

Securing progress in an uncertain world

Budget 2001

Strategic Investments: Bridging to the Future



Department of Finance
Canada

Ministère des Finances
Canada

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Budget 2001

Canadians today face a period of significant economic uncertainty.

For the first time in 25 years, we find ourselves in the midst of a global economic slowdown, which has been made worse by the September 11 terrorist attacks on the U.S.

Budget 2001 builds on the Government's long-term plan for a stronger economy and a more secure society, but it also responds to immediate economic and security concerns. It does this in four ways:

- first, it provides a timely boost to the economy at a time of global weakness and uncertainty and positions Canadians to take full advantage of the recovery expected next year;
- second, it acts to build personal and economic security by keeping Canadians safe, terrorists out and our borders open and efficient;
- third, it keeps the nation's finances healthy by balancing the budget this year and for the next two years; and
- fourth, it fully protects the \$100-billion tax cut and the \$23.4 billion in increased support for health care and early childhood development.

“Our economic success, our ability to create jobs, will be determined, first and foremost, by the degree to which we demonstrate an understanding of the great currents that are shaping the world of tomorrow.”

Finance Minister Paul Martin
2001 budget speech

Highlights

Budget 2001 addresses immediate needs through targeted, strategic investments that provide a stimulative boost to confidence in the economy. It does so as it advances, in a fiscally affordable way, the long-term plan the Government has put in place.

1. Investing in Health Initiatives

Because Canada’s publicly funded health care system reflects the fundamental values shared by all Canadians, the budget:

- confirms that the \$23.4 billion in funding to support health and early childhood development agreements reached by first ministers in September 2000 is fully protected;
- further strengthens the federal government’s contribution to Canada’s health care system by providing \$95 million to the Canadian Institute for Health Information; and
- provides a \$75-million increase to the annual budget of the Canadian Institutes of Health Research.

2. Investing in Skills, Learning and Research

Because the Government is committed to providing every opportunity for Canadians to upgrade their skills, and because research today is the source of new jobs tomorrow, the budget includes more than \$1.1 billion over three years to support skills, learning and research by:

- increasing funding for sector councils;
- improving support for people with disabilities who pursue higher education;

- reducing waiting period provisions for apprentices in the employment insurance program, allowing an income tax deduction for apprentice vehicle mechanics' tools, and assisting mentoring and business support to young entrepreneurs;
- exempting from income tax tuition assistance for adult basic education provided under certain government programs and extending access to the education tax credit;
- helping offset indirect research costs at universities and research hospitals;
- supporting leading-edge technologies and expanding regional innovation initiatives across the country through increased funding to the National Research Council of Canada;
- providing additional funding to the Natural Sciences and Engineering Research Council and the Social Sciences and Humanities Research Council; and
- extending funding for Internet initiatives including SchoolNet, the Community Access Program and Government On-Line, and building CA*net 4, a new generation of Internet broadband network architecture.

In total, the Government's expenditures on science and technology are estimated at \$7.4 billion in 2001-02, an increase of 25 per cent from the previous peak.

3. Investing in Strategic Infrastructure and the Environment

Because investments in infrastructure will both stimulate job creation and confidence in the short term and make the economy more productive and competitive in the long term, the budget announces targeted investments of nearly \$3 billion that:

- create the Strategic Infrastructure Foundation, with a minimum federal commitment of \$2 billion, to fund large strategic projects;
- confirm \$680 million in funding for a capital grants program to alleviate the shortage of affordable rental housing;
- double funding to the Green Municipal Enabling Fund and the Green Municipal Investment Fund;
- enhance incentives for renewable energy and energy efficiency projects.

4. *Aboriginal Children*

Because the well-being of Aboriginal children today will lead to stronger First Nations communities in the future, this budget provides \$185 million over the next two years to:

- enhance programs such as child care and head start programs, which support early childhood development;
- intensify efforts to reduce the incidence of fetal alcohol syndrome and fetal alcohol effects on reserves; and
- provide increased funding to support children on reserves who have special needs at school.

5. *Furthering International Assistance*

Because Canada recognizes the importance of helping those most in need beyond its borders, the budget increases international assistance by \$1 billion over three years. Among other things, the budget will:

- commit \$500 million to a fund promoting sustainable development in Africa; and
- provide humanitarian emergency assistance in Afghanistan.

Introduction

The Government's overarching goals are to build a strong economy and secure society and to improve the quality of life for Canadians. The strategic investments in this budget help achieve these objectives by dealing with the needs of today. At the same time, they serve as a bridge to a better tomorrow.

This budget does so with investments that are consistent with the Government's long-term plan. By investing responsibly now in key initiatives, the Government is achieving two important goals. It is helping to support Canadians and the Canadian economy through the current period of economic weakness and uncertainty, while meeting its ongoing commitment to a more innovative economy and inclusive society.

In each case, decisions are based on these two criteria. First, the investment must be consistent with advancing the Government's long-term agenda. Second, it must fit within its prudent fiscal framework and, where possible, provide stimulus during a period of economic weakness and uncertainty and position Canada to take advantage of the economic recovery.

The economic stimulus in this budget is both significant and timely. When coupled with other spending initiatives coming on stream this year, the total impact is \$9 billion this year, growing to \$11 billion next year. This is in addition to the stimulus provided by the large tax cuts announced in October 2000 and the substantial decline in interest rates this year.

By investing in strategic infrastructure, in skills, learning and research, and in health, Aboriginal children, the environment and international assistance, the 2001 budget reflects the Government's long-term vision while providing important support now for the economy.

It represents another important building block in the Government's balanced agenda of jobs, growth and opportunity.

Investing in Health Initiatives

Canada's publicly funded health care system reflects the fundamental values shared by all Canadians. It gives Canadians the security of knowing that they have access to high-quality care when they need it.

