
Annual Report 2005



INSTITUTE
FOR
RESEARCH
ON PUBLIC
POLICY

Founded in 1972, the Institute for Research on Public Policy is an independent, national, nonprofit organization.

IRPP seeks to improve public policy in Canada by generating research, providing insight and sparking debate that will contribute to the public policy decision-making process and strengthen the quality of the public policy decisions made by Canadian governments, citizens, institutions and organizations.

IRPP's independence is assured by an endowment fund established in the early 1970s.

The IRPP operations have run at a surplus for the last three years.

Financial Highlights of Operating Fund

(in thousands of dollars)

	2005	2004	2003
Revenues*	2,784	2,640	2,830
Expenses	2,734	2,534	2,767
Revenues over expenses	50	106	63

*Revenues consist of investment income approved for operations, revenue from publications and other revenue.

Financial Highlights of Endowment Fund

(in thousands of dollars)

	2005	2004	2003
Total year-end Market value	39,500	39,700	34,625



*Institute for
Research on
Public Policy*

*Institut de
recherche
en politiques
publiques*

REPORT OF THE CHAIR OF THE BOARD OF DIRECTORS

Hugh Segal
President

Bob Rae
Chairman

Janice MacKinnon
Vice-Chair

Board of Directors

Peter Aucoin, Halifax
Nellie Cournoyea, Inuvialuit
Catherine Delaney, Toronto
Peter Dobell, Ottawa
Doug Emsley, Regina
Ann Fitz-Gerald, UK
Fred Gorbet, Toronto
John Helliwell, Vancouver
Shira Herzog, Toronto
Pierre Marc Johnson, Montreal
Kathleen Mahoney, Calgary
Antonia Maioni, Montreal
Barbara McDougall, Toronto
Guy Saint-Pierre, Montreal
Graham Scott, Toronto
Bernard Shapiro, Montreal
Denis Stairs, Halifax
Gordon Thiessen, Ottawa
Kent Weaver, Washington, DC
Jodi White, Ottawa
Wanda Wuttunee, Winnipeg

The 2004-05 fiscal year was an extremely busy and successful one for the IRPP. Work is well underway on some of the new research programs mandated in the strategic plan for 2004-09, and other research programs are in the implementation stage. Use of IRPP research in a myriad of public policy debates speaks well of the growing intellectual footprint of the Institute's work.

Turning to Board business, directors Germaine Gibara (also vice-chair of the Board) and Brian Flemming are stepping down from the Board after two successive four-year terms. Joining the Board as directors are Peter Aucoin, Eric Dennis Memorial Professor of Government and Political Science and professor of public administration at Dalhousie University, who since last year has been a non-Board member on the Research Committee of the Board, and the Honourable Barbara McDougall, consulting counsel at Aird & Berlis and a former foreign affairs minister, who since 2002 has been a member of the Institute representing a compatible organization. Joining as a member of the Institute representing a compatible organization is Graham Scott, chairman of the Canadian Institute of Health Information. Joining as a non-Board member of the Research Committee is Joel Sokolsky, dean of arts at RMC, a long-time external advisor to the Institute's NSMI research program (now Defence, Diplomacy and Development) and author (most recently of "**Guarding the Continental Coasts: United States Maritime Homeland Security and Canada,**" *IRPP Policy Matters*, March 2005).

I am delighted that Janice MacKinnon, who joined the Board in 2003, has been elected vice-chair of the Board for a three-year term. A professor of public policy at the University of Saskatchewan and former finance minister in Saskatchewan, she is also the author of "**The Arithmetic of Health Care,**" published as part of the IRPP's Health and Public Policy research program (*IRPP Policy Matters*, July 2004).

I wish to extend heartfelt thanks to those departing for their valuable contributions to the IRPP's work. I would also like to welcome incoming members of the Board, and I look forward to another productive year in 2005-06.



1470 Peel Street #200
Montreal, Quebec
H3A 1T1
Tel.: 514-985-2461
Fax: 514-985-2559
irpp@irpp.org
www.irpp.org

The Honourable
Bob Rae, P.C., O.C., Q.C.
Chair



Fiscal 2004-05 was an intense year of research output at the Institute. Furthering the research agenda approved by the IRPP's board, there was a record number of research symposia, working policy lunches and publications. During a year of dynamic political transitions and rebalancing, considerable international challenges and important policy milestones across Canada, the IRPP's intense activity evoked broad engagement, media notice and involvement by both scholars and practitioners.

The IRPP's research activities are guided by three broad thematic, approved by the Board as part of the Institute's 2004-09 strategic plan.

The Canada and the World thematic explores optimal "small country" strategic approaches to foreign policy that are compatible with Canada's geopolitical and economic interests. In 2004-05, our foreign policy work focused primarily on the interplay of national security, peacekeeping and development as well as appropriate ways to promote democratic development abroad. Closer to home, we emphasized questions of immigration policy (including skills recognition and multilateral management of migration) and Canada-US policy coordination (including military interoperability, management of cross-border transportation infrastructure and migration).

The Economic Growth and Social Progress research thematic focuses on the mix of policies required to sustain economic growth and social progress in light of important domestic demographic trends and a more competitive global environment. Health care was at the top of the policy agenda throughout much of the fiscal year, and the IRPP responded with research examining questions of financial sustainability, the scope of publicly funded services, and competitive incentives in service delivery. A second axis of research examined the treatment of natural resource revenues under the federal Equalization program. In addition to these areas, IRPP made valuable contributions to the policy debates on telecommunications, student financial aid and public debt.

Research under the Governance in the New Century thematic examines some of the key governance challenges and risks that Canada will face in the twenty-first century. The focal point of our work in 2004-05 in this area was a comprehensive examination of current and future trends in North American integration from a governance perspective; other areas of emphasis included electoral reform, strengthening Canada's democratic institutions and federal-provincial fiscal relations.

