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Chair

The Honourable Wayne Easter

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• (1530)
[English]

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

Pursuant to Standing Order 108(2), we'll start our study of the pre-budget consultations for 2020.

We have a number of witnesses here from the Department of Finance Canada who will have a presentation in a moment.

First, I want to thank all of the parties for getting their witness lists in on time under a very tight schedule. The clerk tells me that one of the difficulties is that pretty nearly all the witnesses have accepted in response to the initial calls, which surprises me, given the tight time frame. That's a good thing.

I just want to remind people of the other things that we agreed to the other day on the schedule, if people want to make note of these dates while the witnesses are going through some of these areas. On February 18, there is a 6 p.m. deadline for the submission of recommendations to the committee clerk. On February 19 at 3 p.m., we hope that we'll be able to distribute all of the recommendations by all parties to all committee members. We'll meet on February 20 from 11 until 2 and from 3:30 until 6:30 as a committee to discuss the report and the recommendations because—and we talked about it the other day—we have to give the Library of Parliament time to get its work done so that we'll be able to table the report in the House. There will be meetings, as necessary, during the week of February 24 to finalize the report.

Are there any questions on that?

Seeing none, we will turn to the witnesses from the Department of Finance. We have Mr. Leswick, assistant deputy minister, economic and fiscal policy branch; Mr. Marsland, senior assistant deputy minister, tax policy branch; and Ms. Dancy, associate assistant deputy minister, economic development and corporate finance branch.

Welcome.

I'm not sure who is leading off.

Are you, Nicholas?

Mr. Nicholas Leswick (Assistant Deputy Minister, Economic and Fiscal Policy Branch, Department of Finance): Yes.

The Chair: Go ahead. The floor is yours.

Mr. Nicholas Leswick: I'll just make a few short opening remarks.

Good afternoon, Mr. Chair, and honourable members of the committee.

Well, you've introduced me, Nick Leswick, the assistant deputy minister of the economic and fiscal policy branch, with overall responsibility within the department for economic and fiscal forecasting and the production of the federal budget.

Andrew Marsland is our assistant deputy minister of tax policy. Evelyn Dancy is our associate ADM of the economic development and corporate finance branch.

I have other officials from the Department of Finance behind me who can assist us in providing responses to your questions.

I will speak briefly about the preparations currently under way at the department for budget 2020. Every year, the Department of Finance organizes its own pre-budget consultations in addition to the consultations that you, the committee members, are hosting.

Through town halls, focus groups and online surveys, and by receiving emails and regular mail, the consultations allow the Government of Canada to hear directly from Canadians on what measures could be included in the upcoming budget.

This year's pre-budget consultations are focused on the themes from the Speech from the Throne, themes that we know are important to Canadians and that the government has stated as its clear priorities: strengthening the middle class, protecting our environment, keeping Canadians safe and healthy, and reconciliation with indigenous peoples.

These pre-budget consultations were launched on January 13. The objective was clear: inviting Canadians and experts to share their ideas and help build the upcoming budget.

As you may know, Minister Morneau and Minister Fortier, as well as Parliamentary Secretary Fraser, who is at this committee, have held town halls and round tables across the country to date.

Also, 15,000 Canadians have responded so far to online surveys on our website, and responses come in every day.

The consultations are ongoing; therefore, there is still time for Canadians to share their ideas and their priorities with the government, whether that is online or at events across the country. The government wants to hear from as many Canadians as possible.

With that, Mr. Chair, we will be happy to answer any questions the members of the committee may have as they pursue the various themes under this year's pre-budget consultations.

• (1535)

The Chair: It is a different lineup from last time.

Who is first over there, guys? I never asked you earlier.

Mr. Morantz.

Mr. Marty Morantz (Charleswood—St. James—Assiniboia—Headingley, CPC): I just have a question about the promise about the basic personal amount that was made in the campaign.

During the campaign, the parliamentary budget office said that in 2023-24 the cost would be roughly \$5.6 billion. Its most recent estimate is \$6.8 billion in 2024. Your report, "Lower Taxes for the Middle Class and People Working Hard to Join It", has the number at roughly \$6 billion in 2024.

Which number is correct?

Mr. Andrew Marsland (Senior Assistant Deputy Minister, Tax Policy Branch, Department of Finance): Perhaps I can give some background on my understanding of those numbers.

I believe that the costing of the platform was based on the basic personal amount only. There are essentially three credits: the basic personal amount, the eligible dependant credit and the spousal amount, which are equivalent. If your spouse isn't working or you're a single parent, then you get, essentially, the basic personal amount. My understanding is that the costing was based on only the first of those, and the actual proposal includes all three.

In terms of the most recent Parliamentary Budget Officer costing, I think the difference is largely explained by a different database. The Parliamentary Budget Officer uses Statistics Canada's SPSPD/M model, which basically takes some taxpayer information and some survey data and builds a model.

The department uses, essentially, taxpayer information. We use the tax returns filed by Canadians to build a microsimulation model, and that results in a more accurate, in our view, picture of the cost.

Mr. Marty Morantz: In your view, your number is the most accurate.

Mr. Andrew Marsland: That would be...yes.

Mr. Marty Morantz: Would you say the parliamentary budget office is incorrect?

Mr. Andrew Marsland: What I'm saying is that the numbers are derived from different data sources, which sometimes give somewhat different results.

Mr. Marty Morantz: Okay.

The Chair: You still have plenty of time.

Your number is what figure, Andrew?

Mr. Andrew Marsland: It's just over \$6 billion, I believe.

Mr. Marty Morantz: I still have more time. This was my first time asking a question.

The Chair: You still have about three minutes left, Marty, or Pierre can take it.

Mr. Marty Morantz: I'll pass. Those were my questions. I'm sure we'll be circling back to that question.

Hon. Pierre Poilievre (Carleton, CPC): Yes.

Mr. Marty Morantz: I'll pass it to Mr. Poilievre.

The Chair: Not a problem.

Mr. Poilievre, the rest....

Just so we have it, what was the exact number, Andrew?

Mr. Marty Morantz: The department's number was \$6 billion in 2024. I have \$6,210,000,000.

The Chair: Thank you, Marty.

Go ahead, Mr. Poilievre.

Hon. Pierre Poilievre: Were there any other factors that explained the difference, other than the differing data methodology and the addition of the spousal and dependants amount?

Mr. Andrew Marsland: As I understand it, the Parliamentary Budget Officer also included a behavioural response, which had a very small proportion of a very small.... I think it was something in the region of \$20 million. Over \$6 billion was the difference.

Hon. Pierre Poilievre: Was there anything else, though, in terms of economic data? Was there an update on the economic data environment when you published the most recent numbers?

• (1540)

Mr. Andrew Marsland: I don't believe so.

I think that, when you look at the assumptions around the CPI.... The basic personal amount prior to the change and in the future will be indexed for inflation.

Hon. Pierre Poilievre: Right.

Mr. Andrew Marsland: I believe there's a slight difference there, but it's not material.

Hon. Pierre Poilievre: On what date are intergovernmental transfers generally made; that is to say, from the federal government to provincial governments, for things such as the Canada social transfer, the equalization, the Canada health transfer? Is there a date in the fiscal year or a series of dates in which these transfers occur, where money actually transacts from one account to another?

Mr. Andrew Marsland: I'm sure there is, but I don't have that information.

Mr. Nicholas Leswick: Mr. Chair, perhaps I could invite another official from the department.

The Chair: Ms. McDonald, the floor is yours.

Ms. Suzy McDonald (Associate Assistant Deputy Minister, Federal-Provincial Relations and Social Policy Branch, Department of Finance): Generally the numbers are made public in December of every year—what the estimates are for the payments for the next fiscal year—and then payments are made on a monthly basis. We transfer dollars monthly into the accounts of the provinces and territories based on the payments that are set out in the December forecasts.

Hon. Pierre Poilievre: Is that at the end of every month or at the beginning?

Ms. Suzy McDonald: That's a detail that I would need to check.

Hon. Pierre Poilievre: Okay, if you don't mind, would you get back to me on that?

Finally, I have a question regarding the deficit. It is going to increase the debt-to-GDP ratio slightly this year. Is it the continued commitment of this government to reduce the debt-to-GDP ratio in every year thereafter?

Mr. Nicholas Leswick: As a fact check on the first thing, you're right: it's to rise slightly between the 2018-19 fiscal year and the 2019-20 fiscal year. I can only restate what was in the government's platform, which is their commitment to reduce that debt-to-GDP ratio in each and every year. I think it's what they said, but I—

Hon. Pierre Poilievre: I'm not asking now about the platform, but about the government's commitment. Is it the commitment of the Government of Canada to reduce the debt-to-GDP ratio every year from now until the end of the planning period?

Mr. Nicholas Leswick: You'd have to pose that to the associate minister. I think they are scheduled to appear before the committee on Wednesday, if I'm not mistaken. As published in the fall outlook, the update that was printed in December, that trajectory does decline in each and every year.

The Chair: We'll go to Ms. Koutrakis.

You have six minutes, Annie.

[Translation]

Ms. Annie Koutrakis (Vimy, Lib.): Thank you all for being here this afternoon to discuss a very important topic with the committee.

Could you give us a quick economic update, including the figures for employment?

[English]

Mr. Nicholas Leswick: Yes, I'd be happy to give you a general narrative on the economy.

More broadly speaking, I think, starting with the global economic perspective, 2019 was a bit of a rough year. It was the slowest growth clip in the global economy in the last 10 years, since the end of the great financial crisis, and it was coming off some highs in 2017 and 2018. There was a deceleration in the global economy. Some of that was just cyclical. There was a lot of stimulus in the global economy in 2017 and 2018 from things that we know, like the Trump tax cuts and a lot of monetary easing that took place over that time. That faded, so 2019 was a slowing year. Obviously,

some of that weakness spilled over into the Canadian economy. Growth in Canada for 2019 is expected to come in at probably just below 2%. Compared with 2017 and 2018, there was a deceleration in growth.

That said, employment held up quite tremendously. Job creation in 2019 was very strong, averaging in and around 40,000 jobs per month. Wage growth did pick up to north of 3%, which was a good and encouraging sign. The composition of job growth was pretty good: it was concentrated in the private sector and pretty broadly based across various sectors.

That said, looking forward into 2019 and more specifically into the fourth quarter of 2019, for which we expect results at the end of February, there was some choppiness at the end of 2019. I think some of that weakness will probably spill over into 2020. Again, some of it was cyclical—things like CN Rail strikes, GM strikes and some intermittent shutdowns along the energy production cycle. Overall, the labour market is pretty strong, with low levels of unemployment and, as I said, wage growth picking up, and that's encouraging.

Looking forward to 2020, I think that growth in and around Canada's potential, which is dictated by productivity and labour supply, will probably be in and around that 2% mark, which is kind of the consensus view among most economists around the country.

Obviously, some risks include things like what we are experiencing now: the coronavirus and the containment of that shock and how it's expected to spill over into the global economy and into Canada. Geopolitical risks seem to be fading a bit. We're very encouraged, obviously, with the signing of the most recent trade deal between the U.S. and China and the dissipating effects from the uncertainty surrounding Brexit and some of the EU uncertainties.

Overall, I think it's steady as she goes, and we'll see how it plays out over the next couple of months.

• (1545)

[Translation]

Ms. Annie Koutrakis: Thank you for your answer.

Could you give us details about the tax cuts for the middle class? Specifically, how many people are benefiting, and how much is each household saving?

[English]

Mr. Andrew Marsland: Yes, I'd be pleased to do that.

In December the government announced a phased-in increase of the basic personal amount, as we mentioned earlier, and the equivalent amounts for spouses and eligible dependants. That will increase steadily to \$15,000, up from about \$12,000, I believe. By 2023, about 20 million Canadians will see a reduction in tax. Those who won't are... Essentially, the design of the increase in the credit is effectively reduced between the fourth and fifth tax brackets, which means that once you get to the threshold of the fifth bracket, there is no increase. That would result in about 1.1 million Canadians no longer paying tax.

Ms. Annie Koutrakis: I have only one more question, Mr. Chair.

How does our middle-class tax cut stand up to other G7 countries? How does Canada rank with regard to the tax burden, and what trends do we see?

Mr. Andrew Marsland: It's somewhat challenging to compare. There are a number of ways to compare the tax burden overall. For example, you can look at the percentage of GDP that the tax revenues represent. Canada is at about 32.6% of GDP. That's total taxes, federal and provincial. France is at 46%. The U.S. is somewhat lower, at 25%. You can look at the overall burden there.

The OECD has a measure based on the average industrial worker. That's another measure you can look at, or at multiples of that and so on, such as families with children. I think when you look at, for example, families with children, it's really quite low, given that one should add in refundable credits, such as the Canada child benefit. I don't have the actual statistics, but I'd happily provide those to the committee.

The Chair: Thank you.

We'll turn to Mr. Ste-Marie for six minutes, and then Mr. Julian.

[Translation]

Mr. Gabriel Ste-Marie (Joliette, BQ): Good afternoon everyone. Thank you for being here.

First, I have questions about elements in the Minister of Finance's mandate letter and the way that the department is addressing them.

My first questions are about tax avoidance schemes used by corporations to divert a portion of their profits to tax havens, a perfectly legal practice.

I'd like to read two of the priorities that the Prime Minister assigned to the Minister of Finance:

Modernize anti-avoidance rules to stop large multinational companies from being able to shop for lower tax rates by constructing complex schemes between countries.

Close corporate tax loopholes that allow companies to excessively deduct debt to artificially reduce the tax that they pay.

What does the department know about these schemes? How prevalent are they? Approximately how many companies are using these schemes right now? How much is being dodged in payable taxes every year?

• (1550)

Mr. Andrew Marsland: Thank you for your question.

[English]

Perhaps I'll begin by underlining the work we do multilaterally with the OECD. For a number of years now, the OECD has been engaged in an exercise about base erosion and profit shifting. That exercise laid out certain mandatory approaches, certain common approaches, and so on. We have been working very closely with the OECD. Successive budgets have introduced measures aimed at implementing those recommendations. The common remote reporting standard is one that's now in place. It allows countries to get a common view, a full view, of the operations of multinationals and how they're reporting revenues and allocating income from jurisdiction to jurisdiction. The multilateral instrument, which I believe was

passed last year, is a way of automatically updating the network of tax treaties. We have over 90 tax treaties, I believe, around the world. Those update each of those tax treaties to deal with such issues as treaty shopping, which is an approach that corporations could use to obtain inappropriately the benefits of tax treaties to which they're not entitled.

That being said, it's work that continues. There are other areas that were dealt with in the BEPS approach. There are issues like how to deal with hybrid mismatches, or strategies to leverage differences in the tax systems, and so on. I think those are the kinds of areas that are referred to in the minister's mandate letter.

[Translation]

Mr. Gabriel Ste-Marie: I see. Thank you.

Specifically, I'd like an estimate. Do you have one?

For instance, the mandate letter clearly states that companies "excessively deduct debt to artificially reduce the tax that they pay."

Have you estimated the number of companies using that type of scheme in Canada? Shell Canada, for instance, uses it to artificially divert profits to Shell Bahamas, if I'm not mistaken.

How many companies are doing this, and how much would you say they're diverting?

[English]

Mr. Andrew Marsland: I'm not going to comment on particular taxpayers, but I'd begin by saying that there is nothing wrong in principle with deducting interest. That's all part of the calculation of income. Where that becomes a challenge is where debt is allocated between jurisdictions, which reduces the tax base of a particular jurisdiction at the expense of another, and so on.

That's the thing that we of course look at very carefully, along with other measures. In successive budgets, we bring forward proposals to protect the Canadian tax base.

While I'm not responding directly to your question about specific corporations, I can assure you that we examine and analyze the corporate tax base very carefully to make sure that—

[Translation]

Mr. Gabriel Ste-Marie: Thank you.

I have a request for you. If possible, could you get back to us with an estimate of how many companies are using the schemes in Canada? Without naming any specific cases, as I just did, how many companies using the schemes have you identified? As we know, it's perfectly legal in the current tax regime, but the Prime Minister has asked the Minister of Finance to make precisely that change. How much would Canadian tax authorities be able to collect if such a change were made?

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

• (1555)

[English]

The Chair: You have half a minute.

[Translation]

Mr. Gabriel Ste-Marie: Oh, wonderful.

I'd like to discuss another point in the letter. The Prime Minister asked the finance minister to introduce a new 10% tax on luxury boats, cars and personal aircraft over \$100,000.

Again, I'd like to know whether you've done an estimate of how much such a tax would bring in.

[English]

Mr. Andrew Marsland: I'm not really in a position to comment on proposals, particularly prior to a budget, but I would say that we're, of course, in the process of working on the issues that were outlined in the minister's mandate letter, in preparation for providing advice to the government in the context of the budget.

[Translation]

Mr. Gabriel Ste-Marie: All right.

[English]

The Chair: Thank you both.

We'll have Mr. Julian and then Mr. Cumming.

[Translation]

Mr. Peter Julian (New Westminster—Burnaby, NDP): Thank you very much, Mr. Chair.

I'd like to thank the witnesses for being here today.

[English]

I want to come back to the question that Mr. Ste-Marie just asked about the overall erosion of our tax base, because the last time we met as a committee, back on June 21, we had in our hands the PBO report that was fresh off the press. It came out that very same day. It talks about an erosion of our tax base because of overseas tax havens, which they calculated—and the PBO was very clear that this is a conservative calculation—at \$25 billion a year.

That's an erosion of our tax base of \$25 billion. When we think of the crisis in affordable housing, the fact that we don't have in place basic dental care or pharmacare, we look at \$25 billion being eroded from our tax base. That is a considerable sum of money that could resolve many of the challenges that so many Canadians face.

Mr. Ste-Marie asked whether you have done an evaluation. I'll come right back to that. Specifically, does the department have an evaluation of whether that \$25 billion figure is conservative or whether the ministry feels it is excessive? What are the numbers the Ministry of Finance has to compare with the amount that was put forward by the Parliamentary Budget Officer, who was of course working in the interest of all Canadians?

Mr. Andrew Marsland: I can't really comment on the Parliamentary Budget Officer's numbers. I'd have to go back and look at the methodology used, but I will commit to the committee to come back to you with our comments on that report.

Mr. Peter Julian: Thank you. I take from that there has been more evaluation done since the PBO report came out in June.

Mr. Andrew Marsland: These kinds of evaluations are very sensitive to how you measure them, what the baseline is and what assumptions you use. On that basis, I don't really want to comment on whether I agree with that assessment or not.

Mr. Peter Julian: I understand, but I just want to be specific on this: the department has not done an evaluation since the PBO report came out on June 21.

Mr. Andrew Marsland: The department continues to examine the corporate tax system. It continues to examine issues on a multi-lateral basis with the OECD and to implement measures to protect the base. We look at specific arrangements that we consider contrary to the policy, and we bring forward measures in every budget to address those. For example, in the last budget there were measures to reinforce the anti-dumping rules and to reinforce the transfer pricing rules, which relate to that, and to deal with withholding tax issues around securities lending arrangements, to give some examples.

Mr. Peter Julian: Okay, thank you for that.

As Mr. Ste-Marie mentioned, if there is any material available through the ministry, I think it would be something that we would all be seized with.

I want to go to the Trans Mountain pipeline.

As I mentioned, I asked the finance minister last spring whether there had been an evaluation of the updated construction costs. As I'm sure you're well aware, the shippers' contracts are dependent on that update. They haven't been updated for years and construction costs are escalating in British Columbia.

Since the spring, has the Ministry of Finance done an evaluation of what the updated construction cost would be for that pipeline?

Ms. Evelyn Dancey (Associate Assistant Deputy Minister, Economic Development and Corporate Finance Branch, Department of Finance): Thank you. I can take that question.

The responsibility for costing the project rests with the Trans Mountain Corporation, the company that owns the underlying asset and is responsible for the project. It's the board of directors' responsibility to undertake that costing exercise rather than the Department of Finance's, to be clear about our role versus their role. At this time, the board of directors has not approved and released an updated cost estimate. If you were looking at something, I believe \$7.4 billion was the last number that was put into the public realm.

As members can appreciate, I'm sure it has been an uncertain time for the project, in terms of the regulatory uncertainty, the legal challenges, etc. The board of directors has to take into account the actual costs of where the pipeline will run and the details of construction in a climate that has been quite unpredictable.

We are hopeful of receiving updated costing, but at this time there isn't a number available that I can share.

• (1600)

Mr. Peter Julian: And the Ministry of Finance has not been involved in any way in updating those costs, which are now estimated to be twice as much as what were originally projected a few years ago.

Ms. Evelyn Dancy: This is a responsibility that rests with the Crown corporation rather than the finance department.

Mr. Peter Julian: Okay, thank you.

For my final question, I want to go to the Hoskins report and the recommendation around universal public pharmacare.

Has the Ministry of Finance done any costing or evaluation of how best to financially approach putting in place universal public pharmacare in Canada?