Confirming Increased Funding for Health Care

In September 2000 a historic agreement was reached by first ministers on a shared approach and action plan for renewing health care services and reporting to Canadians on progress made. Agreement was also reached on increased support for early childhood development.

This budget confirms that the federal funding of \$23.4 billion in support of these agreements is fully protected. This includes \$21.1 billion in transfers to the provinces and territories through the Canada Health and Social Transfer (CHST) and \$2.3 billion in targeted health funds for medical equipment, new information technologies and primary care reform.

The CHST is the main program through which the federal government supports health care. In 2001-02 CHST cash will increase by \$2.8 billion, bringing the cash total to \$18.3 billion. In 2002-03 CHST cash will grow to \$19.1 billion, a \$3.6-billion increase over 2000-01. By 2005-06 CHST cash will reach \$21.0 billion – a \$5.5-billion or 35-per-cent increase over 2000-01 levels.

Providing Growing, Stable and Predictable Funding for the Provinces and Territories

Table 1

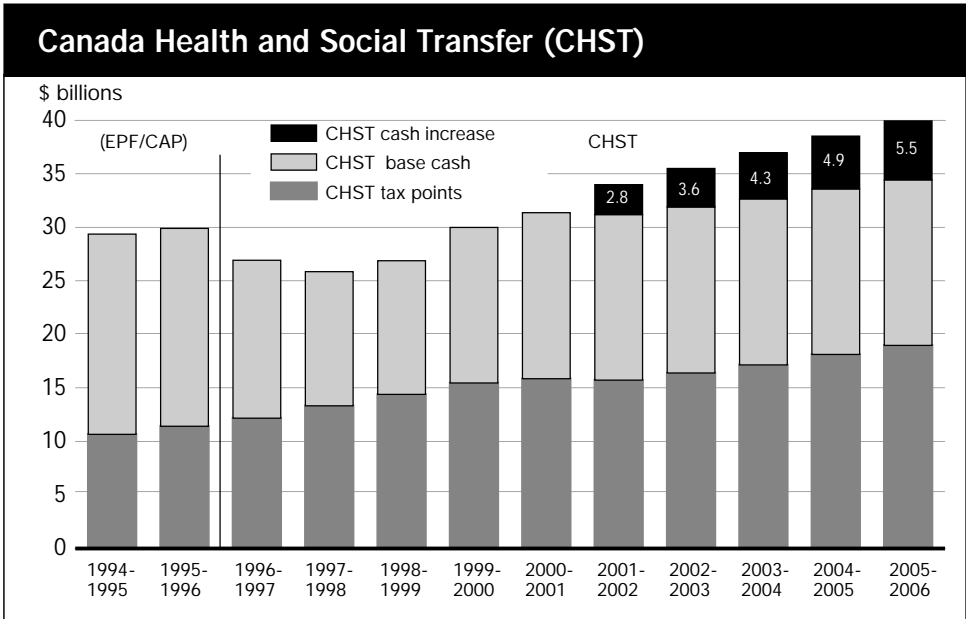
Funding Commitments of the Government of Canada to Accompany the Agreements on Health Renewal and Early Childhood Development

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	Total
	(billions of dollars)						
Canada Health and Social Transfer							
Base cash ¹	15.5	15.5	15.5	15.5	15.5	15.5	–
General cash increase	–	2.5	3.2	3.8	4.4	5.0	18.9
Early childhood development		0.3	0.4	0.5	0.5	0.5	2.2
Total CHST cash	15.5	18.3	19.1	19.8	20.4	21.0	–
Medical Equipment Fund	0.5	0.5	–	–	–	–	1.0
Health information technology	0.5	–	–	–	–	–	0.5
Health Transition Fund for Primary Care	–	0.2	0.2	0.2	0.2	–	0.8
Total cash²	16.5	19.0	19.3	20.0	20.6	21.0	–
Total cash increase							23.4

¹ Base CHST cash includes the CHST supplements in Budget 1999 (\$3.5 billion) and Budget 2000 (\$2.5 billion).

² Sum of total CHST cash transfers and funding for non-CHST measures.

At the same time, the tax transfer component of the CHST, which grows in line with the growth in the economy, provides increasing support to the provinces and territories, as illustrated in the chart below, growing from \$16.5 billion in 2000-01 to \$18.8 billion in 2005-06. Together with the increases in CHST cash, total CHST will reach close to \$40 billion in 2005-06, compared to approximately \$32 billion last year.



Notes: Established Programs Financing (EPF) and Canada Assistance Plan (CAP) transfers to the provinces were replaced by the CHST in 1996. CHST base cash includes both the CHST supplements of Budget 1999 (\$3.5 billion) and Budget 2000 (\$2.5 billion). The CHST cash increase is the funding provided in September 2000 in support of agreements on health renewal and early childhood development.

New Health Investments

Budget 2001 further strengthens the federal government’s contribution to Canada’s health care system and the health of Canadians by investing substantial additional funds in health information systems and health-related research and innovation.

The Canadian Institute for Health Information

The Canadian Institute for Health Information (CIHI), established in 1994, is playing an increasingly central role in providing Canadians, health care providers and policy-makers with information on the health of Canadians and the health care system.

The 1999 budget provided \$95 million to the CIHI to support it over four years. This budget renews the \$95 million for an additional four years, to be used in conjunction with Statistics Canada, to continue to provide quality and timely health information. This will include developing common health indicators so that nationwide, comparable information is available.

In addition, this budget provides \$5 million over two years to Health Canada so that it can produce health data on First Nations' people on reserve. This information is important to understanding health trends and emerging issues.

Canadian Institutes of Health Research

In Budget 1999 the Government announced the creation of the Canadian Institutes of Health Research (CIHR) through a combination of existing resources for health research and an incremental annual investment of \$175 million. Already, the CIHR has established 13 Institutes across the full spectrum of health research, including the Institute of Cancer Research, the Institute of Nutrition, Metabolism and Diabetes, the Institute of Gender and Health, the Institute of Healthy Aging, the Institute of Neurosciences, Mental Health and Addiction, and the Institute of Aboriginal Peoples' Health.

