previous government. We are taking practical steps to deliver real childcare spaces and choices, real literacy results and assistance for women, not more regional offices and studies.

In particular, the Conservative Party agrees with the calls for a Working Income Tax Benefit to help low- and modest-income Canadians get ahead and get over the welfare wall, as well as for continued streamlined investments for aboriginals, the implementation of the Clean Air Act, reform of our international development assistance, and agricultural programs that make it to the farm gate.

Conclusion

Our supplementary report is dedicated to improving Canada's competitiveness and requires a focused forward-looking vision. Ours is a plan that the government can act on.

Standing Committee on Finance
Diane Ablonczy, M.P., Parliamentary Secretary to the Minister of Finance
Dean Del Mastro, M.P.
Rick Dykstra, M.P.
Mike Wallace, M.P.

LIBERAL DISSENTING OPINION

The Liberal Members of the Standing Committee on Finance would like to re-iterate their appreciation to the hundreds of Canadians who appeared before the committee to share their thoughts and insights. We would also like to thank the Clerk of the Committee for co-ordinating the process as well as the Committee's research and support staff for their countless hours of work.

Thanks to the tremendous efforts by everyone involved, the pre-budget report contains many useful recommendations that we hope will be considered for the 2007 budget.

The theme for this year's pre-budget consultations was competitiveness. While Canada's fiscal track record for the past decade has been impressive, our competitiveness must always be measured against the countries with which we compete. The Liberal Members of the Finance Committee believe that government has a creative roll to play is fostering the right conditions for a competitive and prosperous Canada.

Not all the recommendations made to the committee could be included in the report. As a result we, the Liberal Members, have prepared this minority report containing further recommendations which we urge the Minister of Finance to give serious consideration to.

Sustainable Development:

As the testimony heard by the Committee demonstrates, it is increasingly accepted that the country's economic development should not be at the expense of the environment. Yet this report says nothing about various concerns regarding the environment expressed by Canadians and Liberal MPs who are members of the Standing Committee on Finance. Among the recommendations of the Green Budget Coalition, which comprises 20 environmental and conservation organizations, we wish to put forward the following to address this shortcoming:

a) Accelerate the government's review of the Canada Environmental Protection Act (CEPA) and study the possibility of instituting a 'toxics charge' for violators of CEPA;

b) Renew the Canadian government's commitment to the Species At Risk Act (SARA) and ensure the effective implementation of SARA's mandate;

c) Significantly invest to effectively restore, protect and enhance the environment of the Great Lakes and St. Lawrence Region;

d) Significantly invest in an Oceans Agenda for Canada in order to complete a national system of marine protected areas and to develop and implement integrated oceans management plans for Canada's oceans;

e) Implement a greenhouse gas emissions targets-and-trading system for heavy industry, domestic aviation and other large emitters, to come into operation no later than January 1, 2008.

Commercialization:

To ensure that increased investment in research and development produces commercial success, the Liberal MPs who are members of the Standing Committee on Finance believe the government should take the necessary measures to promote commercialization. Specifically, we recommend the following measures:

a) Create a business-led commercialization partnership board to review the various proposals for commercialization programs, including :
   - The creation of a post-secondary education research development and commercialization support fund, which would aim to strengthen the innovative and commercialization capacities of applied research performed in all post-secondary education institutions;
   - The development of a program for Canadian entrepreneurship chairs that focuses on product development, market research and business management or early stage companies;

b) Reinstate and enhance the Social Economy Initiative to encourage the development of co-operatives and other community-based enterprises;

c) Remove the barriers to investment in Canadian venture capital by foreigners;

Health:

Liberal MPs who are members of the Standing Committee on Finance are sensitive to the health-related demands made by various witnesses appearing before the Committee. Specifically, we recommend the following:

a) Allocate necessary funding in order to accelerate the implementation of Canada Health Infoway;

b) Allocate 1% of the health budget towards initiatives and infrastructure that promote physical activity;