CANADA AND THE WORLD

In September 2004 there was a working lunch featuring the Russian ambassador to Canada, His Excellency Georgiy Mamedov, "Energy Cooperation between North America and Russia." It was well attended by a high-quality audience in Toronto.

In November 2004 in Quebec City the IRPP hosted and chaired the Canada-UK colloquium, a two-day conference entitled "Transatlantic Identity and International Action." The other sponsors of the event were the Walter and Duncan Gordon Foundation, the School of Policy Studies at Queen's University, the Université de Laval, the Institut québécois des hautes études internationales, the Foreign and Commonwealth Office, and Foreign Affairs Canada. Over 60 Canadian and UK officials, academics, practitioners, business leaders and students participated. A link to the [Rapporteur's Report](#) for this event, expertly written by Jennifer Welsh of Oxford University, was posted on the IRPP's Web site in early 2005.

In February 2005, the outgoing US ambassador to Canada, Paul Cellucci, was in the IRPP's Montreal offices, where he reflected on challenges in Canada-US relations during his tenure and the issues that his successor will confront. Attending this Chatham House Rules session were journalists, IRPP fellows, business leaders, the rector of Concordia University and colleagues from the Trudeau Foundation.

In March 2005 in Toronto, the IRPP sponsored a working lunch with India's new high commissioner to Canada, Her Excellency Shyamala B. Cowsik, to highlight India's economic, strategic and technological performance and significance.

Canada's Options in North America

The series on North American integration initiated by then IRPP Senior Economist Daniel Schwanen in 2001 concluded with a series of events and publications.

In August, we released "[Beyond Zero Sum: Trade, Regulation and NAFTA's Temporary Entry Provisions](#)," by Allison Young (International Trade Canada) (*IRPP Policy Matters*, Vol. 5, no. 6). The study argues that the implementation of the NAFTA provisions governing the temporary entry of businesspersons between Canada, the United States and Mexico is transforming domestic and international rules and opening up a new globalized space to achieve common objectives.

In "[Fixing the Potholes in North American Transportation Systems](#)" (*IRPP Choices*, Vol. 10, no. 8), Norman Bonsor of Lakehead University argues that the transportation infrastructure in North America has not kept up with the burgeoning volume of cross-border trade, and



**CANADA'S OPTIONS
IN NORTH AMERICA
LES CHOIX DU CANADA
EN AMÉRIQUE DU NORD**

(*Canada's Options in North America cont.*)

that the issue must be addressed urgently if the Canadian economy is to avoid serious long-term damage. The study received wide media coverage, especially in communities near the Canada-US border.

In September a Working Paper series entitled *Mapping the New North American Reality*, edited by Stephen Blank, Stephanie Golob and Guy Stanley, was released. These 17 papers, which deal with economic, transportation, defence, social and economic issues in the context of North American integration, came out of a November 2003 study group co-sponsored by the IRPP and HEC-Montreal.

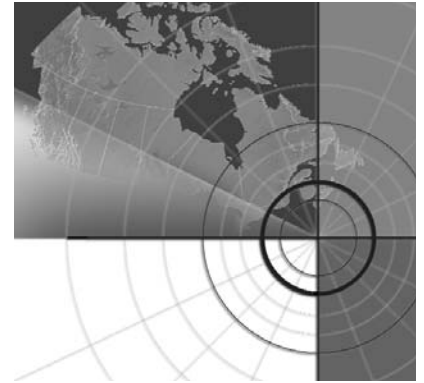
As Canadians followed the run-up to the US elections in October, the IRPP held two timely events. Professor James Thurber of the American University Centre for Politics spoke on "The Dynamics of American Electoral Choice: What to Expect and Why" to a sold-out audience in Toronto, and Michael Lewis-Beck of the University of Iowa spoke to a Montreal audience on "The Critical Determinants of the Coming US Election."

On January 24, 2005, the IRPP hosted a working lunch in Vancouver with Simon Fraser University's Public Policy Program entitled "Security, Trade and North American Integration: Key Policy Opportunities." The event featured three IRPP contributors, who presented their recent research findings. Joel Sokolsky, dean of arts at RMC, presented his paper on the dynamics of continental security. Daniel Schwanen, formerly senior economist at IRPP and now director of research and strategic planning at the Centre for International Governance Innovation, presented his paper for *The Art of the State* on the dynamics of the North American treaty process. Finally, Jonathan Kesselman, who holds a Canada Research Chair at Simon Fraser, presented his recent *IRPP Choices* paper, "Tax Design for a Northern Tiger," adapted to the context of a competitive and interconnected North America where Canada wants to both compete and sustain its unique social programs.

National Security and Military Interoperability

Force Structure or Forced Structure? The 1994 White Paper on Defence and the Canadian Forces in the 1990s," by Sean Maloney (*IRPP Choices*, Vol. 10, no. 5), appeared in May. Maloney analyzes the inadequacies in the 1994 White Paper on Defence, and points to ways policy-makers can avoid some of the past planning, technical, force structure and priority mistakes. The paper served a base document for Canada's recent foreign and defence policy review.

In June the IRPP published "Realism Canadian Style: National Security Policy and the Chrétien Legacy," by Joel J. Sokolsky (*IRPP Policy Matters*, Vol. 5, no. 2). The author looks at Jean Chrétien's foreign and defence policy legacy in the context of Canada's security relations with the United States and applauds the recent National Security Policy's contention that Canada needs to be more "selective in deploying forces overseas." The author sees no problem in reconciling foreign and domestic security imperatives. "While retaining an overseas capability, the Ottawa administration should, as part of the new plans to enhance security measures, impress upon Washington



(and the American public) the more important contribution being made by Canada to the security of the United States through its military and non-military efforts to secure the American homeland," concludes Sokolsky.

