



HOUSE OF COMMONS  
CHAMBRE DES COMMUNES  
CANADA

## **Standing Committee on Finance**

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FINA • NUMBER 107 • 1st SESSION • 42nd PARLIAMENT

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**EVIDENCE**

**Tuesday, September 26, 2017**

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**Chair**

**The Honourable Wayne Easter**



## Standing Committee on Finance

Tuesday, September 26, 2017

• (1530)

[English]

**The Chair (Hon. Wayne Easter (Malpeque, Lib.)):** We'll call the meeting to order.

Pursuant to Standing Order 83.1, we are undertaking pre-budget consultations in advance of the 2018 budget.

I want to thank all the witnesses for coming and also to thank those of you who sent in submissions prior to the middle of August. That's very helpful as well, and those submissions are on people's iPads.

Before we start, let me say that we have a vote at six o'clock. I'm not sure whether we were able to notify everyone in panel two, but I wonder whether we could try to do both panels and be complete at 5:55 p.m. If we started the second panel at 4:45 instead of 5:00, we could do that, because we're not far from the House; otherwise, we're going to have panel members sitting here waiting for half an hour or longer.

Would it be okay to try to do that?

**Some hon. members:** Agreed.

**The Chair:** I know members are always concise and keep their comments short—not panellists, but members—but maybe they could be a little more concise during this panel. That way, we could make up the time.

Welcome again, and thank you.

We'll start with the Macdonald-Laurier Institute and Mr. Philip Cross, who is a fellow of it.

**Mr. Philip Cross (Fellow, Macdonald-Laurier Institute):** Thank you. I'd first like to thank the committee for inviting me back, this time to address the very important question of how to boost innovation in the Canadian economy.

There are as many ways of measuring innovation as there are of defining it, but rather than dwell on how there is no accepted theory or measurement of innovation in economics, I will start by accepting that by almost any measure the Canadian economy lags in innovation.

Just listing the most innovative large companies in the world shows that they are the exclusive domain of the United States: Google, Amazon, Apple, Facebook, Tesla, Microsoft, and so on. These companies dominate and drive the accelerating pace of

technological innovation in today's world. This list does not even take into account U.S. dominance of new industries based on fracking and additive manufacturing techniques.

The dominance of American firms partly reflects features unique to American culture—the embrace of entrepreneurship, risk-taking, and the idea that change is inevitable and desirable—that the rest of the world, including Canada, needs to emulate.

Instilling those values, however, will take time. I will instead talk about what Canada can do in the short term to encourage innovation in our economy and our society.

It is worth reflecting on the fact that over half of our economy is either part of the government or is directly regulated by the government. In itself, government spending, including that on health and education, directly accounts for 44% of GDP. On top of this, another 10.5% of the economy is regulated by government, notably by limiting competition in four large industries that account for over 80% of the regulated sector: agriculture, in areas with supply management; finance, in which foreign bank operations in Canada are tightly restricted; telecommunications and broadcasting, with its control on telecom providers and Canadian content rules; and large parts of transportation, notably urban transit, taxis, and the post office. This list does not include sectors of the economy that are insulated from external competition by geography, notably the construction industry.

In a 2014 study for the Macdonald-Laurier Institute, I found that the rationale for regulation in these industries was increasingly outdated. Technological change alone is bypassing regulation in finance and the culture industries. This reflects a persistent weakness in government intervention, which rarely re-examines the rationale behind regulations for its ongoing relevance decades later.

Not very surprisingly, the government and heavily regulated sectors of the economy are not leaders in innovation. This situation reflects the way in which regulation has changed from direct oversight of prices to insulating industries from competition. Recall the list of the leading technological firms. All of them began by challenging or disrupting the conventional business model in their industry. Statistics Canada found that regulation creates barriers to entry and reduces the incentives to innovation and investment, while observing that industries that were deregulated in the 1980s and 1990s posted higher productivity growth than the rest of the business sector.

Some sectors of the Canadian economy have achieved high levels of productivity and hence are competitive on the world stage, notably manufacturing, natural resources, and some parts of retail and wholesale trade. It should not be surprising that export industries, which have to be productive to compete on the world stage, are rarely hampered by government regulation. Each of these industries has seen multifactor productivity growth of 5% to 10% over the past decade alone and has at least doubled productivity since the 1960s. Conversely, productivity has fallen in both transportation and construction, while a small rebound lately in finance still leaves its productivity at almost half its 1960s level.

Related to the lack of innovation in Canada is persistently low levels of business investment. Investment is important, since it embodies the latest technologies and gives our workers the tools to be more productive. Investment in Canada lags behind that of almost all the OECD region. Measured by the share of GDP allocated to investment, Canada invests less than every other country except the United Kingdom, despite the burst of investment in our energy sector—notably the oil sands—over the past decade. This reflects abysmally low levels of investment in machinery and equipment. Canada fares just as badly in the amount of capital each employee has to work with, as its average of almost \$9,000 U.S. was third last in the OECD and 50% lower than that in the U.S.

Instead of encouraging more in business investment, Canada seems to be doing everything possible to discourage it. Even as large investments in the oil sands are winding down, there is no offset from pipelines in eastern Canada or LNG terminals on the west coast as regulators dither over approval. Governments across the nation are raising the cost of doing business through higher taxes on everything from carbon to employees to capital.

Taken in isolation, none of these measures may seem significant, but taken together they send the message that there is little understanding in government circles of how the financial performance and reserves of the business sector in Canada have declined in recent years. In such an environment, it should not be surprising that firms are reluctant to invest in Canada. This reduces our ability to innovate and to sustain a high standard of living in the future.

Thank you.

• (1535)

**The Chair:** Thank you very much, Mr. Cross.

We'll turn now to the Canadian Association of Social Workers and Sally Guy, director of policy and strategy.

Go ahead.

**Ms. Sally Guy (Director of Policy and Strategy, Canadian Association of Social Workers):** Thanks very much.

On behalf of our board, and of course the social workers whom we represent across Canada, thank you for inviting the Canadian Association of Social Workers to this consultation.

Social workers know that when people are supported out of poverty, they're happier and healthier, but it's reflected in the economy, too. Dollars in the pockets of Canadians mean more spent on small businesses and in local economies. That's why our first recommendation is the adoption of a universal basic income

guarantee—what we call the UBIG—which we think has the potential to be the next leap forward for Canada.

The cost of current income support programs in Canada is close to \$200 billion per year. However, these are piecemeal, onerous, and stigmatizing, and they vary from province to province. Ultimately, they are unsuccessful at breaking the cycle of poverty. We know that right now there are 1.2 million children living in poverty in our country.

Until this point, basic income plans in North America have been built around the negative income tax model, which can create the so-called “benefit trap” by making work unattractive. In the model we're proposing, the benefit trap doesn't exist because everyone is awarded the same benefit, with wealth redistributed through progressive taxation. A UBIG model would support the social determinants of health and alleviate administrative burden in the long term. This government has demonstrated that it knows income is important, for instance with the Canada child benefit, and we know lifting people out of poverty helps keep them healthy. It reduces costs in health care and improves mental health, which could in turn help address the absenteeism and presenteeism that are big issues for workplace productivity.

Of course, careful design and implementation that involves all levels of government and includes first nations is going to be crucial, but we believe a UBIG is a cost-effective and socially responsible mechanism through which Canada can ensure dignity for all.

We recommend the federal government take a leadership role in researching and implementing a UBIG. This would move us from a safety net to a floor on which all Canadians can stand, and it's also how we can grow Canada from the inside.

In fact, a recent macroeconomic study by the Roosevelt Institute in the U.S. found that a universal basic income benefit of \$1,000 per citizen per month would grow the U.S. economy by \$2.5 trillion. As an aside, in November we are releasing a paper on UBIG that outlines more of this, and I would be happy to share that with the clerk once it's published.

We propose that the UBIG be delivered through the lens of our second recommendation, which is the adoption of a new social care act for Canada. This would be made up of 10 principles—not conditions, but principles—similar to those of the Canada Health Act, and could include, for instance, public administration, fairness, and portability, to name a few. This would help guide the Canada social transfer and future social investments.

Again, this government has demonstrated that it cares about equity and accountability, through its bilateral agreements for instance, including the “Common Statement of Principles on Shared Health Priorities”. The act we're proposing will help create the kind of accountability the government is looking for. It would also help guide the provinces and territories in developing policies that best fit their unique needs, while helping the federal government to understand where the dollars are actually being spent in the provinces. It would help foster dialogue around shared issues and best practices, and help produce comparable outcomes across the country.

Our final recommendation is specific to the profession. We recommend that social workers in rural and remote regions be eligible for the Canada student loan forgiveness program. A 2012 CIHI report on rural and remote care in Canada showed that of 11 countries, Canadians waited the longest for care. In light of Canada's particular context, in which indigenous communities are often located in rural and remote areas, already underserved populations are made even more vulnerable.

Social workers are highly trained professionals capable of offering many of the same services as other professions, but often at a lower cost. With their broad skill sets, they provide great value. They can provide casework, assessment, and therapeutic counselling. Additionally, many communities struggle to retain their mental health professionals as they experience that cycling in and out of service providers.

In light of that, eligibility for student loan forgiveness would support social workers to practise in, to stay in, and often to return home to rural and remote communities.

Thank you for your time, and I look forward to questions.

● (1540)

**The Chair:** Thank you very much, and yes, we'd appreciate that document when it's done.

We're turning now to Canadian Construction Innovations with Mr. Boucher, who is the president, and Mr. Hudock, who is a business development manager. Welcome.

[Translation]

**Mr. Pierre Boucher (President, Canadian Construction Innovations):** Thank you, Mr. Chair and members of the committee for giving us this opportunity to provide feedback on federal measures that could make the industry more productive and competitive.

[English]

My remarks today will focus on question number two, as it relates quite nicely to the goals that CCI is mandated to accomplish.

At the outset I'd like to underscore that CCI is a multi-stakeholder organization, including all the stakeholders during a construction project, from construction owners all the way to suppliers, manufacturers, and allied industries. This ecosystem that we have put together gives us the strength and the ability to work together and look after the industry so that it realizes its full potential.

By way of background, I think it's important for this committee to understand that historically this industry has an intensity in R and D that is very low—0.06% of GDP. You should also know that its productivity level over the past many years has remained quite stagnant.

There are leaders in the industry. They have their own labs and they do tons of research. There are others that do not hesitate to adopt technologies and processes to stay ahead of the game. The problem in this industry, however, is that systematically there are major impediments that limit their ability to do better. This is where we believe the government can play a significant role. I will speak about those impediments, because they are the source for our guidance concerning where we need to go with those measures that need to be considered.

We have silos in the construction industry. You may have heard about this. The procurement process, together with codes and specifications and contract documents, isolates the members of the value chain and encourages them to work in silos whereby each party focuses on its own scope of work with regard to the project's complexity, rather than on the complexities of the project as a whole. There is a lack of integration. Given that each project is unique and may involve teams that have never worked together or have had little experience working together, it is difficult to create synergy, common platforms, or systems within which all stakeholders are comfortable working together as a group toward one common goal, which is a project.

The traditional method of procurement, which is based on the concept of the lowest qualified bidder being awarded the project, is a major impediment as well. It means that the winning team often does not have the necessary financial margins to face unforeseen conditions that are prevalent in the construction industry. Low bids equate to low-cost, cheaper materials that meet code requirements, and code requirements are the lowest denominator in design performance. Low bids also mean lower wages, and whenever possible, avoiding overtime and premiums, and also aversion to risk, as there's no money available to handle it.

When it comes to risk aversion, the art of submitting a bid in construction is risky enough in itself. There are many factors, such as delays, that can significantly affect a project. Adding risk without proof of concept or means to mitigate it is something the industry is not comfortable with.

Speaking of delays, the World Economic Forum states that worldwide and on an annual basis, delays in issuing permits alone in the construction sector equates to \$1.13 trillion a year. Delays cause a significant amount of frustration and at times animosity among the stakeholders, each trying to deliver their scope of work on a very tight schedule. This impacts the availability of tradespeople, material services, cash flow, and the date of completion of the work. This is an area in which improvements are warranted.

Canadian governments have historically made substantial investments in R and D, primarily related to higher education. The Jenkins report suggests that R and D money spent in Canada does not produce the expected return on investment.

The current government has pledged to review the programs in place and has notably increased R and D spending. We hope that revisions will take place with respect to those programs. The uptake of R and D dollars available through various government programs has been low in construction; however, this is changing rapidly because of the involvement of CC Innovations.

The industry stakeholders need proof of concept to mitigate risk and demonstration projects to acquaint themselves with products, materials, processes, and practices. The industry also needs to modernize itself, increase its productivity, and remain competitive, given the flocks of foreign competition coming to our country. The Canadian construction industry can do better on the world stage, but the export of its services starts at home in a favourable environment that is conducive to innovation.

What are the measures that the federal government needs to introduce and implement in support of these desired outcomes?

● (1545)

The World Economic Forum states that Canada ranks 15th out of 144 countries for business competitiveness, 23rd in business sophistication, 27th in corporate R and D spending, 26th in its capacity to innovate, and 30th in being an early adopter of technologies and processes.

That needs to change. We need new measures to change that. The current government wants us to be a world leader in innovation. It's not going to happen with those kinds of rankings that we have in Canada, unless the right measures are put in place.

We have five recommendations to make, Mr. Chair. One is that the government embrace the unique opportunity to partner with the construction ecosystems created by CCI. We have yet to find our home in this government. We are not a commodity. We are a service industry, and it's hard to find someone, somewhere who will champion what we need to offer, but within government. Another time we could give you examples of that.

We need collaboration through the development of industry-led incubators whereby we can identify with experts in the field what needs to be done for this industry to improve its performance. We did approach one department with the suggestion that we create those incubators, and that over a long term we identify projects that will resonate with the purchasers of construction services—that includes the federal government having billions of dollars in assets—and we were turned down.

Another recommendation is that the federal government recognize the funding made available by the provinces and municipalities as matching funds under the supercluster initiative. Again, given the fact that the government is the main beneficiary of innovation in construction, the matching funds required under the supercluster are targeted to industry alone. I think the provincial and municipal governments should be allowed and entitled to spend the money for the projects they want, and that can be attributed as matching funds.

We also suggest, Mr. Chair, that a small percentage of the capital investment of the infrastructure bank be redirected towards a specific fund focused on supporting innovation activities in construction.

The last recommendation is key. We would like the federal government, as a leader, to enable a more agile procurement process so the industry can better respond to the complexities of the projects being tendered. As is the case now, the traditional method of procurement provides very few opportunities to be innovative. The lowest bid—and I might say, some tax measures that we are currently looking at—will do nothing for innovation.

Canada has a unique opportunity to be a major global leader in modern construction practices and a significant exporter of construction services to rapidly developing nations around the world. To achieve this, it is of the utmost importance that we work together to address those challenges, and that we put new, disruptive government measures in place to make this happen.