Infrastructure:

There are few things that can limit the growth of an economy and prosperity more than infrastructure that cannot support more growth. Whereas the Government's recent Fiscal Update called on the private sector to increase its investment in Canada's infrastructure, the Liberal Members of the Finance Committee believe that the government must take a lead role by:

a) Renewing the Prairie Grain Road Program;

b) Investing in connectivity improvements and the expansion of information and communication technologies in rural and remote areas;

c) Expand the types of infrastructure projects funded through the gas tax Agreement to include municipal initiatives for economic development, sport and recreational facilities such as parks, and cultural and other social infrastructure.

Taxation:

The Committee heard from various organizations that the Government's record on taxation has been moving Canada in the wrong direction. When asked if a second percentage point reduction in the GST was favourable, an overwhelming majority of the Committee's witnesses felt that it was not the best thing to do in terms of creating a competitive tax regime. The Liberal Members of the Finance committee urge the government to undertake the following:

a) Immediately increase Old Age Security and the Guaranteed Income Supplement;

b) Reinstate the Canada Child Tax Benefit Supplement for children under the age of six;

c) Accelerate the rate of increase for the Basic Personal Exemption;

d) Increase the Spousal Exemption to match the Basic Personal Exemption amount;

e) Institute a tax exemption for emergency volunteer workers.

Miscellaneous:

Finally, the Liberal MPs who are members of the Standing Committee on Finance feel compelled to act on other no less important issues raised during the consultations. We recommend the following:

a) Maintain the Canada Post's financial contribution to the Publications Assistance Program;

b) Restore cuts to women's programs at Status of Women and further increase funding by a minimum of 25 per cent;

c) Financially support the development of the Voluntary Gateway;

d) Amend the Employment Insurance Act to introduce a Yearly Basic Exemption in the amount of $3,000;

e) Make more funding available for colleges, CÉGEPs, vocational schools and institutes for infrastructure and modern equipment;

f) Financially support the Canadian Association of Science Centres;

g) Allocate funding necessary to ensure that equipment needed to be replaced by the Department of National Defence be sufficient in order for Canada to fulfill its military obligations;

h) Ask the Canadian Space Agency to immediately undertake a planning process involving the key stakeholders (government, industry, academia and international partners) to identify space based solutions and systems that best meet Canada's current needs and to submit funding options for Government consideration;

i) Support sector councils which bring together all the stakeholders to identify and implement industry-driven labour market solutions, in a focused and organized manner, sector by sector.

j) Work with provinces to establish and allocate proper funding to a national standards network to facilitate national credit and apprenticeship transfer and prior learning and recognition standards;

k) Transform the Northern Residents Deduction into a Refundable Tax Credit;

l) Continue the RAP program after March 31, 2007 and increase the maximum amount that can be withdrawn from RRSP from $20,000 to $25,000.

BLOC QUÉBÉCOIS DISSENTING OPINION

Report of the Standing Committee on Finance

The Report Does Not Meet Quebec Priorities

Despite some progress regarding the recommendations to re-establish funding cut by the Conservative government on September 25 (literacy, women's groups, Aboriginals, social economy, assistance to museums, open diplomacy, etc.) and renew energy efficiency programs, the Bloc Québécois in no way supports the general direction of the report adopted by the majority of the members of the Standing Committee on Finance because it fails to take into account the needs and concerns of the Quebec nation.

The Quebec nation

Even though the House of Commons passed the motion recognizing the existence of the Quebec nation, the Standing Committee on Finance refused to correct expressions using the word "national" and referring to Canada as a whole, which, we know, includes many nations, including the Quebec nation. Quebeckers are very proud of finally being recognized for who they are, but the federalists are offering absolutely nothing to the Quebec nation.