In concluding this part of the research program, which began in June 2001, the IRPP published a collection of articles, *Geopolitical Integrity*. It brings together many of the studies published since the inception of the program in 1999. The studies deal with critical policy areas of national security, including postconflict transition planning, naval coordination, land force planning for peacekeeping, issues surrounding the 1994 White Paper on Defence and the real deployment capacity relative to the second Iraq conflict. The book was launched in Ottawa in early April 2005.



International Democratic Development

The IRPP's International Democratic Development research program, directed by George Perlin of Queen's University, was the focus of discussions at a one-day-and-a-half symposium in Ottawa in September. Entitled "Canada's Role in International Assistance to

Democratic Development," this event gathered more than 60 representatives from the governmental, academic and nongovernmental sectors. Some of the papers presented at this conference had been discussed on an IRPP-hosted "virtual seminar" in the weeks prior to the event.

"Advancing Democracy Abroad: A Proposal to Create the Democracy Canada Institute," the paper Thomas Axworthy and Leslie Campbell presented at the symposium, was released on the IRPP Web site soon afterwards.

"The Role of International Democracy Promotion in Canada's Foreign Policy," by Gerald Schmitz, was released as an *IRPP Policy Matters* (Vol. 5, no. 10). Schmitz argues that there should be a forum where Canadians can debate whether they want to invest in a renewed and enhanced role in democratic assistance. Although acknowledging that "Canada could do more and better," the author cautions that even if Canada decides to become a more important player in the field of democracy promotion, "we do not need to reinvent the wheel"; nor should we "spin it faster than carefully thought out policy considerations and resource implications will allow." In light of Canada's renewed role in observing elections in countries such as Ukraine and Iraq, these studies have become even more relevant. A number of other papers under this research program are planned for release later in 2005.

Immigration and Refugee Policy

The year 2004-05 was a particularly fruitful one for the Immigration and Refugee Policy research program. Directed by Geneviève Bouchard, this program bridges governance, economic and social priorities.



IRPP organized a well-attended conference, “North American Integration: Migration, Trade and Security,” held in Ottawa on April 1 and 2, 2004. This conference, which was co-sponsored by the John Goodwin Tower Center for Political Studies at Southern Methodist University in Dallas, was the second in a series of three conferences (the first having been held in Dallas last year). It brought together American, Canadian and Mexican scholars and practitioners: the keynote speakers were Mexico’s undersecretary for external relations, Geronimo Gutiérrez Fernández; Thomas Axworthy (Harvard University and Queen’s University); and Sydney Weintraub (Center for Strategic and International Studies, Washington). The program included a wide range of distinguished Canadian and American academics such as James Hollifield (Southern Methodist University), Phil Martin (University of California at Davis), Lindsay Lowell and Susan Martin (Georgetown University), John Helliwell (University of British Columbia), Jeffrey Reitz (University of Toronto), Christopher Rudolph (University of California at Los Angeles), Rey Koslowski (Rutgers University), John Noble (Carleton University) and Sandra Polaski (Carnegie Endowment for International Peace). The conference received substantial media coverage, including interviews on CBC and CPAC, a report on RCI, and coverage in *The Globe and Mail*, the *Toronto Star*, the *Ottawa Citizen*, Canadian Press and Canwest.

On the opening day of this conference, we released a paper by Hélène Pellerin, “Intégration économique et sécurité: nouveaux facteurs déterminants de la gestion de la migration internationale” (*Choix IRPP*, Vol. 10, no. 3). The first of several papers to be published in this research program, the study looks at multilateral initiatives for managing migration at the European, North American and international levels. Increasingly since September 11, 2001, economic and security concerns compel states to harmonize their migration policies. And, the author explains, with no international legal framework for migration, international trade law tends to serve as a reference. The English translation of this paper, “Economic Integration and Security: New Key Factors in Managing International Migration,” was released in August (*IRPP Choices* 10, no.6).

In July, “Beyond Harmonization: How US Immigration Rules Would Have Worked in Canada,” by Alan Green of Queen’s University, was released (*IRPP Policy Matters*, Vol. 5, no. 4). This paper reflects upon the so-called perimeter argument using a counterfactual approach to illustrate how Canadian immigration policies would have been distorted had Canada adopted existing American rules. The author argues that adopting our southern neighbour’s regulations to govern the admissions of immigrants would have adversely affected Canada’s economic and social development.

In February 2005 an *IRPP Choices* entitled “Tapping Immigrants’ Skills: New Directions for Canadian Immigration Policy in the Knowledge Economy,” by Jeffrey Reitz of the University of Toronto, was released (Vol. 11, no. 1). Reitz argues that the underutilization of skills is a pressing problem that contributes to downward trends in employment and earnings outcomes among immigrants. These trends persist, despite high and rising educational credentials among recent immigrants and steady levels of fluency in at least one official language.

Also in February 2005 the Institute released “The Discounting of Immigrants’ Skills in Canada: Evidence and Policy Recommendations,” by Naomi Alboim of the Maytree Foundation and Queen’s University; Ross Finnie, a research fellow at Statistics Canada, who is also at Queen’s University; and Ronald Meng from the University of Windsor (*IRPP Choices*, Vol. 11, no. 2). This study argues that although Canada continues to accept large numbers of skilled immigrants every year, their foreign-acquired education and work experience is significantly discounted. Governments must help bridge the information gap among Canadian employers who do not know the value of foreign work experience and education. In terms of specific policy options, the authors focus on three core areas: academic credentials, occupational competencies and language skills. (Note: Professors Alboim, Finnie and Reitz presented their findings at a sold-out working lunch in Toronto, and Professor Reitz presented his research to the Parliamentary Standing Committee on Immigration.)

Defence, Diplomacy and Development

This research program explores the policy implications of the coordinated or “3-D” approach in which the efforts of the various government departments are coordinated with each other as well as with the activities of non-governmental actors in postconflict or transitional situations in what is referred to as the “security-development nexus.”