**The Chair:** Thank you very much. There are some intriguing ideas there.

We now turn to Mr. Rothschild, president of the Canada-Israel Industrial Research and Development Foundation. Welcome.

**Dr. Henri Rothschild (President, Canada-Israel Industrial Research and Development Foundation):** Thank you. We appreciate the opportunity to present our views to the committee as it prepares its recommendations to the Minister of Finance in the context of pre-budget consultations.

We're an organization established by a bilateral treaty between Canada and Israel aimed at promoting mutually reinforcing company-to-company collaboration in R and D. Our presentation relates to what Canada can learn from the success of Israel in nurturing the growth of one of the world's most robust economies on a platform of technological innovation.

Time limits don't allow for discussion of the fast and constant pace of change characterizing the digital economy and the enormous challenge that all governments face in designing the right innovation support programs relevant to the challenges faced by companies today, in reading changes as they occur, and in adjusting quickly and effectively so that they remain relevant to the challenges faced by companies tomorrow.

By all measures, the State of Israel has had tremendous success in this arena. How can we learn from it? We suggest not to pick and choose one or more of its many successful programs and test the programs' applicability to Canada, but rather to look at the essence of the Israeli approach to the challenge.

About 40 years ago the Government of Israel came to the realization that its main natural resource was the talent pool of its youth, and especially the particular talent that emerged from the specialized training that the brightest of them received in the course of their national service, this being complemented by its research-based universities, already judged to be world-class. That time also coincided with the early beginnings of the growing power of information and communications technology and the eventual major transformation it would bring to the global economy.

The result of that realization was the establishment of the Office of the Chief Scientist, now called the Israel Innovation Authority, a unique instrument dedicated to translating the technological brain-power of Israel into commercial strengths. Its uniqueness is attributable to the following.

Mr. Chairman, I'm going to use the word "serious" a lot, for reasons that I hope will be self-explanatory.

First, it was given serious funding. For example, over the last 10 years the annual budget has hovered around 2 billion Israeli shekels. Converting to Canadian dollars and multiplying by five to adjust on the basis of relative GDP, it would signify a Canadian equivalent of almost \$3 billion annually.

By the way, I'm not recommending this for Canada; I'm just giving you a sense of the seriousness.

Second, it was given a serious mandate, in the sense that its core programs were enshrined in the law of the Knesset, the parliament of Israel.

Third, it was given serious flexibility, in the sense that it could, within its overall budget and adherence to the R and D law, reallocate and redesign its support for industrial R and D according to the changing scene.

Fourth, it ensured the recruitment of serious management at both the executive level and, just as important, at the level of technological and business assessment.

Finally, it benefited from constant political support over the long haul and across a very wide political spectrum. In Israel, innovation is not a sideshow, nor is it an occasional feature of a particular budget.

Through this office, Israel also addressed a major weakness. Recognizing that still today most trade is very regional, and also recognizing the reality of Israeli regional isolation, through this office Israel began to build a network of global alliances with the key economies of the world, alliances based on industrial R and D co-operation.

Because Israel has consistently been a world leader in key enabling technologies, co-operation with it was not a hard sell, with the result that Israel now has serious alliances flourishing with 30 to 40 countries. Of note is the surge in technological and resulting economic co-operation between Israel and China, South Korea, India, Japan, and Singapore, joining the already partnered European Union and the United States in this now truly global network.

No other country in the world has established such important and vital connections, and Canada, through our organization, is part of this program. Our record of resulting value to the Canadian economy is reflected in the brief we tabled before this committee.

The Israeli approach has thus delivered impressive results, including early support of their start-ups and mid-sized technology-based companies in conducting high-risk research, connecting them to partners in markets around the world. As a result, this has branded Israel as having a wealth of talent, attracting a glittering array of multinationals to establish important development centres.

These include Intel, Microsoft, Google, Takeda, Mitsubishi, Dell, Deutsche Telekom, Apple, and scores more.

• (1550)

Despite Israel's being known as the "start-up nation", these multinationals now account for 50% of the tech-based employment in Israel. This is reflected in the highest R and D per GDP globally. Through sound and serious innovation strategy, Israel has turned adversity into resilience and strength.

The lesson for Canada is to treat these matters with its own serious commitments that support dedicated instruments having secure finances and the organizational flexibility to manage and respond to the changing scene. The establishment of Innovation Canada is a very good start and augurs well for our country's ability to learn from Israel's successful experience.

Finally, given the enormity of the challenge and the value of the Israeli experience, we recommend that this committee recommend to the Minister of Finance that he support and encourage Innovation Canada to enter into a strategic partnership with the Israel Innovation Authority by building on the current bilateral co-operation platform. It would be a hugely cost-effective way to provide first-hand knowledge, insight, and invaluable experience for the design of Canada's future domestic and international innovation programs.

In the end, it will be Canadian tech-based companies that will benefit, as will our brand globally, not to mention our important bilateral relations.

Thank you very much.

• (1555)

**The Chair:** Thank you very much, Mr. Rothschild.

We'll turn to Ron Lemaire, president of the Canadian Produce Marketing Association. Welcome, Ron.

**Mr. Ron Lemaire (President, Canadian Produce Marketing Association):** Thank you, Mr. Chair, and thank you to the committee for inviting me to speak today about budget 2018.

The Canadian Produce Marketing Association is a 93-year-old trade association representing over 840 companies across the fruit and vegetable supply chain from farm gate to dinner plate. As an industry, we have an economic impact of \$15.7 billion on Canada's GDP. We support over 180,000 jobs across the country, and our companies provide approximately \$4 billion a year in taxes to the federal and provincial governments. We're proud to play a role in local communities, and in providing Canadian consumers with healthy, safe, and nutritious fruit and vegetables year-round.

Budget 2018 can capitalize on the momentum established by budget 2017 by making investments in critical areas that can bolster the productivity and competitiveness of the fresh fruit and vegetable industry in Canada. In particular, my comments today will focus on four key areas: labour, international trade, research and innovation, and financial risk mitigation.

Labour remains an ongoing challenge for agriculture as a whole, and it's particularly acute for horticulture. It is essential that the government implement innovative solutions to our labour shortage by improving the seasonal agricultural worker program, or SAWP.

We are asking the government to introduce the trusted employer program, which would expedite the hiring process for qualified employers who have maintained a good standing with SAWP over the years. This would greatly reduce red tape and the administrative burden on farmers who have proven themselves as high-quality employers, while addressing a major need for our industry.

Additionally, we are asking the government to improve SAWP by allowing employers who have SAWP placements approved by Service Canada to not need to reapply for their placement if the intended seasonal foreign worker is unable to complete the service.

Combined, these recommendations will help address serious labour issues for our industry. Fundamentally, we can either import labour, or we can import produce that we can traditionally grow here in Canada. Importing produce would mean losing jobs and impacting rural Canada and our entire supply chain.

In the area of international trade, the CPMA and its members fully support the government's push for trade diversification and its goal of achieving \$75 billion annually in agri-food exports by 2025, as outlined in budget 2017. To do so, we call on the government to fully implement all recommendations stemming from the May 2017 market access report released by the Standing Senate Committee on Agriculture and Forestry. These recommendations will strengthen the industry's position and provide it with the support it needs to grow and be competitive within international markets.

I'd like to turn now to research and innovation.

To better support the initiatives of the fresh produce industry, the government should defer to industry associations in establishing key research innovation priorities based on their expert knowledge of that sector. Ideally, industry associations should be able to provide letters of support for private-sector research innovation funding applications, outlining how the proposed initiative is aligned with pre-established priorities.

Furthermore, as part of its innovation agenda, the government should develop a commercialization funding strategy in order to help bring new products to market and grow the Canadian economy. While many funding mechanisms exist for initial-stage research and development of products, our industry has not been able to access the same kind of funding for the commercialization of research or innovation. Such a strategy would greatly benefit both the industry and consumers.

Finally, I'd like to touch on an issue that has been discussed for the past 35 years by governments of every stripe, including the current government: the creation of a PACA-like deemed trust in Canada and the restoration of Canada's preferential access to the U.S. PACA dispute resolution mechanism.

Prior to October 2014, Canada was the only country in the world whose fresh fruit and vegetable sellers could pay the same nominal amount as U.S. organizations to use the PACA dispute resolution mechanism in cases of no pay or slow pay by an American buyer.

The U.S. government revoked our preferential access since we lacked the reciprocity in terms of a deemed trust in cases of bankruptcy. Canadian sellers now using the PACA dispute resolution mechanism in the U.S. must post a bond totalling 200% of the total claim against the buyer. For many sellers, this is simply not financially viable, and they have had to write off the amount owed as monies lost.

● (1600)

The creation of a PACA-like deemed trust in Canada is a no-cost legislative solution that would benefit sellers in cases involving bankruptcy with a Canadian buyer, while also restoring Canada's preferential access to the U.S. PACA dispute resolution mechanism.

Indeed, this issue was thoroughly studied by the House's Standing Committee on Agriculture and Agri-food in June 2016. It unanimously called on the government to create a PACA-like deemed trust. Unfortunately, no action has been taken to date, but we remain committed to working with Minister Bains and Minister McCauley on creating such a trust in Canada to restore our industry's competitive advantage when trading with the U.S.

In closing, thank you again to the committee for inviting me to speak. The CPMA is committed to working with the government on all of these issues, and on others as they become relevant. We hope to see an outstanding budget in 2018, supporting our businesses and our future.

Thank you.

**The Chair:** Thank you, Ron.

With respect to the PACA, have any organizations put forward that proposal to the NAFTA negotiators, by chance?

**Mr. Ron Lemaire:** Actually, we just came from NAFTA negotiations in the stakeholders room, and I was in Washington, D.C., last week speaking with allied partners in the U.S. We understand that the U.S. industry is strongly suggesting to their government that this should be part of negotiations. We haven't seen any significant text from the U.S. as of yet, but we understand that the U.S. industry is pushing strongly.

**The Chair:** Okay. On a proposal that would be helpful to us and PACA as well...?

**Mr. Ron Lemaire:** I'm sorry?

**The Chair:** You're saying that they are pushing strongly for something we're asking for, along the lines of PACA.

**Mr. Ron Lemaire:** We're in a unique position in that they're pushing strongly, we want something, and it can be a win-win for everyone. Especially within a NAFTA discussion in which the current administration south of the border needs a win, this could be seen very favourably within a political environment.

**The Chair:** Thank you.

If we're going to be able to start the next panel at 4:45, we'll go to five-minute questions, starting with Ms. O'Connell.

**Ms. Jennifer O'Connell (Pickering—Uxbridge, Lib.):** Thank you all for your submissions. I won't have time to ask you all questions, but I'm sure my colleagues will.

Mr. Rothschild, I've been intrigued by the Israeli success in innovation and investment. One area I want to talk about concerns the structures by which the investments—you said it was equivalent to about \$3 billion Canadian—are made to start-ups or for firms, and how these structures and contracts work.

One of Canada's challenges—we've heard it even on this panel—is commercialization and the risk-taking and funding of something that may succeed or may not. I understand that Israel has a much different culture in terms of risk-taking on the commercialization side.

Can you speak to the way the investments are made and how the structures are set up so that there is an acceptance by society, essentially, to make these investments even if they're risky?

**Dr. Henri Rothschild:** As you noted, there's a different culture in terms of risk-taking. The Office of the Chief Scientist, now known as the Israel Innovation Authority, typically, in the portfolio of thousands of Israeli companies that it supports.... Its core program, just to be clear, is to provide grants achieving up to 50% of the value of R and D. If the R and D is very risky but also has the potential to make sea changes in the positioning of that company, this is seen as the role of government. Clearly, most of those investments will fail, and that's because high-risk R and D is what it is. It does not achieve the intended objective.

The idea is that at any one time 5% of the investments of the chief scientist's or the authority's office are complete successes, meaning that the companies have been able to grow to the point that they reach the next level—from start-up to scale-up, or from scale-up to medium-sized companies, or whatever—or they have achieved some significant increase in market share and that sort of thing. That's only 5%.

Another 45% have failed, period, and 50% is work in progress, with most of the investments failing. The important thing, however, is that failed ones do not mean a failure, because the entrepreneur who is supported gets incredible experience, dusts himself or herself off, and tries again. The talent pool that is created by enabling this risk-taking by these entrepreneurs is what has attracted all these multinationals to Israel.

As Canada seeks to attract, for example, the next Amazon centre into this country, what is the main selling point for anyone trying to attract these large companies and create these high-value jobs in a country such as Canada? It's simple. It's the talent pool. You go where the best talent pool is.

It's this kind of sharing of risk, standing shoulder to shoulder, and accepting failure as not a failure in itself but as a failure in achieving the intended objectives that is one of the hallmarks of that organization.

In our country, too often we allow criticism of our programs and our program deliverers on the basis of those numbers. If we were to

show those numbers, say five years from now, in our clusters strategy, most of the media in Canada would say it failed, yet it hasn't necessarily. We need to basically push back on this idea that a failure to reach the intended objective is a failure in advancing an innovation economy.

I don't know whether I have answered your question.

• (1605)

**Ms. Jennifer O'Connell:** I just want to follow up on this.

This is obviously a key part of the culture of entrepreneurs and commercialization and pushing innovation forward, but on the economic side, it's my understanding—correct me, if I'm wrong—that even for the 5% that are successful, there are structures built in. The government has received some of the benefit of the success, which then goes to fund the future grants and future endeavours.

**Dr. Henri Rothschild:** To a large degree, that's true but not totally. You're quite right that the government receives funding repayment in the event of success, but it is not a business, and if the refunding is too high, it means that the risk wasn't high enough. It's the role of government to share in risk. It's not to run a venture capital business. If it were to do that, it would get into the venture capital industry.

Having said that, the economic returns to Israel have been incredible. I want to cite just one example. About 20 to 25 years ago, this office, through its specialized antennae, realized that you cannot grow a digital economy without a robust venture capital industry. A venture capital industry, however, can't grow out of nothing, so the government took incredible risks in putting in \$100 million U.S.—in those days—to help the VC industry.

Within five years, Israel had become the world's third-largest centre, in absolute terms—remember, it's a very small country—in venture capital investment. The return to the Israeli economy was thus enormous, far greater than simply retrieving its \$100 million back, which it did, by the way.

**The Chair:** Thanks, Jennifer.

Mr. Albas.

**Mr. Dan Albas (Central Okanagan—Similkameen—Nicola, CPC):** Thank you to all of our witnesses for your testimony here today. I always try to learn something new, and each one of you brings a lot.

I'm also going to start with Mr. Rothschild, with regard to building an environment in which businesses feel that they can take risks.

I've been talking to a lot of small businesses. There was a high-tech entrepreneur in New Brunswick. She could be anywhere, but she is being faced with new rules that basically make it more difficult for people such as her parents and in-laws, who provided her start-up capital. Obviously the tax changes that the government is proposing make it much more difficult for start-ups to capitalize.

Do you think it's going to be a challenge to seeing more venture capital work done with Israel, if we don't have a start-up community that feels supported?