Mr. Nicholas Leswick: Mr. Chair, I'll invite my colleague Suzy McDonald back to the table.

The Chair: You might as well stay at the table, Ms. McDonald.

I was going to tell you that before you took off when I wasn't looking.

Mr. Peter Julian: Have yourself a glass of water. Settle in.

The Chair: Go ahead, Ms. McDonald.

Ms. Suzy McDonald: With great pleasure. Thank you.

On the question of universal pharmacare, that work is ongoing within the Department of Health and the Department of Finance.

The question, I think, was specifically about whether or not costing of universal pharmacare itself has taken place. Is that correct?

Mr. Peter Julian: It's whether the Ministry of Finance has done an evaluation as to how to implement and put into place universal public pharmacare, on the basis of the Hoskins report.

Ms. Suzy McDonald: That work is ongoing in terms of discussions with provinces and territories around what pharmacare would and could look like moving forward.

The Chair: Okay. We'll have to leave it at that.

Turning to five-minute rounds, we'll go to Mr. Cumming and then back to Mr. McLeod.

Mr. Cumming.

Mr. James Cumming (Edmonton Centre, CPC): Thank you for appearing today.

One key principle around this budget is this concept of strengthening the middle class.

For the purposes of the department, what is the definition of "middle class"? What are you working towards? Is it defined through a tax bracket? Is it change by areas of the country?

How can you craft a budget, and under what kind of definition?

Mr. Nicholas Leswick: Firstly, I know that the associate minister has a thing or two to say about the definition of middle class, and I'm sure you'll have that discussion on Wednesday.

From purely a bean-counter and statistical perspective, though, I can say that there is no common definition of "middle class". Any definition—attempted definition—would have to take in a range of considerations: family size; family composition, i.e., how many children you have; geography, where you live. Just with those three variables, there is a range of definitions around what is the middle class, which can range from some peripheral around the median income.... By extension, when defining "income", is that before-tax income or after-tax income? You talk about a peripheral within the 50% or 150% of the median income.

Then, in adjusting for family size, there's this concept of adjusting for a per-adult equivalent. On a per-adult basis, is it \$20,000 to \$85,000? Is that after tax or before tax? That then changes those metrics.

I'm not trying to escape the question, by any stretch, but trying to emphasize that there are general variables in play when trying to attach a statistical definition to "middle class".

Mr. James Cumming: The difficulty with that would be that if it's a key pillar and you can't clearly define it, I can't understand how you can craft a budget on the basis of that being one of the key outcomes you're trying to generate. Hopefully we'll get a better response on that from the associate minister.

There is some concern about tax structure. In your opening remarks you mentioned, related to the U.S., a more aggressive tax structure. Is there any concern, in crafting this budget, about a reduction in potential corporate revenue? The U.S. have been quite aggressive in its tax strategy, whereas in Canada we've actually been increasing input taxes on corporations, particularly small businesses, related to the carbon tax and increasing CPP and EI premiums, which are affecting their ability to compete. Is there a concern in the department that there could be a potential reduction in corporate revenue?

• (1605)

Mr. Andrew Marsland: This is an issue that we continually look at in terms of competitiveness. In 2017, as I'm sure you are aware, the United States introduced quite a comprehensive tax reform, and the department spent a fair degree of time analyzing that—and continues to do so, in fact, because some of the details of it are still coming out. It's a dynamic environment, and I think you need to continue to look at it.

In the fall economic update of 2018, the government announced measures in response to that, essentially the accelerated investment incentive. That was focused on a number of things. It focused on a concept, the marginal effective tax rate, which is essentially a measure we use—not the only measure, but one measure—to look at the relative competitiveness of tax systems. Essentially that measures the total tax burden on an investment producing a normal rate of return and takes into account the entire picture of taxes. It takes into account the sales tax burden, the income tax burden and so on. It's a useful measure because it gives you one perspective on that. Those measures allowed us to bring our marginal effective tax rate down a number of percentage points below that of the U.S., to be the lowest rate in the G7.

I think that's one measure. I think it's important to look at a number of measures, but it's an area we continue to be focused on in terms of the overall competitiveness of the tax system being one element—an important element but not the only element—in terms of assessing the competitiveness of the overall economy.

Mr. James Cumming: Has the department taken the opportunity to study the impact of those increased import taxes, particularly with the carbon tax and the increase in CPP and EI, and particularly in the small business sector, on their ability to compete and the revenues generated? Has a specific study been done on that?

Mr. Andrew Marsland: I'm not aware of a specific study, but a large part of our work is looking at those factors. It's not as if we do just one study. We look at the impacts of all of those factors to try to understand what the impacts of those are on overall competitiveness.

You mentioned a couple of things there in terms of carbon pricing, and the carbon pricing system is designed in a way that essentially addresses some competitiveness issues for those sectors that are large emitters and trade-exposed. In the small business sector, we have, in comparative terms, a very low small business rate, in fact the lowest in the G7.

Those are just two factors in a range of factors, I think a couple of which you mentioned, so I think we continue to look at the implications of all of those for competitiveness.

The Chair: Mr. McLeod and then Mr. Cooper.

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

Thanks, presenters today, for coming and presenting, although your presentation is a little bit skimpy. I was hoping to hear more on some of the work you've done in the pre-budget consultations and especially what you heard from the north, because I wanted to raise an issue that is affecting the north. It's the physical pressures that the territories are facing. We have a small tax base and high costs of construction and service, and we have a set borrowing limit. That borrowing limit is set by this government and it's currently \$1.3 billion. The Government of Northwest Territories always seems to be right at its debt limit and struggles to get projects done.

Is the Government of Canada open to exploring options to assist the Government of Northwest Territories in addressing some of the challenges through such measures as increasing their borrowing limit or allowing for greater flexibility in cost sharing on projects, infrastructure and other things?

• (1610)

The Chair: Ms. McDonald.

Ms. Suzy McDonald: We certainly heard some of the concerns from the north about the pressures being faced. We've had a number of conversations with regard to borrowing limits, and specifically, not only with the Northwest Territories but with some of the other territories as well. Those conversations are ongoing, and it would be premature to talk about what a final outcome of those might be.

Your second question was about infrastructure. Perhaps my colleague, Evelyn, would be able to speak to that.

Ms. Evelyn Dancey: First and foremost, within the public service we're very mindful of the particular challenges in relation to economic development in the north, which is the area I'm representing from the finance department.

With respect to infrastructure, I'm sure you know already about this programming, but I'll mention that of the \$2.4 billion national trade corridors fund, there's \$800 million identified for projects in the north. It's a fairly large allocation on a per capita basis, but it's in recognition of the transformative nature that infrastructure investments can make in the north.

Mr. Michael McLeod: The definition of “large” depends what side of the fence you're on. The \$800 million doesn't go very far when you split it among three territories and some of the provinces. Just one road costs over \$2 billion. I should remind the government that the Government of Canada is still responsible for building roads in the Northwest Territories. It still holds that responsibility.

When we talk about how other countries are doing, and how the national indicators are showing that our country is doing well and things are going pretty well, there are some areas of concern for the Northwest Territories. Our economy has not been keeping up with what's going on in the rest of Canada. We're growing at a slower pace. We are getting to a point where the backbone of our economy is going to be disappearing pretty soon. The diamond mines are all past their peak production points. We really don't have any other industry ready to offset their decline.

What efforts is the Government of Canada taking to support regional economies, like ours, to grow and diversify?

Ms. Evelyn Dancey: That's a discussion that could take hours.

To use the time efficiently, I'll note the government's recent Arctic and northern policy framework, which includes measures, opportunities, and targets, across a range of policy areas, including economic development, but not only economic development. That very much is a work in progress in implementing the framework in partnership with other levels of government, indigenous communities, non-governmental organizations and the private sector in the north.

I don't have a single answer to that type of question. However, there's an enormous amount of collaboration and partnership trying to marshal resources to where they can hopefully have the greatest impact in the north not only from an economic development perspective, but also from other perspectives. If it's helpful, I'd be happy to follow-up with background on that framework.

The Chair: Mr. Cooper.

Mr. Michael Cooper (St. Albert—Edmonton, CPC): Thank you, Mr. Chair, and thank you to the departmental officials for appearing today.

In the EFU 2019, it was confirmed that the government would be undertaking a comprehensive review of government spending with the goal of achieving \$1.5 billion in savings by 2020-21.

Could you provide an update on the status of that review?

Mr. Nicholas Leswick: On the spending side, to be quite honest, we're still working through the details of that process in the review framework with the government. We anticipate that more details will be provided in the upcoming budget on how that will be undertaken.

Mr. Michael Cooper: So, it's still very much a work in progress.

• (1615)

Mr. Nicholas Leswick: Yes, sir.

Mr. Michael Cooper: In that regard, or consistent with that, no details have been published regarding the criteria for the assessment programs. Would you be able to provide any insights in terms of the policies or operational actions the government is considering in order to see that \$1.5 billion in savings by 2020-21?

Mr. Nicholas Leswick: I don't want to speculate, and I certainly don't want to mislead you, so in terms of the overall program spending base in government, which is north of \$350 billion, we're working through the government in terms of what would be the review base and how to go about that review.

Those are the kinds of details we're discussing with the government right now with the hopes of coming back to Canadians and this committee with more details in that regard.

Mr. Michael Cooper: Thank you for that.

Now, switching gears a little bit to an issue that is near and dear to the constituents I represent in St. Albert—Edmonton, the issue is the energy sector and the competitiveness gap that exists and has resulted in a significant flow of investment from the sector.

Certainly, the sector was impacted by 2017 U.S. tax changes. In response to that, the government did move forward with accelerated capital cost allowance, but it's temporary. It's going to be phased out. I would submit that, consistent with ensuring and maintaining competitiveness, it would make sense to make that permanent in light of the U.S. situation especially. Would you be able to provide any insight on any work being done around that or any consideration?

Mr. Andrew Marsland: Perhaps I might respond to that.

Mr. Michael Cooper: Yes.

Mr. Andrew Marsland: You will appreciate that I can't really comment on what actions the government might take.

Mr. Michael Cooper: Right.

Mr. Andrew Marsland: As I mentioned earlier, that was an important measure in 2018 to effectively reduce the cost of investment through allowing for faster writeoffs. As you say, those measures were put in place I think until 2023-24, if my memory serves me correctly, for a five-year period. I guess that's where we stand now. I can't really comment on matters of policy, which are issues for ministers.

Mr. Michael Cooper: Thank you.

The Chair: Ms. Dzerowicz.

Ms. Julie Dzerowicz (Davenport, Lib.): Thank you so much, Mr. Chair, and I want to say thanks to the department for being here today.

In my riding of Davenport, which is downtown west Toronto, climate change was one of the top two issues that I heard about during the recent campaign. One of the key things people there have asked our national government about is whether or not we can move faster on eliminating fossil fuel subsidies.

How far along are we in eliminating fossil fuel subsidies and can we go faster?

Mr. Andrew Marsland: Perhaps I could begin by categorizing them. Being the tax policy guy, I see the world as tax and everything else, so I focus on tax all the time, which makes me pretty boring, but there you go. Maybe I'll speak to the tax component of that.

Back in I think 2007, the G20 committed to essentially rationalize inefficient fossil fuel subsidies over the medium term. I guess in more recent years—I think in the last two or three years—that's been crystalized by some countries, including Canada, to mean 2025.

Ms. Julie Dzerowicz: I'm sorry to interrupt. I'm assuming that inefficient subsidies are those that promote emissions, GHG emissions.

Mr. Andrew Marsland: There's a whole debate about what "inefficiency" means. Essentially, I could go through a whole range of criteria—

Ms. Julie Dzerowicz: We don't have time, unfortunately.

Mr. Andrew Marsland: From a tax perspective, every year we publish a report on federal tax expenditures and table it in Parliament. It's about 300 pages long. It identifies every deviation from a benchmark tax system, that being the most basic tax system. In a way, you can say that any tax expenditure is in essence a subsidy in one way or another. We have a pretty good handle on it, and we identify in that report which ones relate to the fossil fuel sector.

When you look back over the past decade or so, at one point you could say, looking at the measures that have been eliminated—phased out or in the course of being phased out—about eight significant measures are in that category. Then, when you look at what else relates to the fossil fuels industry, there's very little left. There is essentially one measure that we're identifying there that relates both to the mining section and to the fossil fuel sector—

• (1620)

Ms. Julie Dzerowicz: I'm running out of time, and I have two other questions. Is it that we're 80% or 90% of the way there? What's your best guess?

Mr. Andrew Marsland: From the measures in the tax system, we've made very significant progress. There's very little left that is effective.

Ms. Julie Dzerowicz: So, I can go back to Davenport and say we have largely eliminated fossil fuel subsidies.

Mr. Andrew Marsland: That's fair in the tax system that I'm speaking to.

Ms. Julie Dzerowicz: My second question, and this is another thing that's a topic within my riding, is whether or not we have started making budget decisions based on the impact on climate change. Our budget decisions are moving Canada to being more sustainable and achieving our Paris accord targets. Is that something we're systematically doing?

Mr. Andrew Marsland: From a departmental perspective, we analyze every budget proposal through a strategic environmental assessment that includes those considerations.

Ms. Julie Dzerowicz: That's good news, and good to know. I know my constituents will be very happy to hear that.

The last question I have is based on a comment made by one of my colleagues across the way, who said that we have to clearly define "middle class" before we would be able to create policies that would positively impact the middle class in Canada. Yet, I note we have introduced a tax cut, which you indicated earlier, that, if passed, would benefit over 20 million Canadians, which is the broad swath of Canadians. It would also eliminate taxes for one million Canadians.

Do we need to clearly define "middle class" in order to create policies that broadly benefit Canadians?

Mr. Andrew Marsland: Building on what my colleague, Mr. Leswick, said earlier, and given the challenges in clearly defining the middle class, you wouldn't want to wait until you had that definition before you....

Ms. Julie Dzerowicz: And we obviously haven't.

Thank you.

The Chair: We're going to two-and-a-half minute rounds for the next two questioners.

Mr. Ste-Marie and then Mr. Julian.

[Translation]

Mr. Gabriel Ste-Marie: I have a rather technical question.

The House decided to compensate dairy producers under the supply management system to make up for expanded market access conceded under the Canada–European Union Comprehensive Economic and Trade Agreement and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. That measure was announced in the budget back in the spring, but the necessary funding wasn't in the corresponding budget implementation bill.

Technically speaking, which vote did the money for the compensation come from? Could you also tell me approximately when the first cheque was issued?

Ms. Evelyn Dancey: Thank you for the question.

[English]

Indeed, it is the case. I know you have the figures already of the government announcing a total of \$2.5 billion in compensation for supply-managed farmers and processors, with \$2.4 billion being allocated to farmers. To date, payment for the current fiscal year is what has been announced. I have the number here; I think it was \$345 million. I can check my notes if that's not right.

The remaining compensation for that has been announced. My suggestion would be, in following the government steps on this, is to raise that question with the Minister of Agriculture and Agri-Food. I would refer you to Minister Bibeau.

• (1625)

[Translation]

Mr. Gabriel Ste-Marie: If I understand correctly, you can't tell me the approximate date that the first cheque went out or which vote the money came from. You're saying the minister is the person who can answer my questions. Is that right?

Ms. Evelyn Dancey: Yes. It's not within the purview of the Department of Finance, so I don't know the date or the vote.

Mr. Gabriel Ste-Marie: I see. Thank you.

My fellow member Ms. Dzerowicz asked you whether the climate impact of budget measures was taken into account. If I'm not mistaken, you said that it was. Is it possible to make those analyses publicly available?

[English]

Mr. Nicholas Leswick: Go ahead, Andrew.

Mr. Andrew Marsland: We were required to carry out those strategic environmental assessments, but those form part of the overall advice that we provide to the government in the context of budget-making, and as usual we do not release the advice.

[Translation]

Mr. Gabriel Ste-Marie: I see. If I understand correctly, then, that information can't be released to the finance committee either.

[English]

Mr. Andrew Marsland: That wouldn't be my decision to do that, though normally those are confidential documents.

The Chair: Okay. Thank you.

Mr. Julian, two and a half minutes go fast.

Mr. Peter Julian: Well, then, they do exist. That's interesting. Thank you for that.

I want to come back to TMX and the escalating construction costs, which of course put in peril its financial viability. Regardless of whether we're for or against it, the financial viability of the project is impacted by this.

As I understand it from my last questions, there has been no consultation at all with the finance ministry on the impact on public funds of a revised construction cost schedule that is twice what was originally put into place. The finance ministry has not been consulted and has not been asked to undertake any sort of study on this.

Ms. Evelyn Dancey: What I can offer is that the government as the owner of this project has indicated that it stands ready to see the project through to construction, so the costs would be something that the government has put itself behind in being willing to support through the appropriate instruments to obtain the cash required for the project.

I'd just like to put in a point of emphasis. There really is an emphasis on commercial decision-making in respect of that project, which is why these business details are within the purview of the Crown corporation. When there is a costing that is ready to be actioned, when there are calls for cash to be made upon the shareholder, to be made upon the government, the government would seek to obtain the funds necessary for construction.

Mr. Peter Julian: That comes to my next question, which is of course on the actual purchase of TMX, which was evaluated by the Parliamentary Budget Officer as being a billion dollars more than should have been paid, even at market value.

In this case as I understand it—and I'm not trying to put words in your mouth—the government basically decided to throw massive amounts of money at this, but the finance ministry was not consulted on the inflated purchase price of over a billion dollars over the value, and it hasn't been consulted on what the financial impacts will be of construction costs that are twice what was originally foreseen and that, of course, would require significant amounts of public funds. The finance ministry has not been involved in any way on that. It just responds to the government's saying, "We want to spend this money."

Ms. Evelyn Dancey: What I'm trying to emphasize really is the division of labour and that this kind of delineation between who is responsible for what protects and preserves the commercial decision-making in respect of the project.

It is the case that the Department of Finance.... It's within our Minister of Finance's portfolio where you find these Crown corporations, and there is a responsible and accountable flow of information in respect of the activities of Crowns in the minister's purview, but decision-making in respect of the project rests with the Crown corporation. The information that it seems you're interested in, in terms of costs, is something to be provided and approved by the board of directors.

• (1630)

The Chair: I'll have to end it there, Peter. I'm coming to Mr. Poilievre.

Just on that question, though, because I think it is hanging in the air, the Crown corporation looking after TMX—the Trans Mountain pipeline—certainly can't spend at their leisure and bill the Government of Canada. There must be some rules around keeping the spending in line, are there not?

Ms. Evelyn Dancey: Yes. The Crown corporations in any government minister's portfolio are responsible to provide corporate plans. As I mentioned in passing on the question of accountabilities, the overall planned activities and the cash or the capital requirements of Crowns run through an appropriate government decision-making. That respects the commercial orientation of the Crowns. When there is a requirement for cash, for example, that can only be a request put forward to the government. It's not something that the entities may do on their own. It's something that moves appropriately through government and Parliament if there's an appropriation.

The Chair: Okay. Thank you.

We are turning back to five-minute rounds. Mr. Poilievre is first and then Mr. Fraser.

Hon. Pierre Poilievre: Does that appropriation come through EDC or BDC, or what agency of government transfers the appropriation to the Crown corporation?

Ms. Evelyn Dancey: There are different instruments for different Crown corporations, but if we're talking about the Trans Mountain Corporation, which I think we are—

Hon. Pierre Poilievre: Yes.

Ms. Evelyn Dancey: —to date the financing has been untaken on the EDC Canada Account.

The Canada Account involves a statutory appropriation versus a voted appropriation. I think it would be premature for me to comment, going forward, on how future costs related to the projects would be financed, but that's been—

Hon. Pierre Poilievre: But "statutory appropriation" means that there is a law in place authorizing the expenditure, as distinct from the use of the estimates to authorize expenditures. Is this amount available to the corporation written in some legislation? Which statutory authority are you using for this purpose?

Ms. Evelyn Dancey: The Canada Account is a construct that exists through the legislation. The act is the Export Development Act, so it's—

Hon. Pierre Poilievre: So it is through EDC then.

Ms. Evelyn Dancey: It does create the statutory appropriation. On EDC's website there is a disclosure about the transactions that have been undertaken on the Canada Account.

Hon. Pierre Poilievre: I see. So then it's not as though every major transfer is approved by Parliament. There is just a statutory amount available to EDC, and then EDC is using that authority to transfer the money to the Crown and in this case to the Crown corporation.

Do I have that right?

Ms. Evelyn Dancey: From a historical perspective, that's how it has proceeded to date. There would be a number of other types of transfers that are statutory, and one of the statutory instruments that exist is this one.

Hon. Pierre Poilievre: Who has to make the decision if, for example, the project does become more expensive than was foreseen? Who would give authorization for an increased amount? Who would say, "Yes, you can have more than we originally thought you were going to require?" Would it be Treasury Board or...?

Ms. Evelyn Dancey: First and foremost, the government makes its decisions around the allocation of funding and resources, typically through a budget process but not always through a budget process, so that's a conversation between the Minister of Finance and the Prime Minister and cabinet.