In the research program’s inaugural paper, “Addressing the Security-Development Nexus: Implications for Joined-Up Government,” by Ann Fitz-Gerald (*IRPP Policy Matters*, Vol. 5, no. 5, July 2004), the author argues that development assistance programs in postconflict or transitional societies such as Afghanistan, Iraq and Haiti must address security and development more comprehensively. Specifically, she calls for a joined-up government approach, namely, the coordination of planning among all relevant security- and development-centred government departments.

In October 2004 the IRPP co-sponsored a conference in Ottawa with Carleton University’s Norman Patterson School of International Affairs and the Pearson Peacekeeping Centre entitled “New Directions in Building Peace: The Integration of Diplomacy, Defence and Development.” The conference featured speakers from the UN, the Canadian and other militaries, and NGOs actively engaged in development and postconflict activities around the globe. Ann Fitz-Gerald was a leading panelist, speaking on her research on postconflict transition (some of it published by the IRPP).

Also in October the IRPP, the Centre for International Relations at Queen’s University and the War Studies Program at the Royal Military College of Canada sponsored a graduate student symposium held in Kingston entitled “Security and Defence: National and International Issues.”

In November, “Canadian Naval Future: A Necessary Long-Term Planning Framework,” by Peter T. Haydon (*IRPP Working Paper* no. 2004-12), was released. The paper outlines steps the federal government must take to ensure that Canada’s naval capabilities can be sustained over the long term. The author writes that Canada needs “a core definition of the military’s precise role in the broad context of national and global security that transcends partisan politics,” an exercise that has not been carried out since 1994.

In March 2005, “Mature Peacekeeping Operations as Facilitators of Organized Crime,” by Irv Marucelj, was posted as part of the Working Paper Series (no. 2005-01). The study argues that mature peacekeeping operations unintentionally support the growth of transnational and organized crime. The author examines the Bosnian case to illustrate his argument.

Economic Policy and Growth

Thomas Courchene's article "**Confiscatory Equalization: The Intriguing Case of Saskatchewan's Vanishing Energy Revenues,**" which we published as an *IRPP Choices* in March 2004 (Vol. 10, no. 2), continued to produce significant engagement in Saskatchewan and Ottawa. His paper explores how distortions in the equalization formula as it relates to energy revenues in Saskatchewan have long had the effect of unjustifiably taking over \$100 million in clawbacks from Saskatchewan's fiscal framework — unjust when compared to how the Atlantic provinces and Quebec were treated. (Note: In April 2004, Professor Courchene appeared before the Senate Committee on National Finance to present his arguments. This IRPP publication not only received wide media coverage, but also produced a resolution in the Saskatchewan legislature and a substantive response from Finance Minister Goodale in the form of payouts to Saskatchewan that were in excess of \$300 million by the third quarter of 2004-05. In February 2005 in an opinion piece on the question of equalization clawbacks that appeared in the *National Post*, Saskatchewan premier Lorne Calvert stated: "It wasn't until the recent publication of an influential article on the subject by Tom Courchene in the Institute for Research on Public Policy journal that the federal government began to respond to Saskatchewan's concerns.")

Still on the topic of equalization, just prior to the First Ministers' Meeting on Equalization, in October 2004, the IRPP released a Working Paper by Wade Locke and Paul Hobson, "**An Examination of the Interaction between Natural Resource Revenues and Equalization Payments: Lessons for Atlantic Canada**" (no. 2004-10). The study analyzes alternative treatments of natural resource revenues within the current equalization program through various simulations in order to identify the potential impact of such changes on the transfer revenues of have-not provinces. The authors explain it is important for agencies and departments charged with regional economic development to understand the interaction between resource development and equalization and its implications for the region's economic-development policy framework. An op-ed piece by the IRPP on the impact of changing the basis of equalization was published in *The Globe and Mail* in the week the paper appeared.

On the subject of telecommunications policy, in August 2004 we released, in French and English, a paper by Yves Rabeau (Université du Québec à Montréal) entitled "**The Schumpeterian Wave in Telecommunications: Public Policy Implications**" (*IRPP Choices*, Vol. 10, no. 7). The author argues that unrealistic expectations and poor business models contributed to the collapse in the telecom sector. It documents how telecommunications companies invested vast sums in high-speed networks in the late 1990s on the basis of business models driven by an explosive growth in e-commerce that has yet to materialize. Rabeau concludes that the key to a dynamic and competitive market for telecom services is competition among communications technologies.

On the subject of the debt in Quebec, in October we released "**La dette publique: un défi prioritaire pour le Québec,**" by Marcelin Joanis and Claude Montmarquette (*Choix IRPP*, Vol. 10, no. 9). The authors argue that the public debt level in Quebec is too high, and that despite the government's zero deficit goal, in place since 1996, it continues to increase. Shortly after the release of the paper the IRPP and CIRANO (the Centre for Interuniversity Research and Analysis on Organizations) held a working lunch in Montreal. A panel consisting of Joanis and Montmarquette, as well as Joseph Facal (École des hautes études commerciales) and Pierre Fortin (Université du Québec à Montréal), discussed the topic of the debt in Quebec.



Health and Public Policy

In April 2004, the IRPP published the following five studies as Working Papers in a series entitled **Defining the Medicare Basket: Health Care Decision Making in Canada**. These papers present some of the results of a multidisciplinary research program underway since February 2003. Directed by Colleen Flood, Carolyn Tuohy and Mark Stabile, all from the University of Toronto, the team is examining how decisions are made about what is in and what is out of the publicly funded medicare “basket” and whether these decision-making processes should be reformed.