• (1610)

**Dr. Henri Rothschild:** I'm not sure it will. I don't know. I haven't looked at it in great detail.

I can tell you, however, that venture capital is not playing the same role it did 20 or 25 years ago in the growth of start-ups, simply because 20 or 25 years ago most of the start-ups were involved in what we can call "Internet technologies", where exits were very fast. This aligned very well with the culture of the VC industry, where exits had to be early, and in many cases, dramatic. The words "home run" were used often in those cases.

It's too soon to tell how the proposed tax changes on small corporations can affect the investment in venture capital. I don't know the answer to that.

Given the strength of Canada in a number of fields—including the fact that most people would prefer to work here than in many other places, including the fact that our education base is solid, including the fact that everyone in this kind of economy wants to have a place in North America, and including the fact that Canada is increasingly competitive—we have strengths upon which to build.

**Mr. Dan Albas:** Thank you very much.

Mr. Cross, you've mentioned that we are in a difficult business environment right now. We have increased payroll taxes coming. We have increased carbon taxation coming. We have this new proposal. You were absolutely right when you said that people right now are fearful because they don't know what the rules are. Entrepreneurs love opportunity, but they also need certainty.

Is the latest proposal by the Liberal government having a direct impact on our economy and on whether people are hiring or making big investments?

**Mr. Philip Cross:** I wouldn't pick out any one government or any one measure. As I said, I don't think by themselves any of these measures are necessarily very harmful. I just think when you look at the wide range of increased taxation and regulation in almost all parts of the country at all levels of government....

I see today that Uber announced it was going to leave Montreal. That's not even anything to do with the provincial government. That's about fighting with the local government. We just seem as a society to be very resistant to innovation, and we don't seem to understand the negative consequences of a lot of our actions. Our actions may be motivated by a desire to do better for society, but there doesn't seem to be an understanding of what they do to the business and entrepreneurial community.

**Mr. Dan Albas:** Thank you very much.

Ms. Guy, thank you again for your testimony here today.

You talked about a universal basic income of some sort. Milton Friedman and Friedrich Hayek, both economists, said you could do something like that, but I'm afraid our demographics are far too old. If one were implemented, there would be a lot of impacts on our labour market. Has your organization done any research into what would happen to our labour market if suddenly there were a universal basic income for everyone?

**Ms. Sally Guy:** This is a question we get a lot, and that's why I addressed the benefit trap at the beginning of my comments. I just want to say that it's called a "benefit trap" because it's not a benefit choice. In traditional income support models, it becomes a trap; not working becomes the rational thing to do.

If there were a tailored model for Canada that took into account demographics and our population and our unique context, we wouldn't see that happening. The major leap for most people in terms of implementing a universal basic income is a sort of pessimism about human nature. If there's one thing social workers know—and I don't think you've called us as witnesses here because of our expertise in macroeconomics—it's that people want to contribute. They want to be valuable. They want to be productive in society. If they're given the tools to do so, they will. We know that if people are lifted above the poverty line, that goes right back into local businesses, like the mom-and-pop grocery store.

So no, we haven't done the economic research on it, although I would point you in the direction of the study that I cited, which is from the Roosevelt Institute in the U.S. I can actually provide that to the clerk afterwards as well.

• (1615)

**The Chair:** Mr. Dusseault.

[*Translation*]

**Mr. Pierre-Luc Dusseault (Sherbrooke, NDP):** Thank you, Mr. Chair.

Ms. Guy, I would like to continue talking about the universal-based income guarantee, which was raised by a number of political stakeholders in a leadership race that I am familiar with. Can you elaborate on the model you are proposing?

My other question in this regard is the feasibility of this model in Canada, in view of our federation and the fact that the provinces will have to be included in such an undertaking.

I would like to hear your thoughts on those two points.

[*English*]

**Ms. Sally Guy:** The thing people ask a lot when they're asking me this question is, what model do you think is best? Is the one they're testing in Scotland right now the best? Is the one they're doing in the Dutch city of Utrecht the best? Is the one in Barcelona the best? Is the one in Ontario the best?

I say, no, none of them is going to be the best for Canada. We don't think we have all of it figured out in terms of the way it should actually play out. What we do think we have is the idea that it needs to be universal. This means that everybody needs to at least be eligible for the benefit. That means that it could look different for different people in different provinces, or with different abilities, or all sorts of different things.

The analogy I like to use for it is our health care system, which is universal. We're all okay with the fact that not everyone is going to need a heart transplant, or not everyone is going to need chemotherapy, but we accept that the benefit to the people who are lucky enough to not need that kind of care is that they know it's there for them if they need it.

The way we're running income support programs in Canada right now would be equivalent to your needing to prove to your doctor, with documents over the past month, that you have cancer. "Here, Doctor, I tested my blood this many times, and I have cancer. Please treat me." We need to move income support. The program we are proposing, a universal-based income guarantee, would be the same thing for income support as what we already have for health care in Canada.

How's that?

**Mr. Pierre-Luc Dusseault:** That's interesting. Thank you.

My next question will be to Monsieur Lemaire.

[*Translation*]

A great deal has been said about innovation around the table today.

I was wondering to what extent innovation can help resolve the labour market issues in the fruit and vegetable industry. Owing to the harvests in this industry, the labour requirements are intensive.

To what extent could the government help you to make a shift toward as much innovation as possible in the fields, which might help you deal with the labour shortage?

[*English*]

**Mr. Ron Lemaire:** Innovation is extremely important in driving the labour discussion. Three weeks ago I was in Hong Kong presenting a document on disruptive technology and how it can help drive our entire sector. There is a range of new tools that can support harvesting and picking.

I had an opportunity two weeks ago to visit a new innovation centre in Salinas, California, where they've created an innovation hub—a brand new, amazing facility—that has supported the development of new tools and new products that farmers can develop, and not only farmers but full supply chains.

When you look at innovation, then, it could be tools within a repack shed, it could be tools within the retail outlet, or it could be tools within a wholesale outlet. Looking at labour in the field, it could be something as simple as weeding.

There is an organization, which we had a chance to see, in California that is testing an electronic weeder. For what would normally take a crew of 30, they have two people operating a

machine that takes real-time photos of the plant, identifies whether it's a weed or not, and can weed the area in less time than a human workforce can move through.

Those types of technologies exist. Not everything can at this point be harvested mechanically. There are new technologies for apple picking, berries, and so on. They need further development. That's where the opportunity rests: in taking disruptive technologies that are in initial stages and—going back to the comments earlier around commercialization—taking them to the next step. How do we actually implement and deliver and commercialize them across the sector? Labour is one component.

● (1620)

**The Chair:** Thank you both.

Mr. Sorbara.

**Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.):** Thank you, Mr. Chair, and welcome everybody. Thank you for your presentations.

We're going with the theme of innovation and improving the social fabric from the social workers' perspective and ensuring that we have a good supply of labour for our agricultural community. Let's start on the theme of innovation.

We as a government have put forward the supercluster strategy, and we'll be finding the results of it. We know how important innovation is and that it leads to increasing investments and ultimately a higher standard of living. I would like to hear the thoughts of the three individuals—Mr. Cross, CCI, and Mr. Rothschild—on our supercluster strategy and how it will take us, hopefully, to a better place in terms of investment levels in our economy.

Can you start, Mr. Cross, and we'll work our way along—quickly, please?

**Mr. Philip Cross:** It's hard to evaluate, since the details haven't been rolled out. I think it's encouraging that the government recognizes and identifies innovation and investment as priorities. We'll see how it delivers them.

**Dr. Henri Rothschild:** As we see it, the superclusters initiative addresses a deficiency in Canada in the area of industrial innovation, in the same way, for example, that the Israelis addressed the lack of regional markets as a deficiency.

What's our deficiency? We are not as interconnected a society as we need to be in order to have an innovation culture. Again, I can compare us to Israel, where there is a complete integration of the academic, industrial, government, and community structures, so that people are one and the same community. They know each other. Successive managers within the Israel Innovation Authority have had vast industry experience, many of them internationally. It's the same community.

The clusters are an attempt to create that community within regions in areas of technological focus so that we can overcome a deficiency in the way we're structured, in the same way, for example, that the MaRS Discovery District in Toronto was established to achieve the same thing.

**Mr. Francesco Sorbara:** Thank you, Mr. Rothschild.

Mr. Boucher, please, quickly.

**Mr. Pierre Boucher:** If I may, Mr. Chair, at the outset I'd like to talk about the superclusters infrastructure perspective. The clusters were brought about in the budget passed in 2016, and infrastructure was not part of that. They identified sectors, and infrastructure was not part of that. This year, they announced infrastructure, and we basically were given six weeks to do the work that others had taken two years to put together.

You had to produce your letter of intent, and then you had to guarantee \$125 million in matching funds, which is absolutely not possible. That said, we still proceeded with the letter of intent. We hope to engage with government to see how they can address our issue there, because it's not possible to guarantee that kind of support when you have to build your consortia, identify the the project you want to invest in, and so on.

I think the superclusters have a lot of potential. At the same time, this creates a problem for some sectors, because it has to do with culture. For R and D you can spend the money, but you have to start with culture. You have to make sure the sector you're touching on meets the requirements of the clients. It has to be client-based. The consortia being built may not necessarily include all of the client base. For example, as I said in my presentation, provincial and municipal governments own billions of dollars of assets in construction, and the money they would spend cannot be accounted for in terms of matching funds. It's the construction industry that has to put up that money, and in many respects, it's not the innovation in itself that will come about that will serve them well.

I'll give you one example, if I may—

**Mr. Francesco Sorbara:** Thank you, Mr. Boucher. I want to move on, because I want to quickly ask Mr. Lemaire a question.

**The Chair:** Yes, very quickly. You have 40 seconds.

**Mr. Francesco Sorbara:** On the supply of labour, how critical are we on that in terms of ensuring sufficient resources for people to harvest, for people to get food to the market?

• (1625)

**Mr. Ron Lemaire:** It does come down to regions. It is an ongoing challenge every year. Every year, we see growers leaving crop on the tree or in the ground because they don't have the labour resources to pull it out. I can quantify those numbers after this meeting, but there is a challenge.

**The Chair:** Mr. Boucher, I'll give you an opportunity to finish your answer, but tie in both your presentation and the presentation from Mr. Cross. He said, "This reflects a persistent weakness in government intervention, which rarely re-examines the rationale behind regulations for its ongoing relevance decades later."

In your presentation, you have some startling numbers in terms of where Canada ranks, but on innovation and doing things very differently from the current way we do it, how do you suggest you get there? You may be able to bring your example in on that point.

**Mr. Pierre Boucher:** Mr. Chair, I will give you one example.

You can have money spent on R and D. The delivery arm of that is most critical. If you have programs responsible for some aspects of it that are geared towards a certain date with an amount of money,

where people have to respond based on the program that has to meet those deadlines, you're missing an opportunity for the industry members to come together, identify for themselves the challenges they have that are linked to the clients they serve, and then how to best deliver on those innovative ideas and solutions that need to be put to market.

Also, we find that sometimes spending more money in the same kind of structural environment that we're in is a problem. The current government said from the get-go that there was going to be a review of the programs we have in place. We haven't seen that. I don't want to be all that critical, but I think there has to be a change in some respects in some areas.

The other thing is that when the government was elected, the Prime Minister sent mandate letters to the ministers stating that innovation had to be industry-led and that industry had to work with the provinces, municipalities, indigenous people, and academia.

The ecosystems you have, like ours—and Monsieur Lemaire mentioned the associations—we have created those ecosystems. Ours, for example—and I've mentioned who they represent—the value chain of the construction industry, collectively does \$25 billion a year and has the strength, knowledge, and connections to know what's best.

As well, Mr. Chair, the one example I was going to give is that if you go to a supercluster and decide to study the curing of concrete in cold climates, the result of that is significant in many respects to owners, because they want the concrete to cure rapidly and in a safe way to be embedded in their projects. The people who would be funding this don't necessarily benefit from it, because it's a commodity that you collectively put into a structure.

Again, it will depend on what the client needs are. They need to be defined by those ecosystems that have been put in place. What we're thinking about is that incubators and industry-led funds in innovation would serve them better than having strict program guidelines set in place that may not serve everybody equally.

**The Chair:** I'll have to stop you there.

Mr. Kmiec.

**Mr. Tom Kmiec (Calgary Shepard, CPC):** Thank you, Mr. Chair.

My questions are mostly for Madam Guy and Mr. Cross.

I want to talk about that universal basic income guarantee, which is also called the negative income tax. My questions are a bit different from those so far. This comes from Friedman's 1962 book, *Capitalism and Freedom*. I have read the Roosevelt Institute's proposal. In it, though, they go away from the Friedman ideal, which is that you do away with the civil servants who are managing the welfare programs, who are having to vet whether the person should be eligible or not. They say that you would take those savings and give them to the poor, to those who truly need them and who are trapped.

You kept referring to the poverty trap, to being stuck in a situation where the rational choice is to choose not to work, because otherwise you will lose your benefits. You mentioned that your organization was going to do a study that you were going to put out. Are you going to be calculating the savings made possible by the elimination of these benefit programs and by substituting some type of minimum income or negative income tax guarantee program? That was the Friedman idea in its purest form. It was the substitution effect.

**Ms. Sally Guy:** We don't go so far as to calculate the savings, because we know that for every different province, different things would be replaced or changed. We also know that in the model we're proposing the tax brackets would have to change.

Really, we do think there would be savings. Let me be clear about that. We think there would be significant savings. We know that the current income support system is around \$200 billion. We don't think it would be that high. We think it would make obsolete income support. It wouldn't make obsolete some other things we need for people, but we do think it could totally replace that.

The main thing about what we are proposing is that it would change from means-testing the bottom, which is such an administrative burden.... Not only is it stigmatizing, but it's administration heavy. It would change from means-testing to just taxing the top. We already have progressive taxation, and we think this could go through the CRA, so no and yes would be the two parts.

• (1630)

**Mr. Tom Kmiec:** Sorry. You want the CRA to administer this?

**Ms. Sally Guy:** We think they could.

**Mr. Tom Kmiec:** My experience of the CRA is that I don't want to put anybody else through the experience of working with them.

**Voices:** Oh, oh!

**Mr. Tom Kmiec:** Mr. Cross, in April 2015 you wrote a report called "Giving and Taking Away: How Taxes and Transfers Address Inequality in Canada". In the conclusion, you said, "The degree of progressivity has steepened since 1976, mostly as transfers have increased to low and middle income people."

You went on to say, "A better approach is to adopt policies that encourage market incomes to grow, rather than focusing on the tax and transfer system to redistribute and possibly stunt income growth." What else could the government do to get more income growth going?

**Mr. Philip Cross:** The debate we're having on tax reform is quite revealing. There's an obsessive interest in this country with the distribution of income, when we should be having that level of discussion about the production of income. It just seems to be assumed....

I wrote recently, in a column in *The Post*, that before anybody goes around talking about redistributing income in this country, I want them to tell me how income is created. If you can't tell me how income is created, I don't really want to hear your ideas about how it's distributed. If you think money just grows on trees, and you don't have any idea what is the impact of what you're proposing on the production of income.... That comes first, and then the distribution

comes second. If you can't tell me about how the first is affected, I don't really want to hear your opinion about the second.