For example, the Bloc Québécois would have liked the recommendations of the Standing Committee on Finance to respect the constitutional jurisdictions of the provinces and Quebec, which most of the recommendations fail to do. Recommendations throughout the report allow the government to implement programs in areas that are exclusively under the jurisdiction of the provinces and Quebec, such as health, education, municipalities and securities. It is unfortunate that the Committee's report does not reflect what it heard, not only in Quebec City, but also in the Canadian cities where hearings were held.

The fiscal imbalance

A majority of the members on the Standing Committee on Finance rejected putting forward concrete solutions to correct the fiscal imbalance. The Bloc Québécois feels it would have been more responsible for the Committee to recommend that the federal government increase the health transfer so that it assumes 25% of health expenditures by the provinces and Quebec, on a recurring basis, which would represent an additional $1.7 billion in federal transfers for all of Canada and $400 million for Quebec.

The Bloc Québécois believes it would also have been more responsible for the Committee to recommend that the federal government increase transfers for social programs and post-secondary education to 1994–95 levels, that is, before the Liberal cuts. At the time, these payments corresponded to $10.6 billion. In the 2005–06 budget, the amount for social programs and post-secondary education totalled $8.4 billion. This $2.2 billion shortfall, indexed to inflation, today represents approximately $5 billion more for all of Canada and $1.2 billion for Quebec. This request for increased funding was supported by the post-secondary community, not only in Quebec but also across Canada.

On December 19 last year, during the election campaign, Stephen Harper committed himself to resolving the fiscal imbalance as soon as he won office. He made this solemn promise to all Quebeckers. He repeated it in the Speech from the Throne and the Budget Speech.

The Conservative government has an obligation to achieve results, and the next budget must contain the answers that Quebeckers are waiting for to decide whether the Conservative government has broken its promise to correct the fiscal imbalance.

According to the Séguin report, and in the opinion of a number of experts, the methods of resolving the fiscal imbalance are well known and the federal government has the means to do so, as demonstrated once again by the so-called "unexpected" surplus of $13 billion last year and the increase in federal spending. Over the past eight years, increases in federal spending totalled $235.5 billion and budget surpluses, $67.1 billion. In all, the federal government had an additional margin of $302.6 billion over 1997–98. Armed with these figures, the Standing Committee on Finance could have proposed savings we have assessed at $15.9 billion over three years, without cutting a single program, without cutting a single transfer and without laying off a single person, while continuing to recruit in a reasonable manner.

The Bloc Québécois is of the view that any solution to the fiscal imbalance must be based on certain principles:

- First, we must say no to piecemeal agreements. There must be a comprehensive agreement that covers all the aspects of the fiscal imbalance. For example, lowering the GST cannot be a factor in the equation unless it is part of an overall, concerted agreement reached between the federal government and Quebec and the provinces.

- Second, we must say no to excluding certain provinces or certain income sources from the calculation of equalization payments. Natural resources are the main reason for the disparity in fiscal capacity. The federal government's equalization program that is funded by all Quebec and Canadian taxpayers is intended to ensure equivalent quality and quantity of public services, regardless of the tax base. This is clearly not the case today, as the proportion of federal revenue that goes to equalization has dropped by 25% in 10 years. Using the most conservative estimates, an improvement to equalization that introduces the 10-province standard and that takes into account 100% of provinces' revenues, regardless of whether renewable natural resources are included, would increase equalization to $4.4 billion for Canada and $2.1 billion for Quebec.

- Finally, any solution that is found must be consistent with constitutional jurisdictions, and of course it must add to the financial resources of Quebec and the provinces.

Updating the figures in the Séguin report shows that there must be an increase in federal transfers of at least $12 billion for Canada as a whole and $3.9 billion for Quebec if a fair solution is to be reached. Last April 12, Québec's Minister of Finance, Michel Audet, also stated in the National Assembly that the fiscal imbalance totalled $3.8 billion and he concluded, and I quote, "that is what we asked for." Our request must be heard by Ottawa, and the first thing Ottawa must do is increase its direct transfers for health, postsecondary education and social programs.

