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## **Standing Committee on Finance**

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**EVIDENCE**

**Monday, May 15, 2017**

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**Chair**

**The Honourable Wayne Easter**



## Standing Committee on Finance

Monday, May 15, 2017

• (1535)

[English]

**The Chair (Hon. Wayne Easter (Malpeque, Lib.)):** Order, please, members.

This is meeting number 90 of the committee. We're approaching 100. Will we get to 150?

Pursuant to the order of reference of Tuesday, May 9, 2017, our hearing today is about Bill C-44, An Act to implement certain provisions of the budget tabled in Parliament on March 22, 2017 and other measures.

We have five witnesses, including Mr. Luke Harford, president of Beer Canada; Mr. Murray Souter, board member, Canadian Vintners Association; Mr. Carl Sparkes, president and CEO of Devonian Coast Wineries; Ms. Joyce Reynolds, executive vice-president, government affairs, Restaurants Canada; and Mr. Jan Westcott, president and CEO of Spirits Canada.

I know that a couple of people went out of their way to change their travel arrangements.

I believe one person was supposed to be in Spain, so we appreciate that effort, Mr. Sparkes, to get here to give your information to the committee.

Try to hold your comments to about five minutes. Then we'll go to questions.

We will start with Mr. Harford.

**Mr. Luke Harford (President, Beer Canada):** Thank you very much, Mr. Chair and members of the committee.

I really appreciate the opportunity to participate in the legislative process on behalf of the 45 Canadian beer companies I represent. My members are large and small domestic brewers from all 10 provinces and one territory.

My members have two concerns with budget 2017. First, it imposed an immediate 2% increase to excise duty rates on beer. The abruptness was very disruptive to normal business operations. The second and most serious concern is the escalator, the mechanism that will increase excise rates automatically every year with no requirement to check on the health of the domestic brewing industry. The immediate 2% increase is not helpful, but it doesn't compare to the damage the escalator will do to our domestic brewers.

I will use the few minutes I have to offer four reasons for removing the escalator from Bill C-44. First, tying the consumer price index to excise duty rates is too rigid and ignores regional economic differences. Second, the escalator bypasses Parliament's role in approving tax increases. Third, Finance Canada has acknowledged that it did not analyze the economic impact of the escalator or what effect it would have on our industry. Finally, there appears to be a large discrepancy in Canada's public accounts that would make it difficult for policy-makers to say anything about the effectiveness of excise duties.

The consumer price index reflects the cost of a fixed basket of commodities over time. It tells policy-makers nothing about what is going on in our sector or in a particular region of the country. I'm going to use Atlantic Canada to demonstrate why linking excise duty rates to the CPI is too rigid and insensitive to regional differences.

Over the last five years, the total volume of beer in Atlantic Canada declined by 3.3%, while the CPI, or consumer price index, increased by 5.5%. If the escalator had been in place, the government would have increased the tax on beer every year while Atlantic-based brewers struggled to adjust to lower demand. The escalator would have made a difficult situation in Atlantic Canada worse.

The escalator means annual tax increases on Canadians and Canadian businesses with no parliamentary oversight. The escalator will run in the background, resulting in higher beer taxes every year. Section 53 of the Constitution Act, at least in principle, should cause the government to pause on introducing a tax policy like the escalator. It requires that bills for imposing any tax originate in the House of Commons. Finance Canada advised this committee last week that it did not analyze the impact that higher excise duties would have on the domestic beverage alcohol industry. It likely did not consider the impact on the hospitality industry, either. It reasoned that the tax increase would be small on a per case or per bottle basis. The department has ignored the compounding tax-on-tax implications of the escalator and the fact that Canadians already pay the third highest beer taxes in the world.

There's a bigger point. The budget plan highlights that the government anticipates taking an additional \$470 million in excise duties over the next five years because of the automatic increases. I can tell you with absolute confidence that there is no one in the domestic beverage alcohol industry that agrees with Finance Canada's forecast that the government can anticipate the status quo holding while it takes an additional half a billion dollars out of the productive use of the Canadian beverage alcohol producers.

The 2016 public accounts report that excise revenues from beer were \$584 million for the fiscal year. This appears to be an under-representation of what actually is collected in excise on beer. It's like this every year. For fiscal 2016, Statistics Canada reported total beer sales for the country at 22.9 million hectolitres. With excise rates at \$31.22 per hectolitre, the total revenues should be closer to \$713 million, a \$130 million gap from what is reported in the public accounts. Budget 2017 talks about excise rates not having increased since the mid 1980s, and it rationalizes the escalator as a way to maintain the effectiveness of excise duties.

• (1540)

There is no explanation of what constitutes effectiveness, but looking at the volumes of beer sold and the rates of excise in place from 1985 to 2016, the amount of excise remitted to the federal government has increased from \$385 million to \$713 million, an 85% hike. Over this time period, per capita consumption of beer declined from 103 litres to 76 litres, a 26% drop.

The domestic brewing community is counting on the honourable members of this committee to remove the escalator and demonstrate that by "effective" the government does not mean higher taxes at the expense of a healthy domestic brewing industry.

My plan for this afternoon was to provide the committee with four reasons for removing the escalator from budget 2017. I appreciate the opportunity to present these arguments on behalf of my 45 brewing members and, indeed, the broader brewing industry.

Thank you.

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

Mr. Souter, go ahead.

**Mr. Murray Souter (Board Member, Canadian Vintners Association):** Thank you, Mr. Chair and MPs.

I am grateful for the opportunity to appear here today and present the Canadian wine industry's perspective on Bill C-44, the budget implementation act.

My name is Murray Souter. I sit on the board of directors of the Canadian Vintners Association. I am also the president and CEO of Diamond Estates Wines & Spirits, located in Niagara-on-the-Lake, Ontario.

Diamond Estates is the home of a wide selection of top-selling VQA wines, including Lakeview Cellars, EastDell Estates, 20 Bees, FRESH, and the wines of Canadian acting legend Dan Aykroyd.

In the few minutes I have, I want to provide you with a snapshot of our national wine industry and Ontario's economic impact within it, as well as explain what the excise duty is and why the excise duty and the CPI should not be linked.

First, let me highlight some facts at the national level. The Canadian wine industry is made up of almost 700 wineries and 1,300 independent growers, contributing \$9 billion to the national economy. We produce two types of products: premium 100% Canadian VQA wines, which contribute \$4.5 billion in economic impact, and value-priced international Canadian blended wines made from imported and domestic content, which also contribute \$4.5 billion.

In Ontario, specifically, the economic impact of the grape and wine industry equates to \$4.4 billion, with Ontario being the largest wine grape-producing province in Canada. In 2015, it generated 18,000 jobs and over \$750 million in federal-provincial taxes and liquor board markup. This is up from \$600 million in 2011. For every dollar spent on Canadian wine in Ontario, almost \$4 in GDP is generated across the province.

Budget 2017 is sending a mixed message to Canadians. On the one hand, it draws from the Prime Minister's Advisory Council on Economic Growth, which identifies Canada's value-added agrifood industry as an engine for growth, but at the same time it proposes a 2% increase in the excise duty on one of Canada's highest value-added products, wine.

The government is proposing in the budget bill to amend the Excise Act, to legislate the annual indexation of the wine excise duty to the consumer price index, effective April 1, 2018, meaning that the rate is set to increase every year.

Budget 2017 states that "[e]xcise duty rates on alcohol products have not effectively changed since the mid-1980s." This, in fact, is not true. The last increase was in 2006, when the excise duty increased 21%, by 10.8¢ per litre, to 62¢ per litre.

Our industry is concerned that over the next five years, assuming a moderate, 2% inflation rate, the excise rate will increase by a cumulative 11%. Since the excise duty is a cost at the front of the price chain, the impact is cumulative, with *ad valorem* liquor board markup, GST, and PST adding to the consumer impact. The GST already picks up inflation on the producer price. By indexing excise, the price chain would pick up double inflation and multiply it through the price chain.

The impact on domestic wine pricing of adding the excise tax at a rate of 63¢ per litre is to add 90¢ to the retail price in an already price-sensitive, highly competitive market.

This legislated annual tax increase is also too rigid. It will tie the hands of future governments, and it fails to account for non-inflationary impacts facing the industry. It does not allow Parliament to do its job to ensure that all measures are considered for all future tax increases.

Wine is among the highest value-added agricultural products in Canada, yet many of our grape growers would face economic hardship due to this tax increase.

My company, Diamond Estates, is one of only two publicly traded wine companies in Canada. As such, we depend on the public markets in order to raise capital for expansion and growth. Just six months ago, our organization was able to conclude a significant capital raise to support our winery capacity expansion. This expansion was necessary to ensure continuity of supply for our fast-growing retail and export businesses.

However, today's capital markets have both well-informed and very savvy investors, and the contemplated changes in the excise tax regime are creating uncertainty and risk. That uncertainty is jeopardizing future capital raises necessary to support the planned doubling of our business over the next five years. More importantly, it jeopardizes the jobs that accompany that growth.

Imports represent 70% of wine sales in Canada, and with import tariffs soon to be eliminated under CETA, the proposed annual excise tax escalator would seriously damage our ability to compete.

With the recent challenge against Canada at the World Trade Organization, regarding the B.C. wine sold in grocery stores, and the renegotiation of NAFTA, it is clear that imports want more of our market and are willing to challenge us on all fronts.

Our industry is rooted in Canada, literally. We simply cannot uproot and take our business elsewhere. Wine is one of Canada's signature industries, which should be supported and promoted by our federal government, not selectively targeted.

• (1545)

Recommendation 54 in your committee's 11th report, entitled "Creating the Conditions for Economic Growth", presented December 7, 2016, is as follows:

That the Government of Canada support innovation in the Canadian wine sector through improved operational and infrastructure investments.

The wine industry can be a strong contributor to the agrifood powerhouse that Canada is creating, which would strengthen our competitiveness domestically and abroad. However, this escalator will put economic growth on pause.

The Canadian wine industry can help the government to create more jobs, more wealth, and opportunities, but this starts with eliminating the excise escalator tax under budget 2017.

Thank you.

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

Mr. Sparkes.

**Mr. Carl Sparkes (President and Chief Executive Officer, Devonian Coast Wineries):** Thank you, Chair Easter, and members of the committee.

Ladies and gentlemen, I'm here today representing my company, Devonian Coast Wineries, the largest winery in Atlantic Canada and the seventh-largest in Canada, as well as the Winery Association of Nova Scotia and its growers—in all, approximately 125 farm-based businesses. We appreciate the opportunity and invitation to share our perspective on Bill C-44.

The wine industry of Nova Scotia has been a shining light contributing to the revitalization of several rural communities in the province. The immensely positive contribution to the region is manifest across the agriculture, manufacturing, retail, and tourism sectors. Indeed, a recent study in 2016 revealed that the annual economic impact of the wine industry on the province has surpassed \$216 million and is growing. That's massive for our region.

We are the newest but fastest-growing wine region in the country, attracting investment and excitement in parts of the province where agriculture and tourism had long been in decline.

With the level of upfront investment required and the long gestation period for vineyard, wine, and market development, many of our business models would be fragile if burdened with additional costs and regulation.

The decision to increase federal excise duty rates on beverage alcohol undermines the government's own objective of creating a business environment where manufacturers, particularly agrifood processors, can thrive and export abroad successfully.

The budget proposal to automatically adjust federal excise duties to CPI is a return to the failed policies of the past. Between 1981 and 1986, annual automatic adjustments to alcohol excise duties resulted in massive job losses and plant closures across this country.

We elect MPs to protect us and debate tax increases. This budget proposal takes their ability away and risks other taxes being implemented in a similar fashion.

The logic of attaching an annual increase to consumer price index is also fundamentally and particularly flawed, as this excise is an input tax and not a sales tax. This means that the real inflationary impact of applying the excise escalator on the raw material would translate into making our industry sectors' inflation rate approximately five times that of the national CPI every year going forward.

Domestically alone, this rampant indexed super-inflation would seriously damage our industry, as consumers would shift to lower-priced imports and away from Canadian-made wine. Canadian producers like our company would be faced with the choice of increasing prices to offset the input-cost increases or absorbing the increase in order to hold market share. Neither option is sustainable for any manufacturer, let alone one that deals with the inherent variability and uncertainty of agriculture. But that's far from the biggest threat to the Canadian wine industry.

International trading partner countries that have supported the 100% Canadian content exemption since 2006 are now giving notice that while the exemption is perfectly legal, if this escalator goes into legislation it, as well as other industry measures, would be challenged at the WTO level. Should the outcome be the likely reinstatement of the excise tax for 100% Canadian wine, almost immediately there would be operations shuttering, as the tax on the finished wine would be the equivalent of a 50% increase in the cost of our grapes. That is massive. Layoffs would be abundant throughout, planting would come to a halt, and the industry would end its tremendous growth trajectory.

In the case of my own companies' operations, I would likely lay off about 30% of our collective employees, terminate many grower contracts, and try to sell two of my three wineries—if there would be any buyer available under these conditions. In Atlantic Canada one of our few successful agricultural industries would be crippled. Having made a sizeable investment to enter into this industry five years ago, acquiring the largest winery in the region, we continue to invest every year and have doubled our volume in those five years.

We compete in our own backyard with global wine corporations whose governments do not tax them at home, but instead subsidize them to the hilt. At the same time our provincial monopolies' retail markups, along with the HST and excise, make us the highest domestic tax jurisdiction in the world. The only subsidy in our wine industry is coming from the owners themselves—owners like me.

The data supports the known fact that the Canadian wine industry punches well above its weight class in economic, cultural, and overall quality of life in Canada. Our growing presence abroad not only represents the best example of value-added agriculture, but it also enhances the perception of the entire Canadian brand. Our economic impact now tops \$9 billion.

● (1550)

For our federal government to unwittingly place our industry at such risk is disturbing, to say the least; but to persist in legislating an annual indexation on our costs after learning of those risks would be unconscionable.

We ask that you repeal the indexation of the excise tax from the budget implementation act, 2017.

Thank you, Mr. Chair and committee members, for your time and attention today.

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

Ms. Reynolds, the floor is yours.

**Ms. Joyce Reynolds (Executive Vice-President, Government Affairs, Restaurants Canada):** Thank you, Chair Easter, and committee members. I really appreciate the opportunity to speak to you this afternoon about part 3 of Bill C-44, on behalf of Canada's \$80-billion restaurant industry.

This industry is a vital part of the country's economy. Canadians operate restaurants in every corner of Canada, from large metropolitan centres to remote communities. We are the fourth-largest private sector employer in Canada, with 1.2 million employees who interact with 18 million Canadians daily. A significant number of these jobs are derived from the sale of wine, beer, and beverage alcohol in licensed establishments. We are most proud to be the number-one, first-time creator of jobs in the country. We open the door of opportunity to youth, new Canadians, and those facing barriers to employment. Every dollar spent at a restaurant generates an additional \$1.85 in spending in the rest of the economy—well above the average for all industries in Canada.