I think there is a difference between the commitment to making funding available and the means through which the cash is appropriated or obtained. I think you get into different permutations, so I would be speculating on how the future discussions would go.

Hon. Pierre Poilievre: Right.

I'm just trying to ascertain what would be in place to stop an overrun, for example, or to prevent an excess amount going to a project like this. It's not a normal, for example, infrastructure project for which a municipality would submit an invoice and the federal government would fulfill that invoice up to a set limit. It is an amount that flows through EDC to yet another body, so I'm just wondering what disciplines are in place to prevent cost overruns.

• (1635)

Ms. Evelyn Dancey: The entity does not have the ability to simply flow its costs through for payment by the government.

Hon. Pierre Poilievre: Right.

Ms. Evelyn Dancey: I mentioned, for example, that the corporate plans must be approved, and I probably didn't say that they go through a process that involves approval by the Treasury Board. I'm sure you would have seen corporate plan summaries of various entities tabled recently in Parliament as well, but they tend to include the planned activities and the cash requirements for an upcoming year. But in behind that there is diligence by whichever is the lead department—in this case the lead department is the Department of Finance—as well as the diligence of the other central agencies on those corporate plans.

In terms of a planning document, there is oversight in that way.

It sounds as though you may have an interest in the Canada Account. Within the legislation there is a limitation. There is an upper threshold on that as well. That's not an area that I am responsible for, so I don't have the background on that, but we could follow up if you're interested in that instrument.

The Chair: We have time for a very quick one.

Mr. Poilievre, you can have a quick one.

Hon. Pierre Poilievre: All right.

What estimates do we have for the final construction cost of the Trans Mountain pipeline at this point?

Ms. Evelyn Dancey: The estimate that has been released publicly by the board is quite old at this point. It's the \$7.4 billion that I'm sure you have seen.

Hon. Pierre Poilievre: Right. So, we're still operating on that old number. That was the number I remember hearing at the outset. Do you have any idea of whether that number's going to change?

Ms. Evelyn Dancey: Projects of this nature that have encountered significant uncertainties and delays on an already very large infrastructure project.... My experience in seeing infrastructure projects is that costs tend to go up over time. I wouldn't be surprised if that's the direction, based on the delays and so on. However, we really do stand ready to receive the views of the board of directors of Trans Mountain Corporation with respect to what its more detailed costing suggests is necessary for the project.

Hon. Pierre Poilievre: Thanks.

The Chair: Thank you.

We'll go now to Mr. Fraser for five minutes. We don't have anybody else on the list after Mr. Fraser, so if others want in, we can go.... The department has agreed to be here until 5:30. We don't have to go that long because we have three hours tonight, and we

should probably take a break and have a bite to eat sometime between 5:15 and 5:30.

So, first we'll have Mr. Fraser, and then we can have a show of hands for who wants to go next.

Mr. Sean Fraser (Central Nova, Lib.): Excellent.

Thanks very much to each of you for being here. I think, given the nature of the exercise we're undertaking—a pre-budget consultation—it might help to frame the notion of where we stand in terms of our fiscal position right now. There were a few comments at the outset of the meeting around our debt-to-GDP ratio.

Do you mind sharing on the record what our debt-to-GDP ratio actually is, as of the most recent date you have the data for?

Mr. Nicholas Leswick: As published last December, our federal debt-to-GDP ratio is 30.9%. I guess that was our forecasted debt-to-GDP ratio for the conclusion of this 2019-20 fiscal year.

Mr. Sean Fraser: How does that compare with it in 2015?

Mr. Nicholas Leswick: I don't know the number off the top of my head.

Mr. Sean Fraser: Do you have a rough sense of where it was a few years ago?

Mr. Nicholas Leswick: I pride myself on being a numbers guy, so I don't want to throw out a number if I don't know it.

Mr. Sean Fraser: No, it's fine. We can dig it out.

What I'm getting at is that one of the bullet points in the minister's mandate letter was to preserve fiscal firepower in the event of a downturn and continue to make investments that are essentially going to help people. It was phrased, perhaps, more eloquently than that.

In your view, given that we have a AAA credit rating—I think that within the G7, only Germany shares that status—do we have room today to respond should a downturn come on the radar in the near term?

Mr. Nicholas Leswick: Yes, we work with credit rating agencies to review our debt dynamics. We don't just talk about our own debt dynamics, but the debt loads that provincial governments are facing. I think everyone around the room knows that provinces are the most likely to face acute pressures over the coming generation with the costs of an aging population and those pressures. I think that it should be stated that our debt loads are pretty good compared to other advanced economies. We have a significantly lower debt-to-GDP ratio than other comparators in the G7, so that bodes well. Likewise, we have well-funded social security schemes, like the CPP and the QPP.

Looking forward to the next recession.... That is a tough one to call. Every recession is different, with its own character and in terms of when and where those pressures and impacts will be most felt. I guess the next recession is going to be a lot different from the last one. We'll have a lot less monetary policy room—

• (1640)

Mr. Sean Fraser: None of the economists advising the minister today are projecting that we're going to be there in the near future, though. Is that correct?

Mr. Nicholas Leswick: No, there are no recession doomsayers out there right now. As things go, it's very cyclical, depending on what's going on that day or week and on what the yield curve or labour market report is telling us, so we're always prepared for what could be an economic shock on the horizon.

Mr. Sean Fraser: You mentioned the CPP. Another item in the minister's mandate letter that I'll pick up is the completion of the enhancement of the CPP. Can you tell us where that initiative is at as of today?

Ms. Suzy McDonald: In the mandate letter, there are two separate things on the CPP. I think you're asking about the enhancement itself?

Mr. Sean Fraser: Yes, as opposed to the survivor benefits.

Ms. Suzy McDonald: The enhancement is well under way. Those payments have started to be made. Both of those contributions have started to be made, and there's a phased-in approach to it, as I'm sure you're well aware. There were some additional regulatory pieces that needed to happen in order to ensure the long-term sustainability of the CPP regulations moving forward, and we continue to work with provinces and territories to make sure that we're able to bring those particular pieces into force. The enhancement has begun and is rolling forward.

Mr. Sean Fraser: Has anyone quantified the risk in economic terms of where we would have been had the CPP enhancement not been put in place?

Ms. Suzy McDonald: The risk to...?

Mr. Sean Fraser: You mentioned our ability to respond to a potential downturn by having social safety nets in place. That's what triggered the question.

Ms. Suzy McDonald: I think the thought behind the CPP enhancement was that we really needed to change the way we did the CPP program moving forward, ensuring that we're not using a pay-as-you-go program anymore and that we have a fully funded model that ensures that Canadians will have more money in their pockets as they move forward.

Mr. Sean Fraser: In the 20 seconds I have left, I would love to squeeze in one more question.

Ms. Suzy McDonald: Sure. I'll stop there.

The Chair: Go ahead.

Mr. Sean Fraser: One witness mentioned that with the accelerated capital cost allowance changes that were made in 2018, we have a marginal tax advantage of a few percentage points over the United States. With the mandate letter commitment of a 50% cut for zero-emissions technologies, I'm curious to know where we think that would position Canada in the global marketplace in terms

of anyone trying to get into the business of manufacturing zero-emissions technology.

Mr. Andrew Marsland: I'm not sure I have a numerical answer. Clearly, as I mentioned earlier, we're working on the issues laid out in the minister's mandate letter and analyzing them. Whenever you change the tax parameters, you affect the marginal effective tax rates. Logic would tell you that if you were reducing the statutory rate, then that would go further down. As to just how much, I don't have that, but of course it would have a positive impact.

Mr. Sean Fraser: We don't have a comparator relative to other manufacturing countries that may be—

Mr. Andrew Marsland: Clearly, as we work through the approach, we will look at other countries that are in that business. Countries like Sweden and others are leaders in that industry. I think that's one area we'll analyze as we work through the proposal.

Mr. Sean Fraser: Okay. I'm significantly past my time.

Thank you.

The Chair: Thank you to all.

We will go to Mr. Cumming first, then to Ms. Dzerowicz, Mr. Ste-Marie, Mr. Julian and Mr. Fragiskatos.

Mr. Cumming, you have five minutes.

Mr. James Cumming: Thank you.

Mr. Leswick, you suggested that we're in relatively good shape by the percentage of GDP and overall debt levels. Those anchors have always been important, whether it be retiring debt or following some kind of metric. Has the department studied, or are you concerned with, the rising debt levels not just within the federal government but outside it, Canada-wide, particularly the provinces and municipalities? The federal government has a role with infrastructure programs. There are always matching funds. What kind of shape are we in as a country when it comes to rising debt levels?

• (1645)

Mr. Nicholas Leswick: From a public sector perspective, I think indeed we are concerned about rising debt levels in the provinces. They have exceeded their previous historical peaks. That is in the context of facing, as I said, acute pressures in their social and health systems over the next generation. For sure there is some concern there. We encourage provinces to continue on their fiscal consolidation tracks to make sure those debt levels don't accelerate.

I think you also suggested overall economy-wide debt, the household sector and the corporate sector.

Mr. James Cumming: Correct.

Mr. Nicholas Leswick: I wouldn't say there are any alarm bells, although it is a key risk to the economy, especially in the household sector. It's more, I think, from the perspective of, yes, household vulnerabilities, but our ability to smooth consumption in the face of what could be the next economic shock. Obviously, households have more debt. They're probably a little bit more interest rate sensitive and less willing to take on debt. An instrument like the Bank of Canada's policy rate is probably a little bit less effective when you look forward to what could be the next economic shock.

Likewise from the corporate sector, we have a non-financial corporate sector and a financial corporate sector that are increasingly indebted. I don't know that there's necessarily the optimal steady-state level of debt. It seems that it's being redefined every year as we go forward in the global economy. That said, these corporations are also very interest rate sensitive. We're very mindful, in any sort of backup in rates or some sort of increase in the corporate debt spread, of our ability, Canadian corporations' ability, to take on more debt or to smooth out their consumption and investment patterns. It's something we're mindful of, and it's always on our roster of risks, but we try to manage those in balance.

The Chair: Mr. Morantz, do you want to take the rest of the time?

Go ahead.

Mr. Marty Morantz: I want to ask a couple of other questions.

Getting back to the basic personal amount, I'm looking at the Parliamentary Budget Officer's report, which gives a breakdown. You've seen this report, I presume.

Mr. Andrew Marsland: Yes.

Mr. Marty Morantz: On page 3, it gives a breakdown of what the benefit will be to individual taxpayers in 2023. In the range of \$0 to \$15,000, it says \$1, and with \$227,000 and above, it's \$11. The report says that "21.0 million individuals will pay less federal income tax as a result of this policy change."

Out of curiosity—and if you don't have this number here, you could get it to me—how many million Canadians will receive a tax break of between \$1 and \$11 by 2023?

Mr. Andrew Marsland: Well, you anticipated that I wouldn't have that, but I can see if we can find that.

Mr. Marty Morantz: That's assuming these numbers are right. Your numbers might differ, because this isn't your report card.

Mr. Andrew Marsland: To give a bit of context, the design of this is that it essentially increases the tax threshold. Now the tax threshold is noted at \$15,000. That is the basic personal amount.

However, in reality, the non-tax threshold for many taxpayers—in fact I would say most taxpayers—is higher than that. For example, there's an employment credit, which I think adds \$1,200 to \$1,300 onto that. If you have pension income, you get another \$2,000, which is essentially a non-refundable credit. If you're over 65, you may well get an age credit. There are those thresholds.

With regard to the increase in that basic personal amount, given that many people in the \$15,000 to \$51,000 range are non-taxable anyway, they would go below the threshold and get the benefit—

Mr. Marty Morantz: Sure. Would it be possible to get some sort of analysis of that as it relates to my question?

Mr. Andrew Marsland: I can see what we can do, yes.

Mr. Marty Morantz: In the PBO report, it also says what the average change in federal income taxes will be by family type in 2023. With the first category, "Individual's Net Income", it just gives the number in 2023.

I'm wondering if your department has the numbers, starting with 2018, as to what the tax benefit will be, for example, in the first year, second year, third year and fourth year.

If you have that data, I would like to receive that as well.

• (1650)

Mr. Andrew Marsland: I can certainly look into that.

Mr. Marty Morantz: Okay, that would be great.

Getting back to the TMX, for my own clarification—others may know this already—with regard to the \$7.4 billion, is that incremental to the acquisition cost?

The Chair: Ms. Dancey, go ahead.

Ms. Evelyn Dancey: The \$7.4 billion was to cover the portion of construction that had already taken place.

Mr. Marty Morantz: So that's incremental to the acquisition price.

Ms. Evelyn Dancey: No, the—

Mr. Marty Morantz: It's in addition to the cost of acquisition.

Ms. Evelyn Dancey: Yes.

Mr. Marty Morantz: Just one more quick—

The Chair: To make sure we're clear on that, the cost of acquisition was \$4.5 billion, and you're saying there's another \$7 billion on top of that?

Ms. Evelyn Dancey: The \$7.4 billion is the construction cost.

The Chair: Okay.

Mr. Marty Morantz: Thank you for that clarification.

Mr. Leswick, I have one quick question.

The Chair: We're considerably over time, but we're kind today.

Mr. Marty Morantz: Mr. Leswick, I want to circle back to something you said earlier when one of the members opposite was asking about the potential for a recession.

You didn't have a chance to finish your thought, but you uttered the words, "We'll have a lot less monetary policy room". I'm wondering if you could elaborate on what you meant by that.

Mr. Nicholas Leswick: In entering the last recession, the great recession in 2009, the Bank of Canada was operating at a monetary policy rate of I think 4.75%. I mean, they had a lot of room between 4.75% and, let's just call it the lower bound at that time, of 0%. They had a lot of monetary policy room to ease rates—to provide monetary policy easing into the economy.

However, that was then and this is now. Our policy rate now is 1.75%. It gives you a sense that if the recession were to happen tomorrow, which I'm not predicting it is, the Bank of Canada would only have so much space to provide monetary policy stimulus. When you think of what the tool kit is, then there would be more burden of stimulus falling on other parts of the tool kit: provincial governments, federal governments and macroprudential....

The Chair: Thank you. That was a good point.

Do you have a supplementary question?

Mr. Marty Morantz: I just want to paraphrase this in more laymen's terms. In other words, if we had another recession, the government would have fewer tools at its disposal, given current monetary policy, than it had in the last great recession.

Mr. Nicholas Leswick: Yes, and I just want to say this isn't a Canada-specific thing. This is a global phenomenon where central banks have been easing through conventional and unconventional monetary policy for the last 10 years, so every central bank has a whole different starting point than it had 10 years ago. There is a global conversation amongst smart economists about how this recession is going to have a different character because it's likely that more of the burden will fall on other tools.

Mr. Marty Morantz: Thank you very much.

The Chair: Okay, thank you all.

I'll go to Ms. Dzerowicz, then back to Mr. Ste-Marie.

Ms. Julie Dzerowicz: Thanks for your patience today in answering all our questions.

We have been talking quite a bit about the state of our economy, today and moving forward.

I want to talk a little bit about our competitive climate, since it has come up a little bit. Can you talk a little bit about the investment climate in Canada today for foreign direct investment, and then business investment in general? Could you just tell me the state of both of those?

Mr. Nicholas Leswick: It is kind of a longer story line. You just look at investment levels and the Canadian economy, let's say in the early 2010s when oil prices were riding near \$100 a barrel and there were a lot of capital inflows into the Canadian economy really concentrated in the energy sector. Then suddenly there is a global energy price shock and there was a huge deceleration in energy sector investment, so you're coming off some pretty steep highs there in the early 2010s to a point where there was a massive contraction.

Over the last four or five years or so, it has been a real game to recover those lost investment flows, and it's been very challenging. In the energy sector any people you would invite to this committee who would have a commentary about what's going on in western Canada would suggest that it's been very difficult to regain those lost flows and just get back to level.

In the non-energy sector, there has been a little bit more encouraging momentum—outside the energy sector, in particular in services-based economies, service companies in Canada investing in high tech and in productivity-enhancing machinery and equipment, and then the factory sector, also where we've seen encouraging signs of growth over the last couple of years and in the last couple of quarters.

That said, it hasn't been off-the-charts record growth either, so anything governments can do—and this government has put in place incentives like it put last fall to accelerate capital writeoffs—to encourage business investment, encourage foreign direct inflows, is hugely important.

That's our advice to the government. That's where the government's policy approach is.

• (1655)

Ms. Julie Dzerowicz: Okay. First, thank you very much for the excellent context and reminder about that. It is important and also helpful to know that we've put a number of measures in place that have been helpful.

Right now running through the House of Commons is the updated CUSMA, as we call it, or as I call it, NAFTA 2.0. I know that we have signed a number of trade agreements in addition to what's going through the House right now.

What's the importance of those agreements to our competitiveness?

Mr. Nicholas Leswick: Hugely important is access to these growing, large global marketplaces. That is huge for our Canadian exporters across the board: again the energy sector, non-energy sector and our service sectors.

Again, previous governments and this government have made important investments in things that would support Canadian companies getting access or actually installing in these foreign markets and exporting to these foreign markets through enhancements to the Trade Commissioner Service and concierge services through organizations like Export Development Canada.

Anything we can do to help Canadian companies grow, and to grow their businesses outside of Canada, is good for Canada.

Ms. Julie Dzerowicz: Just remind me. I think we've opened up about 55 or 57 new—I'm trying to remember—offices around the world. I've forgotten what they are formally called.

Mr. Nicholas Leswick: I can invite my colleague to give you a whole commentary on things we've done to support export development. I don't know the number there, but yes, our investments in our Trade Commissioner Service—

Ms. Julie Dzerowicz: Trade commissioner: that's it.

Mr. Nicholas Leswick: —and missions and embassies around the world have been bolstered over the last couple of years. There are more boots on the ground selling Canadian companies into these foreign markets.

Ms. Julie Dzerowicz: Thank you. That's helpful.

Thank you.

The Chair: Mr. Ste-Marie, then Mr. Julian.

[Translation]

Mr. Gabriel Ste-Marie: Thank you.

I'd like to come back to the minister's mandate letter, in which he is called upon to "complete implementation of the new financial consumer protection framework."

Is the implementation of that new framework within your department's purview?

Mr. Soren Halverson (Associate Assistant Deputy Minister, Financial Sector Policy Branch, Department of Finance): Yes, it's part of our department's mandate, but it's also done in coordination with other federal agencies, including the Financial Consumer Agency of Canada.

Mr. Gabriel Ste-Marie: Thank you.

Could you please confirm whether the implementation of the new consumer protection framework for banking will alter or affect the application of Quebec's Consumer Protection Act as it relates to banking? After all, Quebec has a civil law tradition, and the Civil Code governs banking.

Does that factor in to the department's work on this issue?

[English]

Mr. Soren Halverson: If I may—I apologize for responding to you in English—the interests of provincial partners are very much fundamental to moving through an exercise like this. I think the issue you raise will be top of mind in the way those are developed.

• (1700)

[Translation]

Mr. Gabriel Ste-Marie: That's quite reassuring, so thank you very much.

I'm going to switch topics now. The government proposed using employment insurance, or EI, benefits as payment during periods of illness. Has the department costed out that measure?

If so, is the current premium rate sufficient, in the department's view? If not, where does the premium rate need to be?

Ms. Suzy McDonald: The program is administered in conjunction with our colleagues at Employment and Social Development Canada.

I gather that you'd like to know whether we've calculated the increase in the premium rate. Those calculations are part of our budget discussions. We are reviewing the data with our colleagues now, but they are the ones with the mandate to implement that measure.

Mr. Gabriel Ste-Marie: All right. Thank you.

[English]

The Chair: Do you have a very quick question, Gabriel?

Mr. Gabriel Ste-Marie: No.

The Chair: Mr. Julian.

[Translation]

Mr. Gabriel Ste-Marie: No, Mr. Chair.

[English]

The Chair: Mr. Julian.

Mr. Peter Julian: Thank you.

I appreciate your answering these questions. I want to come back to TMX, and not just because taxpayers are currently subsidizing it. After interest charges, as we're all well aware, it's losing about \$150 million a year. There's some real concern about putting more and more money into this.

I appreciated the comments around the EDC Canada Account. Just going on the disclosure form on the EDC website, they say that the Canada Account is for projects where "the risks are assumed by the Federal government". We are talking about taxpayers' money here. Looking through the Canada Account, on the EDC website they do have a disclosure of 30 projects. It's about \$7.5 billion this century. If we look at the size and scope of the cost overruns for Trans Mountain, most construction estimates vary now between \$15 billion and \$17 billion, much higher than the initial cost of about \$7.5 billion. That eclipses in scope all of the Canada Account expenditures this century. That would be twice as much.

In terms of process, we finally get an updated construction cost. That means, say, \$17 billion. It appears that cabinet has the ability, unless I'm wrong, to make that call and approve, through the Canada Account, risks assumed by the federal government of that \$17 billion. Then, of course, we have the risk that the updated construction cost allows every single shipper, as economist Robyn Allan has pointed out, to pull out of the deal. It seems to be a bit of a house of cards.