Once the level of transfers reaches $3.9 million for Quebec, the transfer of the tax room corresponding to the transfers for health, postsecondary education and social programs together must be negotiated.

In the 1960s and 70s, the Government of Quebec managed to have tax fields transferred in its favour. Without this major breakthrough, the Quebec state and nation would never have been able to accomplish the Quiet Revolution.

Environment

The Bloc Québécois is delighted that the Standing Committee on Finance recommended reinstating and increasing funding for energy efficiency programs such as *EnerGuide* and renewable energy programs such as the *Wind Power Production Incentive*. However, we are deeply concerned that the Committee refused to recommend, while recognizing the objectives of the Kyoto Protocol, that the government reduce the capital cost allowance rate of 100% for tar sands projects to 25%, the rate for conventional oil and natural gas projects.

Corporate taxes

While we are very pleased that the Committee recommends introducing an accelerated deduction for railway equipment that reduces noise pollution and other types of pollution, the Bloc Québécois is deeply concerned that the Committee did not retain the idea of a study on making the scientific research and experimental development tax credit refundable. However, we are very happy with the recommendation to limit the use of tax havens by Canadian businesses and taxpayers.

School taxes

The Bloc Québécois supports the recommendation to provide a full rebate on the GST paid by universities, colleges, school boards and hospitals. However, the Committee should have recommended that the federal government withdraw the amendment to the *Excise Tax Act* to make the cancellation of the GST rebate retroactive for school boards in Quebec and Ontario. Lastly, the Bloc Québécois deplores the attitude of the Committee, which refused to include in its recommendation on a possible pan-Canadian grants and loans system the right of Quebec (which already has its own system) to opt out <u>with full compensation</u>.

Culture

While satisfied with the recommendation to increase funding to the Canada Council for the Arts to $300 million over two years, the Bloc Québécois is disappointed that the Committee refused to recommend that the federal government introduce a progressive measure already adopted by the Government of Quebec by eliminating the GST on books. Access to knowledge has such importance in a world where the knowledge economy dominates that it should be a given.

International assistance

The Bloc Québécois calls on the Conservative government to follow up on the recommendation that Canada shoulder its responsibilities by dedicating 0.7% of its GDP to international assistance.

The *boîte à science*

Finally, the Bloc Québécois deplores that the Committee did not retain the following recommendation: so that the 20 largest cities in Canada have a science centre, that the federal government fund the establishment of a science centre in Quebec City (the sixth largest city in Canada) as proposed by the ***boîte à science*** and the community by funding 50% of the project, as follows: $18 million in 2007 to build the centre and $2 million each year for 10 years for the centre's operation.

This would boost Canada's credibility on the international stage, which was seriously undermined by its withdrawal from the Kyoto Protocol.

Conclusion

Following the pre-budget consultations and in view of the disregard of the members of the Standing Committee on Finance for the needs and concerns of the Quebec nation, it appears to the Bloc Québécois members on the Committee that, now more than ever, a sovereign Quebec is the only option that will truly meet the challenges our nation faces.

NDP Supplemental Report to the Finance Committee Report on the Pre-Budget 2007 Consultation Judy Wasylycia-Leis, MP

This fall's pre-budget consultations saw more than 300 groups and individuals provide the Standing Committee on Finance with a wide variety of insightful and informative presentations aimed at meeting the needs of Canadians today and into the future. We are most grateful for their participation and guidance.

New Democrats have been actively pushing to open up the pre-budget consultation process to include the participation of more Canadians. In this respect, we were pleased that this year's cross-country hearings reached communities such as Whitehorse, Fort McMurray, St. John's and Portage-la-Prairie not normally included. However, much work still needs to be done to broaden the PBC process and engage Canadians. KAIROS reminded us that we have an opportunity to create space in the budgeting process for citizens of different backgrounds and views.

This year, the Committee had asked witnesses to focus especially, although not exclusively, on measures to increase Canadian competitiveness in the world.