We indirectly employ more than 250,000 Canadians. More than two-thirds of Canada's restaurants are locally owned and operated by independent entrepreneurs. Our 95,000 restaurants, cafeterias, coffee shops, and bars are gathering spots for people from all walks of life to celebrate, to do business, to spend time with family and friends.

Restaurants are also one of the top three reasons for tourists to make Canada their chosen destination.

However, you also need to know that we are an industry with razor-thin profit margins. The average restaurant in Canada takes home a mere 4.3% before taxes. According to Stats Canada, drinking places—that would be the bar and pub sector—have experienced sales declines in six out of the last eight years. Since 2000 the number of drinking places has plummeted by 40%. Beverage alcohol is an important input for restaurants and food service operators, who purchase approximately \$3 billion of these products each year, but alcohol prices in Canada have reached the point of diminishing returns with stagnating sales to licensees.

What most Canadians don't know is that licensees often pay more for a case of beer, for a bottle of wine, or a bottle of spirits than consumers purchasing them at their provincial retail store. Once restaurants include the cost of service, glassware, overhead, rent, staffing—and staffing includes training on all service and responsible service of alcoholic beverages—it becomes very expensive for the average Canadian to enjoy a glass of wine, a pint of beer, or a cocktail with their meal.

You can't imagine the surprise of our members when government elected to add more taxes, not less, to alcohol, one of the highest tax commodities in the country, and to increase the tax in perpetuity. We've heard from small-town restaurant and pub operators who are struggling to keep their businesses afloat with rising labour, food, utility, and rent costs. The cumulative effect of the new excise duties will take another big chunk out of their businesses. These are real dollars that cannot be used for hiring staff, investments in innovation and refurbishing their businesses and, in some cases, remaining viable.

Last week we heard from Mr. Coulombe from the Department of Finance during his testimony to this committee. I know that restaurants were disheartened to hear that the department believed that the excise taxes would be so small that it wasn't necessary to analyze the economic impacts. A tax increase from \$30 million to almost half a billion dollars in five years is not insignificant, particularly when you consider that the tax will be part of the base price to which all other fees, levies, markups, and provincial and federal taxes will be layered on. The cascading nature of provincial markups and PST, GST, or HST application will mean price increases of up to three times the amount of the federal excise tax for those who purchase alcohol.

This year's federal budget identifies agrifood as a potential growth sector, but a very broad swath of agrifood industries will be hurt by this compounding tax. The hospitality industry, together with the vintners, the brewers, the distillers, the grape and grain growers, and our related supply chain partners, is seeking this committee's support for the repeal of the annual excise duty escalator in Bill C-44 to ensure that all tax increases have oversight by parliamentarians, and that the economic impacts and considerations are factored in.

Thank you.

● (1555)

**The Chair:** Thank you.

Mr. Westcott, the floor is yours.

**Mr. Jan Westcott (President and Chief Executive Officer, Spirits Canada):** Thank you, Mr. Chairman and members of the committee.

My name is Jan Westcott, and I'm the president and CEO of Spirits Canada.

Spirits Canada is the sole national organization representing Canadian spirits manufacturers, exporters, and consumers. My remarks today are expressed not only to these affected parties but also to the thousands of Canadian SMEs providing critical goods and services to spirits producers. I am also addressing Canadian farmers of cereal grains such as barley, corn, rye, and wheat, which are intrinsic to the domestic production of distilled spirits.

Given the limited time today, I'm going to focus my comments on the ill-conceived suggestion that we return to the failed policies of the past and reintroduce the automatic indexing of excise duties on liquor.

As my colleagues have said, members have heard testimony from the finance department that no—and I underline no—economic analysis or modelling was undertaken to support the indexing of excise duties on beer, wine, and spirits, since in their view the changes were too minor to warrant such an effort. Thankfully, it's extremely rare that we hear such misguided hubris from public officials here in Ottawa.

The department's own supplementary budget information indicates that these measures will expropriate in excess of \$470 million between now and 2022, a calculation based solely on the direct increase in excise duties. In what bubble is an additional \$470 million lifted from the wallets of hard-working Canadians, trivial or de minimis?

The department, however, has provided no estimate of the overall impact on Canadian consumers of the proposed indexing measure, taking into account the compounding effect of a subsequent cascading of *ad valorem* provincial and federal taxes such as the GST.

Finance has a worrisome penchant of looking at liquor excise duties in isolation, disregarding liquor taxes imposed by other levels of government and their impacts on employment and investment, while ignoring the ultra-competitive nature of the international whisky trade and dismissing the windfall gains to the treasury thanks to the GST, particularly on sales through on-premises channels like bars and restaurants. By the way, the excise in Canada is 67%—that's right, 67%—higher than the excise on spirits in the United States.

Best practices in other jurisdictions include the issuance of white papers, consultation papers, transparent decision-making processes and, above all, rigorous economic analysis. All these best practices have been noticeably absent from the process of introducing the automatic indexing of excise duties on Canada's liquor.

Our own internal analysis indicates an overall impact in excess of \$1 billion by 2022—not the \$470 million you're hearing. That's more than double the amount identified in the supplementary budget papers. It amounts to \$1 billion hijacked from your neighbours' pockets, whether they enjoy an occasional drink at home or in the

tens of thousands of licensed bars, restaurants, and lounges in every city, town, and village in Canada. However, it's still not worthy of a formal impact statement, because—stunningly—it's viewed by some as too small.

Perhaps it's more accurate and to the point to state that no formal analysis is required, since we already know the impact. We have lived through this same nightmare before. Canada experimented with automatic indexing of liquor taxes between 1981 and 1986, with devastating consequences for Canadian workers. The spirits industry alone shuttered a dozen production facilities across the country in that decade, putting those Canadian workers out of jobs.

Those plants never reopened and those jobs never returned to Canada. We downsized our businesses, reduced our grain purchases, scaled back our investment in foreign markets, eviscerated our innovation budgets, and tried to hold on for survival.

Eventually, after the imposition of devastating harm by our own government and the loss of the only livelihood available to thousands of Canadian families, it was recognized—even here in Ottawa and in Parliament—that the automatic indexing of excise duties on alcohol products, in accordance with a rigid formula such as the CPI, was completely inappropriate, and indexing was abandoned.

The automatic indexing of excise duties on alcohol, in accordance with a rigid formula such as CPI, was not appropriate then and it is not appropriate now.

• (1600)

It is said that only a fool learns from his own mistakes, and it is a wise man who learns from the mistakes of others. I have little doubt as to the wisdom of the honourable members present, and I hope we can count on your support for an amendment to repeal the proposed automatic indexing of excise duties.

Thank you for your attention.

**The Chair:** Thank you, all, for your presentations. You obviously called it as you see it.

Turning to the first round of questions, we have seven minutes for Mr. Sorbara.

**Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.):** Thank you, Mr. Chair. Welcome, everyone. Happy Monday, I guess.

To give my view of the landscape, I look at the wine industry in Canada as a Canadian success story. Call it what you may, it's bigger than that. It's about culture, tourism, engaging people, and having U.S. visitors come to Canada. From my vantage point in Vaughan, driving down to Niagara-on-the-Lake for the weekend—which I probably did before I had kids; after you have kids it changes a little—I understand the importance of the industry and such.

You've expressed some fears and concerns about the impact the the escalator would have on the industry. I specifically want to zero in on what the investment environment would be, because people are making decisions to employ, whether it's your grape growers, your bottlers.... We know that the Ontario food and beverage industry is the largest manufacturer and employer in the province, even larger than the automotive sector, so we know it's a very important industry. I'd like to get a sense of what you think would be the impact on investment and employment from the escalator.

I'll put that out there, please.

• (1605)

**Mr. Murray Souter:** Thank you very much for the question.

As you know, it is a huge economic driver in our province. You mentioned Niagara-on-the-Lake, near Niagara Falls, which is where I am from. The number one tourist attraction now in Niagara-on-the-Lake or Niagara Falls is no longer one of the natural wonders of the world, but the wine industry that people are touring.

We see the escalator as having two impacts. One is when it would be applied against the ICB business, which is about 50% of the sales in Ontario of domestically produced wines. It would make them uncompetitive in a highly competitive market. We face importers who flood into the country, who are subsidized by their governments, and we see very little support when you have an escalator at this level.

It waves a red flag in front of the importers who already have 70% of the market share in our province, as I said in my remarks. They would go after the subsidy or the excise exemption we have for VQA wines. If that were to happen, it would wipe out our business. In Nova Scotia, as Carl said, but in Ontario as well, we would be forced to significantly reduce employment. I'm one of the few publicly traded companies and my public market would not be able to sustain the working capital growth we need to be able to grow our business beyond where it is. It's in the public domain right now. We plan to double the size of our business over the next four to five years.

**Mr. Francesco Sorbara:** To get this straight, your concern is the exemption that's in place now for 100% Canadian wine, not the blend—

**Mr. Murray Souter:** No, for both.

**Mr. Francesco Sorbara:** There would be a WTO challenge for both.

**Mr. Murray Souter:** Absolutely.

**Mr. Francesco Sorbara:** Mr. Sparkes, you commented that you have indications that would happen?

**Mr. Carl Sparkes:** Yes. I understand that both the EU and the U. S. in particular, along with a couple of other countries, have made that statement, but to add a little weight to my colleague's comments, we're a highly leveraged industry. I grew up on a farm myself, and this is farming at its roots. It's value-added nonetheless, but we are asset rich, if you want to call it that, but cash poor.

Given that my businesses are leveraged, if the WTO infringement challenge resulted in the excise tax being applied against 100% Canadian wine, my bottom line would be cut in half. I would be

breaching bank covenants immediately. I would be in serious turnaround mode to really correct my business from being in serious jeopardy.

Two of my three wineries are 100% Canadian, 100% Nova Scotia wine, but the largest of the three, which really helps fund the development of vineyards.... Vineyards have about a 10-year payback. It's not a really smart industry to be in for a lot of investors. We have a lot of patience; banks do not. At the end of the day, if our business model gets challenged to that degree, the whole game changes.

My largest winery is fifty per cent 100% Nova Scotian or Canadian, and the other 50% is actually the blends. This really keeps the lights going and keeps the overheads intact. For us to have an escalator against that excise on that part of the business with an indefinite period, the banks won't look at us very favourably going forward. So investment in the industry—not just from investors, but the actual ability to secure funding—would dry up.

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

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

**The Chair:** You have time for another question. Go ahead.

**Mr. Francesco Sorbara:** You threw out the number of a billion dollars of negative impact on the industry. I take it this is from coast to coast to coast. How was that number reached?

**The Chair:** Mr. Westcott.

**Mr. Jan Westcott:** In 2006 the government adjusted excise and it told us in 2006 that it was going to be revenue neutral. Between 2006 and 2016, that 10-year period, excise on spirits went up almost 50%. Our business grew by 14%. Inflation grew by 17%. I have little confidence in the analysis that is being promulgated by the department. We looked at the wider picture, because it's not just excise. When excise goes on, as someone said, it has a cascading effect. The government makes five points on the GST on all of the excise changes, so it's a tax on a tax. When you factor all that in—and those are burdens on our business and our customers—it comes to a billion dollars. I'd be happy to provide the committee with a detailed analysis of that.

I have one more point on the trade file. Many members will recall that Commissioner Hogan, the agriculture commissioner from the EU, visited Canada last week with 160 people. A number of those people were spirits representatives from Europe for Scotch whisky, spirit syrup, and the Polish spirits association.

We and they met with Agriculture Canada. They met with Global Affairs. They made it very clear to the government that they would not sit still, that there would be trade repercussions if this went through and their taxes continued to go up while those of others didn't. That is going to be a critical issue going forward.

• (1610)

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

Thank you, Chair.

**The Chair:** Thank you both.

We turn now to Mr. Barlow.



**Mr. John Barlow (Foothills, CPC):** Thank you very much, Mr. Chair.

I appreciate the opportunity to speak today.

Thank you very much to our witnesses as well for bringing forward some very eye-opening testimony.

Mr. Sparkes, you kind of mentioned something briefly, and I'm only going to ask our witnesses to touch on it a little bit more. My riding is in rural southwest Alberta. Unfortunately, we don't have any wineries, but we have a couple of meateries that have been started, and I do have six craft breweries that are under construction. I have two distilleries under construction.

These have brought amazing new economic opportunities to rural communities. You touched a bit on what the impact has been in Nova Scotia. These are economic opportunities in these rural communities that would just not have been there. They're jobs. They're filling up real estate, but they're also bringing tourism to these communities.

Luke, I'm going to ask you this first. Jan talked a little bit about it, but we're seeing this great growth in the beer industry across Canada. We tried this tax regime in the 1980s and it was a disaster for the spirits industry. Jan and I have talked about that before. Can you maybe elaborate a little bit on what the impact was on the craft beer or beer industry and what you see as the possible ramifications of this escalator tax on the beer industry in Canada, especially for the craft brewers?

**Mr. Luke Harford:** I want to emphasize that excise is a manufacturer's tax. It is the obligation of the producer to pay that tax once the product is produced. So if excise increases every year, it will increase the cost of a brewer being in business. That leaves less money for employees, employee training, trucks, brands, and development in any kind of way.

Every producer will try, as the government anticipates, to try to recover by pushing that tax increase onto the consumer via higher prices. Consumers react as they react to higher prices.

The brewers, especially the small producers, live in a very competitive market place. They don't get to set the price. The price is dictated to them as it is in everybody else's sector, and we compete against wine and spirits. They are not always going to be able to push that price onto their consumers. Consumers are not always going to pay that price, which means you have raised the costs of producers, and that will leave less money on the table for them to invest in their business.

**Mr. John Barlow:** When I look at this decision in the budget, I see that alcohol was not included in a Canadian free trade agreement. It was exempt from that agreement, so not only was the opportunity to allow free trade across Canada to open up new markets for you producers denied, but now you're also getting this additional tax. It's almost like a double whammy in the last few months.

How are both of those things going to impact your industry right now? It seems like we had two opportunities for our beer, spirits, and wine producers in Canada, and both times in my opinion the Liberal government failed them.

Can you talk a bit about what both of these missed opportunities may mean for your industry?

**Mr. Luke Harford:** In terms of the free trade agreement, as we have said in our public remarks on this, we understand that it's complex, as is excise. We're happy to be part of the process that will go forward in trying to open up the trade environment in Canada. On the trade file, what concerns us and what makes it very strange is that the government would at this time impose something like the escalator. We have a U.S. administration trying to repatriate jobs, repatriate manufacturing capacity, and making trade more difficult for Canadian producers.

At this time, when there's that level of uncertainty affecting big, medium, and small brewers, we're now going to add to their problems by increasing excise every year.