- 1 “The Boundaries of Medicare: The Role of Ontario’s Physician Services Review Committee,” by Colleen M. Flood and Joanna Erdman
- 1 “The Physician Services Committee: The Relationship between the Ontario Medical Association and the Ontario Ministry of Health and Long Term Care,” by Tom Archibald and Colleen M. Flood
- 1 “Development of a Taxonomy for Health Care Decision-Making in Canada,” by Peter C. Coyte
- 1 “The Boundaries of Canadian Medicare: The Role of Medical Directors and Public Participation in Decision Making,” by Mona Awad, Julia Abelson and Colleen M. Flood
- 1 “What Is In and Out of Medicare? Who Decides?” by Colleen M. Flood, Carolyn Tuohy and Mark Stabile.

Later in the year, in November, the IRPP and the University of Toronto hosted a one-day conference in Toronto entitled “Careful Consideration: Decision Making in the Health Care System,” at which the members of the Medicare Basket research team presented the results of the second phase of their project. This event, which included a keynote address by Philippe Couillard, Quebec’s minister of health and social services, attracted over 100 public servants, scholars, and health care practitioners and providers.

A study by Janice MacKinnon (University of Saskatchewan), “**The Arithmetic of Health Care**” (*IRPP Policy Matters*, Vol. 5, no. 3), made a significant public impact in the summer of 2004. The author, who was finance minister of Saskatchewan under Roy Romanow, proposes new ways to fund health care in order to sustain the system and prevent it from squeezing out funding from other government priorities. It is inevitable, she maintains, that Canadians will pay more for health care, but how can this be achieved while still respecting the *Canada Health Act*? This release coincided with a working lunch in Toronto, also in July, which featured a panel discussion between MacKinnon, the IRPP’s France St-Hilaire, and IRPP Senior Scholar Thomas Courchene. MacKinnon’s paper received wide media coverage, both print and broadcast.

- 1 In September, the IRPP released an *IRPP Policy Matters* by Senators Michael Kirby and Wilbert Keon entitled “**Why Competition Is Essential in the Delivery of Publicly Funded Health Care Services**” (Vol. 5, no. 8). This provocative paper argues that the only way to stave off a financial crisis in medicare is to increase the cost-effectiveness of health care service delivery, and that the introduction of what are usually called “market forces” is the only effective way to do this. The IRPP hosted a panel discussion featuring both authors at the National Press Club in Ottawa to coincide with the release of the paper.

Work-Life Balance and Family Policy

The IRPP continues its work in family policy under the direction of Sarah Fortin. This year, particular focus has been given to the quality of daycare services and work-life balance issues.

In August 2004, we released “**Meeting the Need: A New Architecture for Canada’s Student Financial Aid System**,” by Ross Finnie, Alex Usher and Hans Vossensteyn (*IRPP Policy Matters*, Vol. 5, no. 7). The authors assess Canada’s student financial aid system and argue that the current “student-centred model” does not do the job as well as it could to ensure that every qualified Canadian has the financial means to pursue post-secondary studies without suffering undue hardship. They enumerate several problems under the present system, and propose a single and coherent one that would “deliver the full amount of aid required to those who need it in an efficient, effective and nonwasteful manner,” to replace the current hodgepodge of programs. This paper generated interest across the country: in addition to radio interviews with the CBC in Quebec City and Montreal, the SRC in Calgary, and a Global television interview, it generated editorial items in *Maclean’s* magazine, the *National Post* and *La Presse*.

In November, in a context where the federal government and the provinces were meeting to turn the Liberal promise for a national child care system into reality, an op-ed piece by Research Director Sarah Fortin was published in the *Toronto Star*. Building on research published by the Institute and ongoing projects, she discussed the lessons for Canada of the Quebec daycare model.

Also in November Professor Janet Currie from the University of California at Los Angeles spoke about early childhood education in the United States at an IRPP working lunch in Montreal. Her talk, “The Head Start Child Development Programs in the US,” was also an opportunity to convene specialists to begin planning further initiatives around the issue of quality in early childhood education and its impact on school readiness.

To help define IRPP’s new research program on work-life balance issues, in May 2004 Sarah Fortin organized a one-day workshop, “Work-Life Balance in the 21st Century,” held in Montreal. The participants, who included Marcel Mérette (Université d’Ottawa), Richard Chaykowski (Queen’s University), Donna Lero (University of Guelph), Paul Kershaw (University of British Columbia), Brian Langille (University of Toronto), Shelley Phipps (Dalhousie) and Diane-Gabrielle Tremblay (Université du Québec à Montréal), discussed a broad range of potential options for research in this area. Following this, a research proposal was submitted in June 2004 to the board of directors and accepted.

The Art of the State

The papers from the second The Art of the State conference, **“Thinking North America: Prospects and Pathways,”** held in October 2003 in Montebello, Quebec, were published in a boxed set of eight folios instead of in a single volume. This innovative approach allowed the Institute to release the research in a timely fashion.

Folio 1 includes a comprehensive overview of the series written by Tom Courchene, perspectives on future prospects for North America by Peter Leslie, Jeffrey J. Schott, Debra Steger and Ma Isabel Studer Noguez, and a complete list of all the folios and their contents.

In folio 2, **“A New Accommodation with the United States: The Trade and Economic Dimension,”** Carleton University’s Michael Hart argues that it is now time for Canada and the United States to take cooperative steps to enhance the security and prosperity of their citizens. The options are clear, according to Hart. “Canada and the United States need to take deliberate steps to bring the architecture of their relationship into line with the challenge and fact of deepening interdependence as well as with the political and security realities ushered in by the events of 9/11.”

In folio 3, **“The Role of Subnational Governments in North American Integration,”** Earl Fry of Brigham Young University examines how state and provincial capitals are influencing the process of continental economic integration. He reveals a dramatic increase in cross-border governmental linkages at the subnational level and argues this reflects the growing economic interdependence between the three North American countries.