All the Institutes embody an innovative and integrative approach to health research. As part of their research activities, all Institutes include biomedical research, clinical research, and research on health systems, health services, the health of populations, societal and cultural dimensions of health and environmental influences on health.

To further support leading-edge health research of this kind and its translation into economic benefits for Canadians through a commercialization strategy developed by the CIHR, this budget provides a \$75-million increase to the annual budget of the CIHR. This investment brings the CIHR's annual budget to over \$560 million, more than double the federal funding provided four years ago.

Genome Science Research

Genomic science – the study of the genetic code in people, plants and all other living things – is key to the advancement of biotechnology, a driving force in the new economy. Research in this field is leading to major breakthroughs in our understanding of living organisms and, in the area of human health, will revolutionize the identification and treatment of diseases.

Budget 2000 invested \$160 million in Genome Canada, a not-for-profit corporation that supports genome science activities throughout Canada. An additional investment of \$140 million was made in Genome Canada at the end of 2000-01. The Government has also increased funding for its regulatory activities concerning genomics to ensure that the new technologies respect and preserve the environment and Canadian ethics and values.

This budget announces a contribution of \$10 million to the BC Cancer Foundation in recognition of the seminal work of the late Dr. Michael Smith. Dr. Smith was the founding director of the Genome Sequence Centre (GSC) at the BC Cancer Research Centre and won the Nobel Prize for his work on DNA sequencing. The Government's contribution will support ongoing research at the GSC.

Recent Federal Initiatives in Support of Health

- The Government has also increased significantly its targeted funding to support the purchase of up-to-date medical equipment, improve health information systems and accelerate changes in the way primary health care is provided to Canadians.
 - The **Medical Equipment Fund** provides provinces and territories funding of \$1 billion for the purchase and installation of medical and diagnostic equipment, such as MRI machines, CAT scanners, radiation therapy machines and other diagnostic and treatment equipment.
 - The **Health Transition Fund for Primary Care**, which supports innovation and reforms in primary care for Canadians, received \$800 million over four years.
 - To support health information and technologies, the **Canada Health Infoway Corporation** was established with a \$500-million investment. Development of electronic patient records is a priority for this new corporation.
- As well, the Government has increased significantly its own programs and services in health and health care, including health protection, disease strategies, and services for First Nations.
- As part of its comprehensive strategy to improve the health of Canadians by reducing tobacco use, the Government:
 - raised taxes on tobacco products in April and November 2001; and
 - increased funding for tobacco control programs.

Investing in Skills, Learning and Research

It is now widely recognized that skills, learning and research are critical to success in the global knowledge-based economy. A more educated and skilled labour force is a key driver of productivity and hence the competitiveness of workers, firms and other organizations. Enhanced approaches to the development of a skilled workforce are needed, approaches rooted in Canada's universities, colleges, trade schools and other educational institutions, and based on a spirit of entrepreneurship and lifelong learning.

Research and development are equally important. Research creates ideas and pushes forward the frontiers of knowledge. Development translates that knowledge into new products, services and technologies that are key to high-value-added jobs and growth in all sectors of the Canadian economy.

The Government has long recognized the value of investing in people – in literacy and in the education system, which provides advanced skills and individual economic security; in on-the-job training, which supports job-specific skills; and in universities and other centres of advanced research, where the ideas and instructors of the future are found. That is why, in Budget 1998, the Government introduced the Canadian Opportunities Strategy, a comprehensive plan that built on previously introduced measures to expand access to the knowledge and skills needed for better job opportunities in the 21st century.

Under the Strategy, the Government introduced Canada Millennium Scholarships, Canada Education Savings Grants and the Canada Research Chairs program. It invested heavily in the Canada Foundation for Innovation to upgrade the country's research infrastructure, and it brought the combined budgets of the three granting councils to their highest level ever, a total of more than \$1.1 billion annually. The Government also increased funding for research and development programs of direct relevance to the private sector and provided tax encouragement for entrepreneurship, given that more research and development by individual businesses, both large and small, across Canada are key to Canada's future economic performance. In total, the Government's expenditures on science and technology are estimated at \$7.4 billion in 2001-02, an increase of 25 per cent from the previous peak.

Skills and Learning

In this budget the Government is doing more to encourage the acquisition of skills and learning by Canadians.

Sector Councils

Sector councils are industry-wide partnerships that bring together employers, unions, workers and educators to assess future employment patterns, skill requirements and training practices in different sectors of the economy. Based on this analysis, practical measures are developed to help employers and workers meet and adapt to the changing needs of each sector. There are currently 29 sector councils.

This budget provides \$24 million over the next two years to increase support for exemplary councils and expand the network of councils to other strategic sectors of the economy. When fully phased in, the Government's support of sector councils will double to \$60 million per year.

Canada Study Grants for Persons With Disabilities

This budget will improve support for persons with disabilities who pursue higher education. Because many people with disabilities must incur special costs to pursue higher education, Canada Study Grants of up to \$5,000 a year are currently available to help pay the cost of services and equipment such as tutors, interpreters (oral, sign), attendant care for studies, specialized transportation to and from school, learning disability assessments, note takers, readers and braille. Such assistance currently helps more than 4,500 students with disabilities at an annual cost of about \$9 million.

This budget increases the maximum grant to cover exceptional costs associated with disabilities from \$5,000 to \$8,000. It is anticipated that this will address the problems faced by students with very high-cost disability-related needs.

Apart from these grants to help deal with exceptional costs, some students with disabilities may find that the maximum student loans available are not sufficient to meet assessed needs. In these cases, a supplementary grant of up to \$2,000 a year will be provided.

The estimated cost of these two measures is \$10 million annually.