• (1615)

**Mr. Carl Sparkes:** I would like to comment on that as well.

One of the challenges, as my colleague mentioned, is the new U.S. administration. It is focusing on tearing up NAFTA, or renegotiating it. But three industries have been singled out: dairy, softwood lumber, and wine. The United States covets market share in Canada. We are among the fastest growing wine markets in the world, and as a destination for U.S. wine, it's a big deal.

The problem is that within Canada, we get into a trade negotiation. Softwood lumber is about \$19 billion, I believe. The dairy industry here is \$21 billion. Our industry on a revenue basis, while we punch above our weight class—we're \$9 billion in terms of economic impact—is slightly under \$1.5 billion in revenue.

As an industry going into this fight, who's going to be sacrificed? We could be a pawn in this whole negotiation with the United States, and that scares the you know what out of us.

**Mr. Jan Westcott:** This is going to make it even more difficult. As people have alluded to, we're facing a series of challenges on the trade front and on the internal agreement. As you said, alcohol is left out. We're seeing an increasing balkanization of the country. You have to remember that, as Canadian businesses, we need a strong, vibrant, domestic market, because the people who we're competing with come from much larger companies, which gives them huge economies of scale and opportunities. If we can't have free trade inside Canada, we're shooting ourselves in the foot.

We're optimistic. We hope that the structure that's been set up to look at alcohol will pay some dividends, but at the moment it's getting worse and worse as the country continues to put barriers in place to products from one province to another province.

We're starting to see the emergence of small distillers. That's a great thing, right? Innovation, as you say, economic development and investment, by those small players, is a great thing. It doesn't matter whether they're a winery, a brewery, or a distillery, because they will be the hardest hit by government reaching in and taking the money first. So, as I said, we are contending with all different kinds of challenges right now.

We have been big supporters of CETA. This is happening on the eve of CETA, which is critically important to Canada, because it is the first time that Canada will have a distinct tariff advantage over the United States in a huge market. So here we are going into this, trying to finalize this when some are balking about it in Europe, and we're likely going to have a trade fight because of it, and you could not have worse timing. There are a number of factors that we're all trying to contend with. Stripping investment out of the business—it doesn't matter which one—is going to be extremely counter-productive.

As I said, we had this experience in the 1980s. Before we had indexation in the 1980s, Canada was the second-largest producer and supplier of whisky to the world—second only to scotch. That last decade of the eighties is when we took our eye off the international market and stopped investing, and we're now number four and are becoming a distant fourth. More pressure on us isn't going to turn this around.

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

Mr. Dusseault.

[Translation]

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

I thank the witnesses for being with us today.

It is rare that we see such unanimity among a group. I hope this will affect our future deliberations.

Just before question period today, the Minister of Finance admitted consulting the BlackRock firm about the creation of the Infrastructure Bank. That firm, which was extensively consulted before the creation of this bank, will certainly profit from it.

In the same vein, I would like to know if some of you were consulted before changes were announced in the context of Bill C-44.

• (1620)

[English]

**Mr. Murray Souter:** I think I can probably speak for everyone. I don't think anybody was consulted.

[Translation]

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

This shows that there is a double standard when it comes to consultation. In certain cases, some parties were consulted repeatedly, whereas others were not consulted at all. I hope that as for other aspects of Bill C-44, the government will be open to amendments to part 3.

My first question concerns beer, and is addressed to Mr. Harford. You mentioned the possibility that it may be unconstitutional to increase taxes year after year without the authorization of Parliament. In fact, Parliament's authorization is present today in Bill C-44, but it will not be there in the years to come.

Concerning that aspect of the proposal, do you have legal or constitutional advice you could provide to the committee?

[English]

**Mr. Luke Harford:** No, I don't. I looked at it strictly from the principle of Parliament and the elected people in Parliament to protect Canadians from taxation without representation. I did not seek a legal opinion on this.

[Translation]

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

This is a question the committee could discuss later.

My next question is about spirits, a topic I have examined, and which I know a little about, consequently. According to what I understood, excise duties are collected at the end of the process, so when the product leaves the business.

Is that correct?

[English]

**Mr. Jan Westcott:** Yes, it's a production tax. As soon as the alcohol comes off a still, it's liable for tax. It goes into bond, because, as one of my colleagues was saying, some of our businesses are kind of crazy.

We're mostly in the whiskey business and you have to age whiskey in Canada. The legal minimum is three years. Most of it is 5, 7, 10, or 15 years, increasing as the consumer moves up the quality scale. With premium whiskeys, the average is 8 to 15 years.

When it comes out of maturation, you pay the excise. It's a production tax right at the very first. Other than the producer's own cost to buy the grain and to employ the people to run the distillery, it's the first external cost applied on the product.

[Translation]

**Mr. Pierre-Luc Dusseault:** Fine.

So the excise tax would be levied on a product that is aged for a minimum of three years, and for much longer in other cases. The excise tax would be paid when the product leaves the still, and not 10 years later when it is sold. That tax would be paid when the product leaves the warehouse and is sent to a retailer?

[English]

**Mr. Jan Westcott:** Excise is paid. It goes into bond. It's held in bond and you can't do anything with it. Excise is paid when it comes out of bond. As it comes out of the warehouse, out of the barrel for blending and packaging, excise is paid at that point.

The producer has seen no revenue but has incurred a tremendous amount of cost: (a) to make it, and (b) to hold it for a long period of time. The producer has seen no revenue but has paid excise.

[Translation]

**Mr. Pierre-Luc Dusseault:** Thank you for the clarification.

Mr. Sparkes, currently the majority of profits from wine production are reinvested directly into the business to allow it to grow. Is that correct? Have you evaluated the negative impact over time of a decrease in the profit margin on reinvestments in Canadian wine businesses?

•(1625)

[English]

**Mr. Carl Sparkes:** The impact on wineries of my size and larger—certainly in the top 10 wineries in the country—would be profound. Much of it, as I mentioned earlier, relates to our overall financial structure, including our lenders. It would have a serious negative impact on our bottom line. Mine would be cut in half. That's serious.

However, I think of more concern to this committee would be the other 690 wineries in the country that are smaller, many of whom don't have a bottom line. They have a job.

I grew up on a farm. There was no profit. It was basically what we earned to live on.

These are farms. Chairman Easter knows all about the farm industry in Atlantic Canada; it's on a shoestring. Without question, at the end of the day, we will be punishing and harming a lot of small farmers in this country with the implementation of this escalator.

[Translation]

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

[English]

**The Chair:** Pierre, there is time for a very quick question, if you have one.

[Translation]

**Mr. Pierre-Luc Dusseault:** You think that European wine producers are going to challenge this at the WTO. If I understood you correctly, there is no doubt that that is what will happen when these new excise duties are implemented. I put this question to the official from the Department of Finance, but he declined to comment.

Mr. Souter, can you confirm that there is no doubt in your mind that following this increase in excise duties, there will be a challenge at the WTO?

[English]

**Mr. Murray Souter:** Have they told us that they're going to do it? No, not at this point, but all the indications are that European and U.S. wineries particularly will be challenging us on this issue.

It hits them two ways. It hits them both on the excise, because they've lost the tariff; and it also benefits us because their prices will increase whereas the domestic VQA wines, which are a much smaller market, won't.

We anticipate that they will challenge it. They've indicated in private conversations with people recently that they will challenge it at the WTO, and why wouldn't they? We're a large market.

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

Mr. Morrissey, welcome to the finance committee. The floor is yours.

**Mr. Robert Morrissey (Egmont, Lib.):** Thank you, Mr. Chair.

Mr. Sparkes, I'm not sure if this is a public statistic, but in various industry clusters like dairy processing, a very efficient operation operates with about 1.8% net operating profit. You looked at

restaurants and I believe you said theirs is 4.3%. What is that number within the winery, just at the winery level, not the farm level? I'm curious. Is that a public number? If it's something confidential, then

**Mr. Carl Sparkes:** No, it's for publicly traded companies. Obviously it is public. I come from 25 years of running food companies in Canada and the United States. Coming in as an investor into the wine industry, the actual financial ratios were not that different. The margins at a gross profit level are probably lower. It's not that far off, under 5% at a net level in many cases. Once again, it is the smaller producer who doesn't really have a percentage because there are jobs. I don't know what the number would be, but there are a lot of jobs that are actually directly related to owner-operators.

**Mr. Robert Morrissey:** The winery side of it is under 5%. Is that what you're saying?

**Mr. Carl Sparkes:** Correct. It's significantly less.

**Mr. Robert Morrissey:** On a per-acre basis, how does grape production compare with other commodities?

**Mr. Carl Sparkes:** Do you mean in revenue per acre?

**Mr. Robert Morrissey:** Yes, revenue per acre.

**Mr. Carl Sparkes:** There are differences across the country in yields per acre depending on the region, the grape variety, and the style of wines we're trying to produce. On average, across our market we would be at about three tonnes per acre. For the cost of a tonne of grapes, right now we're averaging about \$1,800.

**Mr. Robert Morrissey:** As you pointed out in your comments—I represent Prince Edward Island—we have four small wineries in Prince Edward Island. I believe most are in Mr. Easter's riding. The Annapolis Valley in Nova Scotia has been very successful. A couple of weeks ago I participated in an economic forum. One of the presenters was Pete Lockett, of Pete's Frootique, who unveiled a new 45,000-square-foot winery that he was building somewhere in the area.

Could you expand a bit more? If this tax measure proceeds the way it is, what impact will it have on rural job numbers?

•(1630)

**Mr. Carl Sparkes:** Had Pete Luckett been aware—and he is today—when he started this initiative that this threat was looming, he would be having second thoughts about that investment, as he probably is today. You're quite right about the Annapolis Valley becoming a focal point for tourism. It's actually part of our brand today. Can you imagine that? Nova Scotia used to be about lobster; today it's about wine and lobster. We attract about 150,000 visitors just to the wineries. More than half of the tourists who come to Nova Scotia are saying they come because wine is part of the culture and they get to do this. The growth has been in the high double digits in the past five years in the region. What's more important beyond just the winery is the extended impact. You have more restaurants opening up with the culinary institute, or the culinary combination with wine. Today I think we're in the fourth year of the world's largest film and wine festival that's hosted in Wolfville. It's getting bigger every year, bringing in celebrities. It has a huge, positive impact for rural Nova Scotia.

**Mr. Robert Morrissey:** In the hypothetical world, if you take one of those small wineries, what would be the financial hit on that small winery?

**Mr. Carl Sparkes:** An average winery in our region would be around 7,000 or 8,000 cases. You apply the math. It's 63¢ a litre; a case is nine litres. So, someone do the math.

**An hon. member:** That's \$40,000.

**Mr. Carl Sparkes:** Yes, it's about \$40,000, which is meaningful for a—

**Mr. Robert Morrissey:** It's an additional \$40,000 cost for that small winery. What would be the job numbers in a winery to support a winery like that?

**Mr. Carl Sparkes:** For 5,000 cases, that would be 10 or a dozen people.

**Mr. Robert Morrissey:** Okay. So it's significant in the rural communities.

**Mr. Carl Sparkes:** For sure.

**Mr. Robert Morrissey:** To Mr. Harford, I do support your industry and where you're coming from. As you pointed out, it's significant for small communities in rural Prince Edward Island, and has meant a lot of work. When I was involved as a provincial politician in P.E.I., when we developed some of the first wineries, we had to use tax measures to stimulate their growth. You've had some growth on the Northumberland Strait as well.

You made a comment on Atlantic Canada's difficult situation from the beer side. Could you elaborate a bit more?

**Mr. Luke Harford:** There are a lot of moving parts in market dynamics in any part of the country. I was trying to highlight the fact that the rigidity of a CPI indexed excise won't necessarily work well in every jurisdiction, and looked at Atlantic Canada, which has demographics that are shifting with an aging population. There are job challenges in certain pockets of Atlantic Canada and in Newfoundland with the collapse of oil prices. In the last five years there have been a whole bunch of reasons why it wouldn't be the time to automatically—without thinking, without analyzing, without

studying the impact—increase taxes. That's the point I was trying to make.

If we look at Atlantic Canada, sales have declined by 3.5% and CPI has increased by 5.5%. The dynamics of the situation in that sector of the country are that we'd be increasing taxes at a time when they're trying to adjust to changing market conditions that aren't necessarily positive.

**Mr. Robert Morrissey:** Do I still have time?

**The Chair:** No, but you can ask one last quick one.

**Mr. Robert Morrissey:** Thank you, Mr. Chair.

To both Mr. Harford and Mr. Sparkes, I take it that you would challenge the revenue projection numbers coming from a tax increase like this as ever materializing.

•(1635)

**Mr. Luke Harford:** Yes. I think the challenge I would have for the finance department is this: does it matter if all their revenue is made from imports, or do they have a responsibility to also make sure that their tax policies don't discourage domestic manufacturing?

I think that's the challenge I would put to Finance Canada.

**The Chair:** Okay. Thank you both.

Mr. Albas, I believe you're splitting some of your time with Mr. Lobb.

**Mr. Dan Albas (Central Okanagan—Similkameen—Nicola, CPC):** Thank you, Mr. Chair.

Thank you to all our witnesses for what you do for the Canadian economy.

I'd like to go first to you, Mr. Harford. When I was in Nova Scotia, I had a chance to sit down and do some consultations with some local brewers. I asked one of the youngest ones of the pack what we could do at the federal level. He asked if I could help him with his excise tax provincially. I guess there was a movement where the Province of Nova Scotia said that they were going to start charging, when a free sample was given out, excise on that free sample. Even though it was a loss, they were still going to do that.

Given that context, where he was worried about that small amount of free sample that he was giving out—he and his partner put their life savings into this new project—are you going to see some job losses? As well, perhaps, for different microbrewers or whatnot, do you think we might see some closures based on this?

**Mr. Luke Harford:** That's one of the insidious things about this escalator, that it will ride in the background over time and everybody will be asking themselves, for instance, why is it nobody can afford a case of beer anymore? Why is it these small brewers can't access capital anymore? Why is it they're not investing in Canada anymore?

The day the budget came down, Moosehead Breweries out of Saint John, New Brunswick, said that took \$250,000 out of their business that they have to find someplace else. Does that mean they don't send people on training programs? Does that mean they don't invest in winter tires for their trucks? There are all kinds of things that they now have to find the money for because they have a bigger tax bill.

**Mr. Dan Albas:** Mr. Souter, you mentioned that you're one of the wineries that have different tools to finance your activities and whatnot. However, I imagine the market is rather efficient, and you're going to have to say that your profitability will go down because of these increases. Would that be correct?

**Mr. Murray Souter:** Yes, that would be correct. We are already fielding those questions right now. We're in the midst of a major expansion that is funded through raising capital in the public markets.