The predominant message we received from across regions and across sectors was to look at 'competitiveness' from a broad perspective. We were told that if we are serious about meeting the very real challenge of keeping Canada competitive in the new world economy, we must not take a superficial approach simply equating economic competitiveness with lower corporate tax rates and higher profits, as advocated mainly by corporate interests. The overwhelming response advised that the key to improving our competitive position, instead, lies in enhancing Canadians' ability to participate fully in economic life and to contribute productively to their full potential. This should be achieved through investing in people together with targeted industrial investment.

Although the NDP successfully negotiated improvements in this regard during its drafting, the Committee's main report fails to reflect a significant number of proposals in its recommendations and we, accordingly, submit this supplementary report.

<u>The skill shortage impact</u>

Woven throughout the report are references to the growing shortage of skilled workers, but it narrowly focuses on stop-gap suggestions. For example, instead of addressing pressing issues of seniors' income security such as the protection of workplace pension benefits, enhancements to encourage defined benefit pension plans and increases to bring our basic senior income plans in line with today's needs, the report focuses almost exclusively on ways to encourage seniors to work longer.

The NDP believes this should not just be about incentives to get people to work longer. Many witnesses joined the NDP in looking to other, more effective solutions. These include both measures to enable skilled workers to participate in the workforce more easily and measures to help people develop the skills needed to meet ongoing and future needs.

We heard overwhelming support for a national child care program to enable parents caring for children – predominantly women – to bring their skills back into the active workforce either full or part-time, while still parenting responsibly. From Whitehorse to Halifax we heard appeal after appeal for significant budget action on child care financing moving toward a full, universal, regulated, non-profit child care program available to all parents across the country. In contrast to the exaggerated cost

claims of Conservative Committee members, witnesses proposed a phased-in approach calling for $1.3 billion in 2006 (including $500 million specifically for aboriginal programs), and an additional $250 million per year in the years following. While we did succeed in getting a recommendation on child care into the report, it is still missing any timeframe or action plan with new spaces that parents can count on. The NDP clearly sees this as a competitiveness priority.

Measures to develop skills are equally critical. Delivering qualified, skilled graduates to take up positions in the new economy is our best guarantee of remaining competitive. Last year's NDP budget provided $1.5 billion in additional funding for education and training. We need to build on that initiative. Federal education transfers have sunk below 10 percent of education costs and are nowhere close to levels preceding the vicious Liberal cuts of the mid-90s. Earlier this year, provincial and territorial governments set $4.9 billion as the amount needed to restore federal transfers for post-secondary education to 1992-3 levels. Witnesses told us we must move to increase funding in a dedicated transfer with clear, built-in accountability conditions

The NDP recognizes that Canada needs a comprehensive strategy to enable those currently not employed to develop new skills to help them enter or re-enter the workforce and contribute productively. Just as critical is the need for a strategy to enable those currently employed to upgrade their skills to meet new job demands – to keep pace and have the opportunity to get ahead. This need was identified repeatedly by witnesses representing business and others, yet constructive, innovative suggestions, such as those advanced by the Canadian Labour Congress and others, on the use of business training levies or the Employment Insurance fund — even for pilot projects — did not make it into the recommendations.

Unaccountable corporate tax breaks

Once again, corporate interests came to the Committee demanding across-the-board cuts in corporate taxation, falsely equating lower taxes and higher profits with competitiveness. Corporations have been basking in record profits over the past six years from the previous Liberal government's bonanza of corporate tax cuts. Profits have been running in the record 14 percent range. At the same time, the rate of corporate reinvestment has dropped to record lows. Only about one percent of GDP is flowing to research and development as a result. Canadians want results for corporate tax cuts. Like us, they are not impressed by corporate witnesses refusing to consider accountability requirements on future cuts and subsidies. On the basis of what we heard from witnesses, we recommend that a cost-benefit analysis be required to ensure that future tax cuts and subsidies will translate into new Canadian investments to boost competitiveness.