Apprentice Training

The skilled trades provide good jobs to thousands of Canadians and are essential to the economy. Over the next few years Canada may be faced with a significant shortage of people with trade skills.

To support individuals while they are learning these trades, the employment insurance (EI) program provides income support to apprentices during periods of classroom training. Like everyone else, apprentices must wait two weeks before receiving EI benefits. Currently they must do so each time they leave the workplace for classroom training. This may be a deterrent to completing training and earning their trade qualification.

An apprenticeship program is a single continuous course of study stretching over a number of years. Therefore, it is proposed that the provisions of the EI program be modified so that apprentices in approved training programs are subject to only one two-week waiting period. The estimated cost of this measure is \$15 million a year once fully phased in.

Apprentice Vehicle Mechanics' Tools Deduction

Apprentice vehicle mechanics experience high costs for tools. These costs have been identified as a barrier preventing more young people from taking up the trade. The budget proposes to provide tax assistance to help apprentice vehicle mechanics cope with their extraordinary tool costs. Beginning in 2002 they will be entitled to deduct for income tax purposes the cost of buying new tools, to the extent that those costs incurred in a year exceed the greater of \$1,000 and 5 per cent of their apprenticeship income. The deduction will be available to employee apprentices who are registered in a provincial or territorial program leading to certification as a vehicle mechanic, for tool costs certified by the employer as having been incurred as a condition of the apprenticeship. The estimated cost of this measure is \$10 million a year.

Adult Basic Education – Tax Deduction for Tuition Assistance

Thousands of adult students receive government assistance to pay their tuition fees for basic education at the primary or secondary school level. Under current tax rules, this tuition assistance is included in income without any offsetting credits. For many, the tax cost of receiving this assistance can present a real burden and can discourage them from advancing their education.

To remove this impediment, the budget proposes to exempt from income tax any tuition assistance for adult basic education provided under certain government programs, including employment insurance. This measure will apply to eligible tuition assistance received after 1996. The estimated cost of this measure is \$5 million a year.

Extending the Education Tax Credit

The budget proposes to help more students undertake lifelong learning by extending the education tax credit, beginning in 2002, to people who receive taxable assistance for post-secondary education under certain government programs, including employment insurance. The proposed changes will provide significant tax relief to approximately 65,000 Canadians upgrading their skills, and will give them access to the same tax benefits that are available to other post-secondary students. The estimated cost of this measure is \$20 million a year.

The education tax credit helps students offset their education expenses. The amounts on which the education tax credit is calculated were doubled in the October 2000 *Economic Statement and Budget Update* to \$400 per month of full-time study and to \$120 per month of part-time study, effective 2001.

Official Languages

An additional \$5 million per year will be provided to promote linguistic exchanges and activities for young Canadians. The current budget for these activities is \$24 million per year.

The University of Moncton is establishing a research institute that will focus on the study of public policies, practices and services supporting French and English linguistic minorities across Canada. To help bring this to fruition, this budget provides a \$10-million endowment.

Youth Entrepreneurship

This budget provides \$7.5 million in 2001-02 to the Canadian Youth Business Foundation so that it can expand its Youth Business Program, which provides funding as well as mentoring and business support to young Canadian entrepreneurs. An additional \$6 million will be provided to Shad International to expand its Shad Valley program, which introduces Canadian high school students to the best in science, technology and entrepreneurship experiences in a university setting.

Community Colleges

In Canada there are a wide variety of community colleges with close ties to the communities where they are located. This enables them to respond quickly to the changing knowledge and skill needs of their communities. The Government has begun an active dialogue with community colleges to explore with them how it might help support the important role they play in equipping Canadians with the skills they need for the future.

Recent Federal Initiatives in Support of Skills and Learning

- **The Canada Education Savings Grant** – a grant of 20 per cent on the first \$2,000 of contributions made each year to registered education savings plans – encourages and assists families in saving for their children’s higher education.
- **Canada Millennium Scholarships** provide more than 90,000 needy students each year with scholarships averaging \$3,000 a year to reduce the debt that they would otherwise have to incur.
- **Canada Study Grants** of up to \$3,000 provide assistance each year to approximately 25,000 students, including students with dependants, students with disabilities, and high-need part-time students.
- **Tax measures that support post-secondary education** have been enhanced, including the education tax credit, the tuition credit and the scholarship exemption. These measures make education more affordable.
- **The Canada Student Loans Program** has been enhanced to help graduates manage their student debt by increasing the number of people eligible for interest relief, and providing debt reduction for those in extended financial difficulty. As well, students can now claim a tax credit for interest paid on federal and provincial student loans.
- **Tax-free registered retirement savings plan withdrawals** and an **extension of the education tax credit and child care expense deduction to part-time students** help Canadians upgrade their skills through their working life.

Research

Key investments have been made by the Government in every budget since fiscal balance was restored to increase Canada’s research performance. These investments, shown in Table 6.2, have greatly improved Canada’s research climate. Moreover, they have built in financial momentum that will see greater support for research over the next several years.

To add further momentum, this budget provides close to \$1 billion of targeted investments over three years to promote leading-edge research and to sustain Canada’s leadership in innovative uses of the Internet.

Strengthening University Research Capacity

In recent years the Government has made significant investments in research conducted in universities and research hospitals. The benefits of such research include new products, services, therapies and industry practices that contribute to economic growth and a higher quality of life for Canadians.

Universities and research hospitals have been highly supportive of these investments. However, they have expressed concerns about rising indirect costs, that is, expenses associated with administration, maintenance and commercialization activities that are not covered by direct federal funding for research.

In Budget 2000 the Government responded to these concerns by designing the Canada Research Chairs program, in which the total costs of research undertaken by professors assigned to the Chairs are covered. Further, the Government provided \$400 million in the 2000 *Economic Statement and Budget Update* to the Canada Foundation for Innovation (CFI) to help defray the operating costs associated with new CFI awards.