I guess I'm wondering, first off, if our reading is correct that cabinet basically can make that decision even though it dwarfs all of the other expenditures around the Canada Account, at least this century. Is it entirely up to cabinet? What is the system of checks and balances around that? This is particularly in light of the impact on shippers' contracts and the fact that we could well end up with massive costs, with shippers pulling out for a variety of reasons, including the fact that they can legally do so once that updated construction cost is published.

Ms. Evelyn Dancey: I guess there are a few things that I feel I can follow up on in terms of information points, but I think a lot of what you're hypothesizing is in the realm of conjecture, and I'm not going to be able to comment on it. A \$17-billion figure isn't something that—

Mr. Peter Julian: I understand. Yes. Those are for construction professionals.

Ms. Evelyn Dancey: That has not come to my attention. That's a number you've said, but that's not a number that has come to my attention.

First and foremost, this is a project that is being undertaken from a commercial mindset, and the Crown corporation responsible would have in mind its ability to profitably move product through the pipeline, so the concerns of shippers would be in the minds of the corporation and its board of directors. There's not more I can add on that as a finance official.

There is a kind of system of oversight around the use of the Canada Account that I think we undertake to provide to you in terms of what the decision-making points are around it so you understand the accountability for the use of that instrument of government.

It's certainly not the case that the spending by a Crown corporation would be an act; I've noted that there are corporate plans and there is Treasury Board approval of capital budgets, which are the investment budgets of Crown corporations. Obtaining a source of cash for the project is another decision point. The figure you mentioned isn't one I have anything to comment on in terms of process. There's a lot of process in behind both the authorization of the entity to pursue the commercial objectives as well as the government's process for obtaining cash to pay for construction costs.

• (1705)

Mr. Peter Julian: Who else would be involved in the approval process?

The Chair: What was your quick one there, Peter? Who else...?

Mr. Peter Julian: Yes. Who else? Just reading from the disclosure form it appears that it's cabinet, the ministers, but who else is involved, then, in the approval process?

Ms. Evelyn Dancey: If you have the information on the website, that's what we could follow up with as well as the decision, the points of accountability around the use of the Canada Account. I think you do have that already, but I would have followed up and provided that information.

The Chair: We have Mr. Fragiskatos for the last question for five minutes.

Mr. Peter Fragiskatos (London North Centre, Lib.): Thank you, Mr. Chair, and thank you to officials for being here today.

Mr. Marsland, on the number of Canadians who won't pay any tax because of changes to be made on the basic personal amount, can we have that number?

Mr. Andrew Marsland: Yes. I believe it's 1.1 million.

Mr. Peter Fragiskatos: I'm sorry?

Mr. Andrew Marsland: It's 1.1 million.

Mr. Peter Fragiskatos: It's 1.1 million. Okay.

I also wanted to ask about deficits. I often hear from some members who may or may not be across the way that we are in a very troubling financial situation and that deficits are out of control.

Could you compare the current fiscal reality? I know you've talked about debt-to-GDP levels. I know you've compared it with other countries. Could you talk about where we are in relation to,

say, the 1980s or the early 1990s? I guess that is probably more suited to Mr. Leswick.

Mr. Nicholas Leswick: I won't give you a long-drawn-out response, but deficits as a share of the economy are smaller now than they were, probably, during that period.

Mr. Peter Fragiskatos: Do you have a figure that you could provide in terms of debt-to-GDP ratios?

Mr. Nicholas Leswick: I'm sorry. I don't have my trusty fiscal reference tables.

Mr. Peter Fragiskatos: Could you table that with the committee at your convenience?

Mr. Nicholas Leswick: Yes, no problem.

Mr. Peter Fragiskatos: But you are saying that it's much better today than yesteryear, right?

Mr. Nicholas Leswick: Yes. That's my opinion.

Mr. Peter Fragiskatos: Okay.

I have a final question for you because I sense hunger around the table.

We talk about ripple effects of particular policies and programs. Do you have any information on the economic benefits of the Canada child benefit and what it has done for families, and how it has boosted the economy in particular? Can you provide us with any of that information? That's as a sort of stimulus to the economy, if you like.

Mr. Nicholas Leswick: From the perspective of a stimulus to the economy, I think this was a measure that was valued once mature. We're talking about the first round of the CCB and the CCB enhancement being, I think, in the range of \$6 billion a year, Andrew...?

Mr. Andrew Marsland: Somewhere in there.

Mr. Nicholas Leswick: It was in the range of \$6 billion a year. If you put that in context of a \$2.3-trillion economy, it did provide a boost to growth in early 2016—like a fiscal impulse in 2016 and 2017. It was well timed. The economy was weak coming off a hangover from the global oil price shock, so just in that context, it was well timed. I think other people—the Bank of Canada and other economists who analyze the Canadian economy—would say the same thing.

I guess more broadly from a structural perspective, it is supporting Canadian families. I don't know if I can hand this off to Nicholas just in terms of the kind of income boost it has provided to Canadian families.

Mr. Peter Fragiskatos: It's like a poverty. There were close to a million Canadians lifted out of poverty, according to Statistics Canada, because of the Canada child benefit. Obviously, when people are not living in poverty, it's good for the economy, but there are very good social effects, for example the savings in our health system. A number of economists have said that if we really want to tackle issues in our health care system, some of the financial challenges that we have, then let's make sure we're doing everything we can to address poverty issues.

A program like the Canada child benefit, by lifting people out of poverty to the extent that it has, has a huge impact in so many different areas. Is that a fair statement?

• (1710)

Mr. Andrew Marsland: Yes.

Mr. Peter Fragiskatos: Mr. Chair, I'm through with my questions, but if my colleagues would indulge me for a moment, and with the unanimous consent of the committee, I want to put forward the following motions.

Number one, I move that, in addition to the members, the staff of MPs be permitted to eat the food present in the committee room.

I would ask that we support that, if we don't we'll start a revolt, a justifiable revolt.

The Chair: Before we get to that motion, I'll let the Finance officials go.

Thank you very much to all of you, those who came to the table and all who came prepared to answer questions. Thank you very much for appearing before the committee.

I believe there are about three items that you have to get back to us on in greater or lesser detail, I'm not sure. If you can take a stab at those questions that were asked and get back to us, that would be great. You can send them to the clerk.

On Mr. Fragiskatos's motion, which is related to food, this committee is a little different from others. We sometimes meet late in the evening, and we all have staff here. We need that motion if staff are going to be able to eat in this room as well.

Is there any discussion on it?

(Motion agreed to [*See Minutes of Proceedings*])

Mr. Peter Fragiskatos: With regard to the second motion, Mr. Chair, I move:

That, notwithstanding the Committee's routine motion on the distribution of documents adopted on Wednesday, January 29, 2020, and the usual practice of committees concerning access to electronic documents, Francesco Sorbara, M.P., and Parliamentary Secretary to the Minister of National Revenue, be added to the Committee's distribution list and be granted access to the Committee's digital binder site for the remainder of the parliamentary session.

The Chair: We've done that previously, as well. We had a couple of CPC members who needed documents and often attended the committee.

Mr. Julian.

Mr. Peter Julian: I have no problem with that.

I believe we've had a history of being very flexible on that. There may be people who will be regularly spelling off other members on the committee. If we can have a general agreement that people who are regular participants at the finance committee have access to the documents, I have no problem supporting the motion.

The Chair: I believe Pierre-Luc Dusseault had access the last time as well.

Are we agreed on that?

(Motion agreed to)

The Chair: We shall suspend until 5:30.

• (1710)

(Pause)

• (1730)

The Chair: We will reconvene. As people know, we are continuing on the study of pre-budget consultations for 2020.

First of all, I want to welcome everyone here—and Mr. Brunnen by video conference. I know that everyone received very short notice, so a heartfelt thanks to all of you for preparing your submissions. That goes for those who prepared pre-budget submissions that were in by the middle of August and those who have come forward tonight as witnesses.

We will have everyone present first. Then we will go to questions from members.

I guess we'll start with you, Mr. Brunnen, via video conference from Calgary, Alberta, for the Canadian Association of Petroleum Producers. Please try to hold it to five minutes. The floor is yours.

• (1735)

Mr. Ben Brunnen (Vice-President, Oil Sands, Fiscal and Economic Policy, Canadian Association of Petroleum Producers): Thank you, Mr. Chair and members of the committee.

Thank you for hosting me here today. I represent the Canadian Association of Petroleum Producers, which represents the upstream oil and gas industry in Canada.

A strong oil and gas sector can help government achieve its priorities of growing the middle class, reducing our carbon footprint and expanding our collective prosperity. Canada ranks at the top of major oil-producing countries in terms of control of corruption, rule of law, government effectiveness, environmental protection and social progress. With global energy demand expected to increase, along with an increased focus on GHG emissions reduction, Canada is uniquely positioned as the global hydrocarbon supplier of choice. Through our technology investments, oil sands emissions intensity has decreased by 20% and is now on par with the global average crude blend. On the conventional side, we are committed to reducing methane emissions by 45%. Our regulations are more stringent than those of most other jurisdictions, including in the U.S.

Continued technology investments have the potential to achieve substantial additional reductions. However, in order to achieve this vision, government and industry need to work collaboratively. Despite a positive uptick in investment for 2020 for our industry, we continue to struggle to attract capital. Total equity raised in 2018 was about \$650 million, down 94% over the past five years, which was the lowest level on record in 27 years. This has led to lower investment and fewer jobs. In fact, Alberta has 50,000 fewer jobs than it should have, had job creation kept pace with demographics, since the recession. Our total capital investment is about a third of what it was in 2014. Conversely, U.S. oil producers raised \$19.4 billion from debt and equity markets in 2018. This severe reduction in our access to capital comes as the industry continues to be a leader in cost reduction and ESG performance.

We see an opportunity for the government to work collaboratively with the oil and gas sector and position Canada to be the global barrel of choice. This concept was echoed by the federal expert panel on sustainable finance, who recognized, and I quote:

Canada's oil and...gas companies are competing against major sovereign producers...that face little pressure for transparency or risk of divestment.... Divestment from these public companies essentially transfers market share from the minority producers most obliged to act responsibly and transparently, to monopoly producers without similar obligations.

The panel further indicated that “[a]chieving Canada's sustainable growth potential will require a sea change in the interaction between innovation, policy and regulation...and investment patterns.”

However, in order to achieve this vision, we need the right fiscal and innovation framework driven by close collaboration between the federal government and industry. Therefore, CAPP recommends that the federal government launch an innovation and industrial strategy table involving industry and the ministries of finance, NRCan, ECCC and innovation and economic development. The table would develop the strategy and coordinate investment in technology that would help achieve substantial emissions reductions and investment growth in our sector.

From a fiscal perspective, we recommend that the Department of Finance affirm that existing oil and gas tax measures are not subsidies, as stated by the Department of Finance in the 2017 Auditor General's report.

Finally, there are several fiscal measures that the government can implement that will increase our competitiveness, including reforms to large corporation tax administration, interest expense deductibility, and access to capital for small and medium enterprises. I would be happy to discuss these further during the Q and A session.

In closing, CAPP believes that Canada's oil and natural gas sector presents a significant opportunity for inclusive growth that provides broad benefits to all.

Thank you for this opportunity to present to you today. I look forward to your questions.

● (1740)

The Chair: Thank you very much, Mr. Brunnen.

We're turning, then, to the City of London, with the Honourable Ed Holder, mayor, and Mr. Thompson, manager of government and external relations.

Welcome, Ed, a former MP who's been around this table a few times—on this side, though.

Hon. Ed Holder (Mayor, City of London): Thank you, Mr. Chair. Yes, it feels a little different, I must admit, to be on this side of the table. It's the first time, and hopefully not the last. I'd like to thank you and members of the Standing Committee on Finance for the opportunity to appear before you today. As you've indicated, I'm joined by Adam Thompson, manager of government and external relations with the City of London.

As the largest urban centre in southwestern Ontario, London provides economic and social opportunities for all 2.5 million residents of our region. We embrace our role by providing the infrastructure, jobs and amenities that people rely on each day. We recognize that we rely on our region's success, much as our region relies on our success.

In advance of the development of budget 2020, I'd like to focus today on the theme of connection. As a mid-sized city, London connects services to people, people to their community, and the community to the world. I'd like to touch on each connection point individually as all parties weigh in on priorities for the year ahead.

First, on connecting services to people, London continues to grapple with a people crisis. Providing safe, affordable housing for our residents remains a systemic challenge. With average rental market vacancy rates in London at 2.1%, and below-market rental units closer to 0%, we continue to struggle to meet the needs of not just Londoners but residents across the region.

At the same time, growing challenges persist in the area of mental health and addictions. In response, the City of London has moved forward with our core area action plan, which outlines nearly 50 initiatives to respond directly to homelessness, health issues, safety and security in our downtown and create a positive environment through attracting people to the core.

Connection forms the heart of our plan. The plan includes the development of 40 resting spaces where individuals can come off the street, shower and have a warm meal; 20 stabilization spaces where individuals can find medical attention and support while in crisis; and 10 supportive housing spaces. We are actively working with the Province of Ontario to secure the necessary investments into medical personnel to provide primary staffing for these spaces.

In addition to providing the direct supports people need, this program will free up essential capacity in our hospitals, providing an estimated \$7.5 million per year in emergency room occupancy savings.

We've all seen the long lineups of ambulances and emergency vehicles at our hospitals, which are required to wait with people experiencing crises until a hand-off to medical staff can occur. By providing an alternative, we aim to free up approximately 5,700 hours of police time and 9,200 hours of EMS time per year, time that could be reinvested into serving our community.

The Government of Canada can help the City of London advance this work immediately. With nearly 30% of our homeless population self-identifying as indigenous, we know there is a desperate need for community-based, culturally appropriate resources. Under the reaching home strategy, targeted funding under the indigenous stream is available to support municipalities and local indigenous service providers. While we do not receive funding out of this sub-stream today, future access would support immediate initiatives to open resting spaces, stabilization spaces and supportive housing spaces in a matter of mere months. We have a plan for a pilot program before the Government of Canada, and I'm hopeful that we can move ahead with this immediately.

As London continues to focus efforts on connecting critical services to people, we are also undertaking bold action to connect people to their community. At my recent state of the city speech, I spoke about our vision of becoming the first major city in Canada to have a zero-emission public transit fleet of buses. We will do this by moving away from diesel to a fully electrified fleet.

In April 2019, London City Council declared a climate emergency. We are taking that pledge seriously, not only by our words but by our deeds. Public transit emissions represent as much as 40% of total emissions where London has direct or indirect influence. Even after electricity costs are factored in, our estimates show that a move towards electrification would represent substantial operational savings each year. These savings will only increase as the cost of fuel rises.

Transforming our public transit system would generate significant savings and provide millions of additional dollars each year, money that could be used to invest further in programs to tackle the needs of our most vulnerable residents. The London Transit Commission will be moving forward with a significant study to explore net-zero public transit options over the coming months.

• (1745)

While this work progresses, we are looking for additional details from the Government of Canada as to how the federal government plans to partner with cities and communities. Budget 2020 provides an excellent opportunity.

Finally, we are focusing on a greater connection of London to domestic and international markets. Within the strategic plan, our vision as a council emphasizes London as a leader in commerce, culture and innovation, our region's connection to the world. I recently met with the leadership of Via Rail, alongside the new president of Western University, Alan Shepard, to explore expanding rail connections across the province and, ultimately, the country.

London operates the fourth-busiest Via Rail station in Canada. Our station operates within Canada's busiest economic corridor, with nearly \$23 billion moving between southwest Ontario and the greater Toronto area each year.

Our residents and businesses, and the economic potential they represent, continue to be held back by a lack of options to move between London and Toronto, as well as London and Windsor/Detroit. Private vehicle and freight traffic on Highway 401 is expected to double over the next decade, heightening safety concerns along this high-frequency corridor. Additionally, increased congestion will continue to cost our economy and impede economic growth if we do not urgently invest in alternative means to move around the entire rail corridor from Windsor to Quebec City.

Our conversation with Via Rail will remain a priority in the coming year. Connecting mid-size communities like London will require federal investments into Via Rail to expand the fleet and the service offerings for our people and our businesses. I look forward to a meaningful discussion with the Government of Canada in the coming months.

I would like to thank you for the invitation to present today. I would like to acknowledge that we have two of the four great members of Parliament from London at the table today. I must say, London has fully embraced our place as a regional hub for southwest Ontario. I look forward to further exploring our focus on connection and providing answers to questions from members of the committee.

Thank you, Mr. Chair.

The Chair: Thank you, Ed.

From the Insurance Bureau of Canada, we welcome Ms. Dreff and Mr. Stewart.

Mr. Craig Stewart (Vice-President, Federal Affairs, Insurance Bureau of Canada): Thank you, Mr. Chair, for the invitation and the opportunity to speak to the standing committee today.

I'm Craig Stewart, vice-president of federal affairs, and I'm joined by Nadja Dreff, our chief economist at Insurance Bureau of Canada or IBC. We are the national trade association representing Canada's private home, car and business insurers.

I'm going to speak to three topics today. The first is protecting Canadians from escalating climate risk, particularly flooding. Second is protecting Canadians from a severe earthquake. Third is the importance of transitioning Canada to a low-carbon, resilient and competitive economy by 2050.

First is climate risk. Flooding is the single greatest climate threat facing Canadians today. Last January, on behalf of the National Advisory Council on Flood Risk, I presented financial options for addressing flood risk to federal, provincial and territorial ministers responsible for emergency management. The national advisory council had been appointed by then minister of public safety Ralph Goodale, after the 2017 floods across eastern Canada. After 18 months of consultations, we delivered a report that detailed a comprehensive solution that would ensure that every Canadian would be financially protected from flooding, irrespective of the risk they face.

In part because of that work, six different cabinet ministers have flooding as part of their mandate letters. Together, they are to deliver a coordinated action plan on flooding. However, for that to happen, some foundational work must be supported through the federal budget.

We can separate Canadian properties into three groupings. Properties in group one are at the highest risk and will flood predictably every 10 to 20 years. Group two, still at high risk, will flood predictably at least once every 100 years. Group three represents everybody else. Flooding for these properties is an unpredictable accident, if you will. This group, which represents about 90% of Canadian properties, can be insured by regular overland flood insurance. However, other solutions are needed for the remaining 10%, those in groups one and two.

Those in group one, which will flood predictably every 10 to 20 years, can be addressed either through home relocation programs, called strategic retreat, or through significant home retrofits that elevate their homes, or possibly through investments in flood defence infrastructure.

Those in group two, those within a 100-year flood interval, should be insured through a public-private partnership, a specialized high-risk insurance pool, which is what happens in many countries, such as the U.S. and the United Kingdom. If these homes are also de-risked through home retrofits or investment in flood defence infrastructure, they could join group three and be eligible for the regular insurance market. Our goal is to reduce the number of Canadians in groups one and two over time.

To meet mandated ministerial commitments, three items should be included within the budget 2020 fiscal framework.

First is dedicated funding to design and cost a high-risk insurance pool and an associated program of strategic retreat. This process should be consultative and include consideration of indigenous and other vulnerable populations. As part of this, funding is needed to align public and private flood risk models. If insurers, banks, re-

altors and governments do not have a common, reliable and accurate flood map, Canadian consumers will not be well served.

Second, funding is needed for a home retrofits program that addresses flood resilience as well as energy efficiency.

Third, funding is needed for targeted flood defence infrastructure through an expanded disaster mitigation and adaptation fund. Infrastructure Canada must have the internal capacity to deliver such funding and should be supporting capacity in smaller communities that lack the expertise to apply for it.

The second topic I will address is Canada's financial resilience to an earthquake. Every developed country at high risk of earthquake has a public-private partnership in place designed to ensure financial stability and protect consumers in the case of a significant event—every country, that is, except two: Italy and Canada.

● (1750)

Canada has two high-risk populated regions: southwestern British Columbia and the Quebec City-Montreal corridor. Finance Canada is currently researching solutions as part of the financial sector framework review, and we are in full support of this work.

Budgetary language reflecting a commitment to finding a solution within a specific period of time would be welcome. Furthermore, IBC recommends that the federal government foster the appropriate financial regulatory environment that allows insurers and re-insurers to be part of the climate and earthquake risk solution. This means ensuring that OSFI regulations do not unduly impose insurance capacity constraints, which could negatively impact insurance affordability for Canadians.

Finally, we wish to wholeheartedly endorse the recommendations of the expert panel on sustainable finance. Ms. Zvan, as a member of that expert panel, is better positioned to speak to these. However, we would like to underline that the fourth recommendation—for a Canadian centre for climate information and analytics—is foundational, in our view, for promoting resilience.

Referring back to flooding, any investments in flood mapping should be linked to the creation of this centre. The private sector will help to pay for this data; governments do not have to complete flood mapping all on their own.