**The Chair:** Very short, please.

**Mr. Tom Kmiec:** I take it you think the proposals the Liberal government has put forward right now are just going about it the wrong way. They should be focusing on growing incomes as opposed to trying to redistribute incomes from one group of Canadians to another.

**Mr. Philip Cross:** It's not so much the proposals as the debate that has kicked off. As I say, there just seems to be an obsession in our society with the distribution of income. What bothers me the most in all of this is the attitude it reveals about how in this country we are much more obsessed than, say, Americans with the distribution of income.

**The Chair:** Thank you both.

We have Mr. Fergus, then Mr. Poilievre, and then Mr. McLeod, and we'll close it off.

Mr. Fergus.

[Translation]

**Mr. Greg Fergus (Hull—Aylmer, Lib.):** Thank you, Mr. Chair.

I would like to thank the witnesses very much. Their testimony today on the prebudget consultations has been very good. Each of their proposals is very interesting.

My question is for you, Mr. Rothschild, and it pertains to Israel and the innovation sector. You mentioned that innovation in Israel is now the responsibility of the Israel Innovation Authority.

In the near future, our government will be announcing who will be our chief science advisor. If you were to offer us any advice, how would you suggest we structure this position in view of all the subsidies we provide to research agencies in Canada?

**Dr. Henri Rothschild:** Thank you for your question, Mr. Fergus.

As I understand the government's intention in appointing a chief science advisor, it is not to create a position comparable to the one in Israel. As I understand the government's intention in creating this position in Canada, it wants someone at Innovation Canada to oversee all the science carried out by the government itself. That is the science carried out by the government itself and by various federal departments and agencies.

The title of "chief scientist" in Israel is a misnomer in a sense. Moreover, the last chief scientist was not even a scientist. That is in part why they have changed the position title. In Israel, this position is nearly always held by someone with a great deal of experience in high tech and in industry. Nearly all of them acquired experience in the United States, Asia and Europe. These are individuals from the venture capital industry. They are typically not researchers or scientists as Canadians understand those terms.

I hope I have answered your question.

• (1635)

**Mr. Greg Fergus:** You have answered very well, thank you. For my part, I wanted that to be included in the record of our meeting.

In your testimony, you mentioned the appetite for risk in Israel when the government or the innovation office wants to subsidize start-ups or company expansions.

As a close observer of the situation in Canada, could you elaborate on how we should change our culture in order to accept a higher level of risk?

**Dr. Henri Rothschild:** It is not enough to accept the concept of risk, you must also change your definition of what constitutes a good risk, what is a failure, and what is a disappointing investment of public funds.

As I explained, in Israel, the fact that less than 10% of companies are publicly subsidized by the Israeli industrial innovation agency is not considered a program failure, because even those that do not succeed gain experience and become entrepreneurs who try again with other companies. That is a philosophy that is important to adopt, and it is in this committee's interest to do so. In the Canadian government's superclusters initiative, a position should be adopted in advance in order to know which grid will be used in two, three or four years to assess whether the project has achieved its objectives. You must determine what the objectives are and what is expected of the superclusters. In my opinion, the definitions of what constitutes failure and success are much too limited.

[English]

**The Chair:** Mr. Poilievre.

**Hon. Pierre Poilievre (Carleton, CPC):** Thank you.

My question is for Madam Guy with regard to universal income.

First of all, congratulations to your organization for focusing on the poverty trap and the welfare wall, which is a very serious problem for many people across this country, where we have marginal effects of the tax rates for the poor in excess of 100% in some jurisdictions and circumstances.

My concern with the proposal for a universal income is that when we try to achieve money without work, we end up creating work without money. The cost of providing people with money, irrespective of whether they work, is to tax at very high levels those people who are working, and then you end up with the same poverty trap that you're trying to escape.

You mentioned that a potential allocation could be a thousand dollars per month per person. In Canada we have 26 million adult citizens, so \$12,000 times 26 million is about \$300 billion, which would be 100% of the budget of the Government of Canada. Are you able to tell us where we could get \$300 billion without massively increasing income taxes, and therefore, creating the disincentives to work from which we're trying to escape?

• (1640)

**Ms. Sally Guy:** That's a great question. We thought it was sort of interesting that this tax fairness conversation is taking place right now, with dialogue around that. We think the best way, as I said, to

grow Canada from the inside is by looking at the lost revenue of poverty.

Now, is that going to be to the tune of \$300 billion? Probably not. Like I said, we don't necessarily have all the economic answers. We're looking for government leadership and for you to use the amazing minds you have at your disposal to design a program that's going to work perfectly for Canada and be tailored to our needs. What we do know is that when people are lifted above the poverty line, that money goes right back into the local economy, so I would argue that it would then stimulate the local economies and small businesses and grow from the inside there.

**Hon. Pierre Poilievre:** Right.

**Ms. Sally Guy:** Not to get too philosophical, but also, I think that in the future we may need to have a really hard, scary conversations about the future of work and the definition of productivity in our country, and about the fact that we are on a finite planet and we can't grow forever. It is our view that a basic income would be good in terms of the fact that it actually would contain productivity—not limit, but contain—at a desirable level. That's quite philosophical, and that's down the line, but as I said, we're looking for a tailored response for Canada.

**Hon. Pierre Poilievre:** I have no doubt that if we poured \$300 billion into the economy it would create activity, but remember that we would have had to take that \$300 billion out of the economy in the first place. The government cannot give without taking away. That is a concern we face.

As an interim solution, what would your organization think of adding a new condition to the Canada social transfer that in every province, for every circumstance, it must always pay more to work than not to work and that someone must always be made better off if they take a job, earn a raise, or work more hours?

**Ms. Sally Guy:** That is sort of in keeping, actually, with a portion of the social care act we're proposing. I'm sure you know that right now money from the Canada social transfer just goes into general revenue. No one knows where it actually goes in the provinces, which we think is an issue. Why spend more before you know how it's being spent?

**Hon. Pierre Poilievre:** Right.

**Ms. Sally Guy:** I think that would be acceptable to us if there were caveats and mechanisms to protect people who are never going to work. It would have to not incentivize work so strongly that those people who are never going to be part of the workforce, who are still valuable, dignified citizens, aren't protected as well. But yes, we think people should be rewarded for work.

**Hon. Pierre Poilievre:** We could have the parliamentary budget officer tasked with the role of calculating the marginal effective tax rates for disabled people in Alberta, for example, or single mothers in New Brunswick, to ensure that when you combine the clawbacks and taxes they endure for taking a job, it's never in excess of 100% and in fact someone is always better off when they work. It's a pan-Canadian principle that we should consider enforcing through the fiscal power of the Canada social transfer.

Do you think that would be a reasonable condition to impose in exchange for the billions of dollars the federal government transfers to the provinces?

**Ms. Sally Guy:** Yes. I mean, we are looking for more accountability on the Canada social transfers overall, and that would certainly be something we would want to see in an act that would impose principles on the Canada social transfer. As I said, as long as it wasn't going to be penalizing those who weren't able to enter the workforce, it would certainly be something we would be interested in, in the sense that we do not agree with clawbacks. We don't think clawbacks are effective at all.

**The Chair:** Thanks, both of you.

Before I turn to Mr. McLeod, I made my first error of the day, which is not bad, because we're at 4:45 p.m. The vote that I thought was tonight at 6 p.m. is tomorrow night at 6 p.m. We'll have to rush the witnesses tomorrow rather than today.

We will take one last question and then we'll change panels.

Mr. McLeod.

**Mr. Michael McLeod (Northwest Territories, Lib.):** Thank you, Mr. Chair.

I have a couple of quick questions. The first is to the Canadian Association of Social Workers.

I really appreciate your submission that draws attention to the need for greater mental health services in the north, and your suggestion is a good one. Most of the professionals we're trying to attract to the north are faced with challenges in acquiring housing. Sometimes it's a lack of policing. There's a policy in the north that if there's no RCMP in the community, they won't locate a nurse in the community either. There's a higher cost of living, isolation, and sometimes there's no Internet. A lot of people don't want to go where there's no Internet.

Could you explain how your fifth proposal could be implemented and how much of a financial incentive this would create for social workers to work in remote areas of Canada?

•(1645)

**Ms. Sally Guy:** Absolutely, and thank you for the question. The Canada loan forgiveness program already exists for nurses and doctors and professions like that. What we hear all the time, which is so tragic when we're trying....

We know that, first of all, continuity of care is so important. People need to be familiar with their communities and to stay in their communities and have excellent care. Second of all, the best people positioned to provide the best care for the community are those from the community, from within the community. We hear all the time that

there are people who want to go home to first nations communities, or want to go home to rural and remote locations, and it just doesn't make financial sense for them. This is on top of how expensive things are in the north, their student loans, and the fact that they have to get out there and they have to buy their container of food and ship it out. It's just not feasible for them when they can get paid more to live in the city.

If we can do any small thing to just incentivize people to be able to go home a lot of the time, it would make a huge difference. This is something that is really close to the hearts of our membership base, so we would love to see it happen.

**Mr. Michael McLeod:** Thank you.

I have one more question for Mr. Lemaire. It's regarding the proposal to increase fresh fruit and vegetable consumption by 20% over five years. I think that's a really good goal to try to achieve. In the north the snack of choice is usually pop or chips. Fruit, especially in the more northern part of the country, is sometimes hard to keep fresh.

I'm really curious to hear what you would suggest to the government to see that increase happen in the northern part of Canada.

**Mr. Ron Lemaire:** There's a combination of food hubs as a concept and looking at innovation that can enable it. There are pilots going on right now on what can be grown locally in northern climates, from new greenhouse technologies to vertical farming to container technology. The other piece is the government's focus on infrastructure: how do we actually get product effectively north?

**Mr. Michael McLeod:** I have one more question for you. It's regarding your comments on the labour gap.

We hear all the time different industries talking about not being able to find workers, yet I see all over the country, including in my riding of Northwest Territories, communities where we have almost half of the population unemployed. It's 50% unemployment, sometimes higher. We can't seem to connect the dots.

I've seen the mining industry do a good job. After they said out loud a number of times that they can't find workers, they were encouraged to increase assistance in mobility, literacy, all these different things. We've seen the mines starting to hire a lot of people who are indigenous. Can that happen in your industry?

We don't have a whole lot of people required for working in the produce industry in the north, but I think there are communities across Canada that are indigenous that would welcome the opportunity, with some assistance. Is there anything we can do, or is there anything that you can recommend?

**Mr. Ron Lemaire:** I agree with the philosophy and the potential.

The produce industry, within this entire supply chain, has invested heavily in not only housing and the health of its employee base but also on education. That does exist across the country within different jurisdictions. The challenge comes back to the skill, the training. Many of the workers who are currently in play are truly skilled technicians on how to pick, how to harvest, how to deliver. That can be taught, can be learned, if Canadians are willing to work and do the work in the fields.

Our challenge is not only in the fields but also in the supply chain. You go to the Toronto food terminal, and the work starts from two o'clock in the morning and goes hard until about six in the morning. You have people show up for work for one day and they don't come back the second day.

There may be opportunities around providing other tools or incentives to retain those employees, not only within the supply chain but in the field. Further investigation would have to be done to see what we could do.

• (1650)

**The Chair:** Thank you.

Ron, I have one quick last question.

You mentioned a trusted employer program. Do you have anything fleshed out on that? That's an intriguing idea. I know a lot of producers who have the same people coming back every year. They have to pay them money. It's paperwork and a stressful time.

**Mr. Ron Lemaire:** Exactly.

**The Chair:** Do you have anything fleshed out that you could provide to us on that proposal?

**Mr. Ron Lemaire:** Definitely.

As the chair is aware, we work closely with allied partners, including the Canadian Horticultural Council, who really have their hands on the SAWP program and ensuring that it's successful. We'd be happy to share some conceptual models with you and with the committee.

**The Chair:** If you could do that, that would be great.

I would certainly thank all the witnesses for coming and for your presentations earlier in August as well.

We will suspend for five minutes and then reconvene. Thank you.

• (1650)

(Pause)

• (1700)

**The Chair:** Just for the record, pursuant to Standing Order 83.1, the topic we are here for is pre-budget consultations in advance of the 2018 budget.

I want to thank all the witnesses for coming, and also those who did provide a submission prior to the mid-August deadline. Thank you for that as well. You will see members looking at their iPads from time to time, and that is because, with new technology, all the briefs are up on the iPads. I do expect there is the odd issue that's happened between August 15 and now that some people might bring up.

We'll start with Ms. Watts-Rynard, from the Canadian Apprenticeship Forum.

**Ms. Sarah Watts-Rynard (Executive Director, Canadian Apprenticeship Forum):** Thank you very much.

Thank you for the invitation to appear today as you undertake the pre-budget consultations.

The Canadian Apprenticeship Forum was pleased to submit a brief summarizing our recommendations about how the federal government can provide leadership in an underserved area of post-secondary education.

The Canadian Apprenticeship Forum influences apprenticeship strategies through research and collaboration. We connect employers, unions, regulators, educators, and under-represented groups to share promising practices and promote apprenticeship as a valued post-secondary pathway. Apprenticeship is the original and best example of work-integrated learning available to young people with a talent for practical, hands-on problem-solving. It's a pipeline for a talent segment that is critical to Canada's productivity. Quite simply, Canada would be at a standstill without its tradespeople, the men and women who keep the lights on, the water running, and our cars on the road.

While apprenticeship training is the primary responsibility of the provinces and territories, there is a significant role to play at the national level, and that's where I want to concentrate my remarks. Sector after sector identifies skilled trades positions as among the hardest to fill. Infrastructure investments rely on a workforce that's capable of building, repairing, and maintaining it. Autonomous vehicles, sustainable energy, and advanced manufacturing require highly skilled, hands-on professionals who understand how things work, and how to make them work better. Innovation, productivity, and competitiveness across economic sectors rely on skilled tradespeople, most of whom develop their skills as apprentices.

A highly productive country is one that encourages its citizens to fire on all cylinders. That means assigning value to the technical and mechanical skills developed in the workplace, at polytechnics, and in union training centres. To do so, the federal government must develop a national vision for vocational education and training. There is scope to support experimentation, measure and evaluate the impacts, and be a catalyst for national adoption of best practices.

While there are many excellent examples of world-leading programs, policies, and supports across the country, they are often isolated by geography and lack financial resources. For apprentices, access to these programs is often about luck of the draw.

As a user of skilled trades services, the government must also take a greater responsibility for linking its infrastructure and procurement spending to apprenticeship training. This makes apprenticeship a business imperative and addresses the job insecurity of apprentices, which can delay or derail their progression, completion, and certification.