In recognition of the priority identified by universities and provincial governments for further funding targeted to the indirect costs of research, Budget 2001 provides a one-time investment of \$200 million through the granting councils to Canada's universities to help alleviate financial pressures that are associated with federally supported research activity at universities and research hospitals. This initiative will help support world-class research facilities and respond to the needs of Canada's smaller universities in their efforts to become more research-oriented.

The Government is committed to encouraging and supporting excellence in university-based research across Canada. It is also committed to promoting the commercialization of research through university and private sector partnerships and consortia. Looking ahead, the Government will work with the university community on ways to provide ongoing support for indirect research costs that is predictable, affordable and incremental to existing support.

Natural Sciences and Engineering Research Council (NSERC) and Social Sciences and Humanities Research Council (SSHRC)

The Government's contributions to the granting councils have funded research across Canada and supported talented Canadian students with their graduate and post-graduate studies. Beginning with Budget 1998 the Government has substantially increased total funding for the granting councils.

This budget continues the effort launched in 1998 to increase university research activity across all disciplines. Toward that end, the Government will increase the annual budgets of NSERC and SSHRC by 7 per cent each, resulting in an increase of \$36.5 million a year for NSERC and \$9.5 million a year for SSHRC. These increases will translate into additional research opportunities across Canada and more fellowships and scholarships for graduate students.

Canadian Institute for Advanced Research (CIAR)

CIAR is a non-profit corporation that supports networks of expert researchers who explore long-term scientific, social and economic issues of importance to Canada. CIAR links researchers in Canada to the best in other countries, and is internationally renowned.

The Government has contributed funding to CIAR since 1984 and is currently providing \$3.5 million annually. In this budget the Government is providing \$25 million to sustain and enhance the organization's research program for five years.

National Research Council of Canada (NRC)

NRC is a significant funder and performer of research across Canada. With research institutes, centres and programs spanning all regions of the country, and with a budget of over half a billion dollars, NRC is making a significant contribution to the development of clusters of research and commercialization activity and, therefore, to regional economic innovation, jobs and growth.

Following Budget 2000 NRC launched a new effort to build research institutes and innovation centres, beginning with \$110 million over five years in Atlantic Canada.

This budget provides an additional \$110 million over three years for leading-edge technologies and to expand NRC's regional innovation initiative beyond Atlantic Canada. This funding will support the recently announced National Institute for Nanotechnology in Alberta, the Advanced Aluminium Technology Centre in Quebec, a new research program at the Plant Biotechnology Institute in Saskatoon entitled "Crops for Enhanced Human Health," fuel cell research in British Columbia, and initiatives in Ontario and Manitoba.

Connecting Canadians to Information and Knowledge

Canadians are justifiably proud that their country has become one of the most connected nations in the world. It is an important element in building an innovative and learning economy and society.

Canada was the first country to connect all of its schools and libraries to the Internet. Further, it has 100-per-cent satellite coverage of the country and has built the world's fastest, all-optical Internet backbone to connect its major research universities and colleges.

Funding was provided in Budget 1998 for computers and Internet access in communities, schools and libraries through SchoolNet and the Community Access Program. The Government is committed to building on these strengths and to ensuring that Canadians have access to the Internet.

The 2000 budget provided initial two-year funding for a new Government On-Line strategy. In this budget the Government is providing \$600 million over the next four years to implement the Government On-Line strategy by 2005. It is also providing resources to modernize the information management and information technology infrastructure of a number of government departments and agencies.

The Government is also providing \$110 million of funding to build CA*net 4, a new generation of Internet broadband network architecture that will link all research-intensive institutions, including many community colleges.

Table 2
Increased Funding for Research and Technology in Previous Budgets

	1998- 1999	1999- 2000	2000- 2001	2001- 2002	2002- 2003
	(millions of dollars)				
Canada Foundation for Innovation ¹	30	120	180	300	480
Genome Canada ¹				31	36
Canada Research Chairs			60	120	180
Medical Research Council/Canadian Institutes of Health Research	40	72	145	255	255
Natural Sciences and Engineering Research Council	71	111	118	118	118
Social Sciences and Humanities Research Council	9	26	38	58	58
Networks of Excellence		30	30	30	30
National Research Council of Canada	50	44	90	105	100
Atlantic Innovation Fund				23	68
Canadian Space Agency		41	152	237	250
Biotechnology research and regulation		15	45	50	55
Government On-Line			80	200	
Technology Partnerships Canada	140	190	190	190	190
Connectedness ²	60	97	117	72	
Total	400	746	1,245	1,789	1,820

¹ Amounts shown represent actual or anticipated spending by not-for-profit entities in which the Government has invested in previous budgets.

² Includes SchoolNet, the Community Access Program, Smart Communities and Geo Connections.

Looking ahead, as indicated in the Speech from the Throne, the Government will work with Canadian industry, the provinces, communities and the public on private sector solutions to further broadband Internet coverage in Canada, particularly for rural and remote areas. More planning is required to properly achieve the Government's commitment, particularly given rapidly changing technology; as a consequence, the Government will shift its target to the end of 2005. In looking at possible outcomes, it is the Government's expectation that the best approach could very well be to expand the highly successful SchoolNet and Community Access Program to ensure broadband access. Therefore, not only is the Government extending the current SchoolNet and Community Access Program to 2003-04 at an annual cost of \$40 million, it is also setting aside \$35 million a year for three years thereafter to support such broadband expansion.

Investing in Strategic Infrastructure and the Environment

Infrastructure Investment

The modern economy of the 21st century requires a backbone of sound physical infrastructure to sustain the nation's growth and our quality of life. Whether it be highways, urban transit or fishing harbours, Canada must have the physical infrastructure it needs to succeed. Investments in infrastructure will stimulate job creation and confidence in the short term and make the economy more productive and competitive in the long term.