Folio 4 is entitled **“Deeper, Broader: A Roadmap for a Treaty of North America,”** by Daniel Schwanen. By spelling out mutual security obligations and opening the door to broader and deeper economic linkages among enterprises, individuals and regions, this treaty would usher in a new direction in relations between Canada, the US and Mexico, while still affirming their sovereignty. It was also published in French under the title **“Vers un traité de l’Amérique du Nord: élargir le cadre des relations trilatérales.”** The treaty was translated into Spanish.

In folio 5, **“Thinking North American Environmental Management,”** Scott Vaughan questions whether provisions under NAFTA and the North American Agreement on Environmental Cooperation effectively address the regulatory and environmental quality effects resulting from deepening economic integration and

examines whether both agreements have created the foundation for a North American environmental regime. In her comments on Vaughan’s paper, Debora VanNijnatten of Wilfrid Laurier University points out that he, along with many other analysts, looks to national governments to address environmental problems. In fact, she says, many North American environmental issues are regional in scope and much useful cooperation takes place at that level.

Folio 6 consists of three studies that assess how effectively NAFTA manages North American prospects and the relevance of new institutions: **“FTA at 15, NAFTA at 10: A Canadian Perspective on North American Integration,”** by IRPP Senior Scholar Tom Courchene; **“Giving Direct Effect to NAFTA: Analysis of Issues”** by Armand de Mestral and Jan Winter; and **“Where’s the Beef? Law, Institutions and the Canada-US Border,”** by Robert Wolfe.

Folio 7 consists of **“The Long-Run Determinants of Deep/Political Canada-US Integration,”** by John N. McDougall, and **“North American Citizenship: Possibilities and Limits,”** by Jennifer Welsh. The studies contend that the economic and the political cannot be separated when we debate deeper North American integration.

Folio 8 consists of papers by Sylvia Ostry, Maryse Robert, Jaime Zabudovsky and Alan Alexandroff, and focuses on NAFTA’s position within the larger regional and global trading environments.

A very successful launch of the volume was held in May 2005 in Ottawa. It featured a panel discussion on the future of North American trade relations, chaired by Thomas Courchene and including Robert Wolfe, Daniel Schwanen, and Maryse Robert, all of whom were contributors to the volume.



Canadian Federalism

In July 2004, we posted **"Federal-Provincial Transfers for Social Programs in Canada: Their Status in May 2004,"** by Stephen Laurent and François Vaillancourt, as a Working Paper (no. 2004-07). The study analyzes funding arrangements the federal government uses to reassert its presence in social policy, with a particular focus on developments since 1997 (including targeted funds, foundations and other instruments). The authors conclude that, since the return to balanced budgets, "the increase in the use of various programs to enhance the presence of the federal government in social programs goes on unchecked." This, they say, "complicates federal-provincial relations and more importantly makes it more difficult for citizens to hold their governments accountable for their actions." The study garnered considerable media attention in Quebec's French press, as well as in western Canada.

In anticipation of the First Ministers' Meeting on the Future of Health Care, which took place in mid-September 2004, IRPP Senior Scholar Thomas Courchene turned his pen to the issue of relations between Canada and Quebec in **"The Changing Nature of Quebec-Canada Relations: From the 1980 Referendum to the Summit of the Canadas,"** which was posted as a Working Paper in September (no. 2004-08). The author predicted that much more than the future of medicare would be at stake at the health summit. Vertical fiscal imbalance, equalization, Quebec's distinctive status and the division of constitutional powers were all on the table, and the results of this "summit of the Canadas" would have far-reaching implications for Canadian federalism. This study generated considerable media interest from the CBC, the SRC, the *National Post*, the *Ottawa Citizen*, *La Presse*, the *Gazette* and the *Toronto Star*.

Strengthening Canadian Democracy

Shortly after the Supreme Court decision on what constitutes an official party status and what are the relevant thresholds — the Figueroa ruling — the IRPP released Heather MacIvor's paper **"The Charter of Rights and Party Politics"** (*IRPP Choices*, Vol. 10, no. 4), in May 2004. The study looks at the Figueroa ruling's impact on election law and the legislative response, Bill C-3. The author argues that Bill C-3 meets its two main objectives. Its definition of a political party, which includes a "one or more" candidate threshold, brings the party-registration regime in the *Canada Elections Act* into conformity with the Supreme Court ruling that struck down the 50-candidate threshold. And, its new legal obligations and the penalties for phony parties provide new safeguards against abuse of the tax-credit provisions by groups falsely claiming to be political parties. However, MacIvor finds that Bill C-3 does not state whether or not all automatic benefits currently provided to all registered parties would continue to be provided under the new criteria. And it does not address whether the vote threshold for the two-tier benefits is still constitutionally valid.

Electoral reform was the subject of a paper the Institute released in September entitled **"First Past the Post? Progress Report on Electoral Reform Initiatives in Canadian Provinces,"** by IRPP Visiting Fellow Henry Milner. It was also released in French under the title "Le point sur la réforme électorale dans les provinces canadiennes: où se situe le Québec?" (*IRPP Policy Matters/ Enjeux publics IRPP*, Vol. 5, no. 9). The author looks at current electoral reform initiatives undertaken in five Canadian provinces and concludes that two provinces, Quebec and British Columbia, are leading the way. The author puts forward mixed-member proportional representation (MMP), which, he says, would redress the distortion in the popular-vote-to-seat conversions under the current first-past-the-post system. The study looks at recent developments in Scotland and New Zealand, two jurisdictions with Westminster-style parliaments that are similar in size to the larger Canadian provinces and have adopted MMP models to replace their single-member electoral systems.

In October 2004 we posted a Working Paper by Thomas Axworthy entitled **"Addressing the Accountability Deficit: Why Paul Martin's Minority Government Must Pay More Attention to the Three A's"** (no. 2004-11). The author contends that Canada's democratic deficit extends beyond the role of Parliament; he examines various spheres of governance from the electoral system and political parties to Parliament and the workings of the public service and concludes that, in all of these institutions, accountability is frayed and confused.