While employers assume the bulk of the apprenticeship training burden, training isn't their primary business objective. Though there are business benefits, they must navigate the hiring process and on-the-job training, as well as regulatory and educational systems. Many employers consider apprenticeship training a no-brainer for their business, yet others sit on the sidelines unsure of how to get started or muddle through doing the best they can. To ensure that employers are empowered to deliver high-quality workplace training, they need on-demand supports and resources.

While I believe these to be important objectives, even national imperatives, for a more productive Canada, I am also aware of the real and on-the-ground consequences of inaction. An apprentice recently told me that he is disappointed with his training. Journeypersons on his job sites have little time to train apprentices, and little idea about what to teach. They aren't the mentors he was expecting. The work is sometimes precarious, and employers are reluctant to sign off on apprentice skills development, so this apprentice doesn't know if work will be plentiful next month, or if he will be sitting on the out-of-work list. When a job ends, he doesn't know if he will be unemployed for three hours or for three months. Apprentices need consistent employment to progress and complete their training, and government can lead the way.

It is an economic certainty that we need young men and women to become skilled tradespeople. In your deliberations about the upcoming budget, and innovation and productivity, I urge you to consider how we can best support apprentice learners on their journey to certification. It will be this group that makes up the next generation of builders, fixers, operators, and creators.

• (1705)

Thank you.

**The Chair:** You can think about it, but I will ask you later how you expect us to do that.

From the Canadian Cancer Society, we have Ms. Hudson and Ms. Masotti.

Welcome.

**Ms. Lynne Hudson (President and Chief Executive Officer, Canadian Cancer Society):** Thank you, Mr. Chair.

It is my privilege to be here today on behalf of the Canadian Cancer Society, the country's largest health charity and the only charity that supports people with all types of cancer.

My remarks today focus on recommendations numbers one and two in our pre-budget submission: a \$10 million partnership with the government of Canada to improve the continuum of care, and the strengthening of the federal tobacco control strategy.

Every single hour, 24 Canadians will hear the words "you have cancer" and join the more than 810,000 Canadians already living with this disease. One in two Canadians is expected to be diagnosed with cancer in their lifetime, and by 2035 we expect there to be 35% more new cancer cases than there are this year. We continue to make progress in having more Canadians survive cancer, but as many studies show, including the work from the Canadian Partnership Against Cancer, cancer patients, survivors, and families still face challenges in getting the health information and practical and

emotional support they need. Patients who are well informed are more likely to feel empowered and comply with treatment, improving outcomes and saving health care dollars. This emotional support improves not only mental well-being but also individual productivity.

The Canadian Cancer Society is in a strong position to connect more patients and families with the support and services they need when and where they need them. We are Canada's trusted source for cancer information, and every year our services help millions of people access treatment, care, and support, often while they continue to live at home or in a community setting. Our 80-plus community offices across Canada and 100,000 volunteers give us a powerful local presence, and our connection to cancer treatment and research centres from coast to coast provides a vast network for engaging and informing patients, health professionals, and the public.

CCS can help transform cancer care in Canada by complementing the health care system and improving the transition to community care. We propose a \$10-million partnership with the federal government to help us empower Canadians so they can better meet their health care needs. With government support to expand our reach and increase our capacity, we will help Canadians learn more about their diagnoses, locate home and palliative care services, connect with peer-support programs, and navigate the health, social, and financial services available to them. By doing so, we will improve quality of life, reduce emotional stress, and help Canadians be more productive in their lives as they remain engaged with their communities and workplaces. In addition, this will drive efficiency within the health care system.

This partnership will achieve four important goals to meet the needs of cancer patients and caregivers: first, increase reach and accessibility of programs and services; second, offer patient-centred, integrated, and seamless access to a suite of services; third, improve engagement with patients and families throughout the continuum of the cancer journey; and fourth, use strategic partnerships with like-minded organizations to enhance services through innovative collaboration.

Our second recommendation is to strengthen the federal tobacco control strategy, scheduled to expire in March 2018. Tobacco is the leading preventable cause of disease and death in Canada, causing 37,000 deaths annually including 30% of all cancer cases.

In terms of lost productivity, the Conference Board reports that, on average, each smoker costs an employer \$3,842 annually. To reach the objective of under 5% tobacco use by 2035, Canada needs a high-impact strategy. Previous budget cuts have undermined impact, with Health Canada's current annual tobacco control budget of \$38 million annually representing only 1.2% of the \$3.2 billion in annual federal tobacco tax revenue and representing just \$1.04 per capita compared with \$3.39 in the U.S.

Increased Health Canada investments should at least match the U.S. per capita amount. This amount would allow for enriched incentives for cessation, youth prevention, mass media, indigenous populations, and it would complement pending plain packaging requirements through Bill S-5. The bottom line is that a strengthened tobacco strategy would have a dramatic impact on preventing cancer and saving lives. These two recommendations are practical and affordable steps we can take together. The Canadian Cancer Society is asking for your help and is eager to work with you to achieve these goals.

On behalf of the one in two Canadians who expect a cancer diagnosis and their families and loved ones, we thank you for your time today.

• (1710)

**The Chair:** Thank you very much, Lynne.

Turning to the Canadian Taxpayers Federation, we have Mr. Wudrick, director.

**Mr. Aaron Wudrick (Federal Director, Canadian Taxpayers Federation):** Thank you very much, Mr. Chair, and as always, thank you very much to the committee for the invitation.

I have some good news for the committee. I did not provide a pre-budget submission this year. That is because the government did not see fit to adopt any of our recommendations from last year, so you've saved me the time. However, hope springs eternal, and I direct you to last year's submission for some ideas.

Ladies and gentlemen, I would be remiss if I did not use the few minutes I have to talk about the issue—and I'm sure we all know what that is—that has been dominating the news over the last few months, since it is the single largest issue that our organization has been hearing about.

I should point out to the committee it is rather unique, in that, as an advocacy group, we take it upon ourselves to draw our supporters' attention to issues. This issue is not like that. Our supporters brought this issue to us. I think that signifies how big of an issue this is. I'm certain the members around the table have heard likewise from their constituents and will know I'm not exaggerating when I say this is not a small issue.

I want to make clear up front, though, that our organization agrees with the government's broad objective of tax reform. The problem is not with the government's goal, it is that the specific proposals on the table will not achieve these goals and could actually make things worse by having many negative unintended consequences.

First of all, our view is that these proposals further complicate the tax code rather than simplifying it. The fundamental driver of incorporation among Canadian-controlled private corporations has

been the gap between personal and business tax rates. Unless and until this gap is addressed, any attempts to close so-called loopholes will simply incentivize the search for newer and more complex loopholes. Whac-a-mole may be a very fun game at the county fair, but it does not make for an efficient tax system.

Second, the government's failure to guarantee that any new revenues received through these changes will be returned to Canadians through cuts to general tax rates feeds the suspicion that these measures are not actually about fairness but instead about a government that is short of money and looking to find new revenue.

Third, on the issue of fairness, the government's credibility on this matter labours under the handicap of the rest of its record, and of other tax measures that have gone untouched. Is it fair for small business owners to pay taxes only to see the proceeds go into the pockets of corporate welfare recipients like Bombardier or Ford? Is it fair for the government to trumpet its litany of subsidies to selected industries while insisting that it wants a level playing field for all?

Even if we focus on tax measures alone, is it not reasonable for Canadians to ask why, for example, the tax treatment of unions has been left out of this discussion, including the labour-sponsored venture capital tax credit which costs taxpayers \$115 million a year, or the tax deductibility of union dues and professional fees which cost taxpayers nearly \$1 billion a year.

I would be remiss if I did not point out the federal political donation tax credit that provides a 75% taxpayer subsidy on the first \$400. A cynic might say—and I try very hard not to be a cynic—that such a generous tax measure serves as a testament to the ability of politicians to safeguard their own interests.

In any event, addressing these issues would go a long way to giving the government greater credibility in arguing that it is truly interested in a fair tax system.

As a final point, I want to reiterate that I do not think the government should abandon tax reform altogether, but if it is serious, it needs to slow down. There are two concrete steps that could help to achieve this. The first is to launch a royal commission on tax reform. In fact, the last time that similar changes of this nature were implemented, it was following a royal commission under Kenneth Carter, with three years of study rather than 75 days in the middle of the summer. Second, the government should release the results of the tax expenditure review that it conducted following the 2016 budget. This would give a more complete picture of the costs associated with the various complexities of the tax code.

I'll leave it there, and I'm happy to take questions.

•(1715)

**The Chair:** Thank you very much.

We'll turn then to the Business Council of Canada, Mr. Kingston, vice-president.

**Mr. Brian Kingston (Vice-President, Policy, International and Fiscal Issues, Business Council of Canada):** Thank you, Mr. Chair and committee members. Thank you for the invitation as always to take part in your pre-budget consultations.

The Business Council of Canada represents the chief executives and entrepreneurs of 150 leading Canadian companies in all sectors and regions of the country. Our members employ 1.7 million Canadians, account for more than half the value of the TSX, and contribute the largest share of federal corporate taxes. They are also responsible for most of Canada's exports, philanthropy, and private sector investments in R and D.

In the council's pre-budget submission to this committee, we urge the government to boost Canadian productivity by increasing female labour-force participation, supporting women in STEM, enabling seniors to work for longer, and helping Canadians navigate the changing job market. While no single policy or program will boost labour productivity across the board, I'll just highlight two specific policies.

First, the government should replace the existing child care expenses deduction with an income-tested refundable tax credit. Second, increasing the eligibility age for OAS and the GIS to 67 from the current 65 would address the reality of an aging society and longer life expectancies.

In our submission we also called on the government to adopt a competitiveness agenda that includes simplifying the tax system and streamlining the regulatory environment. Doing so would position Canada as a more attractive investment destination. On that point, I would like to share with you the results of a survey that we just conducted over the summer with our member companies. Sixty-one of Canada's largest companies took part in the survey, and almost two-thirds said that Canada's investment environment has worsened over the past five years. Only 20% said the investment environment has improved. This is extremely worrying for us, and to improve this trend and reverse it, we believe that the following actions should be taken to improve business confidence here in Canada.

The first is reforming Canada's tax system. Our country's tax competitiveness is slipping, in part because provincial corporate tax rates have crept higher. Our combined federal and provincial corporate tax rate now sits above the OECD average, and we have the 13th-highest tax burden on investments among the 34 OECD countries.

Mr. Chair and committee members, I know that earlier today you held hearings on the government's plan to rewrite the tax rules for private corporations. Our president and CEO, the Honourable John Manley, will be submitting views to Minister Morneau later this week. I'll make sure I share those with the committee, but one thing is sure: the proposals will do nothing to help Canada's tax competitiveness, and, in fact, we believe they risk driving investors and entrepreneurs away.

Rather than making incremental changes to an already complicated tax system, we believe now is the time for comprehensive review aimed at strengthening fairness and efficiency. In our view, the best way to achieve this is to broaden the tax base and lower rates. Of equal importance is the need to ensure that the tax system does not favour certain kinds of businesses over others.

The second is enhancing regulatory certainty. Delays in approving new projects, as well as compliance costs associated with regulations, can impede investment and innovation. To fully support private and public investments in innovation and infrastructure, the federal government must make regulatory approval processes more transparent, predictable, fact-based, and capable of rendering decisions in a timely manner. Where possible, we urge the government to develop new regulations collaboratively with industry and to undertake regular reviews to identify outdated rules for elimination.

The final action is achieving fiscal sustainability. While the Business Council supports moderately expansionist fiscal policy that allows for investments in productivity-enhancing infrastructure, we are very concerned by the federal government's failure to set a clear target for balancing the budget. The government's own long-term fiscal projection suggests that it will run deficits through to 2050. The next time Canada enters a recession, the tax revenues will decline while demands for higher spending will increase. Balancing the budget now would help ensure that Canada is positioned to weather this inevitable downturn.

Thank you for the opportunity to address the committee. I look forward to answering questions.

**The Chair:** Thank you very much, Mr. Kingston.

From the Canadian Credit Union Association, we have Ms. Mentzelopoulos and Mr. Pigeon.

Go ahead.

•(1720)

**Ms. Athana Mentzelopoulos (Vice-President, Government Relations, Canadian Credit Union Association):** Thank you, Mr. Chair, for the invitation to be here today. I'm just two weeks in this role, so I'm happy to have a wingman with me. I feel a little bit better having Marc-André here.

I think all of you know how important the credit union sector is to Canada. Our association represents 275 credit unions and caisses populaires outside of Quebec. Our members are full-service financial institutions. We serve 5.6 million Canadians. We employ 56,000 people, and we add \$6.5 billion to the country's GDP. We are co-operatives: the people who bank with us are the same people who own us. In repeated surveys by the CFIB—I think this is the 13th year in a row—Canadians have ranked us ahead of federally chartered banks for customer service excellence.

All but one of our members are provincially regulated, but the fact is that policies set at the federal level affect every credit union. That's why, as an association, we are highly engaged in the statutory federal financial institutions review that is currently under way.

My remarks today are focused on three measures that we believe will improve competition in the financial services sector. I had the opportunity to walk around the room and introduce myself, so I think I'm quite predictable, based on what I heard. You know the first issue I will raise. That is the matter of the terms “bank” and “banking” used by credit unions. Credit unions are the only domestic competitors to the federally chartered banks, and for decades have used the verb “bank” and the term “banking” to help Canadians identify the other regulated financial service options that are available to them.

In June, OSFI issued an advisory to cease use of these terms. The step was unusual for two reasons. It put aside many decades of their own common-sense enforcement of section 983 of the Bank Act, and it put aside Parliament's intent in that section of the act, which is to prevent consumers from being deliberately misled. Credit unions don't want to be confused with banks, but we do want to be able to use the same common terms that Canadians use. A ban on the use of these terms would force credit unions to popularize phrases to replace “online banking” or “bank with a credit union”, and it would cost our members an estimated \$80 million to change their signage, websites, and advertising.

We appreciated that the Department of Finance has opted to roll this question into their current public consultations, and we've urged the minister to amend the Bank Act to make it clear that credit unions may use these terms in the same way that Canadians do.

I want to acknowledge the support of many of you around the table who have worked so hard on this ask. We are asking the committee to urge the Minister of Finance to amend the Bank Act to make it clear that credit unions can continue to use the verb “bank” and the term “banking”.

Our second issue is mortgage insurance risk-sharing. Mortgage lending is one of the ways credit unions help our members attain their life goals. It accounts for more than half of credit union loans. This represents about 7% of the Canadian mortgage market outside of Quebec. A portion of our portfolio is in CMHC-insured mortgages. The arrears rate on insured mortgages is 0.29%, yet for the past year, the federal government has been considering imposing a deductible on CMHC-insured mortgage contracts issued by credit unions and other lenders. This risk-sharing proposal will increase costs for credit unions, but we think it will do little to improve what is already high-quality, prudent lending in insured mortgages.

We've seen that the federal government has moved very cautiously on the file. We urge them to step back from the risk-sharing proposal for several reasons, not the least of which is recent evidence that the Toronto and Vancouver real estate markets are already slowing. With these considerations in mind, we ask the committee to recommend that the Minister of Finance not proceed with proposals to introduce a mortgage insurance deductible.