**Mr. Dan Albas:** If you have more options than the majority of wineries out there, then I imagine this will be even tougher for the small and medium-sized ones, particularly those that just got into the market. Unlike in Nova Scotia, where it could be \$5,000 to \$10,000 an acre, in the Okanagan we're looking at \$110,000 to \$120,000 an acre.

**Mr. Murray Souter:** In Niagara, it's up to \$50,000 an acre. It does have an impact, obviously.

**Mr. Dan Albas:** Again, the point by Mr. Sparkes earlier was that each acreage is going to be slightly different because of what a farmer has to make to be able to recoup the cost for the mortgage on it, and obviously that raises some issues with the CPI. That's another reason why it's probably not a good thing to link to the CPI right across the board.

I'm going to hand it over to Mr. Lobb.

**Mr. Ben Lobb (Huron—Bruce, CPC):** Thanks very much.

My riding is Huron—Bruce, and we've had a number of breweries and some wineries come on board.

My private member's bill was on excise tax. When I talked to one of Mr. Morneau's staff about it, he said, "You know, you're lucky we don't raise the excise tax instead of lowering it." I thought he was kind of kidding, but I guess it was true. I couldn't believe it when I heard that he was going to raise the tax. This is going back quite awhile ago.

These businesses face costs: the fire codes that they must meet, the rules and regulations, the effluent that comes from their facilities, and so many things. I know one of the breweries in my riding spent about \$5 million, and they figure it probably cost them \$2 million more to build it in rural Ontario than in the city.

Jan, could you talk about some of the massive costs—forget the taxes—of doing business here, and the red tape, let alone having to face an escalating excise tax? It's incredible to think about it.

**Mr. Jan Westcott:** There's no question that Canada is a complex market, and there are many, many rules around our different businesses that add to the cost of doing business. The one thing I would mention to the committee to keep in mind is that Canada, before all of this happened, already had the highest taxes on alcohol in the world—the highest. So someone suggesting that this is just a little bit more, when you already have the highest taxes in the world...?

Our biggest emerging competitors lately are in fact bourbon distilleries and straight whisky distilleries in the United States. They're not facing this kind of issue. They're not facing carbon taxes. They have free access right across the 50 U.S. states with no

impediments, and if there are impediments, they get them sorted out very quickly.

While we're all celebrating Canada's 150th birthday, I would just mention that two of our brands, Wiser's this year marks 160 years of continuous production and sale, and next year, 2018, Canadian Club will be celebrating 160 years. We have a long proud history of making whisky in this country. I'd also mention, by the way, that a Canadian whisky was picked last year as the best whisky in the world by the *Whisky Bible*.

We know that we make these fantastic products. The single largest challenge facing the spirits business in Canada, because we operate in a global industry, is attracting investment to the Canadian marketplace and the Canadian business.

Imagine yourself as an investor. Where are you going to put your money? Are you going to put it into a business that every year faces an unceasing tax increase that you can't do anything about and it's going to take more and more money, or are you going to look for another opportunity? I think what we're going to see is people voting with their feet, across all of our businesses, not just the spirits business.

• (1640)

**The Chair:** Thank you both.

Before I turn to Mr. Ouellette, we're dealing with two excise taxes here: one is a 2% adjustment, and one is the inflation factor that some people call an escalator.

I take it that there doesn't seem to be a whole lot of concern about the 2%. What we're mainly talking about here is the policy going forward.

Is that correct?

**Mr. Carl Sparkes:** That's correct.

**Mr. Jan Westcott:** If I can offer a bit of clarification, the Department of Finance says it's 2% across the board and they want to be fair to everybody. The fact is, it's not 2% across the board, because they've also applied it to whisky sitting in the barrels that was made prior to 2006. On all of that product, thousand and thousands of barrels maturing, it's 7.8%. It is a massive increase. It's not just 2% on our business. A very substantial part of our business is being hit with a one-time 7.8% increase.

**The Chair:** Can you explain how you get the 7.8% increase?

I listened to the discussion with Mr. Dusseault before, and how do you get to 7.8% on what's stored in barrels, some of it three years, some of it 10 years?

**Mr. Jan Westcott:** Historically, excise is a production tax. When it comes off the still, it's liable to pay the tax. In 2006, when the new rates were put in by the government at that time, it was for everything produced after July 1, 2006. Everything produced before that was already produced, so it wasn't liable to the new rate.

This budget breaks with tradition. It reaches back retroactively and grabs money from all that product that has already been produced and is aging in barrels. It is massive. The very heart of our business that is trying to appeal to the premium and super-premium tastes and demands of consumers is actually facing the highest increase.

All of that said, our concern remains the escalation that's being proposed every year.

**The Chair:** I think that's a good point of clarification on the other percentage as well because I certainly didn't know that. I do think we need an explanation from Finance on that as well.

What would fix that? It was done in 2006 and didn't become a problem.

**Mr. Jan Westcott:** In 2006 the budget came out in March or April, and the date established for the new rate was July 1. This one happened the day after the budget and, as I said, reached back to a product that was already distilled and produced.

**The Chair:** I have one other question before I go to Robert.

Is there a policy of having an escalator on excise taxes in any other country in the world that you know of?

**Mr. Jan Westcott:** Not in any modern, westernized economies that have a viable beverage alcohol business.

• (1645)

**Mr. Luke Harford:** If I could just add to that, Mr. Chair, the U.S. is a very important market for all of us. The United States does not have an index tied to its federal excise rate.

**The Chair:** Okay, thank you.

Mr. Ouellette, you have five minutes.

**Mr. Robert-Falcon Ouellette (Winnipeg Centre, Lib.):** Thank you very much for coming here today.

I'm going to have a few more pointed questions for you.

One of the things I was reviewing was the health concerns related to alcohol consumption. I was reviewing two scientific articles. One is called "The Effectiveness of Tax Policy Interventions for Reducing Excessive Alcohol Consumption and Related Harm". It's by Elder, Lawrence, and Fielding. It's in the *American Journal of Preventive Medicine* of February 2010. They state:

Nearly all studies, including those with different study designs, found that there was an inverse relationship between the tax or price of alcohol and indices of excessive drinking or alcohol-related health outcomes. Among studies restricted to underage populations, most found that increased taxes were also significantly associated with reduced consumption and alcohol-related harms.

Another study here in Canada looked at alcohol pricing and public health in Canada. It was by Stockwell—not Stockwell Day—from the University of Victoria. They recommended using the consumer price index—that was back in 2006—because they said there were grave health concerns related to alcohol consumption in Canada. There hadn't been a significant or any increase in the effective taxation of alcohol, meaning it had effectively become cheaper and cheaper for people to obtain alcohol.

What are your comments on the health concerns related to the consumption of alcohol?

**Mr. Jan Westcott:** Let me start. We all are industries that actively promote, and work very hard to promote, responsible consumption of our products. Generally speaking, the majority of people who use them in this country do so. That notwithstanding, Canada has evolved a lengthy series of policies that apply across the country. We have liquor boards, minimum age requirements, and minimum pricing in almost every province. There are legion efforts under way by everybody to minimize, to the greatest extent possible, the misuse and resulting harm that comes from our products.

People are human beings. Nobody is perfect. We all have weaknesses—I'm not sure what the right word is—and some people are susceptible. But to suggest that taxation alone...and I take issue with the studies. There are an equal number of studies saying that taxation is a blunt instrument and very ineffective at getting to the people who are experiencing issues with alcohol.

**Mr. Robert-Falcon Ouellette:** Thank you very much, Mr. Westcott.

In budget 2017, we also look at cigarettes. The excise tax is going from \$21.03 to \$21.56, which is the actual effective charge for cigarettes. When I get into some greater detail looking at the excise tax for distilled alcohol, it's going from \$11.696 to \$11.930, which is about a 20- or 21-cent increase in retail, at sale. According to *The Toronto Sun*, it's a 5-cent increase for a case of 24 beers. This doesn't sound like a lot to someone like me who might enjoy a bit of alcohol once in a while.

When I look at the escalator, this actually reduces the long-term political questions related to it. For instance, if you're a business, you'd like to have a long-term, stable environment in which where you can predict how much something is going to cost in the long term. When you look at an escalator, it actually removes the politics from it, so you don't have a government that comes in and says they're going to increase it by this amount or reduce it by this amount, according to how much lobbying you're able to do. It says that every year, the excise will be aligned with the consumer price index, because everything increases in price in this country. The tax officials, who have to go out collecting from and monitoring the distilleries, make sure that this is actually occurring. This all costs money.

I am interested in one other, final thing before I'll let you go. I was reading something from the British Columbia Chamber of Commerce, which was looking at the federal excise tax review for distilled spirits. Apparently, there's actually a difference in the raw material, origin, and size requirements in duty rates. For beer, if you get the raw material from anywhere, there's a size requirement. It's tiered at \$0.06 per litre. It's going up a little bit from last year. When you look at wine, if your raw materials, meaning your grapes, are produced in Canada, and.... I'm not sure of the term in English. It would be distilled, I guess?

• (1650)

**Mr. Jan Westcott:** Fermented.

**Mr. Robert-Falcon Ouellette:** Sorry, it's fermented in Canada. In fact, there actually is no duty rate related on all of that.

I was just wondering if you could comment on that.

Spirits, though, have a much higher price. I'm a little bit confused about the relationship of those and that tax policy there, if that's even changing.

**The Chair:** Mr. Harford—

We'll hear from the two of you.

**Mr. Murray Souter:** I'm not sure where the question was in there because we started with tobacco and ended with wine.

On the issue of the excise tax for domestically produced 100% VQA wines, it was negotiated in 2006 that it would be excise exempt. The federal government brought that in at that time and it benefited the industry. The industry saw very strong growth, particularly in British Columbia, where they have a different regime in terms of the provincial legislation there. They saw a significant increase in business there.

ICB brands, which represent 75% of our domestic sales, do attract federal excise. They do pay excise, including the proportion that is domestically produced, so it's a significant part. We do pay the excise. However, the issue is that right now, we have a negotiated agreement with Europe with regards to the exemption of VQA wines from excise. They have gone on notice and said that, if we go ahead with the increased excise tax and the escalator, tying it to the CPI, they will challenge the exemption for VQA wines.

That will add several dollars to the price of one of my bottles of wine and literally put us out of business. We will not be able to compete. We're competing in a marketplace that has billion-dollar companies located in France, Italy, Spain, and the United States, which want our market. The LCBO is the largest buyer of spirits and alcohol in the world, and those companies really want our business. They have 70% of the market and they want more. They've already told us that they will go up against us and they will file a trade complaint in that regard.

**The Chair:** We're going to end that discussion there. We'll give you time a little later, Mr. Harford, but we're going to run out of time for questions.

Go ahead, Mr. Liepert.

**Mr. Ron Liepert (Calgary Signal Hill, CPC):** Thank you.

First, thank you all for being here. We've now heard the Liberals' latest justification for the tax. It's a health tax now, according to the member over there. I'm wondering how they're going to sell the notion that on the one hand we're taxing alcohol because it's a health hazard, but we're legalizing marijuana because it's okay to smoke marijuana. This is the rationale that we deal with on a daily basis, guests.

I want to take a couple of minutes and ask a few questions of Ms. Reynolds in the restaurant business. I'm from Alberta where not only has the economic downturn substantially impacted the restaurant business there, with restaurants closing left, right, and centre, but we've also had a carbon come into effect on the first of the year. We now have a minimum wage that is going up to \$15 by next year. There might even have been some alcohol taxes in the provincial budget and now we have the excise tax. Obviously, the restaurant business is going to be one of the hardest hit by this tax.

Have you run the numbers, if you will, as to what the bottom line impact will be? I'm not in the restaurant business, but I think the largest margin is on the alcohol side of the restaurant business.

**Ms. Joyce Reynolds:** Not any more.

**Mr. Ron Liepert:** Not any more?

**Ms. Joyce Reynolds:** No, unfortunately. I have to say that the licensed premises are the ones who are struggling the most right now. The full service independent restaurant operators are the ones who are having the toughest go of it, particularly in Alberta. In Saskatchewan, our operators are also having a difficult time because of the economic downturn. In the March 22 Saskatchewan budget, the same day the federal budget came down, they increased the provincial sales tax on alcohol up to 10%. It was a double whammy on the industry in that province. In terms of how operators are going to cope with this, I don't know.

You're absolutely right. We're seeing closures, we're seeing layoffs, we're seeing reduced hours for employees. Our industry has been devastated in Alberta, and this is going to hurt more. I can't give you specific numbers province by province what the impact will be, but when you already see sales to licensees of alcohol stagnating, and you see the resistance that our members get from customers to any type of price increase, and you see the reaction of tourists who come to Canada and find the products priced so much higher than in their home countries, yes it's going to have a serious impact.

● (1655)

**Mr. Ron Liepert:** I want to ask another question, because as an outsider looking at both the craft beer industry and the wine industry in this country, there has been tremendous growth in the last, say, 10 to 20 years. Is that fair to say? Both in the craft beer industry and the wine industry, would you consider your businesses innovative?

**Mr. Luke Harford:** Absolutely. To demonstrate the level of innovation, in 1990 there were 400 brands of beer sold in Canada across the country. There are over 4,000 brands today.

**Mr. Ron Liepert:** It's the same with the wine business, is it not?

**Mr. Murray Souter:** Yes, we've seen a significant increase in the number of wineries. We have 700 wineries in the country, and the number is growing every day.

**Mr. Ron Liepert:** Just about every time Mr. Sorbara asks a question, he says he's proud of the budget because it's an innovative budget. It's innovative when you can go into southern Ontario and hand out hundreds of millions of dollars, but it's not so innovative when it comes to your industry because we're adding taxation to it. Is that fair?

**Mr. Carl Sparkes:** Innovation is the lifeblood of our industry.

**Mr. Ron Liepert:** Precisely.

**Mr. Carl Sparkes:** As reported by the LCBO, the NSLC, our liquor boards across the country, 80% of the growth in wine sales every year is from new innovation. So we need to continue to feed that innovation pipeline.

**Mr. Ron Liepert:** Would you consider this an innovative budget?

**Mr. Carl Sparkes:** No.

**Mr. Ron Liepert:** Thank you.

**The Chair:** That's it. Your time is up.

Mr. Fonseca.

**Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.):** Thank you, Mr. Chair, and thank you very much to all the witnesses.

On the innovation, I understand that the beverage manufacturers would be eligible for the \$1.26 billion in the strategic innovation fund. I have to say, coming from a riding that is considered the wine capital of Canada.... In Mississauga East—Cooksville, believe it or not, in 1811, Canada's Vine Growers Association was set up there. They had wineries along the Credit River. That has all changed today, but that is the history of my riding.

We've heard Mr. Sorbara, Mr. Ouellette, and others speak about what spirits, wine, and beer mean to our economy in terms of tourism and as an economic driver. At all levels of government, we have different taxes on those products. At the federal level, I've heard different numbers used by the witnesses, and I'm trying to get down to the exact number. Maybe you can help me with these numbers.