Thank you again, Chair, for the opportunity to present to you today. I'll close by saying that, as climate change could be considered a central theme for the upcoming federal budget, Canada's P and C insurers have a clear message. If adapting to flood is not an explicit part of a climate plan, that plan is not relevant in terms of the single greatest climate threat facing Canadians and their pocketbooks today.

The Chair: Thank you very much.

Turning to the Macdonald-Laurier Institute, we welcome senior fellow Phil Cross.

Mr. Philip Cross (Senior Fellow, Macdonald-Laurier Institute): Thanks for having me back.

I'm the former chief economic analyst at Statistics Canada, so the perspective I bring is one of macroeconomics, the broad trends. I believe there have been two dominant trends in Canada's economy over the past decade, neither of which is discussed enough, if at all. We are stuck in a period of persistent slow growth, while at the same time Canada has seen its debt levels soar. The combination of these two makes Canada vulnerable to a downturn in the turbulent global economy.

Chronic slow growth can be demonstrated in a number of ways. The per capita growth of real GDP, or incomes, over the 2010s was 1%, the lowest since the 1930s. Decadal growth does not lie about the long-term trend of growth. It cannot be dismissed as a misfortune from transitory events. Even more remarkably, slow growth in the 2010s was not dampened by even one recession. Instead, it reflects subpar income gains persisting year after year.

Another thing to highlight with regard to how weak growth has been is this: After the economy peaked in 2008, growth over the next 11 years was no better than in the 1930s after its peak in 1929. Rather than the boom-and-bust cycle of the 1930s, we have had persistently slow growth since the 2009 recession, leaving cumulative GDP growth exactly the same as in the decade after 1929. Slow growth is not as spectacular as the 1930s depression, but its long-term effects are just as insidious and corrosive. This is particularly true of the misguided focus on income distribution. The income of average Canadians has stagnated because of slow overall growth, not because the fruits of that growth are growing disproportionately to those of upper income.

Even as income growth has slowed to a crawl, Canada has racked up one of the world's largest debt burdens. According to the Bank for International Settlements, Canada's debt-to-GDP ratio stood at 306 in 2019, up one third from 2008. This compares with an average increase of 13.8% in advanced market economies.

The BIS alone among international organizations warned of the perils of excessive debt growth and trade imbalances leading up to the great financial crisis. Since then, the BIS has repeatedly warned about the negative consequences for long-term growth from relying on monetary and fiscal demand stimulus while ignoring structural reforms that enhance productivity.

Most recently, the BIS has explicitly warned about Canada's debt, stating that when it comes to "aggregate credit...vulnerabilities...Canada, China and Hong Kong SAR stand out, with both the credit-to-GDP gap and the [debt service ratio] flashing red." In as-

sessing credit conditions, it found Canada at risk for all four categories. No other country was found at risk for all four indicators.

Canada's high level of borrowing reflects how all sectors have gorged themselves on debt since interest rates were cut to historically low levels during and after the 2008-09 recession. Each of the three sectors of domestic demand—that is, households, corporations and governments—has raised its debt load to about 100% of GDP. Canadian households led the borrowing binge with household debt rising to 100% of Canada's GDP. This is the highest of any nation outside of Denmark, and nearly twice the G20 average of 60%.

Non-financial corporations in Canada have borrowed the equivalent of 119% of GDP, more than any other major industrial nation. Borrowing by Canada's government stood at 85% of GDP, not far behind the 98% in the European area and 99% in the United States, both of which had to spend liberally to bail out their banks during the great financial crisis. Government borrowing in Canada is more skewed to the provinces, because our federation is the most decentralized and because provinces are especially vulnerable to slumps in key export markets and are unwilling to adjust their spending accordingly.

The combination of weak income growth and high debt levels leaves Canada in a very precarious position if either interest rates rise or global growth slows significantly. The lesson that we should have learned from the 2008 financial crisis in the U.S.—2010 in the EU—is that debt very quickly can become unbearable when the economy slumps. Downturns usually necessitate extensive government intervention, at which point a seemingly benign government fiscal position suddenly becomes acute.

How did Canada's economy become so vulnerable, and why is there so little discussion of the risk of slow income growth and high debt? Much of the problem is that orthodox economic thinking has a stranglehold on macroeconomic policy-making and research in most nations, including Canada. Every temporary slowdown elicits calls for more monetary and fiscal stimulus to demand, with no recognition of the price they exact from potential growth over the long term.

• (1755)

Worse, the guardians of economic orthodoxy apparently resist self-examination or external criticism, even from leading economists such as Larry Summers, William White and the BIS.

While most economists are reluctant to acknowledge a threat from excessive reliance on short-term demand, stimulus and high debt levels, many ordinary people sense the precariousness of the current state of the economy. This is why so many Canadians feel anxious about the state of the middle class and their own finances. While the unemployment rate is low, as older members of the labour force retire, Canadians experience daily the difficulty of servicing their debts, generating higher incomes, and the struggles of their children entering the labour market. It is time to reject the continuation of policies that have obviously failed to generate growth over the long term, and instead prioritize the creation of income over its distribution.

Thank you. I look forward to your questions.

• (1800)

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

Turning to Les Producteurs de lait du Québec, we have the director general, Mr. Bourbeau, and Mr. Letendre.

[*Translation*]

Mr. Bruno Letendre (Chair, Les Producteurs de lait du Québec): Thank you, Mr. Chair, for inviting us to appear before the committee.

I'm going to turn the floor over to our general manager, who will be giving the presentation.

Mr. Alain Bourbeau (Director General, Les Producteurs de lait du Québec): Good afternoon.

We are here today on behalf of the Producteurs de lait du Québec, but the issues we'll be discussing affect all of the country's dairy farmers.

Although dairy producers make up a small part of the population, their contribution to Canada's economy is substantial. They operate more than 10,300 small businesses across the country, and dairy production is often one of the main sectors driving regional economies. Those 10,300 businesses account for nearly \$20 billion of gross domestic product, not to mention \$3.8 billion in tax revenue for cities, provinces and the federal government. What's more, our businesses generate 220,000 direct, indirect and induced jobs. All that to say, our sector makes a tremendous contribution to Canada's economy.

We are here today mainly to make you aware of the issues and impacts related to the trade agreements signed by Canada in recent years. There are two parts to my presentation. First, I'll touch on the agreements and their major impacts. Then, I'll summarize our top requests.

Two agreements came into force in recent months. To begin with, the Canada–European Union Comprehensive Economic and Trade Agreement, known as CETA, was signed in 2013 and came into force in 2017. Under the agreement, access to 1.4% of Canada's market was conceded. That's the first chunk of the market

that was conceded in an effort to conclude an agreement. The second agreement I want to mention is the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, known as the CPTPP. Under that agreement, an additional 3.1% of Canada's market was conceded.

We recognize that trade agreements play an important role in the country's economic prosperity, so we are not calling into question the fact that Canada has signed such agreements. However, as all the analysts have pointed out, in order for Canada to sign those deals, the dairy sector had to pay a heavy price. We were used as a bargaining chip so the country could benefit from the deals.

Thankfully, in the last few months of 2019, the federal government announced a \$2-billion compensation program for concessions in the two agreements. Although that may seem like a lot, it represents only a portion of the financial losses producers will suffer permanently for the concessions made. Keep in mind that, under Canada's dairy policy, farmers committed to producing the quantity of dairy products needed to meet the population's needs, and to do that, they made an investment, a long-term investment. Clearly, then, the concessions are having repercussions on them.

I'd like to highlight some key elements in one last agreement, the Canada–United States–Mexico Agreement, known as CUSMA. In fact, legislation to implement the agreement was recently introduced in the House of Commons. With this agreement comes an additional 3.9% in market access that was conceded. That's on top of market concessions under the other two agreements. I can speak to the various facets at greater length when we get into questions, but this agreement has something the other two don't. In addition to granting the signatories market access, Canada agreed to impose a cap on skim milk powder exports by Canadian companies. The cap will have financial implications that weren't factored into the estimated losses related to the tariff concessions. The measure, which requires Canada to pay a surcharge when skim milk powder exports exceed 35,000 tonnes in the second year, will result in losses of \$15 million to \$20 million in the first year, and those numbers will continue to rise.

• (1805)

To conclude, I'll turn to our demands. Our first demand concerns the first two agreements. In relation to CETA and the CPTPP, we are asking the federal government to clearly set out, in its next budget, the terms and conditions for payments of the remainder of the \$2-billion compensation package it pledged to deliver. An initial amount of \$345 million was paid out this fiscal year, and I must say it went quite smoothly. When that happens, it's worth mentioning. We feel it's important to do that. It's a good thing. However, we are calling on the government to make clear in the next budget the terms and conditions under which it will follow through on its commitment as regards the remaining \$1.4 billion.

Our next demand relates to CUSMA. We are asking that the next budget take into account the impact of the tariff concessions by setting out a mechanism to deal with the precedent-setting losses resulting from the export cap. To that end, the government should act to limit the negative financial impacts by concluding an administrative agreement with its American and Mexican counterparts to ensure the measure applies only to the signatories—in other words, the U.S. and Mexico—not the global marketplace, as CUSMA stipulates. In our view, the measure has the effect of reducing trade, which runs counter to World Trade Organization agreements.

I'll leave it there for now. Thank you.

[English]

The Chair: Thank you very much.

We'll turn then to the Ontario Teachers' Pension Plan, with Ms. Zvan, chief risk and strategy officer.

Go ahead. The floor is yours.

Ms. Barbara Zvan (Chief Risk & Strategy Officer, Canada's Expert Panel on Sustainable Finance, Ontario Teachers' Pension Plan): Good evening, everybody, and thank you for having me here.

I am actually representing the expert panel on sustainable finance this evening versus my organization.

I am here to speak about the recommendations in our report called "Mobilizing Finance For Sustainable Growth".

We were a four-member panel, and maybe I'll just start with how we think about sustainable finance. We think about it in terms of channelling the financial sector expertise, its ingenuity, and its influence toward challenges and opportunities posed by climate change, so think of Craig's comments around floods.

It includes revisiting all aspects of finance. Think capital flows—where they need to go, how we invest. Think risk management, with the approach to which we get insurance; or my day job, risk assessment; or how we think about financial processes around what we disclose, how we value assets, and what oversight is included.

The report is really a package of 15 practical, concrete recommendations spanning the essential market activities, behaviours, and structures to make sustainable finance mainstream.

What will success look like? It is when climate-conscious investment and risk management become business as usual. It needs to become embedded in everyday financial decisions, products, and services. It is when we stop referring to "sustainable finance" because it has become synonymous with simply finance—and let's understand that today, it is not.

For clarity, finance is not going to solve climate change, but the things that are—innovation, clean electricity, energy-saving buildings and climate-resilient infrastructure—all require a lot of investment. That's where finance is critical; what gets financed gets done.

The world isn't standing still. The U.K., the EU, China and many other regions across the world have appreciated the importance of laying a strong framework for sustainable finance in their countries.

Canada can be a global leader. Canada has a world-leading financial system with a well-earned reputation for sound governance, risk management, and regulations. Our considerable strength in conventional finance will play a critical role in delivering the financial ingenuity and capital flows required to execute Canada's transition and resilient objectives.

The panel's recommendations are organized in three pillars. It's about 50 pages, so I won't go through a lot of detail, but it is classified into three buckets that I will hit briefly.

First, it is about moving the conversation from burden to opportunity, building a strong foundation and then accelerating the growth in much-needed financial markets and products.

Let's start with pillar one, which addresses the need to shift Canada's climate change conversation from burden to opportunity. What does that look like?

Recommendation one is about laying out the vision, so Canada will say that we need the pan-Canadian framework. We have a net zero, but what does that mean in terms of the investments we have? How can we take those statements and say, "Here are the things we need to do, and here are the investments for the private sector to start looking at?" How can we articulate to them where the dollars are needed, and what is the return on risk characteristics that can be found?

Recommendation two is around using tax to incentivize RRSPs into sustainable finance. This is less about the dollars that it will create, and more about the change it would create in the financial sector, where financial advisers will have to answer to clients with regard to where the products are to help solve climate change. This will reverberate into those organizations and cause the sector to start training, educating, and creating products that are useful to solve climate change.

Recommendation three is about creating a sustainable finance action council. You see this in many of the other countries that made a commitment, bringing leaders together from both government and the private sector to talk about what to prioritize, how to action and how to keep the private sector engaged in the conversation as the government works through changes with the private industry.

Those are the key things that would really create a strong signal and motivate the financial sector to start going.

In terms of pillar two, it is classified as the foundational element. Think of Craig's comment on data and the flood plan. The data and creating a data analytics hub can be something that can be done collaboratively with both government and private industry to help ease the burden. It is an effort that's required to do climate analysis and to change it into business analytics.

• (1810)

The next area would be things like disclosure. What should companies disclose? Are we committed to the task force on climate-related financial disclosures framework? It shows a big commitment to disclose. To be honest, investors fill in the gap when there's nothing to disclose, and they don't fill the gap on a positive side.

The third would be around a clear statement that is consistent with fiduciary duty, so, for example, we who manage money for others have to act in the best interests of others. The climate change consideration is consistent with fiduciary duty, and there are many ways to lay that foundation.

Looking to provide what we would call support for the ecosystem, a lot of financial professionals will go to their associations, which are not-for-profits, to develop it themselves, and to create training material on climate is hard.

Last, supporting the efforts that are already under way at OSFI and the Bank of Canada in terms of bringing into the regulatory framework would be a very key pillar of the foundational element.

These would be just a few examples of how you create the foundation to take sustainable finance to the mainstream.

In pillar three, it's really about developing and scaling market structures and financial products that could offer transformative economic benefit for Canada in building a low-emission climate-smart future. There are seven main recommendations and a lot of sub-recommendations. However, they all align closely with the themes of the pan-Canadian framework and focus on the financing needs of the critical sectors of the economy: clean technology, oil and gas, infrastructure, buildings, electricity generation and transmission, to name a few.

Just give you a couple of examples in this sector, one would be around the effort today to engage the fixed-income market—by far the largest market. In Europe, you would have seen the effort around building a green taxonomy. This is really shorthand for what qualifies for a green investment, so investors can bridge the gap between climate knowledge, science and investment. For Canada, it would eliminate most of our key sectors. There's a recommendation for the panel to actually focus on Canada becoming a leader in developing a transition taxonomy. How can we help our sectors like oil and gas transition and make it easy for investors to understand what qualifies? It makes the return on effort easier, making liquidity better. This is work that's already started in the private sector today.

Leveraging the Canadian Infrastructure Bank would be another key area. It's a strong establishment in terms of the idea, but, when we look at it, it could really help with bringing people together around being proactive, and looking at how you bring the private

sector with a pipeline of opportunities. So that's a tweak in terms of its mandate.

I'll end perhaps where the report begins.

Canada has a strong, diversified and resource-rich economy; a world-leading financial sector; and excellent capacity for innovation. By harnessing these advantages, Canada can be among the leaders in the global transition to a low-emissions future, as a trusted source of climate-smart solutions, expertise and investment. Realizing this ambition will require a committed alliance between business, government and civil society; and determined investment.

We would support a budgetary commitment to help lay this foundation in 2020-21, through working groups and efforts around all the recommendations in the panel's report.

Thank you for having me here tonight.

• (1815)

The Chair: Thank you very much, Ms. Zvan.

Thank you, all, for your presentations.

We'll start with a six-minute round, with Mr. Cooper first. Keep in mind that we also have someone on video conference, Mr. Brunnen from Calgary.

Mr. Michael Cooper: Thank you, Mr. Chair.

Thank you to the witnesses.

I'm going to direct all of my questions to Mr. Brunnen of CAPP.

Mr. Brunnen, you noted that capital investment today is at one-third of the level of 2014. I think it was about \$81 billion in 2014 in the oil and gas sector. You would agree that a significant factor in that massive decline in capital investment is related to the competitiveness gap that Canada finds itself in, relative to other oil and gas-producing jurisdictions. Would you agree?

Mr. Ben Brunnen: Absolutely. Competitiveness of our industry has been a key factor hindering investment. Whether it's the overall cost burden on our sector related to market access, incremental costs, regulatory delay and investment uncertainty, those factors combined have put Canada at a disadvantage relative to other jurisdictions, where we've seen an increase in investment in comparable assets.

Mr. Michael Cooper: I read that, from a competitive standpoint, Bill C-48 and Bill C-69 have not helped.

Mr. Ben Brunnen: Both of those pieces of legislation, I would say, have hindered the investment and attractiveness of oil and gas in Canada.

Mr. Michael Cooper: And likewise has the carbon tax?

Mr. Ben Brunnen: In our view, the carbon tax, from a design perspective, needs to take into consideration emissions-intensive trade-exposed factors that help recognize.... If it's designed in a way that does not hinder competitiveness but still effectively gets towards the outcomes of achieving emissions reductions, that would be the ideal outcome. Until we see the certainty in that space with respect to what we could see coming through clean fuel standards, etc., there is a fair lack of confidence with respect to the framework.

Mr. Michael Cooper: Fair enough.

I know you've cited three fiscal policies. I only caught interest expense deductibility. I'd like you to elaborate on those, but before you do, I did raise earlier with department officials the issue of the accelerated capital cost allowance introduced in the fiscal update of 2018. It will be phased out around 2023 or 2024. Would you support making it permanent? Second, would you support 100% deductibility, immediate deductibility, more in line with the U.S. policy from the tax reforms there in 2017?

Mr. Ben Brunnen: I appreciate your suggestions, absolutely.

Deductibility of the capital cost allowance is actually the single greatest factor that has an impact on competitiveness, next to market access. It's not necessarily a reduction in taxes so much as it is a deferral of payment. It's especially important for high capital-intensive sectors and industries with long lead times, so cash flow-positive.

We've seen the federal government recognize this through the fall economic statement in 2018, through the 100% deductibility that it provided to the manufacturing sector, etc. For oil and gas, it was provided with some incremental deductibility capacity, but it wasn't on par with what we had seen in other industries.

If you think back to when the oil sands were created, 100% deductibility was put in place to drive that investment. It was actually the third source of global supply growth between 2006 and 2015, so effectively it worked very, very well. We would absolutely support introduction of 100% immediate deductibility for capital cost allowance for our sector, but, at a minimum, making permanent the changes from 2018 would be very favourable.

• (1820)

Mr. Michael Cooper: Now I'll allow you the opportunity to elaborate on it. You cited three policies. Again, there was interest expense deductibility. I didn't catch the other two you listed off at the end of your presentation. I'll leave you time to elaborate on those points.

Mr. Ben Brunnen: Thank you.

With regard to the interest expense item, we've heard some interest in exploring that from a government perspective. We want to make sure that government is aware that this is a priority for us. We definitely recognize the importance of the eligibility for interest expense, and we would encourage the government to explore the competitiveness implications of any changes, and to also consider any offsets in the event it does want to advance these changes, such as immediate deductibility.

The second point I raised was in relation to changes to large corporation tax administration. This is really a piece that the federal government has had in place for some time. What it does is tie up disputed tax revenues with the federal government, pending the resolution of certain tax disputes. This keeps, effectively, capital on the sidelines, to the tune of billions. We're asking for government to update its administration procedure so it's consistent with other jurisdictions, just remove requirements to effectively have our capital tied up, pre-fund amounts that are in dispute, and expedite the timelines for resolving the disputes.

Finally, our request—the third point that I raised—was in relation to access to capital for small and medium-sized companies. As I mentioned in my comments today, access to capital has been very substantive for our industry from an impact perspective, particularly for the small and medium-sized producers. Tools to temporarily or more permanently find ways to encourage these companies to raise capital would be exceptionally welcome at this point in time. Things such as flow-through shares and funding to help assist with reclamation and remediation are a couple of tools in that regard.

The Chair: Okay. We thank both of you.

For the witnesses who are here, keep in mind that this is one of the difficulties of a big panel. If you do have something you want to add, raise your hand, and I'll catch you and we'll let you in.

Mr. Fragiskatos.

Mr. Peter Fragiskatos: Thank you, Mr. Chair, and thank you to the witnesses for appearing today.

It's no surprise that my questions will be directed largely to Mr. Holder.

The perspective of mid-sized cities matters a great deal. I certainly recognize that Toronto, Montreal, Vancouver and a number of other large cities in this country are economic drivers, but so are medium-sized cities, so thank you very much, Mayor, for offering that perspective today.

I want to ask at the outset about electrification. The transit fleet proposal that you've put forward in your state of the city address captured a lot of attention. I think in large part it's fair to say that the attention has been positive. There's a lot of interest in this issue in this city. Perhaps it could serve as a model if we can do the whole fleet for the entire country. Certainly, we are serious about climate change. We are serious about working with municipalities to advance that agenda. I think this is an important piece of the puzzle on getting there.

I noted that in your presentation you talked about the environmental benefits, which would be obvious. The amount of greenhouse gases that we could prevent from going into the atmosphere is substantial, no doubt, but you also talked about financial savings. Do you have a dollar figure on a yearly basis, Mayor, on the financial savings that we could see by transitioning from diesel to electric?