Lastly, in the next 12 months, Parliament will be asked to consider changes to the Bank Act and other acts as part of the financial institutions framework review that's currently under way. We believe that the changes must support more innovation and more competition in this sector. Since the financial crisis, Canada has seen the largest banks achieve even greater dominance in the banking sector. In our view, there is good reason to believe the current framework could be improved by tackling the disproportionate regulatory burden effects on smaller entities in two ways. The first is to implement a categorization approach to prudential rules. Under this approach, policy-makers would develop two sets of rules depending on the size and scope of the institution. Second, a formal competitive balance lens needs to be applied to the policy formulation process.

● (1725)

To that end, we recommend that the committee work with the Minister of Finance to ensure that as part of the 2019 review, the government institutionalize the perspectives of federal credit unions and small banks.

Thank you, Mr. Chair.

**The Chair:** Thank you very much, Athana.

We'll now go to the Association of University Research Parks Canada. Ms. O'Brien is the co-founder and managing director.

**Ms. Laura O'Brien (Co-Founder and Managing Director, Association of University Research Parks Canada):** Thank you, Mr. Chair and committee members. It's my pleasure to be here with you today to speak on behalf of the Canadian Association of University Research Parks, also known as AURP Canada, and our 27 innovation districts across the country. I co-founded the association 10 years ago, and currently act as the managing director.

AURP Canada is the Canadian chapter of the U.S.-based international association. We are a national not-for-profit association that advocates on behalf of our members to drive standardized policies, access to infrastructure, connection points through domestic and international network development, and identification of emerging opportunities and trends in sectors and economic growth-potential areas. Our mission is to support and drive the Canadian knowledge economy and support sound policy decision-making that will ultimately and fundamentally support the 1,400 companies and 65,000 knowledge-based workers who are located in our parks across the country.

The economic impact of research and technology parks is significant, at over \$4.3 billion in annual GDP, which is forecasted to grow to \$6.2 billion in the next five years. You may know the research parks by their individual names. Just to name a few, there's the David Johnston Research and Technology Park in Waterloo, located at the University of Waterloo, MaRS Discovery District in Toronto, Innovate Calgary, Technoparc Montreal, and Knowledge Park in Fredericton. You may know them by their individual names, but our membership is the landing place for leaders in business incubation and acceleration, private research and development, government research facilities, and a wide range of organizations advancing innovation in Canada, from start-ups to SMEs to large multinationals. Nearly 50% of the companies in the parks are already exporting, with the United States and Europe topping the list, and another 49% are planning to expand.

We are an important partner in moving Canada forward into the 21st century. One of our core strengths is our network across Canada, the United States, and the globe. In June our organization appeared at the industry committee to detail the proposed IP matchmaking program in our budget submission. In addition to this IP matchmaking program, AURP Canada is looking forward to expanding our role to support the federal innovation agenda by building out the research park network through international partnership expansion, including a soft-landing exchange with the 67 Fraunhofer institutes throughout Germany.

**The Chair:** Ms. O'Brien, could you slow down a little bit? Translation will be having a hard job keeping up.

**Ms. Laura O'Brien:** Certainly. Sorry about that. I was actually going a little slower than I normally go. Oh, dear.

Our goal is to improve trade opportunities and build capacity for companies to accelerate their growth potential in both domestic and foreign markets. There is also a need to improve coordination of the innovation ecosystem here in Canada to better align mandates of various organizations and groups, to streamline efficiencies and standardize offerings, to better support companies, and to thus maximize outcomes for Canada. Last but certainly not least is the need for digital and physical infrastructure, whereby the appropriate facilities that offer programs, services, and amenities are provided to support companies and accelerate their growth potential.

From a policy perspective, it is vital that the government be a champion of businesses of all sizes. As home to over 1,400 companies ranging from start-ups to SMEs to large multinationals, these entrepreneurs and business owners are building their companies, and we want them to be fiscally responsible. We want them to incorporate solid profit margins so they can save more of

what they earn to weather the various storms that inevitably come in business. Striving for profit and saving earnings is an important part of financial literacy for all companies and their survival and growth in the long term. We also need companies to have profit and to save in order to invest more in research and development activities, which will ultimately make us more competitive globally. For this reason, we are looking forward to the continued consultations for the proposed tax policy to ensure that a fair and equitable formula for all companies is adopted.

In budget 2018, AURP Canada is seeking an investment from the federal government to support three key initiatives—our IP matchmaking program, the expansion of our international soft-landing program, and support and coordination of the innovation ecosystem to better drive outcomes for Canada over the next three years. AURP Canada is also seeking federal support for digital and physical infrastructure, policy development, and access to programming to ensure that the growth and development of our research and technology parks continues and can be accelerated.

With funding envelopes such as the supercluster program, the strategic innovation fund, and Innovation Canada all geared to streamline efficiencies within government and better support companies and linkages with industry, academia, and government, Canada is well positioned to improve private sector R and D expenditures, increase the level of technology that is commercialized, and take advantage of trade and business opportunities around the globe. AURP Canada and its members can assist in each of these areas.

We very much appreciate the opportunity to be here with you this evening. Thank you for your time and attention. We look forward to the discussion.

• (1730)

**The Chair:** Thank you all for your presentations.

We will go to six-minute rounds for the first four. We'll start with you, Mr. Grewal.

**Mr. Raj Grewal (Brampton East, Lib.):** Thank you, Mr. Chair.

Thank you to the witnesses for coming today.

My first question is for Sarah, on the importance of apprenticeship. I have a lot of young kids in my riding, a lot of young, energetic people who want to go into apprenticeships, and they are having a lot of difficulty getting people to supervise their training.

You mentioned linking infrastructure and procurement spending to apprenticeship. Can you expand on that a little?

**Ms. Sarah Watts-Rynard:** Sure. Some of the thinking around this is that the government.... First of all, the private sector does hire tradespeople, but it doesn't do a great job of hiring apprentices and doing training, so it becomes the net poacher of talent from really small business, where 77% of all apprentices are being trained in companies with fewer than 100 employees. There is training going on, but fewer than 20% of all employers are doing the work in an effort to develop the entire skilled trades pipeline.

Meanwhile, government is putting huge amounts of money into maintenance and construction contracts through procurement and infrastructure. There is an opportunity here to ensure that maintenance and construction companies that can train are able to train apprentices with the skilled tradespeople who are required on those jobs, if they are given an incentive to do so.

One of the best ways, at least as an on-ramp, would be to consider looking at a points-based system. We know that, when the work was given for West Block rehabilitation, for example, a piece of that contract did include points that were given to contractors who could show that they were going to hire and train apprentices on the job.

I recognize that there is some concern about what kinds of additional requirements that would put on employers, but I think that this is a soft on-ramp. Let's look, first of all, along with price and capacity, at whether we are hiring and training people as we are building bridges, hospitals, and schools across the country.

**Mr. Raj Grewal:** Thank you so much. I think that's an excellent recommendation.

To the Cancer Society, I just want to get some more details on the per capita funding that you are requesting. You are saying that in the U.S., annual per capita federal investment in tobacco control is \$3.39, compared with \$1.04 in Canada, and you're saying that it's going to lapse in 2018 if not renewed.

Are there statistics to show that spending more results in reduced usage of tobacco?

**Ms. Kelly Masotti (Director, Public Issues, Canadian Cancer Society):** Thanks very much for that question.

We have our tobacco expert in the room. If you don't mind, I'd like to bring him to the table to answer those specific questions around statistics.

**The Chair:** Sure.

**Mr. Rob Cunningham (Senior Policy Analyst, Canadian Cancer Society):** There is extensive evidence. It's summarized by the best practices of the U.S. office on smoking and health at the Centers for Disease Control. We have long-term experience, particularly in California and Massachusetts, and it works.

Many Canadians would be surprised to know that we no longer have any mass media campaigns from Health Canada discouraging smoking. There's a lot we can do.

• (1735)

**Mr. Raj Grewal:** So your answer is yes, that statistics do show that more spending leads to less usage of tobacco.

**Mr. Rob Cunningham:** You want to spend it on effective initiatives, but those are available. We know what to do, and a comprehensive, multi-faceted strategy is the best way to do it.

**Mr. Raj Grewal:** This is just an assumption, but I am wondering if, in 2017, with access to the Internet and everybody connected 24-7, the on-package label and those types of controls just aren't as effective anymore, because every child in Canada is exposed to media from around the world.

**Mr. Rob Cunningham:** I think the warnings on the package are really important, because people see them every day of every year, 20 times a day, every time they take out their pack. The kids may see the packages of their parents. Many new Canadians may come from parts of the world where awareness of the health effects is much less than in Canada. It's a really cost-effective strategy.

You referred to the Internet. Having social media as part of a campaign to increase awareness and have messaging that would affect kids is a good way to go, as well.

**Mr. Raj Grewal:** Thank you.

Brian Kingston, I've seen you so many times at this committee that you feel like an old, good friend. Your council represents some of the biggest companies in Canada. You spoke about a risk of capital fleeing the country, as your CEO wrote about in the paper last week. I have a question. I used to be a corporate lawyer with a big firm, and our clients always complained about the tax burden, but that's the job of a business. Every business wants to pay less tax, but businesses make decisions on more than just tax policy.

In terms of all the politics going on down south, Canada is seen right now as a pretty stable environment to invest in, wouldn't you agree?

**Mr. Brian Kingston:** Yes. Canada is absolutely a stable investment environment. That's not to be debated, but tax is a major consideration when large companies are thinking about whether or not to invest in Canada.

As I noted in the survey that I highlighted and will be releasing tomorrow, tax is becoming increasingly important for companies when they decide whether or not to invest in Canada. I would not downplay the importance of tax competitiveness. As I noted, Canada's competitiveness is slipping relative to that of our competitors, particularly if the U.S. goes ahead with reform.

**The Chair:** Thanks to both of you.

Mr. Kmiec.

**Mr. Tom Kmiec:** Thank you, Mr. Chair.

I want to start with the Business Council. Talking about foreign investment, I come from Calgary, Alberta. We are known for energy. We've seen a \$50-billion drop in energy investment since 2014, which is a 62% drop in investment. That's not just due to a drop in oil prices. That includes the new methane regulations being brought in by the government, the LMR rules brought in by the provincial government, higher taxes, and the carbon tax that is being imposed. If you look at just energy in Alberta, you'll see that it is equivalent to 75% of all your manufacturing in Ontario, and it's basically an entire aerospace industry in Quebec. Anywhere else, this would be called a national crisis, but because it's in Alberta, no one really seems to be bothered with it.

The biggest impact I see in the communities I represent is in terms of women and STEM, and you have it here in your submission. For a generation, we've been convincing young people and young women to go into STEM, to get an engineering degree, a science degree, or a technical degree. They've joined these workplaces. They're typically the people with the least amount of experience in the workplace. They're the new ones. They've redirected themselves into this field. They're superintelligent and super-smart. They have the go-getter attitude that most Albertans have, but now they're in an industry that the federal government and many provincial governments are obstructing at every single step of the way.

You talk about foreign investment fleeing the country. I've seen it in my community, with 110,000 direct and indirect jobs lost, just gone, especially in communities like mine, suburban Calgary. For the Business Council, when you're talking about STEM and women involved in STEM, what else are you suggesting should be done beyond just this PromoScience program, where the federal government has targeted interventions? I'm seeing these women unemployed in my community. I have example after example. They have five, 10, and 15 years' experience. They're great engineers. They used to lead entire teams. All those people are gone. All the drafters are gone. Everybody is gone.

What else is there that the government could be doing for energy, but specifically for women in energy? A lot of them are exactly there in STEM-related professions and occupations.

• (1740)

**Mr. Brian Kingston:** I think the number one thing the government can do is to create more regulatory certainty for that industry to bring that investment back. We witnessed that declining capital investment that occurred in Alberta. It was shocking when the price of oil—and resource prices more broadly—dropped.

When we survey our members, the number one issue they see impeding investment in Canada is the regulatory environment, and most of that is coming from the energy and oil and gas sector. I think that if you could clarify the regulatory environment regarding large projects, such as pipeline approvals and so on, you could attract some of that investment back. If you want to make a huge impact in a short of time, that's it. More investment creates more jobs.

While we support some of the programs that the government has adopted, I think the bigger point is the point you've made, which is that there simply is not the investment in that industry that we had prior to the downturn. That would be my number one recommendation.

**Mr. Tom Kmiec:** Maybe we'll continue with some of the other recommendations you have, such as enabling seniors to work longer. You want the OAS to be moved back up to 67. Do you have any data produced by your organization, Statistics Canada, or anyone else showing that since the return to 65—the previous government raised it from 65 to 67 and now it's gone into reverse—there's been a reduction in labour market participation?

I ask that because, again, in Calgary, Alberta, there are a lot of older engineers with a lot of experience who chose to retire early. There was the recession that kicked in, and then there was the prolonging of the recession because of bad provincial and federal policies, which have left more people unemployed longer. Also, when they got close to retirement age, they decided that they didn't want to work full time anymore, or part time. They do want to work on a contract basis whenever it suits their needs, but if they're working, they might have some of their benefits clawed back, such as the OAS in the way that interacts. Do you have any data showing a reduction in labour market participation?

**Mr. Brian Kingston:** Given how recent that change was, the increase under the previous government and now the decrease, we don't have any up-to-date data on whether it is influencing decisions on people right now to stay or leave the workforce.

However, when you look at OECD countries, the trend is to allow and to encourage people to work longer and to not force retirement at 65, simply because we're all living longer. It doesn't mean that someone can't retire, but why would you force them to leave the workforce at 65? We don't see any sound policy rationale for that.

**Mr. Tom Kmiec:** I have 15 seconds. I'll take it, of course.

The chair has vastly improved. Thank you.

**The Vice-Chair (Hon. Pierre Poilievre):** Sorry, you actually have one minute.

**Mr. Tom Kmiec:** Perfect. I knew there was a benefit, Mr. Chair.

Mr. Wudrick, obviously the small business tax proposal that the Liberals dropped during the summer is the number one issue I am hearing about. I have a folder that I carry with me all the time with the latest emails from constituents.

What is your organization hearing from members? Have you produced any new data in aggregate, showing that this many small business owners or types of companies have said they will do x, y, or z, whether it's laying off employees, restructuring their corporations? Do you also have any data indicating how much more in professional fees it will cost certain companies? I've seen some estimates going around, but there's nothing really in aggregate that provides a decent average to work off of.

**Mr. Aaron Wudrick:** We don't have a lot of aggregate data. I certainly have more emails than I care to remember. I think I've been personally copied on at least 300 or 400 submissions to the finance minister. That's certainly on a scale that we haven't seen before.

Aside from the dollars-and-cents issue, I think it's important to stress—and I hope the government is aware of this—that a lot of the folks feel personally vilified. They feel that the government has made them out to be doing something inappropriate. I recognize that some folks in government say that wasn't the intention, but that is certainly the way it came across. I think the government needs to take great pains to say you are not targeting these people and you will do everything in your power to make sure they are not hit, and then back off.