The Committee is keenly aware that the current government's promises and priorities have limited the resources available for budgeting. The cost of the GST reduction, the $3 billion committed to accelerated debt-reduction, financing shortened wait-times, and increased spending in certain areas such as military funding are among the reasons that economists as diverse as the Canadian Centre for Policy Alternatives and Global Insight have said that further tax cuts at this time may be ill-advised. Adamant government promises of further cuts on top of the corporate tax reductions outlined in its 2006 budget ought to be of particular concern to those who, like the NDP, are committed to keeping the budget out of deficit. Of course, this did not stop corporate interests from proposing just such widespread cuts to the Committee. The NDP is committed to maintaining a competitive tax regime such as we currently enjoy in relation to the US, our closest competitor. We also believe in accountability for spending tax dollars, whether on programs or tax measures. Canadians want to see results from corporate tax cuts.

A healthy population – healthy and prosperous communities

A healthy population and competitiveness go hand in hand. Canada's Medicare system is a major plus in attracting investment and skilled workers. The proof is in the bottom line. In the extremely competitive auto industry, for example, research found that health savings from our public health system cut auto makers' production costs by $1,380US per vehicle. This translates to $6 per hour per worker. This type of competitive health advantage applies throughout other industries. Skilled workers weighing competing job opportunities in Canada and the US will also surely factor in the individual health cost differential, with average US health premium costing more than $10,000. This report needs to reaffirm our commitment to a universal, not-for-profit, publicly-delivered health system as a key Canadian competitive advantage.

We were also told to fill in the gaps. We heard repeated calls to lay the foundation for a national Pharmacare program in this year's budget. A way to cut both individual health costs and the overall costs to the system, measures to reduce drug costs were left out of the recommendations. Although the report recommends a mental health strategy it falls short in terms of fully addressing the loss of competitive potential experienced by those with mental illness, chronic diseases and disabilities..

Witnesses told us that decent housing is just as fundamental to our well-being as health care and reminded us that Canada is the only prominent industrialized nation without a national housing strategy. The NDP Budget last year committed $1.6 billion of new money to housing. Based on what we heard at the hearings and on the government's recent actions (shifting financing to trust funds and indicating it may withdraw from the housing area altogether), we recommend that the federal government remain involved on a financial and policy basis in the full range of housing programs including social housing, co-operative housing, affordable home ownership and on-reserve housing.

Being competitive in the new economy

Canada's highly educated workforce makes us a potential leader in the new, knowledge-based 21st century economy. To grasp that opportunity requires federal government leadership, not government withdrawal. Witnesses tried to fill the Conservative economic strategy void and we were listening.

Based on what we heard, we recommend:

- Targeted incentives focused on industries where we can strengthen our competitiveness and create high quality jobs.
- A shift of subsidies from the oil and gas industries, with their $30 billion profits, toward environmentally sound industries. As the world comes to grip with climate change and takes steps toward renewable energy to fuel the new economy, Canada is well-positioned to become a world leader in green-technology industries. The window is small, however, and decisive federal action is needed.
- Collaboration with Aboriginal communities to invest in the social and hard infrastructural development needed to ensure their full participation in the new economy and able to contribute to Canada's competitive standing.
- Focused support for our manufacturing sector, reeling from the high dollar and slowing US economy. More than 200,000 jobs have been lost since 2002. Our neglect of our manufacturing sector and over-dependence on resource extraction and export is a giant economic step backwards. Increased support for the work of sectoral councils.