• (1825)

Hon. Ed Holder: Thank you.

Through you, Chair, to Mr. Fragiskatos's question, I appreciate that. Let me say at the outset that we received a fair amount of feedback from medium-sized and large communities right across this country in terms of our goal to be the first major city in Canada to have a fully electrified bus fleet. As we did so, we talked about two particular areas.

One is greenhouse gas emissions. If you can imagine, in terms of city-operated vehicles of all sorts, that we would reduce greenhouse gas emissions by 40%, and that ultimately all of our electric bus travel, when fully implemented, would represent a 40% reduction in greenhouse gas emissions, that's huge. It's also huge because in London it was important when, as a council this term, we declared a climate crisis, so everything we do is through the lens of this climate crisis. I think that's partly why the e-bus announcement that I declared in terms of our goal—my goal—was so well received and, interestingly, by the business community as well as the community at large.

One of the things they looked at was savings. There are a couple of things we know. For example, we realize that the initial cost of an electric bus has a higher price tag than a standard diesel bus, but in the longer term we save from the standpoint of going electric versus the diesel fuel, and then the rising cost of diesel fuel. We spend some \$7.5 million per year in London, Ontario, and we're a community of just over 400,000 people.

As I used to say and I like to say, we are the 10th largest city in Canada. We don't hear that as often anymore, but I say it as often as I can, only to make the point that we're not the largest, but we are a serious-sized community. We know that over the course of this, millions of dollars will be saved. As the price of fuel increases, that goes right to the bottom line. We're pretty excited about that prospect.

Mr. Peter Fragiskatos: It's interesting to hear about the climate lens from a medium-sized city such as London. We've heard it from representatives from the insurance sector. We've heard it from Ms. Zvan, who was talking about the need to support advances toward a sustainable model of finance.

In your view, Mayor, how could the federal government assist to make this happen? Obviously, when it comes to costs around buses, we could assist with that. That's obvious, but there's a whole infrastructure that ought to be in place to support electrification, and I would think that this also would be an area where the federal government could assist.

Hon. Ed Holder: Well, look, we're five weeks and a bit past Christmas, but if I had my Christmas wish list, it would be that in the upcoming budget the Government of Canada would announce some really serious commitments toward supporting not just London but any of our communities—small, medium-sized and large communities across this country—to electrify their fleet.

From London's standpoint, we are looking initially at a pilot project. We're undertaking a study that ultimately will be approved by my council, I trust and hope, literally in the next few days, in conjunction with our London Transit Commission. I know that other communities across this country are looking at the same thing. There are larger, medium-sized and smaller communities that say this is the way to go.

Mr. Peter Fragiskatos: Mayor, I have less than a minute left.

We will certainly continue to work—

Hon. Ed Holder: Sorry, two politicals talking.... I apologize.

Mr. Peter Fragiskatos: That's no problem.

We will certainly continue working together on transportation and housing issues, no doubt. I often hear from members of the opposition, and others sometimes, about infrastructure and that the federal government hasn't worked with municipalities to get investments out the door. I think London's experience speaks for itself.

Now, this isn't an answer that I'm laying up for you, but I think it's clear that the experience vis-à-vis Ottawa and London, when it comes to things like transit, has been a very productive one and we've been able to secure investments for the city.

Could you speak about London's experience in that regard?

Hon. Ed Holder: Briefly, I had an opportunity in terms of our public transit infrastructure stream to challenge my council when I was first elected to come up with a number of projects that would be both provincially—in Ontario—and federally supported. In 60 days, we came up with a number of projects.

I will give strokes to both levels of government, at the provincial and federal level. We had 10 major transit projects approved. I speak positively about that experience, because that certainly supported London's major initiatives in terms of transit restructuring.

We're not done, which is why the electric bus project is so important to us.

However, in terms of those infrastructure transit programs, I have nothing poor to say about the relationship we've had with the federal government. They've worked well with London, and I appreciate it.

• (1830)

The Chair: We'll have to cut that round there.

Ed, thank you.

We have Mr. Ste-Marie for five minutes, and then Mr. Julian.

[*Translation*]

Mr. Gabriel Ste-Marie: I'd like to thank the witnesses for their contribution to the committee's work this evening.

My first questions are for the dairy producers.

You operate under the supply management system, which means the quantities you produce are determined by demand, in other words what people will consume, but prices are determined by production costs, with a bit of compensation added in.

The fact that all three recently signed agreements conceded market access means you have a smaller share of the market.

Describe for us, if you would, what the reduction in production quantities looks like. How many fewer family farms are there? How much is each farm losing?

Mr. Alain Bourbeau: It's an estimated 1,200 farms. Losses will of course depend on how big the farm is, but they are significant for an average Canadian farm with around 90 cows. It's greater than what the Maritime provinces produce combined.

As far as financial losses go, the three agreements together have resulted in the loss of nearly \$450 million in gross income yearly, on a permanent basis.

That's a colossal amount, and it's no accident that we are looking at such high numbers. Our sector plays an important role in the country's economy. Dairy products are still very much present in the diets of Canadians. When a government concedes nearly 10% of a market that large, the repercussions are going to be big.

Mr. Gabriel Ste-Marie: It's a heavy toll, 1,200 fewer farms. My riding is home to many dairy producers. It's common for women to take over the farming operation. The number speaks volumes.

You said that an initial chunk of the compensation package had been paid out and that the process has gone well so far. You want the government to clearly set out the terms and conditions for the next compensation payments.

What comes to mind is the first compensation amount announced further to the Canada–European Union agreement. A few years ago, that compensation came in the form of investment programs. I imagine that's not what you're hoping to see in the budget.

What terms and conditions are you looking for? What do they look like?

Mr. Alain Bourbeau: Good question.

Initially, when the government made the announcement, it set out \$2 billion for the dairy sector. From that amount, it deducted \$250 million that was allocated, about a year later, to what the government called an "investment program."

This investment program was not a smooth venture, unfortunately. The program was very difficult to manage and was relatively unfair, since the funding was clearly inadequate. This approach was not successful.

From this perspective, the government was responsive to criticism. As a result, in the most recent compensation method, it recognized that the losses incurred by producers are real financial losses. Moreover, the product entries under CETA and the fill rates for the fine cheeses within the allocated quotas are almost 100%. We're talking about 96% or 97% over the past two years.

The damage caused by these agreements isn't theoretical. For the producers and processors, the damage is very real.

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

At the end of your presentation, you spoke of taking into account the impact of tariff concessions and export caps. Have you started to assess the magnitude of the impact? Can you explain it again, using figures, if possible?

• (1835)

Mr. Alain Bourbeau: Yes. I don't want to go into too much detail, but it's important to understand that all dairy-producing countries have a surplus of solids-not-fat. The yardstick used to measure the demand for dairy products is butterfat. The demand for butterfat in the United States, Europe, Oceania and around the world is greater than the demand for the non-fat part of milk, which is called solids-not-fat.

Although Canada has a supply management system, it still exports this type of by-product as well. These by-products are found in skim milk powder form. However, in Canada, the size of this surplus has fluctuated in recent years between 60,000 and 90,000 tonnes. The agreement with the United States introduces an export tax starting at 35,000 tonnes. Clearly, above that threshold, there will be a financial impact for each tonne of surplus. We must either sell it at a loss on other markets or pay the \$540 per tonne tax.

If we conduct a simulation based on what we know today, the initial impact will be around \$10 million to \$20 million upon the coming into force of the agreement or in the first years of its implementation. These are substantial amounts, which will accumulate over the years and will keep pace with the growth in demand.

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

[English]

The Chair: Thank you, Gabriel. Thank you, gentlemen.

I'll go next to Mr. Julian.

[Translation]

Mr. Peter Julian: I want to thank all the witnesses.

[English]

I'll start with Mr. Stewart and Ms. Dreff.

Does the Insurance Bureau of Canada keep statistics on the number of insurance claims linked to incidents or events linked to climate change?

Mr. Craig Stewart: Yes, we do. Basically, through a third party, we aggregate every catastrophic event—which would be an event that surpasses \$25 million in losses—that can be attributed to severe weather. That would be anything from hail to flooding, ice storms, wildfire, or generally any severe weather event that can be attributed to climate change. We can aggregate those and track them over time. We've been doing that since 2000—well, for several decades, actually.

Mr. Peter Julian: If we look back to 10 years ago, then back to five years ago and then look at this year, what is the progression of claims linked to climate change?

Mr. Craig Stewart: In the early 2000s, losses across Canada averaged around \$400 million per year. There seems to have been an inflection point in 2009: in every year but one since 2009, the losses have surpassed a billion dollars. In 2019, the number was \$1.3 billion in insured losses. The year before, in 2018, it was \$2.1 billion.

It's important to note that no single large event such as the Fort McMurray fire drove those losses. They were actually an aggregation from events of all types—wind, flooding, hail, etc.—across the entire country.

Mr. Peter Julian: If we look back 20 years ago, then, over a two-year period we'd probably be looking at about \$800 million in claims. In the last two years, there have been \$3.4 billion in claims—a quadrupling of the overall claims linked to climate change.

Mr. Craig Stewart: That's correct.

Mr. Peter Julian: I don't have a lot of time, but I want to ask whether you feel that the federal government is doing enough, then, given this significant increase in insurance claims just over the last couple of decades—just one example of the many economic impacts of climate change.

Mr. Craig Stewart: We believe that in general, governments across the country, up until three years ago, were not taking the issue seriously enough, but we have seen that begin to change. Certainly over the past year, the commitments made in parts of the country and by the federal government to deal with the number one issue, which is flooding—that's the biggest loss area—have been significant.

• (1840)

Mr. Peter Julian: Okay.

Mr. Craig Stewart: To answer your question, we are actually pleased with the direction, but we're waiting for the federal budget to see whether the money will follow the words.

Mr. Peter Julian: Thank you. I'm sorry to cut you off.

[Translation]

I also have a question for Mr. Bourbeau and Mr. Letendre.

Back home in British Columbia, people are already talking about the lower percentage of Canadian and Quebec products in supermarkets. People are drinking more and more milk from the United States, which isn't of the same quality. Moreover, this obviously has an economic impact.

First, I want to know the current state of Quebec's dairy farms. Second, since you said that these gaps accounted for \$450 million a year in losses, is \$1.4 billion over eight years enough, given the losses incurred by farmers in Quebec and across Canada as a result of all the gaps in supply management?

Mr. Alain Bourbeau: The first part concerns the situation of farms in Quebec. Clearly, the situation over the past three years has been quite positive for us. The industry has seen exceptional growth. Over the past 20 years, we've seen a strong trend with regard to dairy production, which has grown by 1% to 1.5% per year. This has corresponded roughly to population growth. However, from 2016 to 2018, we saw growth in the range of 3% to 4% per

year. This is the result of various events, which I could discuss if you wish. This sudden growth has also been seen elsewhere in the world. The demand for dairy fats has also increased significantly in the United States and Europe, and Canada is no exception.

This growth mitigates, to some extent, the impact of these concessions. However, the fact remains that our producers made investments based on the quantity that they committed to produce. Since the production volume won't be as high, these investments won't enable them to absorb the impact of these concessions to the same extent. This will hurt our companies.

Can you remind me of the second part of your question?

Mr. Peter Julian: Is \$1.7 billion enough, given the losses?

Mr. Alain Bourbeau: Obviously, this amount doesn't fully offset the losses. Juggling with figures of this magnitude may seem terrifying to the average person, but the amounts allocated certainly don't cover all the losses.

People from the insurance industry are here. An actuary's job is to perform the calculation for a loss in perpetuity. The values involved are in the billions of dollars. The government's move is a step in the right direction. It will offset some of the losses, but the producers will certainly absorb part of the losses.

[English]

The Chair: Okay. Thank you all.

Next is Mr. Cumming, for a five-minute round.

Mr. James Cumming: Mr. Brunnen, can you elaborate a little bit on the economic importance of the energy industry to Canada, specifically the importance of the completion of TMX and what the economic impact could be if we had further access to markets and that spin-off to small and medium-sized businesses?

Mr. Ben Brunnen: We do survey our members to understand the impact, from an economic perspective, of our supply chain across the country. In 2016-17, the value of that was about \$2.2 billion outside of Alberta. That decreased pretty substantially from 2014-15 when it was \$3.5 billion. The decline in the investment in our industry has ripple effects, from an economic perspective, across the country. The biggest areas where we source from a supply chain are Ontario, British Columbia and Quebec. The provinces that have been hurt the most outside of Alberta are those ones.

In terms of the importance of TMX to our industry, certainly market access is the single greatest barrier to investment in our sector. Part of the reason why there is such a chill from an investment perspective is also the lack of certainty that comes with bringing forward these major projects. They've been delayed time and time again from a regulatory or judicial perspective, or from an FID perspective. There was the selling of the private company and the picking up of that company by the federal government. We support that they did that, though it's unfortunate that they had to. At the end of the day, investors are discounting market access in our industry to zero until we see the pipes actually built. As a result, our companies simply can't justify to their investors making growth investment decisions in our industry until we see the pipe in the ground.

TMX is a pretty substantial pipe that we really need if we're going to see some investment come back, absolutely. TMX, Enbridge's Line 3 and Keystone are the three main pipelines at play right now.

With regard to spinoffs for the small and medium-sized companies, effectively when we start to see the investment community have confidence that we'll have access to markets and that we will be in an investment jurisdiction, if you will, that attracts capital, that's when we'll start to see the dollars come back to the small and mediums. We've seen some very positive results in Alberta in terms of what they've done from a tax perspective, what they've done in addressing curtailment and enabling rail under that. The federal government's fall economic update from 2018 was also helpful. However, that's not sufficient and we do need to see a more holistic and committed effort from the federal government to align with demonstrating that there is a future for our industry and we can be the supplier of choice under the right conditions.

● (1845)

Mr. James Cumming: Thank you.

I want to move to Mr. Cross.

We heard some testimony earlier about the current state of the economy. Your preamble was about the slow growth, high debt circumstances that we have today. How important are those fiscal anchors of lowering debt and having low debt-to-GDP ratios, and how concerned are you about the debt that we're seeing increasing outside of the federal government as well as provincial and municipal debt?

Mr. Philip Cross: I attach a great deal of importance to it. I think we're at a level of debt to GDP now of over 300%. It's definitely a level at which debt crises tend to occur. We've seen repeatedly within the last decade in the western world that countries with very high levels of debt almost inevitably at some point will have trouble servicing that debt and have problems in their financial sector and so on and so forth.

It's hard though. You can't just point a finger at one sector. As I mentioned, all sectors in our economy have gorged on debt: household, corporations, government. You can't pick out one and say it's their fault. It seems to be a response that all Canadians have done this because, first of all, the Bank of Canada cut interest rates to historically low levels. The bank has issued some warnings about household debt. It's very interesting. They have next to nothing to

say about corporate debt, which is the highest in the western world. They have next to nothing to say about government debt.

At the same time the federal government did run up big deficits during 2008-2009. I think it's inevitable that when you are in a severe downturn, you're going to run deficits. You simply cannot cut spending enough. When you're in a downturn there are going to be deficits, but you want to get out of those as quickly as possible.

What I think has encouraged people to go into debt since 2015 is the fact that the Bank of Canada lowered interest rates, the government said they were going to run deficits and it sounded like it was a good thing. There was nobody saying, "Oh, there are risks to this strategy". Instead people just said, "Well, interest rates are low, so, great, let's run up some debts". Here we are today where if interest rates ever did turn up or if our incomes ever did start falling, we would be in a considerable amount of trouble.

The Chair: Okay.

Thank you, all.

We'll turn to Ms. Dzerowicz, and then we'll come back to the other side.

Ms. Julie Dzerowicz: Thank you so much.

I want to thank everyone for their excellent presentations.

I'm going to try to be ambitious and get to three people, so please keep your responses short.

I'm going to start off with some of Mr. Stewart's comments.

I want to say thanks so much for mentioning that the Honourable Ralph Goodale had been working on a flooding plan. I think it's remarkable how few Canadians actually know about it. It's so important that we started that and that we started focusing on it.

I want to quickly go through your recommendations because I think they're important. I'm hoping you can say yes or no or maybe add a couple of comments if I've forgotten. Then I'm hoping to get to Ms. Zvan, and then if I'm lucky I'd love to get to Mr. Brunnen.

You had started talking about a recommendation for dedicated funding to designed flood mapping; I think we started that. I think we've actually put it all in our platform; that is, the flood mapping, the insurance program for high risk investment pool that you were talking about, and then coming up with some sort of a plan for the small percentage that needs to relocate.

That's basically what your three recommendations are, yes?

● (1850)

Mr. Craig Stewart: Yes. It's all in your platform, and it's all in a ministerial mandate letter somewhere.

Ms. Julie Dzerowicz: Okay. That's wonderful.

I was just telling a wonderful friend of mine who is very worried about what was happening in Canada. When I told her we were doing this, she felt completely relieved. If we get this done and we make it public, I think Canadians will have a lot more confidence in our planning around climate change moving forward.

The second thing I want to talk about is home retrofits. We have a number of commitments around free energy audits, retrofitting 1.5 million homes and then helping with interest-free loans of up to \$40,000. But this is for energy efficiency. You've added the words, "flood resilience".

What is the addition that we have to add to that recommendation or what we've already put forward?

Mr. Craig Stewart: You could use the exact same mechanism that you're using for energy efficiency. In fact, you could use the exact same home inspector and offer interest-free loans, for instance, or your cash incentive, for those people who wanted to either elevate their home if they're in a very severe situation or just take simple measures to change landscaping around their house—you know, make sure their eavestroughs are intact. These are simple measures. These retrofits, on average, cost less than \$1,500. You have experience in doing this with energy efficiency. We could be doing the exact same thing with flood resilience. In fact, the Intact Centre on Climate Adaptation at the University of Waterloo has a package that does exactly this.

Ms. Julie Dzerowicz: Lastly, you had talked about disaster mitigation and adaptation. We have already committed \$2 billion. We have committed to adding an additional \$1 billion.

I hate asking this question. It's like asking if you want your taxes to go up. Is that going to be enough, the \$1 billion that we've committed?

Mr. Craig Stewart: No, and it's important.

Ms. Zvan actually referred to this. The expert panel touched on this. It's important to attract private sector investment to that as well. That's where the Canada Infrastructure Bank could potentially play a role. We believe that you could bring a fair amount of private sector wealth and capital to match those DMAF funds, and you could grow the pie, frankly, with our help. We just need to have a mechanism by which to do that.

Ms. Julie Dzerowicz: If you have a specific recommendation, could you write that in to us? That would be really helpful.

Mr. Craig Stewart: Certainly. I will.

Ms. Julie Dzerowicz: I would like to move on to Ms. Zvan.

I have followed the work of the panel very closely. I'm a very big believer in sustainable finance. I'm a big fan of Mark Carney. He's written a lot about a number of the things that are in your report.

I love all 15 of your recommendations. We're in our pre-budget consultation. I'd love to be able to say that all 15 need to be adopted right away. How do we get started? Do you start with your first three? Or, is it that you say you need a bit of a committee to get together to determine how you can start working on all cylinders at the same time?

What would be your recommendation on how to get started on this?

Ms. Barbara Zvan: We did complete a five-pager that I can give you.

Ms. Julie Dzerowicz: Yes.

Ms. Barbara Zvan: It really focuses on the start.

I would say, everything in pillar one would be a really important signal, especially the sustainable finance action council, because that could help you prioritize as you go.

Pillar two, which involves relatively small dollars, really lays the foundation to those things.

Ms. Julie Dzerowicz: Yes.

Ms. Barbara Zvan: I would say in pillar three there are very select things that you can start doing that won't have a huge budgetary ask.

Ms. Julie Dzerowicz: Yes.

Ms. Barbara Zvan: The Canadian Infrastructure Bank mandate and approach would help with looking at how to do green mortgages or creating a green bank to help the private sector. I think that is the key. Today, you fund a lot of things as a government yourself. What you really need to do to fund all the things that need to get done is really attract the private sector.

Ms. Julie Dzerowicz: Thank you.

The Chair: Thank you all.

We'll split the remaining time between Mr. Morantz and Mr. Fraser.

Go ahead, Marty.

• (1855)

Mr. Marty Morantz: Mr. Brunnen, I wonder if you happen to know—and if you don't, that's okay—what percentage of Canada's total GDP is the oil and gas industry.

Mr. Ben Brunnen: I do know that. I'm just digging it up right now.

Our real GDP impact in 2018 was \$1.9 billion. Our upstream GDP share was 5.6% of Canada's total GDP.

Mr. Marty Morantz: Almost 6% of Canada's GDP.

Mr. Ben Brunnen: Yes.

Mr. Marty Morantz: That's just over one-twentieth, essentially.

Mr. Ben Brunnen: Yes.

Mr. Marty Morantz: That's a substantial portion of Canada's economy.