The level of uncertainty out there is like we've never seen. Again, this affects people from all walks of life, in all types of industries. I've never seen anything like it in my time at CTF.

**The Vice-Chair (Hon. Pierre Poilievre):** That would be time.  
[Translation]

Mr. Dusseault, you have the floor.

**Mr. Pierre-Luc Dusseault:** Thank you, Mr. Chair, and thanks to all the witnesses for being here today.

I will begin with the Canadian Cancer Society and talk about the tobacco control strategy, which is supposed to be renewed in 2018.

You mentioned the economic impact of tobacco use in Canada. I would like to hear more about the social costs of tobacco use. To what extent might the investments you are requesting have an impact on our economy and businesses, which could save money?

• (1745)

**Mr. Rob Cunningham:** Every year, tobacco use results in \$4.4 billion in direct health care costs. The total, including indirect economic costs and health care costs, is \$17 billion. So we will improve health and reduce illness and mortality, while also doing something very positive for the economy.

The reason the World Bank is so strongly in favour of the tobacco control is that it is good for the economy.

**Mr. Pierre-Luc Dusseault:** I don't know if you avoided the subject on purpose, but are you essentially asking for the same thing for cannabis use? We know that the next budget will be in March 2018. So that is a few months after the legalization of cannabis, if things go according to schedule. Are you asking us to make substantial investments in fighting cannabis use?

**Mr. Rob Cunningham:** With regard to cannabis, a great deal can of course be learned from the experience with tobacco, whether it be regulation, education or developing a global system and strategy, in particular as regards cannabis use by youth. Bill C-45 can do a great deal to control advertising, packaging, and illicit trade.

**Mr. Pierre-Luc Dusseault:** Thank you.

I would like to talk about university research facilities. We have two good universities in Sherbrooke, one of them in my riding. Much good has already come from ideas developed at universities. I have more examples in engineering, but the same applies to other

fields. I am referring to transforming certain ideas into business ventures.

I am wondering if you have any recommendations to help adapt university projects and bring them to the next level, which would help the students who created them. They could even create their own job later on by commercializing the products they developed.

Do you have any recommendations to improve the situation? I know good things are happening already, but what more could we do? What should the 2018 budget include in order to achieve that objective?

[English]

**Ms. Laura O'Blenis:** One of the items we highlighted in our budget submission was the intellectual property matchmaking program. There are lots of great ideas coming out of the institutions. A big part of the challenge is that there's not a great level of awareness of those opportunities to match companies with some of the researchers or the students who are taking on these projects or coming up with these new innovations and these new ideas. What we were proposing around IP matchmaking is having a database of sorts where you have an inventory of what intellectual property exists so you could transfer more of the technologies through to the business community to apply it in a commercialization environment.

We believe there's a great opportunity for this. We have been working with the INDU committee, who has been reviewing it, as well as ISED, who is reviewing the tech transfer policy as well as the IP policy. That's something we believe could have a significant impact, for fairly minimal input, to be able to get something going. It's really collecting the information and disseminating it appropriately to have significant outcomes.

As for the other opportunities for students in particular, we believe there's a great opportunity for an increase in co-op in all of the institutions. The University of Waterloo is exceptional at co-op placements. I know we've talked about apprentice programs, and certainly experiential learning is extremely critical because it shortens the gap for training requirements for companies, and training employees and students is costly. If we can reduce that time and get them up to speed sooner, there would be great advantages both for the students as well as for the businesses and thus the economy. Experiential learning would be another opportunity to look at with Sherbrooke and the others that you spoke about in terms of the great things that are happening there.

Finally, the last component would be working through the accelerator programs and the incubation spaces. Seventy-five per cent of the research parks have either incubation space or an acceleration program that is designed specifically to bring products to market more rapidly and to help students. Skunkworks is often where you have venture garage areas where students will come up with ideas and be partnered with companies specifically for that purpose, because they have great ideas and they just don't know how to necessarily get them to market. That's another avenue through the research park network that could be taken advantage of, and we are working with the folks in Quebec.

There's a group in Quebec, Univalor, that works on IP. It's a consolidation of all of the intellectual property and tech transfer activities in many of the institutions in Quebec. They are doing some pretty extraordinary things in terms of IP matching and driving technology transfer. We're working with them on the potential IP matchmaking program as an example of a network and consortium already working together to drive that.

Thank you.

● (1750)

[Translation]

**Mr. Pierre-Luc Dusseault:** Thank you.

[English]

**The Vice-Chair (Hon. Pierre Poilievre):** Thank you.

Mr. McLeod.

**Mr. Michael McLeod:** Thank you, Mr. Chair.

I want first of all thank the Cancer Society for their leadership on reducing tobacco usage. On the 31st of May this year on World No Tobacco Day, I stood up and spoke on the issue of tobacco use and focused in on the Northwest Territories in the north. Tobacco use is a huge problem there. We have places where we have up to 73% of the people smoking, and that includes young children.

I think that's going to change. We're seeing a lot of health issues as a result. I would ask you to elaborate on how your submission hopes to address this issue, especially in the north.

**Mr. Rob Cunningham:** Thank you for the question, and thank you for your statement on World No Tobacco Day.

We're very concerned about the much higher rates among the indigenous population. We see much higher rates than the Canadian average in the three northern territories. We need a comprehensive strategy. We need to have engagement with indigenous communities directly. In the north, there's an issue with respect to remoteness, but there are certain messages that I think can resonate in terms of communication that are not currently being used.

In some cases youth need to be educated that modern cigarettes have nothing to do with traditional sacred use of tobacco. In many indigenous communities, many of our best policy measures and taxation measures do not apply. Now that's not the case in the Northwest Territories, but it is within provinces, so there's an opportunity through self-determination for first nations to adopt tobacco tax and keep the revenue equal to the provincial tobacco tax rate, and that's really important to reduce youth smoking.

There's a whole series of measures, and we can go into more detail, but we need to prevent youth from starting we need to offer cessation.

**Mr. Michael McLeod:** Thank you.

I know that the campaigns work. I'm a product of a butt-out campaign in the Northwest Territories that was undertaken by the government about 13 years ago. They used images and signs and posters that could be put up in houses and schools. My children took the opportunity to post them everywhere in our house. I got tired of looking at the posters, but I also got the message that they wanted me to quit.

I know that they work. I think we could do better if we were better resourced to focus on youth, on pockets in different parts of Canada where there is high usage, such as the north and indigenous people. Do you think that's something that is achievable given the right amount of resources?

**Mr. Rob Cunningham:** Absolutely. We can make tremendous progress.

In fact, there is some data from British Columbia that among indigenous youth in that province there have been some impressive declines. It's still much higher than non-indigenous youth, but there's an enormous amount that's available to do with the proper resources.

**Ms. Kelly Masotti:** I would like to add something.

The smoking rate right now in Canada is still at 18%, which is stubbornly high. It's still 10% among youth between the ages of 15 and 19.

To add to what Rob was saying, there's a lot that can be done to focus our attention on these populations.

**Mr. Michael McLeod:** Mr. Chairman, I want to ask a question to the Business Council of Canada regarding federal measures to make Canadians more productive and increase the female labour force.

It's an interesting concept. I think that's something we need to do. I'm wondering, though, if that methodology could be applied to indigenous people. I don't see you focusing on indigenous people anywhere, yet we have huge numbers of unemployed people all over Canada. This is maybe something where this concept could work.

● (1755)

**Mr. Brian Kingston:** Regarding the recommendation for female labour force participation, the idea was that you have an income-tested system that supports child care.

The stats show that we are only spending between 0.2% and 0.34% of GDP on early child care education, which is below the OECD average. We saw an income test as a way to make sure that the people who need child care the most are getting access to it. The kick-on effect, of course, is that mothers who were staying home because of the cost of child care will have this additional resource, and that would encourage greater workforce participation.

I haven't thought about whether a similar tax credit system could be applied to encourage indigenous workforce participation, but I suspect there may be some application there.

**Mr. Michael McLeod:** Quickly, would that be something you would be interested in doing? If we're looking at making Canadians more productive, the indigenous population would be one that we should target also.

**Mr. Brian Kingston:** Absolutely.

Just because it wasn't in this pre-budget submission doesn't mean it's not a priority. We covered this in our last pre-budget submission. It's a huge priority, particularly for companies in our membership that are in the resource sector that have locations or operations near indigenous communities. There's plenty of work that can be done to bring more indigenous people into the workforce.

**Mr. Michael McLeod:** Thank you.

**The Chair:** Thank you.

We're switching to five-minute rounds.

Mr. Poilievre.

**Hon. Pierre Poilievre:** Ms. O'Brien, thank you for your testimony.

In it, you mention that it's important for entrepreneurial enterprises to be able to accumulate profit and savings within their enterprises, and to have that money available for them because of the instability of entrepreneurial activity in the innovative space.

How do you believe that the proposed tax changes will affect the ability of companies to do that?

**Ms. Laura O'Brien:** Unfortunately, what seems to be on the table at this time is a bit of a disincentive for savings and achieving those profit levels. From our perspective, we know that consultations are still occurring and that there are other ideas that will be on the table.

At first glance, in terms of what's on the table at this time, the proposed tax rates—what would be left in organizations—would certainly be a disincentive for saving and achieving those profit levels that you could invest in research and development activities and actually reinvest back into your business to hire new people.

**Hon. Pierre Poilievre:** I represent a lot of tech companies in the west end of Ottawa.

One of their concerns is that a lot of private equity and the purchase of patents in order to earn licensing income may be interpreted as passive income, and therefore will be taxed at these extraordinary rates.

Do you worry that having rates as high as 72% may act as a disincentive for investments in technology patents and the ability to set aside money to prepare for future investments?

**Ms. Laura O'Brien:** Certainly tax rates at that level would absolutely have an impact.

**Hon. Pierre Poilievre:** What kind of impact?

**Ms. Laura O'Brien:** It's a negative impact. You're not going to have the money if you're going to be taxed at a 72% rate because you're leaving money in your company or you take it out and you're taxed at your 40% or 50% tax bracket. It's terrible. It's not good, and it's not aligned with the good work that's being done from an innovation agenda perspective.

It's counterintuitive to all of the other great things that are being done to drive innovation and increase the technology transfer and commercialization and the many positive programs and policies that are in place right now.

**Hon. Pierre Poilievre:** We're told, though, that these companies should just take the money out and put it in an RRSP if they want to save. How would that work for your members?

**Ms. Laura O'Brien:** Yes, but then what does it do to your business? You need to leave it in your business. I'm a business owner myself and business owners work hard. I know there are some criticisms of what they have or what they work for, but it's the choice they make and there are incredible risks associated with having a business as well.

We complain as a society that we want people to be more fiscally prudent and have financial literacy, but if you're going to be penalized and taxed at a 72% rate, then it's a complete disincentive.

• (1800)

**Hon. Pierre Poilievre:** Thank you.

Mr. Kingston, the government says in its discussion paper that \$27 billion a year in passive income is earned within Canadian-controlled private corporations. If you reverse engineer that number and assume, say, a 5% rate of return, that means probably about half a trillion dollars is saved inside these companies due to the responsible planning of our entrepreneurs.

The term “passive income” seems to me deceptive. You can answer this better than anyone because you represent a lot of the companies in which that passive income would be invested. When your public companies get so-called passive investments from private companies, does that money just sit dead or does it work?

**Mr. Brian Kingston:** It does not sit dead. When money is invested into public corporations, of course, they'll hold on to money depending on the business cycle, but they deploy that money as required to take advantage of new opportunities.

I'll also note that while we represent a majority of public corporations, we do have a subset of members, over 30, that are large, private corporations and there are serious concerns that they may also be caught by these proposals. These corporations employ thousands of people and they hold significant passive investments to invest in start-ups, tech companies, to prepare for downturns in the business cycle, so they could also be caught in this, which would be extremely concerning.

**Hon. Pierre Poilievre:** The government says they want strict neutrality in the tax system with nobody treated differently from anyone else. Get rid of all these preferences. Do you believe that these proposals bring neutrality or are they bringing a higher rate of taxation on certain types of companies than on other types?

**Mr. Brian Kingston:** They definitely do not bring neutrality. One concern we have is that large, private corporations will now be on unequal footing with public corporations that are allowed to hold cash reserves as required to take advantage of new opportunities. You suddenly have a situation whereby a private company can no longer do that. That's the absolute opposite of neutrality. If the government was serious about wanting to clean up the tax system and make it more neutral, it would launch a comprehensive review of the tax code.

**Hon. Pierre Poilievre:** Finally, do you worry that Canadian—

**The Chair:** I'm sorry, Pierre, how fast time flies.

Ms. O'Connell.

**Ms. Jennifer O'Connell:** Thank you, Mr. Chair.

Ms. O'Brien, you're asking in your brief for \$2.85 million for the three programs you mentioned over three years.

**Ms. Laura O'Brien:** That's right.

**Ms. Jennifer O'Connell:** That seems like a relatively small amount of money for the three distinct programs that you laid out all in some detail.

I have two questions. One is what do you predict will be the positive outcomes from these types of investments? Your brief outlines a lot of statistics about when certain things happen or when investments are made in these areas. The outcomes are great, but from these three programs—let's just use the IP matchmaking program, I know you're working with INDU on that—what are some of the relevant initiatives that are going to be made that will see the positive results for a relatively small investment?

**Ms. Laura O'Blenis:** The IP matchmaking piece—I believe the budget was around half a million dollars a year over a three-year period—had the goal of on-boarding the institutions. The institutions all have very different policies on IP. Bringing some sort of alignment to how we would consolidate or collect and represent that data was basically the goal. In that three-year period what you can do is on-board the organizations and institutions and build a beta MVP online platform.

We could also look at consolidating information. For example, the NRC concierge program is a database program. Maybe there are existing federal programs that you could leverage or look at. ISED is also looking at something else, even to build something from scratch that's an online database platform. We have been looking at some components and you could do an MVP for a fairly minimal investment and then the rest is really on-boarding the institutions. So that is the IP, as one example.

The soft-landing program, I believe, is around \$300,000 a year. It's specifically for the Fraunhofer exchange with the 67 institutions under Fraunhofer in Germany. We're working with Global Affairs and the European Union on that program, which was brought to us from them. Specifically, we are working with the interaction points between the companies, identifying the matches with Canadian sectors. The superclusters are a big thing right now. We've looked at the superclusters to build on and then learn from the institutions in Germany, which are quite specialized.

So that's the interaction piece. I know it doesn't seem like a lot, but we can actually do a lot because we've been building these networks and platforms over a period of 10 years. We can leverage those networks so that it's a fairly minimal investment to have a fairly significant outcome.