- Measures to grow our social economy as a means to develop strong, competitive, prosperous community and regional economies to attract and retain working families. Increased emphasis on co-operatives, micro-credit, and union-sponsored venture capital initiatives.
- Greater emphasis on community economic development, recognizing the critical role that women often play at the local level and increased support for Canada's grassroots network of cooperative enterprises and community entrepreneurs.
- Increased support for the arts and cultural and recreational initiatives to strengthen the competitive attraction of communities through a vibrant social infrastructure.
- Support for the family farm and long-term funding for sustainable agricultural support programs as a key element of any competitiveness strategy, which is glaringly absent from the report except for a concession we won to distinguish emergency relief from regular financial support.
- Recognition of immigration as fundamental to addressing Canada's severe skills shortage, including the overhaul of the immigration department and a clear, welcoming immigration policy that finally moves on the recognition of foreign credentials and includes an effective integration strategy.

The NDP approach to the new economy is an inclusive one that includes all Canadians in moving toward a competitive future together. We reject the divisive policies of the current and past governments wherein some Canadians benefit greatly and the majority depend on benefits eventually trickling down to them. How can we speak in this report of Canada as an internationally competitive nation blithely omitting references to Canada's northern, remote and rural communities and ignoring our appalling record on housing and Third World poverty conditions? In so doing, it supports the myth that trickle-down economics works. Not only does Canada have the resources to remove this blight from our reputation, but we have an obligation to address these conditions both at home and abroad.

Conclusion

There are many and varied criteria for measuring competitiveness. We were urged not to limit our study to corporate criteria alone. But even using the measure designed by the world's business elite, the World Economic Forum's Global Competitiveness Index, Canada is still 16th among industrialized nations and falling. The nations ranked at the top are not the ones with the lowest tax rates – nine of the 15 countries ahead of us have higher tax rates than we do. The leading competitors are the ones investing in their populations through education and training, innovation and technology and social program supports.

Clearly, the government's agenda of radical debt reduction and more corporate tax cuts together with additional program cuts is ideologically based and out of step with competition in the new economy. It's time we started to seriously plan, as a national government, how we intend to achieve our competitiveness goal and take our place as a leading nation in terms of economic prosperity grounded in ecological and humanitarian values.

MINUTES OF PROCEEDINGS

Tuesday, November 28, 2006
(Meeting No. 54)

The Standing Committee on Finance met *in camera* at 3:31 p.m. this day, in Room 253-D, Centre Block, the Chair, Brian Pallister, presiding.

Members of the Committee present: Diane Ablonczy, Dean Del Mastro, Rick Dykstra, Hon. John McCallum, Hon. John McKay, Massimo Pacetti, Brian Pallister, Pierre A. Paquette, Michael Savage, Thierry St-Cyr, Mike Wallace and Judy Wasylycia-Leis.

Acting Members present: Hon. Larry Bagnell for Hon. John McKay.

In attendance: *Standing Committee on Finance*: Shaila Anwar, Co-Clerk of the Committee. *Library of Parliament*: Philippe Bergevin, Analyst; June Dewetering, Principal; Alexandre Laurin, Analyst; Sheena Starky, Analyst; Larissa Smorag, Intern.

Pursuant to Standing Order 83.1, the Committee resumed its pre-budget consultations 2006.

The Committee resumed consideration of its draft report.

It was agreed, — That the draft report, as amended, be adopted.

It was agreed, — That the Chair, Clerk and analysts be authorized to make such grammatical and editorial changes as may be necessary without changing the substance of the report.

It was agreed, — That the Committee append to its report supplementary opinions from all Parties provided that they are translated, no more than 4 pages in length and submitted electronically to the Clerk of the Committee, no later than 4:00 p.m., on Tuesday, December 5, 2006.

It was agreed, — That the Chair present the report to the House.

It was agreed, — That the Clerk of the Committee, in consultation with the Chair, issue a news release immediately following tabling of the Report in the House of Commons.

It was agreed, — That the Chair present a Report to the House at the earliest opportunity requesting that, nothwithstanding the provisions of Standing Order 83.1, the Committee request that the deadline for tabling the Pre-Budget Consultation Report be extended to Thursday, December 7, 2006.

At 6:51 p.m., the Committee adjourned to the call of the Chair.

Elizabeth B. Kingston
Clerk of the Committee