What I have here in front of me is that when it comes to a bottle of wine, at the federal level—meaning the changes that have been brought forward—it would mean less than 1¢ per bottle of wine. We heard from Mr. Ouellette that for a case of 24 bottles of beer, it would be about 5¢. For spirits, per bottle, it's about 7¢. What I heard thrown out, I think, was 63¢ or 64¢, and some other different numbers.

Can you break down for me how you came to those numbers? I have different numbers here, and I'm just trying to figure this out.

**Mr. Carl Sparkes:** One of the challenges we have, and why you would see so many numbers is that regionally the provincial liquor boards all have varying degrees of markup structures. The 63¢ per litre on a bottle of wine is consistent, of course, as it's the federal excise across the country, but we have varying degrees of provincial tax.

• (1700)

**Mr. Peter Fonseca:** That's not federal.

**Mr. Carl Sparkes:** That is not federal, but it's—

**Mr. Peter Fonseca:** Right here at this committee, what we're talking about is this budget, and federally, on a bottle of wine, we're talking about 1¢.

**Mr. Murray Souter:** Yes, but the impact is far greater than that. The 1¢ is the producer cost. Then you tack on how we have to make some money. We're not a charity. If we're trying to make a 20% profit, we would add to that. The provincial government adds to that significantly.

**Ms. Joyce Reynolds:** A percentage.

**Mr. Murray Souter:** Yes, a percentage. On a \$9.95 bottle of wine, the 1¢ cent ends up being 5¢ at the top, because of all these additions. The federal and provincial governments—

**Mr. Peter Fonseca:** Is that your number? Is it 5¢?

**Mr. Murray Souter:** When it gets to the price, right?

**Mr. Peter Fonseca:** Yes.

**Mr. Murray Souter:** If the price is \$9.95, I can't go to \$10. The LCBO will not allow me to, so I have to absorb it or become uncompetitive. In an industry where we're now doing well, we'd become uncompetitive by pricing ourselves up in these markets that are not going up in price.

**Mr. Carl Sparkes:** If I may add—

**Mr. Peter Fonseca:** Isn't it a level playing field? Isn't everybody going to get that increase? Where are you—

**Mr. Murray Souter:** Our competitors in France will absorb that. They won't even notice it. They're billion-dollar companies. I'm a \$30-million company, including all of my business. It would just absolutely destroy our industry. We have small producers who are generating 5,000, 6,000, or 7,000 cases and \$150,000 to \$250,000 worth of revenue. They can't afford to lose a sale, and they can't afford to absorb the increased costs. You heard earlier that it's \$40,000, for example, on Devonian.

**Mr. Peter Fonseca:** Those producers would not be VQA producers.

**Mr. Murray Souter:** It would be a combination of both. It would be both VQA and ICB.

**Mr. Peter Fonseca:** The VQA producers are exempt.

**Mr. Murray Souter:** Exempt, but they—

**Mr. Peter Fonseca:** What percentage would be exempt?

**Mr. Murray Souter:** Of the total wine sales? Less than 10%.

**Mr. Peter Fonseca:** Less than 10% would be exempt. Okay.

Did you want to add to that, Carl?

**Mr. Murray Souter:** Yes, so—

**The Chair:** You both want in.

Go ahead, Mr. Sparkes.

**Mr. Carl Sparkes:** There is a huge differential between liquor jurisdictions. In Ontario, for example, that 63¢ per litre excise tax becomes manifest, and it will be 90¢ by the time it's sold through the LCBO.... It's a much higher number by the time it's absorbed by the licensees, by the restaurants. In Atlantic Canada, and in Nova Scotia in particular, the markup that the individual liquor board takes on that 63¢ as it flows through the system means 90¢ in Ontario and \$2.30 in Nova Scotia. That's a huge, huge tax on our business.

**The Chair:** Mr. Harford.



**Mr. Luke Harford:** I don't get to ask the questions, but I'm going to answer your question with a question if that's okay.

We hear this time and again when we're meeting with Finance officials and we're trying to tell them why this is a big deal. They say it's just 5¢ a case. If it's not such a big deal, if it's just a little number, why do it? Why is the government going to risk putting this into the cost structure of small Canadian producers when we have NAFTA challenges, Trump issues, and all kinds of things going on? Why do it? Why now?

**Mr. Peter Fonseca:** Whenever I go outside of Canada, I find that I always want to bring ice wine with me. I want to ask about the ice wine. Would ice wine all be a domestic product? It would be for export, so if they are looking at exporting that product, that would be completely exempt from any of these taxes. Is that correct?

**Mr. Murray Souter:** Yes. Ice wine is a very small proportion of the industry in Canada. Domestic consumption of ice wine is very small.

To Mr. Harford's comment, this tax, although it's not much—it's \$1.8 million worth of revenue to the government—jeopardizes a \$9 billion industry.

**Mr. Peter Fonseca:** What do you—

**The Chair:** Peter, you can have one quick one, because we are over time. We have other witnesses. I know this is one of the most controversial areas. That's why I'm letting this go a little longer.

**Mr. Peter Fonseca:** Have you done an economic impact study? What would that mean, if this measure is put in place, to the industry in terms of a drop in consumption?

**Mr. Murray Souter:** We haven't measured the drop, but we can tell you that it would put the \$9 billion at risk. At what level, I don't know at this point. It's significant.

**The Chair:** Thank you.

I do have a couple of questions to end up on. One is about the trade challenge from the Europeans. I understand that at one point in time there was an agreement established with the Europeans that 100% Canadian wine could be exempted from the excise tax.

You're saying that if the escalator goes in, we would be in violation of that agreement and would be challenged?

• (1705)

**Mr. Murray Souter:** That's correct.

**The Chair:** Where do we find that agreement? I guess we could find that agreement somewhere. I would like to see it.

Second, I think it was you, Mr. Westcott, who talked about the experiment with the annual automatic indexing of liquor from 1981 to 1986. If you talk to Finance, they are going to tell you that the indexing to CPI at that time was different from the indexation at this time. I'm not 100% sure how that works, but that's what we're told.

How was that proposal then different from the one now? I was one of the ones borrowing money at the time, and I know that inflation was 10% at the time. What different factors were there then compared to now? I'm not trying to pin you down, but is it a fair argument to say that there could be the same impact on the industry

today as there was through that experience from 1981 to 1986? What's your opinion?

**Mr. Jan Westcott:** It's an absolutely fair assessment that it will have a similar effect. No one can know for sure, and no one can even guess, because there is no analysis. Finance didn't do any work. They haven't done any work. There's no information forthcoming about what this means. As I said, based on what happened over the last 10 years, we're not particularly inclined to take them at their word based on what we've seen.

Our excise revenues to the government have gone up by almost 50%. Our business went up 14%, and inflation was 17%. Are those guys you would believe?

Absent seeing some analysis and some details, I can't really answer that. We do know it was a horrific experience for everybody. People are saying to me, "It's different. Don't worry about it. It can't be the same." I'm not really inclined to believe that. The thousands of people whose jobs depend on that, middle-class Canadians, farmers all across this country, are the people whose livelihoods we're gambling with because we haven't done the work and don't know those answers.

**The Chair:** You mentioned earlier how the 2% increase impacts the whisky and other liquors that are in barrels. If you've got a further explanation of that, can you forward it to us in writing?

**Mr. Jan Westcott:** We'll provide that to you.

**The Chair:** To be quite honest with you, I still don't understand how that works, and I'd like to see how you get to that calculation, if you could forward it to us.

With that, we are substantially over time, so I do appreciate all of your coming forward and telling it like it is from your perspective.

We'll suspend for a couple of minutes while we change panels.

• (1705)

(Pause)

• (1710)

**The Chair:** We'll reconvene on Bill C-44. I would ask the witnesses and members to come to the table.

Welcome, folks. We have Normand Lafrenière and Frank Rider from the Canadian Association of Mutual Insurance Companies; Nicholas Rivers, associate professor with the University of Ottawa; and Marc André Way from the Canadian Taxi Association. Other witnesses may arrive shortly. We'll see.

We'll begin with the Canadian Association of Mutual Insurance Companies first.

Mr. Rider, the floor is yours.

**Mr. Frank Rider (Chairman of the Board, Canadian Association of Mutual Insurance Companies):** Thank you. First of all, I want to thank this committee for the opportunity to appear before you.

The Canadian Association of Mutual Insurance Companies is an association of 79 mutual and co-operative insurance organizations operating in Canada. About 75 of our members are what we would call farm mutual insurance companies, i.e., smaller companies created by farmers, for farmers, mostly in the 19th century—several even before Confederation.

We are here to present our concern in relation to Bill C-44 which, if adopted, would eliminate the tax exemption for insurers of farming and fishing property originally introduced in 1954. That was at a time when farmers and fishers had little choice other than to obtain insurance from their own mutual insurance company. To this day, in some regions across the country, that need still exists. You have to remember that farm risks and fishing risks represent high values, and oftentimes they are total losses.

While it would appear that the elimination of the tax exemption will affect only the insurance companies, this is absolutely not the case. This tax relief, provided by the exemption, is not retained by the mutual insurance companies. It is passed along to farmers and fishers through lower rates and premium refunds, and it also allows us to tolerate higher loss ratios on farm and fishing risks.

Indeed, the mutual insurance companies of farmers and fishers still exist for one reason: to provide affordable insurance protection to farmers and fishers on an at cost basis, without a profit motive. The large majority of active food producing family farms and fishing enterprises across Canada continue to be insured by their small mutual insurance company. Farmers and fishers still, to this day, make up the majority of board members governing their company.

• (1715)

**Mr. Normand Lafrenière (President, Canadian Association of Mutual Insurance Companies):** To qualify for the tax exemption, insurers have to maintain a minimum farm/fishing premium of 25% of their total written premium. According to the Department of Finance, in 2014, some 40 companies were still benefiting from the tax exemption, 37 of which were farm/fishermen mutual insurers, most of them small mutuals.

A number of these farm mutual insurance companies report that their continued existence depends on the tax exemption.

The three non-mutual insurers benefiting from the tax exemption do so through a special tax exemption giving them an unfair advantage over mutual insurers.

Because of the evolution of the rural landscape, and the resulting effect on insurance, the average farm mutual insurance company reports doing 15% of its business with farmers and fishers. In CAMIC's pre-budget submission, we recommended that the qualifying threshold be reduced to 5% of the total written premium, in concert with the elimination of the special tax treatment given to the three non-mutual insurers. The suggested measures would have been cost revenue neutral to the federal government.

While the government has not agreed to bring about the recommended changes, we fear that the elimination of the total tax exemption, as proposed under Bill C-44,, will have a very negative effect on mutual insurers of farmers and fishers.

We, therefore, recommend that paragraph 149(1)(p), and subsections 149(4.1) to 149(4.3) of the Income Tax Act be maintained as they are currently exist.

In closing, let me point out that farm mutual insurance companies provide significant benefit to the small rural communities in which they are located. They ensure that insurance is available at all times, even when the market is tight. Mutual insurers are also significant employers in their community. They purchase locally sourced goods and services whenever possible, and participate in the betterment of their community.

Thank you for considering CAMIC's recommendation.

**The Chair:** Thank you both.

Mr. Rivers, the floor is yours.

**Dr. Nicholas Rivers (Associate Professor, University of Ottawa, As an Individual):** Thank you very much for inviting me to speak.

I'm going to speak about the public transit tax credit. In the past couple of years, I've conducted research to try to understand the effectiveness of the public transit tax credit. Based on this research, as well as research conducted by others, I'd like to make three points.

The first point is that the public transit tax credit has failed to achieve its goals of substantially increasing public transit usage, reducing congestion, or reducing air pollution and greenhouse gas emissions from transport. This conclusion is based on statistical evaluation of the policy that I've conducted with one of my students. The study used data from the 2006 census and the 2011 national household survey and focused on responses to questions asking individuals how they travel to and from work. We established the effectiveness of the policy by comparing travel patterns of individuals who were and who were not eligible for the tax credit. Because the tax credit is non-refundable, only individuals that pay income tax are eligible to receive the tax credit. Individuals who don't pay income tax can therefore serve as a control group, while individuals who did pay income tax and are therefore eligible for the tax are the treatment group. Our study compared changes in public transit usage in the treatment and control groups from before and after the tax credit became available. We statistically controlled for a large number of other factors that could impact transit ridership in order to isolate the effect of the tax credit.

The results of the study suggested the tax credit had only a very small effect on public transit ridership, raising the proportion of individuals regularly using public transit by about 0.25 to 1 percentage point in comparison to a baseline transit ridership of about 12%. While this increase in transit ridership is desirable, it is not a substantial change from the status quo. Importantly, our study finds that the great majority of individuals who claimed the public transit tax credit, between 92% and 98% of all claimants, made no changes to their behaviour. They would have used public transit regardless of whether or not the tax credit was available.

This brings me to my second point, which is that, despite not achieving its goals, the public transit tax credit is expensive. The Canada Revenue Agency reports that in 2011 the tax credit cost about \$170 million in foregone revenue. Based on the findings in my study, this suggests that between \$1,200 and \$4,800 is required to induce one additional person to take public transit. It is also possible to calculate the cost of reducing carbon dioxide emissions using the public transit tax credit. My study suggests that reducing one tonne of carbon dioxide emissions using the tax credit costs between \$1,000 and \$22,000 in foregone government revenue. This is much higher than the cost of other carbon mitigation opportunities. It leads me to conclude that the tax credit is not cost effective.

The final point I'd like to make is that the public transit tax credit is regressive. Because it is a non-refundable tax credit, many low-income individuals are excluded from the tax credit by design. Further, higher-income households likely have more access to tax planning advice than lower-income households and are more likely to receive the tax credit if eligible. Studies by the Department of Finance as well as studies by academics published in the journals *Canadian Public Policy* and the *Canadian Tax Journal*, show that the public transit tax credit is disproportionately claimed by middle or high-income households to the exclusion of low-income households. Overall, the tax credit likely had a small regressive effect on the distribution of income.

For the three reasons I have described, I support the elimination of the public transit tax credit. In doing so, I'd like to make two additional points. First, while I have studied the public transit tax credit and have concluded that it is expensive and ineffective, I have no reason to believe it is uniquely so compared with other tax credits. There exists research that suggests that several other tax credits in the federal system are expensive, ineffective, and regressive. I support the continued examination of tax credits in the federal tax system undertaken by the federal government with a view to improving the transparency and efficiency of the tax system.

Second, while I don't think that the public transit tax credit is a well-functioning policy, I do strongly support the objectives under which it was developed, including reducing congestion and reducing transport sector emissions. Research suggests that the best way to achieve these objectives involves imposing distance-based fees on road users or emissions-based fees on emitters, such as road pricing, congestion pricing, or greenhouse gas pricing. I strongly encourage the further implementation and study of these options by governments in Canada.