In February 2005 we published a collection, *Strengthening Canadian Democracy*, edited by Paul Howe, Richard Johnston and André Blais. This volume brings together many of the papers from the Strengthening Canadian Democracy research program, updated to reflect recent political events and with a new introduction by Paul Howe. At the launch, held at the National Press Club in Ottawa, the book's editors and IRPP Senior Research Associate Leslie Seidle debated electoral reform in Canada in a panel discussion.

On the invitation of the Public Policy Forum and in keeping with our mission, the IRPP organized a small round-table to discuss the issue of political parties and democratic deficit as part of the federal consultation on democratic reform. The event, held in Montreal, brought together practitioners and academics on the topic of democracy. In the first two sessions, participants examined the root causes and implications of the democratic deficit. In the third and fourth sessions the discussions focused mainly on political parties and their role in Canada. Proposals to increase the legitimacy and reduce the weaknesses of political parties were discussed.

Strengthening
Canadian
Democracy

Renforcer
la démocratie
canadienne

IRPP.ORG

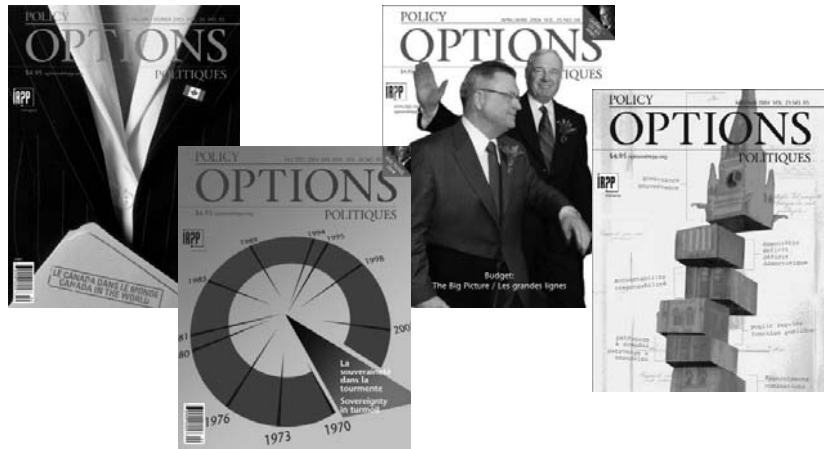
The IRPP's Web site enjoyed another year of strong demand in 2004-05. In the 12 months ending March 31, 2005, www.irpp.org welcomed nearly 200,000 visitors, primarily government officials and policy-makers, journalists, professors and students. They downloaded over 900,000 documents and publications, a 25 percent increase relative to 2003-04. The distribution of demand is similar to last year's: about 50 percent of downloads were *Policy Options* articles, 20 percent *IRPP Choices* and *IRPP Policy Matters* studies, and 30 percent working papers, conference papers, speeches and other documents.

The "In the Spotlight" section of the home page, created in 2003-04, has matured to become a key portal for getting the IRPP's past and current research into the marketplace at opportune times in the news cycle. Strategic use of this section has transformed IRPP publications into definitive references in numerous policy areas, especially child care, fiscal federalism, health care and national security.

In January 2005, substantial improvements were made in the "Newsroom" section of the Web site to respond to specific needs of journalists and editors. An online "Media Experts Guide" allows reporters to quickly identify IRPP staff members and fellows by area of expertise, and a searchable archive of published and unpublished op-ed pieces relating to the IRPP's research is available to editors seeking commentary on a specific policy issue.

February 2005 saw the inauguration of *Thinking Ahead*, a monthly newsletter of IRPP's activities that is intended to help attract researchers, students, journalists and practitioners to the Web site. Printed copies are mailed to key media outlets, and electronic versions are distributed to IRPP's large and growing e-distribution list, allowing visitors them to click directly to information and publications.

With these improvements, www.irpp.org continues to evolve as a means for disseminating information on IRPP's research, publications and events in a user-friendly manner to the public policy community and to the broader universe of interested Internauts.



POLICY OPTIONS

Since assuming the role, *Policy Options* Editor L. Ian Macdonald has brought the magazine ever closer to the news cycle in a way that ties the IRPP's research and reflective analysis from practitioners and scholars to the issues that are at the forefront of policy debate in Canada and around the world. With the assistance of Assistant Editor Sarah Fortin, the magazine has also encouraged more submissions from francophone observers, practitioners and scholars.

The year 2004-05 was the 25th anniversary of the founding of the magazine. The IRPP celebrated the occasion with a gala dinner in early spring 2005 in Toronto honouring the founding editor, Tom Kent. In his remarks, Kent noted the magazine's growth from a quarterly to its current publication schedule of 10 times a year. He also noted the growth of the magazine's influence over the years. From the beginning, its purpose has always been to help shape and frame the discussions of public policy in Canada.

We also marked the anniversary with the publication of a special fully bilingual issue – the first since the founding of the magazine – with contributions from some of the best minds in Canada, who looked at the big issues of the last 25 years and the major challenges of the next 25. The anniversary issue provided a unique opportunity to examine the linguistic characteristics of the magazine's virtual readership. This confirmed that, with 32.1 percent of all Web site article requests for this special issue, French language readers have a strong interest in the magazine. Over the year 2004-05, pursuing IRPP's goal to increase the share of French, both in terms of output and readership, we increased the number of contributions in French to an average of three feature articles per issue, excluding the 25th anniversary, over the year. As well, we invited Alain Noël, political scientist at the Université de Montréal, to be our regular columnist in French, alongside Joseph Heath and William Watson's English columns.

Also in the 25th anniversary issue we launched an initiative to seek public service advertising for the magazine. The funds raised will be used to broaden *Policy Options'* circulation.