Previous budgets have allocated funding to improve provincial and municipal infrastructure, including green infrastructure, highways and affordable housing. Budget 2000 introduced both the Infrastructure Canada Program and the Strategic Highway Infrastructure Program.

The Infrastructure Canada Program received \$2.05 billion over six years (2000-01 to 2005-06). When combined with the contributions of the other partners, it will generate at least \$6 billion in new investment in municipal infrastructure, typically small projects. So far more than 800 projects worth about \$1 billion have been approved for funding. The program is expected to provide significant stimulus to the economy in 2002-03. The Strategic Highway Infrastructure Program will provide \$600 million for highway infrastructure, providing stimulus to the economy in 2002-03. Budget 2001 builds on these initiatives.

Strategic Infrastructure Foundation

The federal government recognizes the need for additional support for large strategic infrastructure projects. Such projects span a range of areas, including highways, urban transportation, convention centres and sewage treatment. These projects can bring lasting economic and social benefits while providing both stimulus and long-term productivity benefits. In many cases, the private sector is willing to contribute needed capital and bear much of the project risk.

To address these needs, the federal government is announcing the creation of the Strategic Infrastructure Foundation. This budget commits a minimum federal contribution of \$2 billion to the Foundation, with an initial allocation from this year's surplus funds at year-end. Working with provincial and municipal governments, the Foundation will provide cost-shared assistance to large infrastructure projects and will give special consideration to public-private partnerships.

The Foundation will be at arm's length from the federal government. Its board of directors will be responsible for assessing projects and making spending decisions.

Affordable Housing

There are shortages of affordable rental housing in many of Canada's urban regions. Construction of rental housing has not been a priority for builders. This, combined with growing urban populations, has pushed vacancy rates down to very low levels and has driven costs beyond the reach of many Canadians. There are also particular problems with housing in remote areas.

To help address these problems, this budget confirms a contribution of \$680 million over five years to a capital grants program. Funding will be available to provinces and territories that are prepared to match federal contributions. The Minister responsible for the Canada Mortgage and Housing Corporation has concluded a framework agreement with provincial and territorial ministers responsible for housing, with a view to concluding bilateral cost-sharing agreements as soon as possible.

Critical Government Capital

In the 2000 budget \$200 million per year over five years was earmarked to address safety and health concerns within the federal government's own infrastructure. During the course of 2001 additional funding requirements were identified to address health and safety in the maintenance of veterans hospitals, government laboratories and small craft harbours. An additional \$236 million has been allocated to address these concerns, including \$20 million a year for infrastructure repairs to active fishing harbours.

Border Infrastructure

Budget 2001 provides \$600 million over the next five years towards a new border infrastructure program. Under this program, the Government will seek to partner with the provinces, municipalities and private sector, and will help finance improvements to infrastructure at or near the border. The federal government also intends to work with the United States to ensure a co-ordinated approach towards border infrastructure. Projects supported by this program could include new or improved highway access for border crossings; processing centres for commercial vehicles to speed up clearance times; and “soft infrastructure” such as intelligent transportation systems.

Federal Government Support for Physical Infrastructure

- Funded in Budget 2000, the \$2.05-billion Infrastructure Canada Program finances typically smaller-scale municipal infrastructure projects over the next five years.
- A further \$600-million Strategic Highway Infrastructure Program was funded in Budget 2000 to improve highway infrastructure.
- The Green Municipal Enabling Fund and the Green Municipal Investment Fund were created in 2000 to support energy and water efficiency projects. They were provided with initial endowments of \$25 million and \$100 million respectively. Amounts under these funds managed by the Federation of Canadian Municipalities are being doubled in this budget.
- This budget provides \$600 million to fund a new border infrastructure program. The program will help ensure that sufficient infrastructure capacity is in place to assist trade at our major border crossings.
- The Strategic Infrastructure Foundation is being created in this budget. With a minimum federal contribution of \$2 billion, the Foundation will assist large infrastructure projects and encourage public-private partnerships.

Improving Our Environment

The quality of life of all Canadians is closely tied to preserving and improving our natural environment. The Government is committed to continuous environmental improvement. Budget 2001 includes new spending and tax measures intended to ensure continued progress toward a cleaner and healthier environment.

Helping Communities Improve the Environment

This budget further bolsters support for communities – both urban and rural – that actively contribute toward a healthier environment. Launched last year and administered by the Federation of Canadian Municipalities, the Green Municipal Enabling Fund and the Green Municipal Investment Fund have been effective in stimulating community-based feasibility work and investments in more than 100 projects that improve the environment.

Projects involving a wide range of partners are underway across the country in areas such as energy and water savings, community energy systems, urban transit, waste diversion and renewable energy. This budget doubles the Green Municipal Enabling Fund and the Green Municipal Investment Fund, at a cost of \$25 million and \$100 million respectively in the current fiscal year.

New Production Incentive for Renewable Energy

As part of the Government's commitment to encourage renewable energy production in Canada, this budget proposes a new production incentive for electricity produced from qualifying wind energy projects. An initial incentive payment of 1.2 cents per kilowatt-hour of production, gradually declining to 0.8 cents per kilowatt-hour of production, will be introduced for eligible projects commissioned after March 31, 2002, and before April 1, 2007.

The incentive will be available for the first 10 years of production and will help to provide a long-term stable revenue source. This will result in more investment in wind energy projects in all regions of Canada, which will help address climate change and improve air quality. Provincial and territorial governments are encouraged to provide additional support for these wind energy investments.

The cost of this 15-year program is up to \$260 million. Preliminary details will be announced shortly by the Minister of Natural Resources and, following consultations, final program details including eligibility criteria will be announced before April 1, 2002.