Thanks very much for the chance to address the committee.

● (1720)

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

With the Canadian Taxi Association, Mr. Marc André Way.

**Mr. Marc André Way (President, Canadian Taxi Association):** Good afternoon, Mr. Chair and members of the committee. Thank you for allowing me to speak today.

I'm here to support the amendment to increase the collection of HST/GST from the ride-sharing companies and affiliated drivers.

My name is Marc André Way. I'm the president of the Canadian Taxi Association. I have also been the chief operating officer of Coventry Connections since 2004, operating 1,500 taxis in six municipalities in Ontario. I'm also co-owner of Capital Taxi, a business operating in Ottawa since 1938. My experience in the ground transportation business is extensive in the taxi, limousine, black car, and sedan business.

I'm an active member of the community. I hold a seat on the transportation committee of the Greater Ottawa Chamber of Commerce, and the taxi advisory committee of the City of Ottawa. I'm also a board member of the Taxi, Limousine and Paratransit Association, an international association that will be celebrating its 100th year of service in 2018.

We are presenting today to support the government's decision to address the significant inequity in the application of GST/HST that has a substantial impact on us and our members. The Canadian Taxi Association is the voice of the taxi industry in Canada. Our members consist of the largest companies in most major cities across Canada. We speak for an industry of 30,000 taxi owners and operators and over 50,000 taxi drivers, who undertake over \$2 billion in consumer transactions on an annual basis.

All taxi operators in Canada are required to be registered for GST and HST purposes, and to charge, collect, report, and remit HST and GST on their fares regardless of their annual revenue.

Ride-sharing companies such as Uber and TappCar and their drivers should be required to be registered. Typically today they are not registered and do not charge, collect, report, or remit GST or HST. This creates a significant competitive disadvantage for our drivers and members and provides a direct competitive advantage to the ride-sharing companies and their drivers. The recent budget of 2017 levels the playing field for us.

Over time, changes in the economy have made a number of provisions in the Canadian tax statutes less relevant than when they were first introduced. To address these changes, budget 2017 proposes to amend the definition of a taxi business under the Excise Tax Act to level the playing field and ensure that ride-sharing businesses are subject to the same GST and HST rules as taxis.

Our reason for strongly supporting those measures in budget 2017 are to ensure a fair, equitable, consistent application of GST to all suppliers in the private transportation industry, including taxis and ride-sharing companies; to maintain a competitive private transportation industry unburdened by arbitrary tax preferences; to simplify the application of GST in the private transportation industry for both consumers and suppliers; to ensure the stability of the federal government's HST/GST revenues for ride-sharing companies and their drivers, just as our members and drivers collect, report, and remit for the government's benefit; and to improve the operation of GST for the benefit of all Canadians.

In conclusion, the past unfair and inconsistent application of the excise tax's small supplier registration exemption poses a significant threat to the competitiveness of the private transportation industry. Unless amendments to the excise tax are made, small supplier ride-sharing companies and their drivers will have an arbitrary but significant price advantage in the market. Consumers will be forced to seek smaller supplier ride-sharing company drivers in order to receive a lower fare.

As consumers continue to increase their reliance on the services offered by ride-sharing companies and their drivers, the federal government's GST revenues from private transportation companies will steadily decline. Accordingly, we support the Government of Canada and the Department of Finance amendment to the excise tax to address this inequitable application of the GST/HST between our drivers and members and the ride-sharing companies and their drivers.

• (1725)

Thank you.

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

From Transport 2000 Québec, we have Mr. Pepin, the president of the council, and Madame Plouganou, the secretary of the board.

Welcome.

Go ahead, Mr. Pepin.

**Mr. François Pepin (President of the Council, Transport 2000 Québec):** Thank you, Mr. Chairman.

[Translation]

I thank the members of the Standing Committee on Finance very much for their invitation.

Transport 2000 Québec is a non-profit association whose mission is to contribute to the overall development of public transit in Quebec and improve user services, while ensuring that the users' viewpoint is taken into account. Our vision is to ensure that citizens have access to affordable, high-quality and safe public transit services. With our partners from the various regional chapters, we are members of a Canada-wide network, Transport Action Canada.

Transport 2000 was astounded when it was announced in the last federal budget that the personal public transit tax credit would be abolished. Over the next five years, close to \$1 billion will be removed from the pockets of citizens who use public transit.

The 15% tax credit meant that citizens could recover the equivalent of close to two months' monthly fees for using public

transit. This compensation for choosing sustainable transport just went up in smoke, and no new incentive has been proposed to replace it.

Among available studies, a study pointing to the weak impact of the tax credit on increasing the use of public transit was mentioned. The study, done by Professor Rivers of the University of Ottawa, showed an increase in ridership of between 0.25 and 1 per cent, which represents a major increase on a Canada-wide scale. So the credit did have an effect on the use of public transit networks. We are talking about 35,000 to 154,000 additional daily users.

Aside from those figures, the tax credit was claimed by 1.7 million Canadians in 2012, which represents \$170 million that was returned to the pockets of taxpayers who used public transit. In order to obtain that credit, those same taxpayers in one year spent \$1.38 billion in transit fees. Thus, except in Toronto, every Canadian who spends about \$1,000 a year in transit fees will be deprived of approximately \$150. That is the equivalent of a 15% fee increase.

Econometric studies have shown that any increase in public transit fees leads to a decrease in ridership. Many users decide to change transport modes, that is to say to walk or use the car. Given these facts, we estimate that on a yearly basis, this could mean some tens of millions fewer public transit trips throughout the country.

According to the Toronto Transit Commission, the TTC,

• (1730)

[English]

“The [Public Transit Tax Credit] has undoubtedly had a positive impact on TTC Metropass sales and ridership growth”, and the TTC feels that eliminating it “will erode at least some of these gains.”

[Translation]

If everyone starts to use the car, there will be millions more tons of greenhouse gases in the atmosphere every year.

Ms. Plouganou, you have the floor.

**Mrs. Maëlle Plouganou (Secretary of the Board, Transport 2000 Québec):** We often hear it said that many low-income families do not benefit from the tax credit because they do not pay income tax. That argument is debatable. As has been shown by the cities of Calgary, Ottawa, and soon Toronto, the best way of helping low-income families is a social tariff structure to reduce fees and make public transit more affordable for low-income families and Canadians.

Such a reduction allows citizens to spend less money when they purchase their transit tickets by offering discounts of between 20% and 40% on single, weekly and monthly fees. Indeed, the main obstacle to the use of public transit by low-income families and Canadians is having to spend a rather large amount when they purchase their tickets. In fact, when a fee increase is too large, some citizens prefer to walk rather than use the bus.

**Mr. François Pepin:** Canada cannot allow itself to act against its own policies. The elimination of the personal tax credit for public transit is in blatant contradiction to the objectives of the Government of Canada, which are to help the middle class, stimulate the economy and enable the environmental transition.

If Budget 2017 is the next step in our collective efforts to strengthen the Canadian middle class and support families who are working hard to join it, the elimination of this measure which benefited the users of public transit is a step backwards.

To support and encourage Canadians to massively opt for public transit, a range of measures must be offered to citizens by governments: incentives for users, financial support for investment programs, and increased participation in operational costs so as to improve and increase the daily service offer in every neighbourhood.

Thank you.

• (1735)

[English]

**The Chair:** Thank you all, and thank you for the work you do.

We're going to go to very concentrated three-minute rounds, so we can get through the list.

Mr. Grewal, you can start.

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

Thank you to all the witnesses who came today.

Marc, I'm the son of a taxi driver, so this was a really big development for us in our neck of the woods.

Can I get your comments on how the current system works? If you drive for Beck Taxi in Toronto, how are you expected to register and how is your HST remitted?

**Mr. Marc André Way:** A driver gets licensed by the city; his next step is to be registered with the government as a taxi driver, so he gets a GST number. The way the GST or the HST works in Ontario is that it's built into the metre fare. There are no choices—we have to. Our drivers must be registered to collect the HST. Every charge they go through by paying the brokers imposes HST. They go through the process of accumulating their fares, making their calculations, and being able to remit them either quarterly or monthly.

**Mr. Raj Grewal:** So each driver remits it.

**Mr. Marc André Way:** Yes.

**Mr. Raj Grewal:** For example, if five drivers drive for Beck, they don't remit it to Beck, and then Beck remits it to the government?

Each driver remits it.

**Mr. Marc André Way:** He remits his own portion of the HST, and the brokers or the company remits their portion on the fees they charge.

**Mr. Raj Grewal:** So each driver is licensed by the city or municipality they drive in, and they're also registered to collect GST?

It doesn't matter if they make \$10,000 a year or \$90,000 a year.

**Mr. Marc André Way:** That's correct. It starts from dollar zero.

**Mr. Raj Grewal:** Okay. Now our budget this year is going to change the definition of taxis to include ride-sharing applications, the common one being Uber.

**Mr. Marc André Way:** Yes.

**Mr. Raj Grewal:** As somebody who's been in the industry for so long how would you anticipate it should apply to Uber?

**Mr. Marc André Way:** Uber's fares are not fixed by the licensing authorities. Therefore, if anyone took an Uber ride today, the fare is calculated on distance and by a multiplier, depending on if there's surge pricing or not. It all depends on demand. They should be adding the HST to the final fare, as we are adding it. The difference between us and Uber is that we have to include it in the metre, whereas they can easily simply add that to their calculations when they remit the invoices or the receipt to the customer.

**Mr. Raj Grewal:** For it to be fair, because this is all about tax fairness in my opinion, and you're operating a taxi and Uber and you are essentially doing the same level of business, then you should be applying the same level of tax. Ideally if you're an Uber driver, Uber would change its policy to collect it at the fare stage, and whether it were the brokerage or the driver who remitted it, it would make an even playing field.

**Mr. Marc André Way:** That's right. It all depends on how Uber treats its drivers, either as dependent contractors, such as taxi drivers, or as employees. If they're employees, Uber needs to collect those taxes from the drivers and from all the rides and remit them to the government.

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

Mr. Liepert.

**Mr. Ron Liepert:** Thank you.

Thanks, all of you, for your presentations.

Because of the limited time, I'm going to focus strictly on the decision to cancel the transit pass credit. With all due respect to the other guests, I think Mr. Dusseault is going to ask you some questions, whereas I have have a couple for Mr. Rivers.

If I heard you correctly, your study indicated that most of the benefit of the credit did not go to the low-income category, but to the medium- to higher-income category. Now we hear a lot about the middle class, which we can't really define, but it sounds to me as if this is a tax increase on the middle class. Is that fair?

**Dr. Nicholas Rivers:** This is a tax increase on the middle class.

**Mr. Ron Liepert:** It's taking away a tax credit for the middle class.

**Dr. Nicholas Rivers:** Okay, I got you.

**Mr. Ron Liepert:** Isn't that correct?

**Dr. Nicholas Rivers:** Yes.

I have the numbers from the Department of Finance calculations here, using the Canada Revenue Agency claims, and they've analyzed who's claiming the tax credit and the amount of claims overall. They're finding that the lowest income people claim the tax credit less than those with all the other incomes. They're finding that individuals between, say, \$37,000 and \$123,000 of individual income have the highest claim ratio and individuals above \$123,000 are roughly even.

• (1740)

**Mr. Ron Liepert:** So those—

**Dr. Nicholas Rivers:** The way I understand it, very simply, is that it will work out as a transfer from people with \$37,000 to \$123,000 income to people earning less than \$37,000.

**Mr. Ron Liepert:** Right, and that's what these guys call the middle class, I think, even though they can't define it. Those are my constituents, largely, who take transit downtown to work in Calgary. While it's a dumb decision on the part of the government to cancel this tax credit, I actually think it will be a political gain for me because, as I said, I think it was a dumb political decision. It may make economic sense, but politically it was a pretty dumb decision. What are the numbers of people who actually claimed that credit in the last tax year? How many claimants were there?

**Dr. Nicholas Rivers:** I don't know if I can pull that off the top of my head. Let's see.... The total number of claims is around 1.7 million.

**Mr. Ron Liepert:** That's a lot of voters.

Thanks, I'm done.

**The Chair:** They're not all in Calgary though, Ron.

**Mr. Ron Liepert:** They're spread out nicely.

**The Chair:** Mr. Dusseault for three minutes, please.

**Mr. Pierre-Luc Dusseault:** I'll take the time.

[*Translation*]

I thank all of you for being here.

I am going to continue on the topic of public transit. We are talking about people who use public transit.

Do you have data on those who use public transit for the most part? Are these people with incomes of \$150,000 or more, or rather those who have middle-class incomes in the median range, even though the government has not yet defined the middle class?

**Mr. François Pepin:** We have not examined data such as Statistics Canada figures regarding the income of commuters. That data does not exist for provinces or municipalities.

However, Mr. Rivers has just provided some figures. According to his study, the majority of those who claim the tax credit for public transit have an annual income of between \$37,000 and \$120,000. We think that this proportion of the population accurately reflects income distribution in general.

**Mr. Pierre-Luc Dusseault:** Fine.

Following the creation of the tax credit, you saw an increase in public transit ridership of between 0.25 and 1 per cent. Is that correct?

**Mr. François Pepin:** Historically and empirically, when there are no incentives to encourage the use of public transit, such as an improvement in services, a freeze on fees or some other measure, public transit ridership remains about stable in Canada.

When economic activity is stable, ridership remains stable. If the economy improves, ridership increases, and if there is a recession, its use decreases. Those are the main factors that affect the level of ridership.

In Quebec, there was a program to improve Quebec public transit policy and service from 2007 to 2012.

As an illustration, here are a few figures: during that period in Quebec, nine transport companies expanded their service offer by 28%, and ridership increased by 14%. This happened at the same time as the public transit tax credit was in effect. So it is difficult to separate the effect of the tax credit and of the program on those increases.

We feel that infrastructure programs are important, but the range of measures is more important. That is why we advocate the use of that approach, both for users and for investments and operational costs.

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

During the time I have left, I would like to discuss mutual insurance companies.

I think you were surprised by the proposal in Bill C-44; no one expected to see that, and neither did I. It seems that during the last pre-budget consultations, you had made representations to improve the situation. However, today's bill is proposing the opposite.

Can you measure the repercussions this could have on mutual insurance companies? Will this mean that they will be less competitive than their competitors? Do you see a certain risk for those businesses?

What do you have to say to the government, which claims that access is easy now that insurance companies are on the Internet, and that with the new technologies, there is no longer a need for this in remote and rural areas?

• (1745)

**Mr. Normand Lafrenière:** Insurance companies may be on the Internet, but agricultural insurance or insurance for fishers is not. This is really something that is offered by mutual insurance companies. There are very few companies aside from mutual insurance companies that offer insurance for farmers and fishers.