Mr. Ben Brunnen: And that's the direct component, right? There are also indirect and induced contributions as well. From a federal perspective, our estimate is that there are probably 450,000 jobs related to our industry on a national basis. Certainly, the bulk of that is in Alberta, but we do have national implications, and it's certainly a big portion of the federal GDP.

Mr. Marty Morantz: Mr. Cross, earlier tonight we had some officials from the Department of Finance in. One of them said that compared with during the great recession, if we were to have another recession, Canada would have far less monetary policy room to deal with that. I'm wondering if you agree with that sentiment. I have a feeling you probably do, but could you comment on what factors and variables might be related to that concept.

Mr. Philip Cross: I agree wholeheartedly, and I underscore the point that it's not just monetary policy that we're starting to run out of bullets with; it's also fiscal policy, because of the accumulated debt.

At some point, you can't just look at one sector's debt-to-GDP ratio in isolation. I think that's where a lot of the debate got off the rails.

We tend to look at just the federal government or provincial governments. Nobody looks at the overall debt burden. At the end of the day, it's that overall debt burden that is being serviced by one income stream—GDP. I think that partly how we got ourselves into this mess is by focusing on individual sectors and not the big picture of all of this.

The Chair: We'll have to go to Mr. Fraser to wrap it up.

Sean.

Mr. Sean Fraser: We have just a few minutes, so like my colleagues, I'll ask you to be quick if you can.

Mr. Stewart, I'll start with you.

The statistics you shared earlier about the cost of insured losses as a result of severe weather events is staggering. Can you just remind me what the insured losses in Canada were at the earliest date you have figures for?

Mr. Craig Stewart: The earliest date we have figures for is around 1990. There was an average of \$100 million a year in that decade, which rose to \$400 million in the 2000s, and it's been over \$1 billion each and every year except for one.

Mr. Sean Fraser: And it peaked last year at \$1.9 billion.

Mr. Craig Stewart: Yes, it was slightly above \$2 billion in 2018.

Mr. Sean Fraser: Do you have projections for where that cost will be in the near or medium term? What are we looking at? How bad is it going to get?

Mr. Craig Stewart: We just know that it's escalating, getting worse and worse. It's difficult to know because what we're seeing is so dynamic.

Mr. Sean Fraser: And the members of insurance plans are paying for these losses, presumably out of their own pockets.

Mr. Craig Stewart: Correct. Canada is becoming a more difficult and costly place to reinsure for insurers, so reinsurers are pay-

ing more in terms of reinsurance. Then, of course, that means average Canadians are paying more as well.

Mr. Sean Fraser: Do you have data on uninsured losses?

Mr. Craig Stewart: Typically, uninsured losses run at about \$3 for every \$1 insured, so a \$1.3-billion loss was \$5 billion for taxpayers last year.

Mr. Sean Fraser: That's right, and that's borne directly out of the pockets of Canadian taxpayers.

Mr. Craig Stewart: That's correct.

Mr. Sean Fraser: There's a lot of scare in that sort of answer, but to take Ms. Zvan's advice and to look not just at the burden but also the opportunity... I know Mark Carney's name has come up. He's flagged what might be a global \$23 trillion to \$26 trillion opportunity in the green economy.

In the one minute or so that I have left for my questions, where we can have the biggest impact? It sounds like the cost of solving the problem is less than the cost of ignoring the problem. Where are we going to get the most bang for our buck in terms of emissions reductions and economic opportunity if we make these investments?

● (1900)

Ms. Barbara Zvan: In pillar three, we laid out key sectors with regard to investing in clean technology and having a real path in terms of the areas you focus in on. It will be in the oil and gas sector. You are losing investors, because they don't see the long-term viability of that sector, and that's what you really need to deal with. It's commitment and it's strategy in terms of how the oil and gas sector in Canada will survive in a world where we want less emissions. It's infrastructure. Infrastructure always creates jobs, and sustainable infrastructure is what's needed for there to be resilience from a climate point of view. Then it's residential. Buildings have a huge emissions impact. It's thinking about how they're built, how they're renovated, and how they're financed. There are a lot of small projects, and it's about how to bring them together.

All of those topics would be key areas.

Mr. Sean Fraser: Excellent.

Thank you, Mr. Chair.

I want to say thank you to each of these witnesses, because I believe they will end our session.

The Chair: Spinning off from that last infrastructure question, I do have a question for Mr. Brunnen. I see that Mr. Liepert is here, and he would want to ask it as well.

In terms of infrastructure and oil prices in Canada, can you explain to us the Alberta discount—why we have it, what it would take to get rid of it, and what it's costing the country a day or a year?

Mr. Ben Brunnen: When looking at the heavy price discount for Canadian oil down into the United States—that's really where the market is for our heavy crudes, largely the oil sands—what we have is effectively a supply and demand imbalance. We have oversupply for our product, with not enough capacity to ship our crudes to the refiners—largely on the gulf coast but also in the Midwest. That's driving a fair amount of the discount.

If you were to look at this, it would be a natural discount. When looking at it from a transportation and quality basis, that, ideally, would be the price discount you'd see for our crudes. What we've been seeing with the excess supply is that we're getting a higher discount for our crudes as a result of that. Pipeline access has been the greatest factor, but it's also a market power piece in the absence.... We are effectively price takers for these U.S. refineries

The unnecessary discount probably costs the Canadian economy approximately \$2 billion a day, if I recall correctly. I would have to check those numbers. I haven't looked at those recently.

The Chair: It's \$1.8 billion.

Mr. Ben Brunnen: Thank you: \$1.8 billion. That's excellent. You're doing some fine work there.

There's been some good news on Line 3 today, with some of the announcements in the United States. We're hopeful that we'll see some favourable decisions as well going forward. I haven't seen the TMX update today.

The Chair: Thank you, Mr. Brunnen.

Thank you to all the witnesses. I think everyone got to ask questions, and that is great. Thank you to all for coming on short notice.

We'll suspend for about three minutes while we bring forward the next witnesses.

• (1900) _____ (Pause) _____

• (1905)

The Chair: We'll reconvene. We're dealing with the study of the pre-budget consultations for 2020.

We have three witnesses to handle in the next hour.

Welcome, folks, and thank you for coming on such short notice; the call only went out on Friday.

We have a fairly intense time frame in which to get some recommendations in from the pre-budget consultations.

We'll start with the Canadian Doctors for Medicare, Dr. Bechard, executive board member.

The floor is yours.

Dr. Melanie Bechard (Executive Board Member, Canadian Doctors for Medicare): Thank you to the members of the Standing Committee on Finance for the invitation to speak today. I'm here not only as an executive board member of Canadian Doctors for Medicare, but also as a pediatrician currently training to be a pediatric emergency specialist at the Children's Hospital of Eastern Ontario here in Ottawa.

Founded in 2006, Canadian Doctors for Medicare provides a voice for doctors from coast to coast to coast, advocating for evidence-based, values-driven reforms to our public health care system.

At present, Canada is the only developed nation with universal health care and no corresponding coverage of prescription drugs. Medications administered in hospital are covered, yet once patients are discharged to home, they must deal with a patchwork of systems to obtain their necessary medications. These inefficiencies have contributed to higher drug costs. Canada currently spends \$1,012 per capita on prescription medications, the third-highest in the world only after the United States and Switzerland, and well above the OECD average of \$709.

In Canada, 36% of drug costs are funded through private insurance plans, 36% through provincial drug plans, and 22% through patients' out-of-pocket funds. This means that many Canadians face financial barriers when trying to access the medications needed to keep them healthy.

Studies have shown that one in 10 Canadians are unable to afford their medications as prescribed. In 2016, about one million Canadians reported cutting back on essentials like food and heating in order to afford their medications. When Canadians cannot afford their medicine, their health suffers. In addition to the very real personal consequences of poor health, cost-related non-adherence can also create wider social and economic burdens. When people cannot take the medicine needed to keep them well, health problems can worsen to the point where more serious and expensive acute care is required.

As a pediatric emergency doctor, I have seen children coming in to our department because their parents could not afford their asthma inhalers. Studies have shown that for every 1% increase in the proportion of income spent on asthma medications, children are 14% more likely to present with asthma attacks requiring care in urgent care clinics and emergency departments. This should not be happening in Canada, and we can do better.

This is why Canadian Doctors for Medicare advocates for universal, single-payer public pharmacare to improve access to necessary medications for all Canadians. The June 2019 Hoskins report, “A Prescription for Canada: Achieving Pharmacare for All”, provides a detailed roadmap for how to achieve this vision. The first steps include creating a national, evidence-based formulary of medications that are clinically effective and cost-effective. Provinces and territories could then opt into pharmacare by agreeing to national standards and funding parameters. Hoskins recommended co-payments of \$2 to \$5 per medication, with no household paying more than \$100 per year.

Studies have demonstrated that universal public drug coverage in Canada could reduce total spending on prescription drugs by \$7.3 billion. Bulk purchasing and thoughtful, evidence-based drug selection would help to reduce costs. Pharmacare could save the private sector an estimated \$8.2 billion. Employers and unions that sponsor increasingly expensive and unsustainable private drug coverage plans could benefit and enjoy significant savings for their businesses.

Anticipated costs to government could increase by about \$1 billion, with a best-case scenario of actually saving our government \$2.9 billion. These estimates do not include other potentially significant cost savings, such as decreased tax subsidies for employers to sponsor private plans, reduced administrative costs and the very promising benefits of a healthier population.

Too often, we need to choose between what is right and what is financially feasible. Pharmacare offers a rare opportunity to do both. We can have a tremendously positive impact on the health and lives of Canadians with the potential for great economic benefit. This is the unfinished business of medicare. It is a rare opportunity to build upon our Canadian legacy.

Thank you very much for your time and consideration. I would love to hear any questions or discussion.

• (1910)

The Chair: Thank you.

We will turn now to Catherine Cobden, president of the Canadian Steel Producers Association.

Welcome again, Catherine.

Ms. Catherine Cobden (President, Canadian Steel Producers Association): Thank you very much, Mr. Chair and members of the committee, for having me.

My name is Catherine Cobden, and as mentioned, I am the president of the Canadian Steel Producers Association. We thank you very much for the opportunity to provide input to you in terms of your pre-budget deliberations.

I'm here today representing our member companies, who are the producers of steel. They produce approximately 15 million tonnes of steel products, and they support approximately 123,000 direct and indirect jobs.

Canada's steel sector plays a strategically important role in the North American economy. We are advanced manufacturers of a 100% recyclable product, and we are also a critical supplier to other

key Canadian sectors, such as the automotive sector, the energy sector, the construction sector and many other general manufacturing operations. Given the important role we play, it is imperative that we maintain a steel sector that is strong, competitive and addressing its climate emissions. Our input into your budget deliberations today will focus on three strategic goals: driving investments to create the low-carbon economy, leveraging climate policy to Canada's competitive advantage, and addressing ongoing global trade risk and uncertainty.

The Canadian steel industry has reduced greenhouse gas emissions by approximately 31% since 1990. This is a track record that we are immensely proud of as a very large emitter. To go further, however, in our reductions, we'll require breakthrough technologies and solutions that, unfortunately, simply do not exist today. The scale and investment that will need to be dedicated to our transformation require partnership with our government and others, and together we can get it done. The steel sector is prepared to find solutions, and we do have ongoing collaborations. We are looking at working with our suppliers, our customers and the clean-tech industry to find these solutions, but frankly, we have an urgent need to accelerate this development and to do more to support our decarbonization efforts.

As a very first step, we urge the government to ensure that the revenue generated by the federal pricing system is recycled back to large emitters like ourselves and that existing programming is deepened with funding directed specifically to the decarbonization of key sectors. This should be done immediately to help spur the development of the necessary breakthroughs for dramatic emissions improvements in the longer term.

We also recognize that Canada's climate leadership offers both an immediate opportunity, as well as some risk, for our sector. We know that our greenhouse gas emissions profile is significantly less than that of foreign steel being imported from places such as China and other faraway jurisdictions. This is a very important opportunity to ensure that the inherent values and benefits of carbon, of Canadian steel in Canadian projects, are recognized through the domestic procurement efforts right across the country. We also know that more renewable or non-emitting energy sources will play an important role in Canada's steel sector.

On the other hand, we stand at a disadvantage compared to other steel-producing nations that do not face carbon costs. This is the dilemma. While we want and commit to doing our part, we urge the government to investigate whether there are interim means to leveling the playing field to support our sector while we actively seek solutions to this pressing problem as others lag.

Now the North American steel market faces a relentless flow of unfairly traded steel imports due to a global overcapacity of steel to the tune of 440 million extra tonnes of steel. This is a significant amount. We continue to face challenging market conditions, as well, throughout North America. This reality creates a very difficult footing for our sector to advance our climate objectives, but advance them we must.

Canada has more work to do, however, to modernize our trade remedy system. For example, we call for improvements and increased resources for Canada's import permit system. This is necessary to increase the frequency and accuracy of import monitoring. Ideally, in our view, this would include the reinstatement of import permits for all shipments into Canada. It's a tall order, but it's required.

● (1915)

We are grateful for the Canada-U.S. understanding—and for the team Canada approach it took to make it happen—that was really established between the governments of Canada and the U.S. in May 2019. We're also excited about and supportive of the recently signed CUSMA.

We urge the government to continue to explore opportunities to work with the U.S. and Mexico on a North American perimeter to trade—that's what we're about—to strengthen the competitiveness of our North American region and to address global steel overcapacity that affects the entire North American region and to deal with unfairly traded steel imports that affect the North American region.

These collective efforts will strongly support the steel sector's ability to be competitive and to position us for the future of advancing our climate objectives.

Thank you, Mr. Chair, for the time.

● (1920)

The Chair: Thank you, Catherine.

Our final witness is Canadians for Tax Fairness, Toby Sanger, executive director.

Welcome, Toby.

Mr. Toby Sanger (Executive Director, Canadians for Tax Fairness): You're welcome, and thank you very much for inviting us, Chair and members of the committee.

Congratulations to all members on your election or re-election and your appointment to the finance committee.

I'd also like to commend all of you and the staff of the finance committee for holding these consultations on such short notice. I'm always impressed with how efficiently and graciously you work under tight timelines.

For this year's pre-budget consultations, the committee asked interested groups and individuals, in particular, to provide advice on the theme of climate emergency, the required transition to a low-carbon economy. Finance minister Bill Morneau seems to have already taken your advice, as he said that the environment would be a major focus of this budget, and our supporters also identified addressing climate change as a top-five priority. So I'm going to start with this issue.

We agree that this budget must be a climate action budget with substantial federal investments to make the transition to a low-carbon economy. The Green Economy Network has done some research into this area. It called for an additional \$81 billion in investments over the next five years. That works out to about \$16 billion per year in building retrofits, renewable energy and energy efficiencies in different industries, public transit and high-speed rail. It estimates that this could reduce our greenhouse gas emissions by up to 35%, which would meet our targets for 2030, and these investments could also create an estimated one million person years of employment. It would be good for the environment and the economy.

How could this be paid for? First of all, the federal government should finally eliminate subsidies to the fossil fuel industry, as these work contrary to our climate goals. The parliamentary budget office estimates that the federal government could recover over \$2.5 billion annually by eliminating a few tax subsidies for oil, gas and mining corporations.

Second, the federal government should strengthen its carbon tax framework by limiting the preferences for large emitters. It should convert the cap and trade program to a transparent carbon tax but with border carbon taxes and rebates, as the EU is planning to do, so you have border tariffs on the imports and then rebates for exporters. This would maintain the competitiveness of Canadian industries, such as the steel industry, and provide an incentive for other countries to also take action.

The federal government could also generate many billions more by closing regressive and ineffective tax loopholes, as we've argued for a number of years.

We're glad to see the government planning another review of tax expenditures and that this one is going to be public, but it could achieve far more than the \$1.5 billion that was projected in the fall economic statement. This review could be truly public and involve broad public consultations and input, and perhaps the finance committee could play a role in this as well.

One of the most regressive tax loopholes is, of course, the stock option deduction. I was glad to see the government take some steps on this, but we feel that it should be completely eliminated instead of the complicated and somewhat unfair proposal that was included in the 2019 budget.

We're also glad all parties agree that large foreign e-commerce companies should be required to pay tax on the business and revenue they generate from Canadians and that this is included in the platform and the plans for the government.

Applying the GST and sales taxes to imports of all digital services, including advertising, is essential to level the digital playing field and to making Canadian producers competitive.

Applying a digital sales tax to the revenue of large foreign e-commerce corporations is also an important step on the route to real international corporate tax reform, which is now under discussion at the OECD.

Together with this, Canada should certainly put limits on the interest payments that corporations can deduct from their profits, particularly to offshore subsidies. We're glad that the government is planning this, but the cap should be reduced to 20% or lower. The OECD recommended 10% to 30%.

The federal government could also end the ability of corporations to shift profits to offshore affiliates, by requiring corporations to demonstrate that these affiliates carry out actual economic activity. There was a recent report by the IMF that calculated that approximately 40% of the foreign direct investment overseas is actually in shell corporations. It's not for any actual economic purpose.

• (1925)

Ultimately, we should shift to an international corporate tax system with unitary taxation of corporations and apportionment of their profits according to a formula that reflects real economic activity just as we allocate corporate profit for tax purposes between provinces in Canada. The U.S. does the same thing as well.

We also need increased investments in the Canada Revenue Agency. Funding for the CRA only just recovered last year to what it was 10 years ago in real dollar terms. We were glad to see the Conservatives also pledge for increased investment in tax compliance and enforcement, as this would pay back many times in increased revenues to reduce the large tax gap.

I welcome any further questions and discussions. Thank you very much.

The Chair: Thank you, Mr. Sanger.

I think we'll restructure the rounds. The first round will be four questions at five minutes apiece, and the second round four questions at four minutes apiece. That will give eight people a chance to ask questions.

Mr. Martel, and then Mr. Fraser.

[*Translation*]

Mr. Richard Martel (Chicoutimi—Le Fjord, CPC): Good afternoon.

My first question is for Ms. Cobden.

I want to know whether the assistance that you received to address the American tariffs was beneficial.

[*English*]

Ms. Catherine Cobden: Absolutely. I'm assuming you're talking about the investment assistance through the strategic innovation fund that took place as a result of the tariffs. It's important to understand that the tariffs had a deep and relentless effect on the Canadian steel industry. They were uncalled for, and they put us back on our heels. Certainly, that was an important step, an important program, for us.

[*Translation*]

Mr. Richard Martel: I want to further discuss the assistance that you received to address the American tariffs. The SMEs in the aluminum sector believe that they were treated unfairly with regard to this assistance. Do your members also believe that they were treated unfairly in this area?

[*English*]

Ms. Catherine Cobden: It's important to recognize that the government was working with what it could. Definitely, the SIF program generated important investments that focused on our competitive position, started some of our green transformation, and helped to ensure that our industry had an opportunity to attract investment.

However, the facts are that we lost about a billion dollars of investment over that period of time. We cannot underestimate the impact of the tariffs on the industry, which was my earlier point, but at the same time, we're very grateful to have had a program that helped us get some investment happening again in the sector.

[*Translation*]

Mr. Richard Martel: With respect to rare earth, do you feel that our industry is lagging behind in terms of competitiveness and innovation?

[*English*]

Ms. Catherine Cobden: I can't comment on rare earths specifically, but as an industry, we are under intense pressure from unfairly traded imports from around the world. It is something that we must remain vigilant on, and we must ensure that we have all of the trade mechanisms as sufficiently as possible to deal with those unfairly traded imports.

Overall, are we suffering from this? Yes, we are. The entire North American market is suffering from this challenge, and now that we are out of the tariff situation, we're happy to be working with our U.S. counterparts as well on ensuring that we create this North American perimeter to allow our industries the conditions of success for competitiveness.

When you have other governments elsewhere in the world propping up their steel sectors through heavy subsidization and unfair practices, that creates a tremendously difficult challenge for the Canadian and, frankly, North American steel industry to compete.

• (1930)

[*Translation*]

Mr. Richard Martel: Would it be feasible and realistic to implement a low-carbon procurement policy that applies to all three countries, namely, Mexico, Canada and the United States?

[*English*]

Ms. Catherine Cobden: Yes. As I tried to allude to in my remarks, we think that's an excellent opportunity, and it's one that can be managed because we know that when we use Canadian steel in Canadian projects, we have a very significantly reduced carbon footprint compared with some of those foreign imports from far-away places. The transportation alone means that we have about one-third of their emissions, right? We have a very significant opportunity to demonstrate that we have a lower carbon footprint and, therefore, that we can help.

[*Translation*]

Mr. Richard Martel: Could we implement a procurement policy that applies to all three countries? I know that there are lower carbon footprints, but I want to know whether the three countries could agree to adopt a low-carbon procurement policy for either aluminum or steel.

Would this be possible?

[*English*]

Ms. Catherine Cobden: Yes, I think we should be looking at our own domestic procurement policy as a starting point to show how it can be done and to show how it's supportive of lower-carbon-footprint steel in our marketplace. Then we can pursue discussions with others—that's fine—but I think we should start at home.