Improving Tax Incentives for Renewable Energy and Energy Efficiency

The budget also proposes to broaden eligibility for the income tax incentives that apply to renewable energy and certain energy efficiency projects. Currently eligible projects qualify for accelerated capital cost allowance (CCA) treatment in Class 43.1. The definition of a small hydroelectric project in Class 43.1 will be expanded from projects with an annual average generating capacity of up to 15 megawatts (MW) to projects with a

maximum annual rated capacity of up to 50MW. In addition, the class will be broadened to include equipment used to generate electricity from “blast furnace gas.” Finally, because of rapid changes in technology in this area, the Government intends to consult with industry to determine whether additional improvements are required for this CCA class. The estimated cost of this measure is \$5 million a year.

Promoting Sustainable Woodlot Management

Currently commercial woodlot owners are subject to income tax when they transfer their woodlots to their children. As a result, woodlots may have to be harvested prematurely to generate the revenues required to pay the tax on the transfer. This can be detrimental to the sound management of this resource. The budget proposes to ensure that the existing intergenerational tax-deferred rollover for farm property is available for transfers of commercial woodlots after December 10, 2001, where they are operated in accordance with a prescribed forest management plan. The estimated cost of this measure is \$10 million a year.

Recent Federal Initiatives in Support of the Environment

- An initial \$100 million for the **Sustainable Development Technology Fund** to stimulate the development and demonstration of promising new environmental technologies.
- A contribution of \$60 million to the **Canadian Foundation for Climate and Atmospheric Sciences** to support academic research on climate change and air pollution.
- \$150 million to renew the **Climate Change Action Fund** and \$60 million for energy efficiency and renewable energy programs to lay the foundation for future greenhouse gas emission reductions by facilitating the development of technologies and supporting energy efficiency and renewable energy projects.
- \$90 million allocated for the **National Strategy on Species at Risk** to support habitat stewardship programs and other species protection activities.
- Other federal initiatives already in place include **special tax provisions for renewable energy projects** and the federal government’s **green power procurement commitment**, which currently provides a premium payment for renewable energy purchased to meet federal government requirements.

Aboriginal Children

The early years in children's lives are critical to their growth and well-being and lay the foundation for their future participation in learning, work and other endeavours.

Looking ahead, as the Speech from the Throne sets out, it is the well-being of Aboriginal children today that will make possible stronger First Nations communities in the future. This is why, in doing things differently, the Government undertook to improve and expand programs that support early childhood development, to reduce the number of newborns affected by fetal alcohol syndrome, and to do more to meet the special needs some Aboriginal children have in school.

Early Childhood Development

Last year the federal government and the provincial and territorial governments reached a landmark agreement to foster and report on early childhood development across Canada. In support of this undertaking, the federal government agreed to transfer \$2.2 billion over five years to provincial and territorial governments to help them in augmenting their support for young children and their families.

Most provinces and territories have announced how they will use the new federal funding. Through various initiatives, all will reach out to families with young children who have special needs, including Aboriginal families.

To complement this initiative with the provinces and territories, this budget builds on federal programs that support early childhood development, with a particular focus on First Nations children on reserves. Over the next two years an additional \$100 million will be provided to enhance programs such as child care and head start.

To ensure that these investments are making a difference in the lives of children, new measures will be developed to assess the effectiveness of programs.

Fetal Alcohol Syndrome

As part of last year's agreement to foster early childhood development, provinces – those in western Canada in particular – will include measures to reduce the incidence of fetal alcohol syndrome. This budget provides additional funding to intensify efforts on reserves to reduce this syndrome and its effects. Funding will be increased tenfold, by \$25 million over the next two years.

Special Education

Some children face special learning challenges in school because of physical, emotional or developmental barriers to learning. This can include the ongoing impacts of fetal alcohol syndrome and fetal alcohol effects. To support children living on reserve who have special needs at school, funding will be increased by \$60 million over the next two years.

Furthering International Assistance

Canadians have not lost sight of their obligation to help the less fortunate peoples of the world. As indicated in the Speech from the Throne, the long-term well-being of Canada and Canadians depends on success in improving global human security, prosperity and development.

Africa Fund

At the G-8 Summit in Genoa, African leaders presented their proposal for a New Partnership for Africa's Development, and G-8 leaders pledged to support this initiative. The Prime Minister has since restated his commitment that development in Africa will be one of the principal themes of the G-8 Summit that Canada will host in Kananaskis in June 2002.

In recognition of this commitment, Canada will establish a trust fund to enable it to work in partnership with African countries, as well as with other donor countries and the international development institutions, to promote sustainable development in Africa. The Government is committing \$500 million to this trust fund, with an initial allocation from this year's surplus funds at year-end.

Humanitarian and Reconstruction Assistance in Afghanistan

To assist with the humanitarian emergency in Afghanistan and in surrounding countries, where there are significant numbers of Afghan refugees, Canada will increase the International Assistance Envelope in the current fiscal year by \$100 million.

Other International Assistance

In addition, Canada will prepay its obligations to United Nations aid agencies and to the Poverty Reduction and Growth Facility at the International Monetary Fund. In fiscal year 2002-03 this measure will free up \$115 million from the International Assistance Envelope that can be used to promote development in impoverished countries.

In addition, the Government will increase the International Assistance Envelope by \$285 million in fiscal year 2003-04.

Taken together, these measures provide \$1 billion for international assistance over three years.

Recent Federal International Development Assistance Initiatives

Increases in the International Assistance Envelope

- In the 1998 and 1999 budgets Canada provided one-time increases in the International Assistance Envelope of \$90 million and \$237 million respectively.
- In the February 1999 budget, as part of the Government's strategy to address global environmental problems, funds were provided to cover Canada's contribution to the Prototype Carbon Fund administered by the World Bank. As well, direct assistance to developing countries and economies in transition was increased to help build capacity to reduce and eliminate their releases of persistent organic pollutants.
- In the February 2000 budget the Government increased the International Assistance Envelope by \$435 million over the 2000-01 to 2002-03 period. A further \$100 million was provided in the February 2000 budget to assist developing countries with climate change initiatives over the same period.
- Subsequently, late in 2000-01 a further \$148 million was provided to prepay Canadian obligations to international development agencies and to help Caribbean countries upgrade their systems of financial regulation and supervision.