A large part of our clientele is made up of farmers and fishers. We owe our creation to them, and they still make up the majority of our board members. It is not surprising to note that still today, these people purchase insurance from mutual insurance companies.

These are not-for-profit companies. It is a fact that we have to accumulate a surplus in order to ensure the survival of our insurance companies. However, once that surplus is reached, we redistribute that money to farmers and fishers. We insure those groups more than the rest of the population. They are not our only clients, although several of our companies only provide insurance to those groups. The companies that have a broader clientele redistribute more money to farmers and fishers than to the others. It is a portion of our business that is subsidized by other products offered by our insurance companies.

**Mr. Pierre-Luc Dusseault:** Does this jeopardize your companies? [English]

**The Chair:** Pierre, we're well over the time frame. Maybe we might have a chance....

Mr. Sorbara.

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

Welcome, everyone, to today's committee.

I do want to quickly speak about the tax credits and the efficacy of tax credits, specifically when a tax credit is refundable versus non-refundable.

My understanding is that this tax credit or tax expenditure was what's called a non-refundable tax credit. Is that correct?

I'll ask Nicholas.

**Dr. Nicholas Rivers:** The public transit tax credit is a non-refundable tax credit. That's right.

**Mr. Francesco Sorbara:** So if you do not have any taxes owing or taxes payable, you actually don't benefit from the tax credit.

**Dr. Nicholas Rivers:** That's right.

**Mr. Francesco Sorbara:** So, for a large segment of the population, the public transit tax credit doesn't do anything.

**Dr. Nicholas Rivers:** This is the main reason why I would conclude that this tax credit is regressive, that it doesn't benefit low-income people who don't pay income tax.

**Mr. Francesco Sorbara:** Low and middle-income people, we'll call them, if you want to use the strata of low and middle-income people—really anyone making up to say \$50,000 or \$60,000 a year.

**Dr. Nicholas Rivers:** That's right. There's a pretty big range of people who don't pay income tax.

**Mr. Francesco Sorbara:** Yes, exactly. Those funds would probably, I think in my humble opinion, be spent investing in transit, putting extra buses on the road, giving people the incentive to actually get on the bus: there are more routes, there's more frequency. The way to incentivize folks is by allowing them to get to work more quickly because that's the big determination: how fast they can get to work and get home.

If their streets are clogged and transit isn't occurring as fast as possible, they will take their cars, right? Our \$180 billion infrastructure plan over the next 12 years will invest a lot in public transit. I think the number is around \$30 billion. On the efficacy side, a non-refundable tax credit actually doesn't do much.

**Dr. Nicholas Rivers:** That's right. With regard to efficacy, the study I did suggested that this is not that effective of a tax credit. The overall effect is quite small, 0.25 a percentage point increase in transit.

**Mr. Francesco Sorbara:** Can we use the word “diminutive”? It's very minimal.

**Dr. Nicholas Rivers:** Sorry?

**Mr. Francesco Sorbara:** It's very minimal.

**Dr. Nicholas Rivers:** Right. It's a very small number.

**Mr. Francesco Sorbara:** The bigger bang for your buck—and this is the taxpayer dollars we're talking about—is to invest the money in public transit.

**Dr. Nicholas Rivers:** Right. I'm not able to make a comparison. I haven't studied the other side of things, but I would say this doesn't look like that big of a bang for your buck to me.

**Mr. Francesco Sorbara:** That's right. It's safe to say that I think that's my opinion, and I think that's pretty correct, right?

**Dr. Nicholas Rivers:** Right. You can have an opinion.

**Mr. Francesco Sorbara:** How much time do I have left, Mr. Chair?

**The Chair:** You have time for about a 15-second question.

**Mr. Francesco Sorbara:** Mr. Lafrenière, I don't know this issue of mutual insurance companies and the implications for farms and fishermen, though I grew up in a fishing town in northern British Columbia. I read the budget line items. It's expected to have an annual federal fiscal benefit of \$10 million in 2018, when it comes into effect.

**Mr. Normand Lafrenière:** No.

**Mr. Francesco Sorbara:** Can you give 20 seconds of background? This is sort of an obtuse issue for me.

**Mr. Normand Lafrenière:** On the fishing side, you may know the Pacific Coast Fishermen's Mutual Marine Insurance Company. In its case, I think the gross premium written is about \$5 million. Every cent of its benefits is returned to its members. It has enough capital accumulated over the years so that when it does business with its members and it makes a profit, it returns 100% of that profit to its participating members. That's an example of a company that will be affected negatively.

• (1750)

**Mr. Francesco Sorbara:** What exactly is it insuring? Is it insuring income, or is it insuring assets?

**Mr. Normand Lafrenière:** It insures the boats, the fishing property, of those fishermen, and also their residences. It insures both. At the end of the year, it does \$5 million in gross premiums written, and it returns the profits it generates to its members.

We see the same thing when we insure farmers. Farm mutual insurance companies make a profit, and they return that profit to their members.

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

Thank you, Mr. Chair.

**The Chair:** Thank you both.

I know it well. I deal with the mutual insurance company in P.E.I. I had a major fire at one time in my life, so I highly recommend insurance.

Mr. Albas.

**Mr. Dan Albas:** Thank you, Mr. Chair.

I'm glad you had that public service announcement on a private loss and let people know about it. Get insured.

**The Chair:** That's why you get insurance.

**Mr. Dan Albas:** Exactly.

Thank you to all of our witnesses today. Again, one of the most fascinating parts about being a member of Parliament is that you get to know a little bit about many different things. I really appreciate the presentations by each witness today.

Mr. Rivers, I want to start with you. First of all, I understand your argument. I would like to ask you a question, though. Mr. Sorbara mentioned the tax credit and the non-refundable type. Do you think having a non-refundable tax credit can change the way someone responds to an incentive?

**Dr. Nicholas Rivers:** I'm not quite sure what you mean.

**Mr. Dan Albas:** Pardon me, I guess I should have phrased it better. For example, I wasn't even here yet when the tax credit for fitness for children was first introduced, but one of the arguments we heard from the Liberal Party was that it was not fair because it was not refundable, so in the last Parliament we made it refundable. That didn't prevent the Liberals from taking it away. Have you done any research on other tax credits like the child tax credit?

**Dr. Nicholas Rivers:** No. I guess I would say there are two issues there. One issue that I brought up in my comments was that this, to me, looks like an overall regressive tax credit. I think making it refundable would change that, but the other issue I brought up is that it is not that effective or not that cost-effective, and you wouldn't address that issue by making it refundable.

**Mr. Dan Albas:** Sure, okay.

**Dr. Nicholas Rivers:** It would continue to have a small impact on transit usage and it would continue to be an expensive way to motivate people to take transit.

**Mr. Dan Albas:** Yes. Obviously the government has introduced new tax credits, including for teachers. I would say perhaps that might be a great topic for you to look at at some point, because I know many school districts in British Columbia where the parent advisory councils give a payment to the teacher, and one of them, I know, gives \$1,000 to the teacher, and then the teacher buys school supplies.

Now, if that person is being honest, I think we don't have an issue with that, but if that person then claims the tax credit for monies they were given, I don't think that's exactly what the tax credit was for.

I certainly appreciate the work you've done and your discussing your ideas here.

I want to talk to the mutual insurance companies. Many of yours are either mutual or co-operative, which basically means that at the end of the year, if there are any retained earnings, those are returned to your membership. Is that correct?

**Mr. Frank Rider:** That's correct. It's pretty straightforward. We collect premiums to pay claims. Whatever is left over from our claims and our operating expenses we're able to return that back to our policyholder members, though we do need to keep an amount for reserves in the event of unforeseeable things. That reduces their operating costs and the price of their insurance. We haven't met anybody yet who likes to pay premiums for insurance.

**The Chair:** I'll have to cut you off there, Dan.

Mr. Ouellette.

**Mr. Robert-Falcon Ouellette:** Thank you very much.

I guess my questions are for Mr. Normand Lafrenière and Frank Rider.

[*Translation*]

I have a question on the tax credit.

Will this tax exemption have a real impact on the cost or availability of insurance for farmers or fishers? Are they able to find insurance elsewhere, or in some other way?

● (1755)

**Mr. Normand Lafrenière:** They may be able to find insurance elsewhere, but they are the ones who set up the mutual insurance companies. They did this long ago, especially in the case of farmers. Fishers created their companies later. They set up insurance companies to ensure that insurance would be available at a reasonable cost, and that is still the case today. In addition, they sit on the boards of directors of our companies. Most of our business is done with farmers and fishers; they deal with mutual insurance companies, as they are their companies.

[*English*]

**Mr. Frank Rider:** As a CEO of a mutual company myself, I would reiterate that for some people, eventually it will affect availability because we have a tendency to insure those things in rural Canada that the big P and C insurers don't want to deal with. Farming and fishing is one of those, so it eventually may affect availability.

**Mr. Normand Lafrenière:** When the market was tight, other companies were leaving, and we were there to supply that market both for farmers and fishermen, and also for local communities. When the stock companies leave, we're there to stay. We have nowhere else to go. Basically we're there to serve them, and we have proven that in the past.

[*Translation*]

**Mr. Robert-Falcon Ouellette:** How many farmers and fishers purchase insurance from the insurance companies you represent rather than from large companies?

**Mr. Normand Lafrenière:** Out of a total of approximately 170,000 farms, there are certainly 140,000 who do business with us, the mutual companies or the cooperatives.

**Mr. Robert-Falcon Ouellette:** You said 140,000 farms?



**Mr. Normand Lafrenière:** Yes.

**Mr. Robert-Falcon Ouellette:** Do you have any figures on the fishers?

**Mr. Normand Lafrenière:** They are covered by mutual insurance companies that also ensure the farmers, but there is one, the Pacific Coast Fishermen's Mutual Marine Insurance Company, that focuses on fishers. The others are companies that ensure farmers and fishers.

**Mr. Robert-Falcon Ouellette:** Are there data that compare your services to those of larger insurance companies and to insurance companies that are not mutual companies?

**Mr. Normand Lafrenière:** What do you mean?

**Mr. Robert-Falcon Ouellette:** I'm thinking here of a type of graph that would allow us to compare all of the services.

**Mr. Normand Lafrenière:** No.

However, I can tell you that among the joint stock corporations, there are three that benefit from an exemption without deserving it, because of a special provision in the corporate Income Tax Regulations. We asked the government to correct that mistake and to keep the money in the system. But rather than doing that, the government decided to completely abolish the exemption for companies that ensure farmers and fishers. Obviously we are opposed to that. That exemption still provides benefits.

[*English*]

**The Chair:** That's the end of the time, Robert.

**Mr. Robert-Falcon Ouellette:** I have a quick question for Mr. Rivers.

**The Chair:** In your submission on that point, you say that this offer was made on the three companies. Who was that made to? Was it the Department of Finance? Did they give you reasons why it wasn't undertaken?

**Mr. Normand Lafrenière:** No.

**The Chair:** But it was made to the department?

**Mr. Normand Lafrenière:** It was made to the department, and also to the minister's office, and to the committees, the fisheries and oceans committee, the agriculture committee, and the House of Commons finance committee.

**The Chair:** Do you have any correspondence of any exchanges that you could make available to us?

**Mr. Normand Lafrenière:** Absolutely.

**The Chair:** Thank you.

Mr. Albas.

**Mr. Dan Albas:** Thank you, Mr. Chair.

I'm going to go back to the insurance case. Obviously, you can't suddenly offer stock if you need to capitalize and whatnot. Basically, you're going to have to raise fees at some point, and obviously because of this exemption change, there will be higher costs to your members. Is that correct?

**Mr. Normand Lafrenière:** Exactly.

**Mr. Dan Albas:** When this committee went to Prince Edward Island, we heard the same thing from many of the fishers there, that they were concerned about rising costs from things like carbon taxes

and whatnot. This is an additional increase for them, which certainly I would imagine is a challenge. Have you already heard back from your members about the issue?

• (1800)

**Mr. Normand Lafrenière:** Well, we have heard back from our members. Of course, they are extremely disappointed to see that go. We also heard from some of the members that their own existence may be at stake in future years if they lose that tax exemption.

**Mr. Dan Albas:** Really? It's that big a difference on the margins for some people?

**Mr. Normand Lafrenière:** Many of our companies do more than 50% of their business with farmers. It is their *raison d'être*, if I can say it that way. Losing the tax exemption is a big issue for them.

**Mr. Dan Albas:** Basically, your presentation today said please don't do this. Is that what you're asking of the government?

**Mr. Normand Lafrenière:** Exactly, we're saying not to do any of that. We prefer not to direct what's up there. We're saying it could be improved, but we would prefer not having it improved over losing it all. We're asking you to take a second look and not do anything, please, so we can keep it the way it is.

**Mr. Dan Albas:** All right.

**The Chair:** Thank you both.

Mr. McKinnon, you have the last question.

**Mr. Ron McKinnon (Coquitlam—Port Coquitlam, Lib.):** Thank you, Chair.

Professor Rivers, my question is for you, although I'll ask Mr. Pepin to speak as well if there's time. In Mr. Pepin's remarks, he cited your research, which led him to conclude that we should keep this tax credit, yet you with exactly the same research, I expect, came to exactly the opposite conclusion. I wonder if you could respond to those comments by Mr. Pepin.

**Dr. Nicholas Rivers:** The way I understood the comments was that my research demonstrated that there was an increase in public transit usage as a result of this tax credit, and that's correct. The reason I came to a different conclusion is that the cost of the increase—in other words, the cost-effectiveness of the policy—is poor. The study I did suggested that this tax credit cost between \$1,200 and \$4,800 for each additional public transit rider, which is very expensive. Similarly, the cost to reduce carbon emissions with this policy was between \$1,000 per tonne and \$22,000 per tonne. These are really high costs compared to other options we have. It's not that it didn't do anything; it's that it did something in a very expensive way. That's why I reached the conclusions I did.

**Mr. Ron McKinnon:** Okay, thank you.

Mr. Pepin, would you like to respond to that as well, to clarify?

**Mr. François Pepin:** Yes.

That's why in our report we suggest that there must be an alternative measure to give a tax credit to transit users that would be more efficient. You need all kinds of measures to encourage the use of transit by Canadians, especially if you want to reach our goal in *GES* reduction, so it's very important.

As a matter of fact, as we said, it's an increase of 15% for most of the users who claim the tax credit. But what we usually see when there's an increase in fares.... The elasticity of fares is about 25% or 30%, so it could be more than what's estimated by Professor Rivers, but we don't know. You have to test it, of course, to see the results, as they did in Quebec with the program. But with the program they had in Quebec, everybody thought that 50% elasticity on better headway between buses was too much, but they got to their goal, so really it was a success.

You have to try it.

**Mr. Ron McKinnon:** Okay, thank you.

**The Chair:** It's not the first time we've heard a difference of opinion at this committee, folks.

Thank you all for your presentations. We will have to suspend and go to committee business.