The Chair: We'll have to cut it there, Mr. Martel.

Madam Koutrakis.

Ms. Annie Koutrakis: My question is for Catherine Cobden.

Thank you very much, all three of you, for being here today and addressing what is important to each of your sectors. I'm a new member of the finance committee, so please indulge me.

I have two questions, Catherine. First, I'll continue in the vein of the U.S. tariffs being lifted. What type of growth can we expect to see in the steel sector as a result of the removal of the tariffs?

Ms. Catherine Cobden: The removal of the tariffs was a very important step for the Canadian steel industry, as you can well appreciate. They really eroded our competitive position. As I mentioned already, that saw a lack of investments coming into the industry.

Now that they've been removed, we've addressed a significant part of our problem in the United States, so that's good, but overall we still have the import problem to address. I would not be doing my job well if I painted the portrait that things are rosy now that we have solved the tariff crisis. While we're very grateful for that, we still have these crazy challenges.

The good news is that we can now work together with the United States to solve some of these issues. That really points to truly seeing investment start to roll significantly in the sector and seeing the competitive position come forward. I think it really points to continuing to take a look at the trade remedies system and continuing to make sure that we're treating imports well, that we know what's coming into our country, and that we know how it's being handled, especially in steel.

I mentioned earlier the overcapacity. It's about 36 times the entire Canadian production, the steel out there trying to get in. These are forces that are well outside of all our control, yet it is very necessary for us to be aware of them and to ensure we're doing what we can to avert the dramatic impacts that they're having on the sector.

Ms. Annie Koutrakis: Okay.

If this were Christmas all over again and you could give us, maybe, one or two recommendations that you would like this government to see in the next budget, what would they be?

• (1935)

Ms. Catherine Cobden: Well, I've mentioned the trade remedies, and I'm going to say that they will continue to always be there, given the situation. Then I also talked about—and I hope you took note of it—our interest in generating solutions to reduce our carbon footprint. We are a large emitter, but we have the will and the interest to collaborate, to do more. The problem is, as you know, a lack of options.

If I had a Christmas wish, it would be that we have a lot more technologies available to drop our emissions fast because we know. The reason for doing that.... Government signals are one thing, but there are also signals in the marketplace with regard to this. There are also signals in civil society and from our bankers. This is an important issue for the industry to address at a business level.

Thank you.

Ms. Annie Koutrakis: Sean?

Mr. Sean Fraser: Sure.

How much time is left, Mr. Chair?

The Chair: We'll give you two minutes.

Mr. Sean Fraser: Okay. Thanks very much.

Dr. Bechard, thank you very much for being here.

Obviously, on the heels of Dr. Hoskins' report, tackling national pharmacare has to be a priority. I think there are some jurisdictional things that need to be sorted out and that I hope won't get in the way. You did an excellent job, I thought, of summarizing the fact that this can actually pass on a cost savings to the taxpayer and also increase social good. I'm curious as to whether you've identified a certain sector of society that will be the primary beneficiary of taking on this kind of approach.

Dr. Melanie Bechard: I think it's an excellent question. Truly it benefits society at multiple levels: of course, the end-users, the patients, each of us who will be taking prescription medication in order to stay healthy.

I think businesses, particularly small businesses, are often forgotten when we discuss the potential benefits of a pharmacare program. They are paying for increasingly expensive and unsustainable private drug insurance plans, especially as medications become evermore expensive. We know that drug costs are particularly high in Canada. We are getting to the point where we almost cannot afford not to have a universal pharmacare program.

Definitely there are health benefits to each individual Canadian, but I think the economic benefits to small businesses are really undersold.

Mr. Sean Fraser: In the 30 seconds I have remaining here, I'm trying to wrap my mind around a cost to implementing a system. The savings may be across society, but somebody will pay that cost.

If we were to essentially say that tomorrow we have a single-payer system and the government, through a national formulary, is going to organize and bulk purchase, then we may see systemic savings. That cost savings, as you pointed out, would be passed on largely to the private sector employers who are currently paying for these plans.

I want to ensure that we're not accidentally enriching private sector companies if the end game is to save taxpayers' money.

You're not going to have time to answer this, but if you have feedback to point us in the right direction as to how we can make sure the systemic savings are passed on to the taxpayer and not just private sector companies, I would welcome a follow-up through the clerk of our committee on the heels of this meeting.

The Chair: Do you want to add something quickly, Melanie?

Dr. Melanie Bechard: Absolutely.

As you're probably aware, the Hoskins report anticipates an average savings of \$350 per year for the average Canadian family, and about \$700 per employee for Canadian businesses offering private drug plans. That's what we can anticipate at the end-user level, but I would be happy to talk offline, or online rather, with more details.

Thank you.

The Chair: Okay.

Mr. Ste-Marie.

[*Translation*]

Mr. Gabriel Ste-Marie: I want to thank the three witnesses for joining us and for giving their presentation.

My first question is for Mr. Sanger.

I'm particularly interested in the fight against tax avoidance, meaning the practice of large companies using tax havens to avoid paying their taxes. I suppose that we share this concern. When we look at the work done by the OECD, we can see that, compared to other OECD countries, Canada is always slow to implement measures to address both tax evasion and tax avoidance.

However, to my great surprise, the mandate letter sent by the Prime Minister to the Minister of Finance seems to contain a number of components indicating a desire to fight tax avoidance. The letter specifically states the following:

Modernize anti-avoidance rules to stop large multinational companies from being able to shop for lower tax rates by constructing complex schemes between countries.

Close corporate tax loopholes that allow companies to excessively deduct debt to artificially reduce the tax that they pay.

You spoke about this matter earlier. In your opinion, what additional measures could be adopted quickly?

● (1940)

[*English*]

Mr. Toby Sanger: You talked about—and I hope I got the questions correctly—there being a large amount. I've been surprised in my experience of how many taxes are avoided through international corporate profit shifting. One company, Cameco, of course, was in court for over \$2 billion. Internationally, the OECD estimates that approximately 1% of the GDP of OECD nations is lost to tax shifting. These tend to be larger corporations, so there's an unfairness there. The parliamentary budget office also came out with some estimates on that.

A couple of the ways that corporations avoid taxes and shift are, one, the interest deductibility rule. The OECD has proposed some measures to limit that to 10% to 30% of profits. I was glad to see this included in the Liberal government's platform. Another one is through intellectual property. These are a number of the different measures that are used.

The thing is that the the international corporate tax system is based on the arm's-length rule and also on transfer pricing. We should be moving to a system that is similar to what we have in Canada, which allows formulary apportionment—sorry, “formulary apportionment” is not a sexy term—basically allocating the profit between countries, as we do provincially, according to real economic factors. So there's another provision that can also be used in that way, namely, economic substance or unitary taxation of multinational corporations.

Does that help?

[Translation]

Mr. Gabriel Ste-Marie: Yes, indeed. Thank you.

Mr. Toby Sanger: Okay.

Mr. Gabriel Ste-Marie: My next question is for Ms. Cobden.

After the incident involving the illegal taxes imposed by the Americans on our steel and aluminum industry, we're now faced with a new agreement between Canada, the United States and Mexico. In your opinion, are there sufficient protections provided for your industry in the new agreement?

[English]

Ms. Catherine Cobden: Yes, I must say that we are very happy with the outcome of the CUSMA, with what it looks like. In fact, I've been on the public record on several occasions now to say that the Canadian Steel Producers urge the swift passage of CUSMA. It is a very good deal for the steel sector. I believe it moves the needle significantly for the metals industry overall. We really now have to get the job done, please.

[Translation]

Mr. Gabriel Ste-Marie: The agreement states that steel auto parts must not only come from North America, but must also be melted down in North America. Do you think that this makes a difference? It seems that the aluminum could come from Chinese dumping, since these parts don't need to be melted down in North America.

Do you think that this factor is significant?

[English]

Ms. Catherine Cobden: Actually, we feel that CUSMA very much strengthens the North American content requirements both in the rules of origin and in the subsequent down-the-road additional criteria in seven years time, specific to auto. From our perspective, this really does strengthen the competitiveness of the North American steel industry and moves it forward for us in a significant way. I stand here today telling you that we're very committed to this deal. We need to get it done.

The Chair: Okay. Thank you.

Mr. Julian, you have five minutes.

Mr. Peter Julian: This is awesome testimony. Thank you very much for being here.

We could ask a lot of questions, but I'll start with you, Dr. Bechard. You were very eloquent about the impacts of not having a universal pharmacare in place. I will just give one brief example. A family in my riding of New Westminster—Burnaby is paying a \$1,000 a month for heart medication. They are now having to choose whether they can continue in their home or if they have to put all of family resources to the heart medication.

You mentioned that national standards and a funding agreement are the two steps. As you probably know, the NDP is bringing forward a private member's bill that would deal with the issue of national standards. What remains, then, are the funding agreements that the federal government needs to negotiate with the provinces.

I guess my question is this. How important is it that this be in this year's budget, that the federal government, in this budget, make sure that the funding foundation is present, so we can move ahead with pharmacare now and not wait another decade for putting in place a valuable program?

• (1945)

Dr. Melanie Bechard: Perfect. Thank you very much for the question.

I think no one will be surprised when I say it's critically important that we get movement in this year's budget. As some folks might already be aware, in the 2019 budget there was some funding for a Canadian drug agency. That has already been provided, to start an organization that can work toward this very evidence-based formulary of the most needed and effective medications so that we can get started.

There's also been some funding set forward for a national strategy for rare diseases. Some of us might be familiar with the fact that the more rare diseases often have very specialized and very expensive medication. It was determined in the Hoskins report that this likely needs to have its own strategy.

We have these moving pieces in place already. It seems as though we've already put together some funding and a lot of effort toward getting the foundation ready. If we don't continue to proceed with this momentum, we really have not made the most of that funding that's already been invested. I think the momentum is already there. We know that Canadians overwhelmingly support the idea of national pharmacare. I think at this point it's not a matter of if, but when.

In the meantime Canadians, in both the private and public sector, are paying way more for our medications than we need to. So it's critical to act quickly.

Mr. Peter Julian: Thank you very much. I'll move on to Mr. Sanger.

You spoke very eloquently about the impacts of the stock options deduction; the lack of any sort of taxation regime for the web giants; and the fact as well that we require a lot of funding to catch up and fight the climate emergency. The PBO produced a report, which we discussed at our last finance committee meeting back in June 2 prior to the election, that conservatively estimated losses of \$25 billion a year for the overall tax system because of the impacts of overseas tax havens.

How important is it to really move forward in this budget with a fair tax system to address all of these inequalities, so we can make the investments that so many families are looking for in affordable housing, pharmacare and dental care—all these other areas where Canadians have had to pay such a price because of our unfair tax system?

Mr. Toby Sanger: I think it's quite surprising to a lot of people how much revenue is lost in these different areas to tax havens and loopholes. The other aspect of this is that it's important for businesses to be on a level playing field in this area as well. Right now, it is the larger corporations, in particular, that can avoid taxes through international tax dodging and, to a certain extent, domestically as well.

It was interesting to see the CRA's report on the tax gap. It was different from the PBO one, but there was even more of a tax gap for larger corporations. It was significantly larger. It's absolutely essential to take steps as soon as possible. That, as I've mentioned, can be very important to help fund different areas. It could help fund pharmacare. It could help fund investments in a green economy as well.

The Chair: We are turning now to Mr. McLean and then Mr. Fragiskatos, with four minutes apiece.

Mr. Greg McLean (Calgary Centre, CPC): My first question goes to Ms. Cobden.

I'm a former steel worker and very pleased to see that you've decreased CO2 emissions by 31% over 30 years. Let's call it 1% per year. I understand that in order to make a big jump ahead, we're going to have to get some innovative technologies to make that happen. One percent per year is a good base if we can continue along that way. Obviously, some industries will do better, but it's nice to see steel on that track.

You did talk a lot about the CO2 tax and how much you're in favour of transitioning the industry to this new CO2 paradigm, and

yet you want all the tax to go back to the industry so that it can innovate. You want the CO2 tax applied against imports, including from trading partners that are covered under certain trade agreements at this point in time. It seems like the cost of this CO2 system is going to be more expensive and more difficult, more onerous to administer, than not having a CO2 tax at all on your industry.

Would it be fair for me to say that you're actually not in favour of this, given the fact that it takes so much gerrymandering to make it work in the long run?

• (1950)

Ms. Catherine Cobden: Just to clarify my comments, we are going to see large emitters pay about \$200 million per year into the industrial component of the program. There's been some discussion already on revenue recycling, that it should go to the province from which it came and all of that. That's fine. Our view is that it should be recycled back to the industries that can make the biggest change with the money in order to see our overall carbon emissions as a country go down. This is the essence of our situation.

I think you're right that 1% per year has been really good, and that's what will continue. I don't know how much more of that we're going to be able to do for the next 30 years, but we're going to continue to do it, and we'll get more improvement incrementally.

What we are really talking about for the new investment is transformation. How do we create those really new technologies of the future that recast how steel is made, not just in our country but globally? This is a real opportunity. No one else is doing it. We don't think this is something that can be done overnight. We think that we need a systemic, year-by-year approach to find those solutions and really make those things work. I have some experience in innovation. I know that good projects come and go—

Mr. Greg McLean: Let's go back to the question about the CO2 tax because you do seem to be working around it, as opposed to addressing it directly. We'll pay the tax, take it back, and apply a tax on everybody offshore coming in. Is it a difficult way to address a situation having to deal with a new tax on your industry?

Ms. Catherine Cobden: We operate in the world of what we have. What we have is a system, a regulatory system, that we need to meet. Basically, we do not see our competitors having to meet that system. So we are very concerned about leakage—

Mr. Greg McLean: Yes.

Ms. Catherine Cobden: —and we think there could be solutions for leakage. We're not necessarily saying that we need to tax them on their way in. We need to look at ways, though, that support the domestic industry's carbon objectives without having those unintended consequences—

Mr. Greg McLean: Yes.

Ms. Catherine Cobden: —that you've identified in your question.

Mr. Greg McLean: I hear you. I'd like to see what those are at some point in time.

My next question for you is something that I am curious about, Ms. Cobden. You talked about the inherent environmental benefits of Canadian steel.

Ms. Catherine Cobden: Yes.

Mr. Greg McLean: The last time I checked, steel is really composed of two inputs: metallurgical coal and iron ore. I don't know how those change as Canadian metallurgical coal goes over to China and is mixed with iron ore to make steel. Is it the shipping you're talking about that the footprint is on?

Ms. Catherine Cobden: Yes. The facts we can talk about specifically are the transportation costs. Of course, to your earlier comment, our industry is also in a regulatory framework that has seen us improve our emission portfolio and our emission profile. But on a transportation level alone, we would have about a third of the emissions of imports coming in from China.

The Chair: We'll have a little time later if you have another supplementary question, Greg.

Mr. Greg McLean: Can I ask a question of Mr. Sanger?

The Chair: We'll get back to you later. You have an opening later.

Mr. Fragiskatos.

Mr. Peter Fragiskatos: Thank you to the witnesses.

Ms. Cobden, when the question was raised earlier about the measures that the steel sector has taken on the environment, you talked about signals from the market, but then you expanded the list to include “signals...from our bankers”, in your words. Could you expand on that?

• (1955)

Ms. Catherine Cobden: Yes. I think that it's—

Mr. Peter Fragiskatos: I think I know what you mean, but...

Ms. Catherine Cobden: We're seeing the investment community as well ask questions about the carbon performance of our industries. By the way, I don't think this is limited to any one industry.

Mr. Peter Fragiskatos: No, certainly not.

Ms. Catherine Cobden: I think this is a shift that's been taking place.

Mr. Peter Fragiskatos: We heard that in an earlier session today.

Ms. Catherine Cobden: Oh, you did?

Mr. Peter Fragiskatos: I think Mark Carney's name has been referenced at the meeting as well.

In terms of the innovations this sector is looking at moving forward with, what are some of the most important ones that you or the sector has seen, writ large, over the past few years? How can we as a federal government help to spur that further?

Ms. Catherine Cobden: Can I just clarify? Are you asking for innovation related to climate or—

Mr. Peter Fragiskatos: I meant to climate, excuse me, yes.

Ms. Catherine Cobden: Oh, you meant to climate specifically.

We have some very interesting beginnings of collaborations going on, whether it's to look at long-term transformation of the steel production process to get rid of the use of carbon entirely....

By the way, we're working with the coal industry on that. We really believe in working collaboratively to find these solutions. They're long-term solutions; they're not going to happen overnight. We have some interesting opportunity with the forest sector as well, where instead of inputting carbon in its fossil form, we use it in our process in its biological form, which has a carbon benefit, etc.

So there are some very intriguing starts, if I might say, but the point I want to make is that we need to accelerate this work. The steel sector can't do that on its own. The scale of the investment and the partnerships required are simply too large.

Mr. Peter Fragiskatos: Mr. Chair, with a final question, I'll turn to Dr. Bechard.

Dr. Bechard, I'm a member of Parliament from London, Ontario, which is home to the Bethanys Hope Foundation, focusing on a rare disease called metachromatic leukodystrophy. I wonder if your organization has any particular thoughts on rare diseases, particularly within the framework of how we might approach pharmacare. I know that in last year's budget there was a move in this direction, to support individuals struggling with rare diseases in their families. But have you or your organization any thoughts that you could offer in that regard?

Dr. Melanie Bechard: Definitely. Thank you for raising the question.

With rare diseases, it is something that would be wonderful to include within pharmacare. I think that is everyone's vision going forward, recognizing, of course, that we might need to have a bit of a separate strategy in terms of how to identify the most efficacious medications and how to also purchase the medications themselves, given that oftentimes because they're for a smaller population they can be extremely costly and expensive. That being said, a lot of these very expensive medications can make a tremendous impact on somebody's life and ability to function and have a quality of life and also contribute to society and participate.

Absolutely, I really was thrilled to see that. The Hoskins report specifically mentioned that the area of rare diseases needs its individual, separate strategy, and I was also really happy to see the funding toward it. I don't know if I or Canadian Doctors for Medicare have any ideal solutions, other than saying that we do absolutely need to look at these medications and to fund them. But we might need a bit of a different process given the very long-term ability to see that medications are safe. Sometimes we don't always have that luxury with rare diseases. So I'm glad to see that it's treated separately.

Mr. Peter Fragiskatos: Thank you.

The Chair: Thank you all.

We'll come back to Mr. McLean for three minutes, and if there's a question on the Liberal side, we'll go with it for a couple of minutes.

Mr. McLean.

Mr. Greg McLean: Mr. Sanger, I picked up on one thing that you talked about with regard to the \$2.4 billion subsidizing the oil and gas industry. You cited the \$2.4 billion as being a subsidy for the oil and gas industry, and the mining industry. I presume you meant the actual flow-through benefit that primarily goes to the mining industry now, as opposed to the oil and gas industry.

I'll give you a chance to correct that after I ask my question.

In your report, you talk about government increasing royalty rates on the oil and gas sector, and tax rates, etc.

Are you aware of how much net benefit and tax are provided by the oil and gas industry to Canadian taxpayers currently? Is it tens of billions of dollars? Can you give me a number?

Mr. Toby Sanger: Are you talking about the amount that the industry pays directly or indirectly, or what?

• (2000)

Mr. Greg McLean: We'd be talking about tax revenue provided to different levels of government, both for corporate taxes and royalties, of course—things that fund hospitals and education.

All the programs that you would like to see in your agenda here have to come from somewhere. Are you aware of what that number is from the oil and gas sector?

Mr. Toby Sanger: Well there are different estimates.

First of all—

Mr. Greg McLean: There are actually really hard numbers.

Mr. Toby Sanger: I'm an economist and—

Mr. Greg McLean: Well, you should know numbers.

Mr. Toby Sanger: —people do different calculations of that.

The figure that I cited wasn't the flow-through. That's a Canadian development expense.

Mr. Greg McLean: The development expense is flow-through.

Mr. Toby Sanger: There are flow-through shares as well.

I thought that you were referring to—

Mr. Greg McLean: Canadian development expenses are flow-through shares by another name.

Mr. Toby Sanger: Okay.

Am I aware of the total amount? I mean, all industries pay taxes in different ways, and royalties.... The effective tax rate on the oil and gas industry has tended to be a bit lower than other sectors.

Mr. Greg McLean: The number I'm looking for is about how much is provided by the oil and gas industry—

Mr. Toby Sanger: You know what? I can tell you what the deficit or the net debt is. I can't....

This is not 20 questions, right?

I don't have that number. I don't know what the industry has put out on that.

Mr. Greg McLean: *[Inaudible—Editor]*

The Chair: No, let Toby answer.

An hon. member: *[Inaudible—Editor]*

The Chair: Are we done? Are there any last remarks from the witnesses?

Okay, I'll thank the witnesses for their presentations. We had an interesting exchange at times.

Committee members, we will meet tomorrow at 11 o'clock for further witnesses.

Again, thank you for getting together quickly to make a presentation.

We are adjourned.

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