Support for Debt Reduction

- In the 2000 budget the Government contributed \$175 million to the multilateral trust funds of the World Bank and International Monetary Fund that provide debt relief to the world's poorest and most heavily indebted countries. In 2000-01 Canada provided a further \$15 million to support the write-down of debts owed by these countries to the Central American Bank of Economic Integration.
- In January 2001 Canada instituted a moratorium on debt service payments from reforming heavily indebted poor countries that are able to use debt relief savings productively.
- Canada has forgiven \$1.3 billion of Official Development Assistance (ODA) debt and since 1986 has been providing assistance to developing countries solely in the form of grants. In October 2001 Canada announced that it would convert \$447 million of outstanding ODA debt owed by Pakistan to funds to be used for health and education in that country.

Looking Ahead

The strategic investments in this budget form part of the Government's long-term plan, as set out in the Speech from the Throne, to build a strong economy and secure society and improve the quality of life for Canadians. Over the course of its mandate the Government will continue to invest in this plan.

Ingenuity and innovation will be key to building a world-leading economy in the 21st century. This in turn will require the top talent, the best minds, a culture of innovation and entrepreneurship, and a new generation of leaders with a global perspective. Looking ahead, Canada will do more to attract and nurture its share of tomorrow's leaders.

In this context, the Government will continue to consult with Canadians on innovation and skills and learning in the pursuit of its plan.

In the Speech from the Throne, the Government committed to the reforms needed to modernize the Public Service of Canada. Looking forward, the Government will implement its human resource modernization strategy to help ensure an innovative and dynamic public service.

A prosperous and growing agriculture and agri-food sector is vital to Canada's economic health. Agriculture and agri-food is a \$130-billion industry, a major source of jobs for Canadians, and a major contributor to the nation's trade surplus. That is why the Government of Canada is working with all provinces and territories, the sector, and Canadian consumers to develop and implement a new, integrated and financially sustainable architecture for agricultural policy for the 21st century. The Government of Canada is committed to providing its share of the predictable and long-term funding needed to support this approach. This new architecture will brand Canada as a world leader in food safety, innovation and environmentally responsible agricultural production. Governments, industry and consumers working together will shift the agriculture sector fundamentally towards prudent investment, greater self-sufficiency and global leadership.

The effective transformation of agriculture – moving beyond year-to-year crisis management – and the renewal of Canada's rural economy will require, among other things, the best possible utilization of our fundamental soil and water resources. For both economic and environmental reasons, the Minister of Agriculture and Agri-Food and the Minister of Natural Resources will examine affordable ways to encourage more of Canada's land base to be dedicated to permanent and/or conservation cover crops, agro-forestry and tree plantations.

The Government is committed to working with Canadians for the long-term prosperity of all regions of the country. In this regard, it looks forward to receiving the follow-up to *Catching Tomorrow's Wave* which had a positive influence on government regional development strategy as it applies to Atlantic Canada. Canada's rural communities, along with their urban counterparts, contribute significantly to the wealth and prosperity of our nation. But they also face unique challenges: geography, distance from markets, a small population base and reliance on primary sector industries vulnerable to sharp cyclical downturns. The Government intends to work with rural communities, their citizens, and stakeholders to develop local solutions to these challenges.

Finally, as noted above, a key element of the Government's long-term plan to encourage economic growth and job creation throughout Canada is its tax reduction plan. As part of that plan, the general corporate income tax rate is being reduced. In this regard, the Government has engaged in extensive consultations on means to extend the lower corporate tax rate to resource income while at the same time improving the tax structure for this important sector. These consultations are continuing.

Table 3
Strategic Investments: Bridging to the Future

	2001- 2002	2002- 2003	2003- 2004
	(millions of dollars)		
Investing in health			
Canadian Institute for Health Information	95		
Health data for First Nations		2.5	2.5
Canadian Institutes of Health Research		75	75
Genome science research	10		
Total	105	77.5	77.5
Investing in skills, learning and research			
Skills and learning			
Sector councils		12	12
Canada Study Grants for persons with disabilities		10	10
Apprentice training		15	15
Apprentice vehicle mechanics' tools deduction		5	10
Adult basic education – tax deduction for tuition assistance	10	5	5
Extending the education tax credit		10	20
Official languages	10	5	5
Youth entrepreneurship	14		
Research			
Indirect research costs	200		
Natural Sciences and Engineering Research Council/ Social Sciences and Humanities Research Council		46	46
Canadian Institute for Advanced Research	25		
National Research Council of Canada	30	40	40
Connecting Canadians to information and knowledge			
CA*net 4	110		
SchoolNet	10	10	10
Community Access Program	30	30	30
Government On-Line		150	150
Total	439	338	353

Table 3
Strategic Investments: Bridging to the Future (cont'd)

	2001- 2002	2002- 2003	2003- 2004
	(millions of dollars)		
Investing in strategic infrastructure and the environment			
Affordable housing		85	170
Strategic Infrastructure Foundation	Commitment of at least \$2 billion		
Critical government capital	82	95	59
Green Municipal Investment Fund	100		
Green Municipal Enabling Fund	25		
Production incentive for renewable energy		1	5
Improving tax incentives for renewable energy and energy efficiency		5	5
Promoting sustainable woodlot management		5	10
Total	207	191	249
Aboriginal children			
Special education		30	30
Early childhood development		50	50
Fetal alcohol syndrome/effects		10	15
Total		90	95
International Assistance			
Africa Fund	Commitment of \$500 million		
Afghanistan assistance	100		
Other international assistance	115		285
Total	215		285
Total	966	697	1,060