Also, Mr. Lafrenière, if you could send the clerk that correspondence, that would be helpful.

Mr. Sorbara.

**Mr. Francesco Sorbara:** Mr. Rivers, can you table the report that you have or you produced, or send it to us?

**Dr. Nicholas Rivers:** I can if you tell me how, yes.

**Mr. Francesco Sorbara:** Okay, please.

**The Chair:** We'll get the clerk to talk to you afterwards, Mr. Rivers, and she'll give you the address.

We'll suspend for two minutes and do committee business for however long that takes, and then go to Global Affairs Canada on division 20 of part 4.

•(1800) \_\_\_\_\_ (Pause) \_\_\_\_\_

•(1805)

**The Chair:** I'll call the meeting back to order.

I believe, Ms. O'Connell, you have a motion to present to committee on the subject matter.

**Ms. Jennifer O'Connell (Pickering—Uxbridge, Lib.):** I don't have a formal written motion, but I think we need to ensure, when we do clause by clause as a normal procedure, that we establish parameters to make sure that we understand how long we'll be debating clause by clause.

It's my understanding that previously.... Perhaps I can get assistance from the clerk, but I've highlighted a few key points, which we could discuss, to make sure that we have parameters for our clause-by-clause study.

First is that the committee proceed to clause-by-clause examination of Bill C-44 no later than Monday, May 29, which I think is something we already agreed to.

The second is that the chair may limit debate on each clause to a maximum of five minutes per party per clause.

Next is that the committee may sit until 9 p.m. on May 29, 2017, and start again on May 30 at 8:45.

The next is that if clause-by-clause consideration has not been completed by 9 p.m. on May 30, all remaining amendments be deemed moved and the question be put by the chair.

The last would be that after completion or passage by the committee, the chair report to the House as soon as possible. I'm gathering that there would be some more technical language to ensure this scheme, but I think those are the key elements that would be normal in preparation for clause-by-clause study.

•(1810)

**The Chair:** Is there any discussion? It's a typical kind of motion to handle a bill.

Mr. Albas.

**Mr. Dan Albas:** I have a quick question that perhaps Ms. O'Connell can clarify. It's on the process, Mr. Chair. If it's deemed to have been approved and reported by, I think you said, Tuesday night

**Ms. Jennifer O'Connell:** Tuesday at 9 p.m.

**Mr. Dan Albas:** —I'm worried that if there are large amounts that have not been done, and if there's a particular clause that I or some other member may think is more interesting than other ones, if there's going to be some flexibility from the chair to make sure that we actually do our job and go through those sections. I would hate to see certain clauses not get the scrutiny they deserve.

**The Chair:** I think, at least as we have tried to operate in the past, that the motion is saying five minutes per clause. There are many clauses in the bill on which there will be virtually no discussion—I think we've moved pages and pages at a time in the past—but there are some other clauses that are going to require more than five minutes.

As chair I have allowed more time on those clauses that I think we all as a committee realize need probably a little more debate, but what is suggested to be firm on is the 9 p.m. deadline on May 30. That gives us from 8:45 in the morning until 9 at night, which seems a fair bit of time. I think we'd be able to finish by that time, but the government, from their perspective, need a deadline in order to get this bill to the Senate as amended.

Mr. Liepert.

**Mr. Ron Liepert:** I think we're pretty much okay with all of this. Is it five minutes per clause or five minutes per party per clause?

**The Chair:** Is it per party per clause?

**Ms. Jennifer O'Connell:** Yes, it's five minutes per party per clause.

**Mr. Ron Liepert:** I wanted that to be clearer.

The only other thing that I would ask is that before we commence at 8:45 on Tuesday, if need be and if there's still significant work to be done, is it possible to pull out clauses that you know are going to need more discussion and deal with those first? Then, if we have to approve clauses in a lump at nine o'clock at night, they'll be the least contentious.

**The Chair:** I don't see a problem with doing that.

**Mr. Ron Liepert:** Then I think we're in good shape.

**The Chair:** If each of the parties could look at the bill and give us an indication of the areas they expect will require more discussion and debate, and if I know which those are, we can go through them and make sure they are done and then come back to the others.

**Mr. Ron Liepert:** I have one more question. Is there any kind of minority report on this?

**The Chair:** No.

**Mr. Ron Liepert:** Okay.

**The Chair:** Not on the budget implementation act.

Is there anything further?

Mr. Dusseault.

**Mr. Pierre-Luc Dusseault:** Why don't we deal with amendments because we have to submit amendments before a certain date? We can deal with all the amendments, and then we can deal with the clauses where no amendments were proposed. At least we can do the scrutiny of each and every one of them, but maybe we can start with the proposed amendments.

**The Chair:** I think that's normal procedure. We would deal with the clauses where amendments were proposed. We can have a discussion on the other clauses that people deemed necessary to debate, and then the rest of the bill.

I would ask Global Affairs Canada to come forward on part 4 of division 20, the Investment Canada Act. We have Mr. Marcotte, Mr. LeBlanc, and Ms. Pellerin.

Mr. Marcotte, I believe you have some opening remarks.

•(1815)

[Translation]

**Mr. Louis Marcotte (Director General, International Business Development, Investment and Innovation, Department of Foreign Affairs, Trade and Development):** Thank you, Mr. Chair.

The Budget Implementation Act, 2017, No. 1 introduces the enabling legislation of the Invest in Canada Hub announced in the 2016 Fall Economic Statement.

This new federal body is to work globally, in partnership with federal departments, as well as with provincial and municipal investment attraction offices, to ensure that Canada makes the most of every opportunity to attract global investment.

Foreign direct investment makes a significant contribution to the Canadian economy—creating jobs, spurring innovation and driving trade. Foreign-controlled enterprises in Canada employed 1.9 million Canadians in 2015, representing 12% of Canadian jobs and 30% of manufacturing jobs. They are responsible for 49% of all of our merchandise exports and 37% of all business expenditures in research and development.

The Advisory Council on Economic Growth noted in its October 2016 report that Canada stands to gain enormously by attracting more foreign direct investment.

[English]

The enabling legislation that you're reviewing determines, first, the nature of the entity as a departmental corporation.

Second, its mandates and functions are to create the partnerships required to leverage all of what Canada has to offer; brand Canada as a premier investment location; and to provide a one-stop service to assist investors in navigating the investment landscape; and to actively pursue anchor investment projects and deliver world class after-care services.

Third, the act also determines the governance of the entity where the minister provides directions, the board of directors manages the organization, and the CEO operates it on a day-to-day basis.

Fourth, the act determines the general powers, and its specific authority of the entity over administrative policies.

Fifth, it determines its human resources regime.

Overall, the enabling legislation allows for the creation of an organization able to interact effectively with business while being subject to the necessary oversight and accountability measures.

**The Chair:** Thank you very much. I'm trying to see how long the bells will be.

Turning to questions, Mr. Dusseault.

[Translation]

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

Mr. Marcotte, thank you for being here.

I would like to know how the work done by such an entity would be very different from what is already being done to attract foreign investors. I assume that a lot of work is already being done on this by our network of embassies abroad. This entity would allow things to be centralized, but would it do better work?

**Mr. Louis Marcotte:** In fact, you are correct. Attracting investments is certainly a part of the duties of the trade delegates in our embassies and consulates abroad. When you compare Canada to other countries, you can see that the number of agencies working to promote investment has increased by 50% over the past 10 years.

I think that at this time, Canada is disadvantaged as compared to other countries. Investment promotion agencies abroad often have more resources. They also provide a single wicket that allows them to serve investors on site.

If foreign investors want to know more about the Canadian business climate and about certain programs, the agency that will be created could act as a single wicket. It could provide access to those services and promote Canada abroad in a more persuasive way.

**Mr. Pierre-Luc Dusseault:** Fine.

Will this body work mostly in Canada or abroad?

**Mr. Louis Marcotte:** It will be established exclusively in Canada, and will work in close co-operation with our trade delegates who are abroad. They will establish contacts with the foreign businesses, but they will be here in Canada. The purpose is to offer better service to those people here in Canada and encourage them to invest here.

• (1820)

**Mr. Pierre-Luc Dusseault:** Has the city where the head office will be located been selected?

**Mr. Louis Marcotte:** No.

**Mr. Pierre-Luc Dusseault:** However, the Infrastructure Bank's location was determined even before the bill was adopted.

**Mr. Louis Marcotte:** No, the location has not yet been determined.

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

[English]

**The Chair:** Thank you.

Is there any other discussion?

I would say this, and you can tell this to the powers that be, Mr. Marcotte. In saying this, I think I would be speaking for all of us here on some of this, that in my view this is a good news story, but it should be a separate piece of legislation and not in a budget bill.

I think we're seeing too much of this. Legislation that could be handled separately is a good news story to profile, but if it's in the budget bill, it's not going to get enough debate. I personally support it, but in any event, it's a problem when we see these areas in a budget bill. Having said that, I know that's not your fault, not your responsibility, but I couldn't sit here and not say it.

With that, thank you very much for your presentation. I didn't introduce you fully. Mr. Marcotte is the director general, investment and innovation, with Global Affairs Canada. André LeBlanc is the executive adviser to the transition team, also with Global Affairs Canada; and Ms. Pellerin is counsel with legal services.

Thank you for your efforts, and thank you for your appearance.

[Translation]

**Mr. Louis Marcotte:** Thank you.

[English]

**The Chair:** Could we call up division 21, because we only have a few minutes? From the Treasury Board Secretariat, we have Mr. Ermuth and Ms. Meilleur.

The floor is yours on modernization of service fees. I know you've been here about four times before and didn't get the chance. We have a very short period of time.

Mr. Ermuth.

**Mr. Roger Ermuth (Assistant Comptroller General, Financial Management Sector, Office of the Comptroller General, Treasury Board Secretariat):** Thank you very much.

Like most other governments, the federal government charges fees for services that provide recipients with benefits beyond those received by the general public. Some examples of these fees include fees for services, such as icebreaking; inspection of cattle for export;

fees for products such as marine navigation charts; fees for the use of a facility, for example, a wind tunnel; and fees for rights or privileges, for example, the right to use a publicly owned or managed property.

It should also be noted that the service fees act will not apply to bridge tolls, as the federal organizations responsible for administering these federal bridges do not fall under the scope of the legislation. For all fees that are subject to the act, the amount charged is normally intended to recover all or part of the product or service that's being provided. In setting the fees, the government must consider the private versus public benefit of the associated fees, in other words, the extent to which a product or service provides a benefit to all Canadians, such as food safety, versus the profits that specific businesses derive from the sale of safe foods.

Under the current legislative framework governing fee setting, many organizations have not changed their fees for years, if not decades. As a result, taxpayers currently subsidize relatively high percentages of products and services, many of which primarily benefit users of specialized government services. A modern legislative framework will support a more cost-efficient delivery of its services. It will also help improve transparency and oversight, and ensure that those who set fees are accountable to Canadians.

Key changes under the service fees act include the fact that all fees will be subject to the legislative framework, improving the accountability regime that would ensure fee payers are reimbursed when performance standards are not met, a streamlined approach for setting fees and speeding up the process, the introduction of an automatic escalator clause to ensure that the fees maintain pace with actual costs, and increased transparency to provide Canadians and parliamentarians with annual information on fees. This includes both mandatory departmental reports that would be tabled annually in Parliament, and the requirement by the president of the Treasury Board to make a consolidated report available.

It should also be noted that introducing new legislation will not increase fees beyond the proposed inflationary escalator. Fees are set under ministerial authority after consultation with interested stakeholders. The modernization of the legislative framework opens the door for departments and agencies to look at rebalancing the burden of costs between general taxpayers and those benefiting from those specialized services.

At this point I'd be happy to take any questions.

• (1825)

**The Chair:** Okay, do we have any questions?

Mr. Dusseault.

[*Translation*]

**Mr. Pierre-Luc Dusseault:** We are told that fees will increase progressively, in keeping with the inflation rate, but does that apply to all of the fees covered by the User Fees Act? According to my understanding, there are fees that are not imposed under that act, but that are imposed pursuant to other taxation authorities. Nevertheless, all of the fees provided for in that act will be subject to the same increases, according to the inflation rate, no matter what product or service is involved.

Is that correct?

[*English*]

**Mr. Roger Ermuth:** The way the legislation is worded is that if enabling legislation does not already have an inflationary factor in it, a CPI-type of inflationary indicator would be necessary for all fees. In essence, the fee escalator would apply across all fees. Again, some would be under the legislation, unless, of course, the enabling legislation has its own.

[*Translation*]

**Mr. Pierre-Luc Dusseault:** Most of the fees imposed by the government are set by regulation, are they not?

[*English*]

**Mr. Roger Ermuth:** There are some that are statutory, but there are others that are regulatory as well. Quite frankly, even some of the ones that are statutory do not necessarily have a built-in inflationary escalator.

This would ensure, again, that as the inflationary costs of delivering those services and products go up, that the associated revenue from fees would keep pace with those changes.

[*Translation*]

**Mr. Pierre-Luc Dusseault:** Let's take the example of a \$5 fee that was included in 2010 regulations. If there is an indexed, gradual increase, those fees would be about \$8 in 2017, but they would still be \$5 in the regulations in question, since they will not have been amended to reflect the change.

[*English*]

**Mr. Roger Ermuth:** On the specifics for each individual set of regulations, I'm not necessarily sure how to answer that question specifically. The point would be that if a regulation might have stated originally that it was set at \$5 and would increase at 2% per year, then obviously the fees would go up on an annual basis. If there were nothing in the regulation or the legislation, then, through the current legislation, the escalator would kick in.

One of the things that we are also putting in is a requirement on an annual basis, tabled in Parliament, that each department then publicly states how much each of those fees is going up. It would be made clear to parliamentarians as well as to Canadians, as those fees are increasing.

**The Chair:** I thought we might be able to get through this section, but we have a number of questioners—I can see why—and we won't be able to finish. You'll have to come back again. We will have to hear from you at about 5:30 tomorrow.

Just for the committee's information, we have four witnesses, instead of the six we had hoped for, on each panel tomorrow. We'll have four witnesses from 3:30 to 4:30, four witnesses from 4:30 to 5:30, and then at 5:30 we will have Treasury Board come back. Then we'll go to division 18 on infrastructure, division 13 on the immigration act, and division 14 on the EI Act.

Mr. Ermuth, I have one question for you to think about in the meantime. When the inflationary factor, the escalator, is put in, what incentive is there for a department to do things more efficiently and cut costs? That's a huge concern I have with escalator clauses. How do you create the pressure on the department to create efficiencies on their end and cut costs? You can have that answer tomorrow.

With that, we'll adjourn until tomorrow at 3:30.

We have three minutes to get to the vote.

The meeting is adjourned.





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