The last is the coordination of the ecosystem, and it's around the same as well. It's trying to bring together some semblance of standardization. For example, there's the CAIP funding. It's administered through IRAP, NRC. Fundamentally, the issue we've had with that program is that it supports about 15 accelerators, the main accelerators in Canada, but it doesn't disseminate the best practices or the information being collected or driven from that \$100-million spend from CAIP. If you'd just put a little bit of coordination around that and actually disseminate some of those best practices to some of the smaller communities and some of the other accelerators, then we could multiply our impact on acceleration and incubation in Canada. It doesn't need to be significant. It's really just about wrapping around and having the autonomy to execute on behalf of the government while leveraging the network to be able to do so.

Thank you.

● (1805)

**Ms. Jennifer O'Connell:** Thank you.

Ms. Watts-Rynard, you spoke about providing the support the employer needs in order to understand these apprenticeship programs and what they mean. I'm just curious. Who would you envision actually providing this support? Do you want the federal government to directly offer these types of supports, or are there agencies that are better suited to provide mentorship to the apprentices? Who is doing the audits to ensure quality? You spoke about the example of the individual to whom the program wasn't beneficial even though the individual had a spot. Could you provide a little more background on who you would envision rolling some of these things out?

**Ms. Sarah Watts-Rynard:** Sure.

There are apprenticeship authorities in all of the provinces and territories, and to some extent apprenticeship is really a demand-driven system. If an employer says they would like to hire an apprentice and register them with the apprenticeship authority, that's really where the first relationship starts. I think the difficulty can be the idea of hiring and training somebody based on the fact that the employers were once apprentices themselves. That does not necessarily mean that journeypersons who are currently certified would be good mentors and so forth.

There are all kinds of really great programs across the country, but they tend to be in really small pockets. In New Brunswick there's a really great mentor-apprentice program, where they go out and actually show employers, get employers engaged with mentorship, get their journeypersons in the room, get the apprentices in the room, and talk about what mentorship means. For example, there are training plans that are available through some of the trade associations that deal with specific trades. We know there are a number of unions involved with apprenticeship training that are able to support employers in terms of the quality of training, the quality of mentorship, and so forth.

I think the infrastructure is there. The problem is that it's spotty, so there needs to be a sort of clearing-house of what that actually means, what good apprenticeship looks like.

In very few cases will apprenticeship authorities in the provinces, or any government, want to go into an employer and say they are not doing a very good job with their apprentices. But as the registration authority, it is reasonable to say, "Your apprentices aren't completing, so we're letting you register them. You're getting the tax credits. You have access to these supports, but you don't seem to be putting out apprentices at the end of the day who are turning into certified tradespeople. They're not doing well in their training," and so forth.

I think there does need to be an audit process that looks at the quality of training that's being provided in workplaces. I think it has to happen within the apprenticeship community itself. I know that there are programs. I know there are some really great things going on.

We say about 19% of skilled trades employers are involved with apprenticeship training, and I think the other 81% have opportunities. Perhaps they can't offer the full scope of trades. Perhaps they have other reasons why they might suffer. But I think it's only a matter of really making sure there's an umbrella group out there, a clearing-house, and I'm thinking more of a centre of excellence around vocational training, thinking about the resources that employers need in their trade or sector, then building that so that good practices are happening across the country. Then, when people need help, making sure they're not necessarily being penalized, but they are certainly getting the supports they need to understand why their colleagues or peers down the street seem to be able to get apprentices through the program, but they don't.

I think it's a matter of—

•(1810)

**The Chair:** Sarah, that's your time.

We'll turn to Mr. Albas.

**Mr. Dan Albas:** Thank you, Chair, and thank you to all of our witnesses for your participation today. It's very welcomed here.

I'm going to start with Ms. Mentzelopoulos in regard to risk-sharing. Credit unions, particularly the further west you go in this great country, are in the rural areas. Often they are in locales where there isn't an alternative financial institution. Oftentimes they're very localized because that is the nature of credit unions.

Obviously, they have high capital requirements. They can only loan out a certain amount, because that credit union can't spread the risk over a wide system in the way that one of the big-six banks can, so this risk-sharing thing could be very painful, could it not, for a small credit union?

**Ms. Athana Mentzelopoulos:** That's exactly why we've taken the position that we have.

To your point, I believe Keremeos is the most recent community where we've seen that a credit union is the last standing financial institution. There are communities like that all over. It's really a policy approach that was tailored for Vancouver and Toronto and the real estate markets there. It's not a policy approach that's going to be in any way helpful to communities and the credit unions that serve them outside of those major metropolitan areas.

**Mr. Dan Albas:** Also, communities like Peachland in my riding are only serviced by credit unions, so I certainly appreciate your being up to snuff with western Canada.

In regard to competitiveness, deposits, and whatnot, you said you have high capital requirements that are not the same at the federal level. I know many small businesses use credit unions as their go-to sources for funding and whatnot. If your depositors—in this case, small businesses—are being taxed at higher rates and have less money at the end of the day, that directly impacts your ability to lend, because the less money in the bank account, the less money goes out in loans. Is that correct?

**Ms. Athana Mentzelopoulos:** We certainly are hearing that reflected from our membership, and they are hearing that in turn from their members.

**Mr. Dan Albas:** Thank you for that.

Mr. Wudrick, I just wanted to ask you a quick question. Given that the government is spending a lot of money with no plan for returning to balance, that it is giving a lot of money away to large corporations in a friend-seeking fashion, and that obviously you see the small business taxation here, what is most concerning when you put all these things together?

**Mr. Aaron Wudrick:** Frankly, it's that the government has a credibility issue. Look, we were one of the groups for the longest time calling for tax reform. I don't want to suggest we're against it. However, we stipulated that the condition must be that the money has to be returned in the form of cutting broad-based tax rates. I think the fact that the government has not made that commitment feeds into the suspicion. We all know the government did run on a promise to run a deficit, but it turned out to be much larger and much longer in reality, and they have not presented a plan to get back to balance.

When you add all that up, it does start to undermine the argument that they are concerned about fairness and that they are not concerned about finding more money to pay for the fact that they can't keep spending under control.

•(1815)

**Mr. Dan Albas:** Mr. Kingston, you mentioned that some of your membership may be caught up in these changes, as well. I just want to piggyback on Mr. Poilievre's earlier question in regard to "passive". Obviously, if entrepreneurs buy a bond issued by one of your companies, they may not have a purpose for that money right now, but they want to be able to have something that's pretty liquid, that will track with inflation, and that also gives money now to that larger corporation to open up a new factory, which may end up purchasing supplies from that company.

Do you think this whole idea of passive investments really doesn't reflect the true nature of our economy and that what one person might say is passive actually has a very real effect in the economy?

**Mr. Brian Kingston:** Yes, I agree with that statement. It's been characterized as "passive", and a lot of people assume, then, that the money is just sitting there not doing anything. However, as you note, that money is invested in corporations that are actively investing in communities and employing people. That's the reason that, in the submission we will be providing to this committee and to the minister, we are calling on the government to undertake a full, comprehensive economic assessment of the policies it has tabled. There has been no information regarding how this will impact the broader Canadian economy, and we're very concerned that it could have serious implications.

**Mr. Dan Albas:** Again, when someone buys that bond, let's say they get 5%. Right away they already are taxed, and maybe you might not know this. They are taxed right now where they have to pay taxes at just around 50%. That's just how it is in a Canadian-controlled private corporation. If you add a higher tax of 73%, now that person isn't even tracking with inflation. I think there are a lot of broad-based concerns here, because if we stop investment into the most productive use of those dollars and suck it away, we're going to be in for a lot of unintended consequences.

Do you have anything further to add to passive investments?

**Mr. Brian Kingston:** I would just say that if someone is facing a 70% or higher tax rate, which is what we've heard from some of our large private corporations on their passive investments, I think that's a pretty clear disincentive to make any investments whatsoever. So that's very concerning.

**Mr. Dan Albas:** What about public companies taking—?

**The Chair:** Sorry, Dan. You have one more quick one. Jennifer went over by three, so we'll let you over by one.

**Mr. Dan Albas:** Okay.

Obviously in Canada we have a lot of great big companies, but people sometimes feel that this hogs out competition. Are you worried that these kinds of incentives may change it so that larger companies have an inherent advantage?

**Mr. Brian Kingston:** I haven't seen that as a concern. I don't want to create a situation through the tax system, though, where small and medium-sized enterprises are not encouraged to grow into large companies. The objective of any small business should be to become a large business eventually, so if the tax system is disincentivizing that behaviour, I think we have a real problem on our hands.

**The Chair:** Thank you both. The last questioner to this panel is Ms. Dabrusin.

**Ms. Julie Dabrusin (Toronto—Danforth, Lib.):** Thank you.

Ms. Watts-Rynard from the Canadian Apprenticeship Forum, you talked about government infrastructure spending and all the construction-type projects you can see.

Have you thought about the value of community benefits programs being linked? A private member's bill was before us at one point talking about putting it to the minister of infrastructure that, when we have infrastructure projects, we take into account community benefits such as training and apprenticeship opportunities.

**Ms. Sarah Watts-Rynard:** Absolutely. All kinds of things are already happening in the provinces and territories that certainly go in that direction. They are linking some of the money they're putting out in maintenance and construction contracts. They understand that training, understand the requirement to hire indigenous people, for example, within an area, and those things are working.

There's no reason why the people who are the owner community, who have the money to spend, can't decide what they expect from their contractors.

I think we see this in the oil and gas sector, for example. Big companies that use contractors to build and maintain their infrastructure will say the expectation is that they're going to hire the local community, they're going to be doing training, and it works for them. That encourages small businesses to think about their impact on the local labour market. I think it's a matter of taking that example and starting to think about how that could be applied to federal spending.

• (1820)

**Ms. Julie Dabrusin:** Thank you.

You mentioned different programs in different provinces and territories across the country. Have you seen any particularly good

models that you would like to see if the federal government was considering community benefits-type programs?

**Ms. Sarah Watts-Rynard:** One example is in Manitoba. One of the ways they do this is that when they're putting out any kind of contract to bid that requires skilled trades labour, they need to have a letter from Apprenticeship Manitoba indicating that they are involved with the system in some way, that they have at least one apprentice, that they are somehow involved with the apprenticeship board, for example, project or program advisory committees with their local colleges. They have to be able to show that they are engaged with training. It's not a matter of ratios. It's not a matter of that for every dollar they're going to give to them, they have to show us this much in benefits, but there is a requirement to show that there's involvement.

Again, this is a very soft on-ramp to the idea that governments do have a choice about how their money is being spent and the impact on the community as a result. British Columbia does something similar based on value, so the higher the value of the contract, the more the requirement to show a connection with training, for example.

These are the kinds of conversations that when we're having them with apprenticeship authorities and with provincial governments, they're saying it's important to them to make sure that their local population has the work, has the opportunities to train, and that means that if they've decided that the local indigenous population should be part of those agreements, then those are parts of agreements being put in place through procurement contracts.

**The Chair:** We have time for one more quick one, and then the two Pierres want one question each. Then we'll come back. The government wants one more question.

Go ahead, Ms. Dabrusin.

**Ms. Julie Dabrusin:** I'll make it a quick question.

Ms. Mentzelopoulos for the credit unions, in your submission you mentioned section 983 of the Bank Act, and that you'd had discussions about other solutions with the Department of Finance. What would be your preferred solutions that you would be putting forward as to how to change the terminology?

**Ms. Athana Mentzelopoulos:** I would preface this by saying that this is an issue that feels a bit like a solution in search of a problem. The policy intent, as we understand it, is to avoid consumer confusion, but we've seen no evidence of consumer confusion. I've been a member of a credit union in the past and I recently joined another credit union. My personal experience is that they have a very extensive on-boarding process, and it really leaves no room for doubt in terms of what kind of financial institution you're joining.

We respect, though, that the Department of Finance is seeking to avoid consumer confusion. What we are going to be proposing—it's a consultation process that ends at the end of this week—is a fairly light-touch change to that section of the Bank Act that would allow for a “reasonable person” test. Recognizing that the original intent was that there would be avoidance of any deliberate misleading, we think that it is possible to achieve with some changes a principle-based approach that will assist in avoiding that confusion. But fundamentally, we will still allow for the usage of what we believe are the very common terms of “bank” and “banking”.

Thank you.

**The Chair:** Thank you. That's very good information.

Mr. Dusseault, you have one question.

[*Translation*]

**Mr. Pierre-Luc Dusseault:** I have a quick question for Mr. Kingston.

I have often heard—we often hear this in this committee—that tax rates are too high and that they should be lowered. That is a recurrent theme as regards competitiveness.

Are you not afraid, as others are, that this is a race to the bottom that is happening all over the world? Are you not afraid that the tax rates for companies and enterprises, which are almost nil in certain jurisdictions, are driving that race to the bottom?

The result is that employees have to pay even more tax.

Are you not afraid of this race to the bottom, which is spurred on by repeated comments about tax rates being too high and companies wanting to pay less and less? In any case, they will always say that they pay too much tax or income tax.

Are you not afraid of this global race to the bottom?

• (1825)

[*English*]

**Mr. Brian Kingston:** We're by no means advocating for the elimination of the corporate tax, and I do appreciate that there are jurisdictions that have gone to that extreme. But I think that Canada should compare itself to its OECD competitors. I think that's a fair comparison, and it's one that we need to make consistently because our OECD competitors are constantly changing their tax systems, not necessarily lowering rates but streamlining and eliminating complexity. The fact is that we sit above the OECD average, and I think that is worrying. When we compare with our peers and the other jurisdictions where people consider investments, we are lagging, so I think there's work to be done.

I'll also note that part of tax reform isn't just lowering rates. The other element is cleaning up the tax system. We survey our members every year. We collect data on 68 different taxes that they pay. They spend over \$3 million just complying with Canadian tax legislation. That alone would be a huge benefit—if you could just simplify the system and make it easy for taxpayers to file and comply with the tax legislation.

**The Chair:** Thank you both.

Mr. Poilievre, you have one question.

**Hon. Pierre Poilievre:** When businesses want to acquire assets or other companies, they have to outbid their competitors. They make those bids out of liquid assets inside the company, and typically those liquid assets are classified under the Income Tax Act as passive investments.

Do you worry that there will be distortions in those competitive bidding processes as a result of the fact that one group of companies, the privately owned, will pay a significantly higher rate of taxation on its passive investments than will another group, public corporations? For example, for a farmer saving up to buy a quarter section, he has to be taxed at a rate as high as 72% on passive income, whereas a publicly traded land aggregator will not face those taxations and therefore could outbid the farmer. Myriad other analogous examples could be given.

Do you worry that such distortion and imbalance could result from the proposed tax changes?

**Mr. Brian Kingston:** Yes. That is something that we worry about. We want to see neutrality in the system, particularly when you're comparing large, private corporations...if this does apply to them, because it's unclear in the proposal.

If you have a situation where a large, private corporation is not on equal footing with a public corporation as a result of these rules, because they're disincentivized from holding investments, that could be very problematic.

**The Chair:** With that, we're at our adjournment time.

I think we had a very good discussion on quite a number of points related to pre-budget consultations and the current proposal that's on deck coming out of Finance.

I thank members and all the witnesses again for their appearances today.

We'll see the committee tomorrow at 3:30. The meeting is adjourned.







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