More generally, *Policy Options* continues its re-engineering process. Cover themes, on events such as the 2004 federal election and the release of the 2005 Foreign Policy Review, were positioned to focus on major issues in the news cycle. For the second consecutive year, *Policy Options* was nominated for a National Magazine Award for Richard Gwyn's piece in the September 2004 issue, which explained why the voters first punished the Liberals, only to re-elect them.

A record number of *Policy Options* articles were excerpted as op-ed pieces and quoted in news stories in national media outlets across Canada. A total of 428,789 articles from the magazine were downloaded, and there were approximately 40,000 visitors to the magazine's home page, demonstrating *Policy Options'* growing primacy as Canada's public policy magazine.



IRPP in the News

A good measure of the extent to which the Institute's research is getting out into the public domain is the amount of press coverage our publications and conferences receive. Thanks in large part to the determined efforts of Communications Director Jasmine Sharma, Policy Outreach Senior Fellow Jeremy Leonard and Senior Media Adviser James Ferrabee, over the 2004-05 fiscal year the IRPP gained considerable exposure in the media. The numbers speak for themselves: during this 365-day period, the IRPP received 673 media citations across the country, an average of 1.84 items per day. What is more, there has been a steady growth in "quality" media hits, or editorial-page coverage: this year the IRPP's research publications and *Policy Options* magazine generated a total of 59 op-ed pieces!

25

IRPP Choices and *IRPP Policy Matters* series, and funding the working lunch/dinner series and symposia held by the IRPP across the country and beyond.

A host of corporate contributors supported the fund through the 25th Anniversary dinner for *Policy Options* magazine or direct donations. These include the following: Aird & Berlis LLP, Alcan Inc., BMO Financial Group, Bombardier, CN, Energy Savings Income Fund, Fraser Milner Casgrain LLP, Imperial Tobacco, McLean Budden Ltd., McMillan Binch LLP, Rogers Group of Companies, P. Anthony Ennis, TD Securities Inc., The Network Executive Team (TNET), Torstar Corporation, Torys LLP.

We are also grateful for the support given by advertisers in the silver anniversary edition of *Policy Options*. These include Power Corporation of Canada, the School of Policy Studies at Queen's University, Alcan, CN, Hydro-Québec, AGL Graphiques Inc., Bombardier Aéronautique, the University of Ottawa, the Canadian Institute for Health Information, CIBC and Beutel Goodman.

Various organizations have sponsored IRPP working lunches across the country in the last year, including Contrans, Deloitte and the Ontario Council of Teaching Hospitals.

While the IRPP's core endowment guarantees a critical mass of research activity and our organization's independence, this support from generous believers in the value of disseminating research to enhance its impact and value plays a huge role in extending the reach and resonance of IRPP's activities in both the public and private sectors.

Fourth Decade Fund

The Fourth Decade Fund was established following the Institute's 30th anniversary. The main objective of the fund is to facilitate dissemination of the IRPP's work to key audiences across Canada. The principal activities covered by the fund include the broad and targeted distribution of *Policy Options* magazine, the distribution of the

New Appointments and Departures

In September 2004, Leslie Seidle began an appointment as senior research associate. His primary role is to develop and organize the third The Art of the State conference, scheduled for October 2005 in Montebello, Quebec. Leslie is not an unfamiliar figure at the IRPP as he was a research director of the governance research program from 1992 to 1996. His background in electoral policy and confederal issues is an immense boost to the Institute's capacity. Ara Karaboghossian and Julian Wright have come on board as research assistants, in the Montreal and Toronto offices, respectively. On the outgoing side, Daniel Schwanen, formerly the IRPP's senior economist, has taken a position at the Centre for International Governance Innovation as director of research and strategic planning. I would like to extend my sincere thanks to Daniel for his significant and valuable contribution to the IRPP's work, and to wish him all the best in his new position.

The broad reach, relevance and strength of the IRPP'S research program is the product of a wonderful group of individuals at our headquarters in Montreal and an inspired network of visiting fellows and scholars from across Canada, the United States, the United Kingdom and beyond. I feel honoured to work with France St-Hilaire, our vice-president, research, and Suzanne Ostiguy McIntyre, our vice-president, operations, as well as a truly creative and engaged network of researchers and scholars who care passionately about the quality of economic and social opportunity for Canadians, our obligations and challenges in the larger hemispheric and global community, and the quality of governance, democratic engagement and federal-provincial relations.

The IRPP is also most fortunate to have a Board whose directors bring a broad range of academic, business, public sector, domestic and international experience. While Board members serve on a pro bono basis, their advice, perspective, insight and judgment is of immense real value to the day-to-day activities of the IRPP. I am very much indebted to them, as I am to my colleagues on staff for their unfailingly exceptional advice, engagement and support.

At a time when a civil public policy debate around issues and options of substance and import has never been more essential, we remain committed at IRPP to work ever harder to ensure that our research contributes to the debate and the civility essential to its sustenance.



Hugh Segal, C.M.
President, IRPP
Montreal, June 6, 2005

IRPP INVESTMENT COMMITTEE REPORT

The objective of the Endowment Fund is to support the work of the Institute. The Investment Committee seeks to maintain the real value of the Fund after inflation, so that it can continue to provide significant financial support to the Institute in future years. Therefore, rather than using the actual income generated by the Fund in any one year, the Board of Directors decided to withdraw an amount equal to 5 percent of the average of the last three years' capital value of the Fund measured at the fiscal year-end. A three-year average is used to smooth the impact of changes in the market and increase predictability. Under this formula the money available from the Endowment Fund for fiscal year 2004-2005 amounted to \$1,947,317, a reduction of approximately \$38,583 from the transfer generated the previous year. Capital gains of \$3,115,039 and dividend and interest income of \$1,938,410 during the last fiscal year together amounted to \$5,053,449.

Several years ago, the Investment Committee established a series of benchmarks to provide a basis for evaluating the performance of the Fund managers. In an effort to ensure that this benchmark is achieved, the Investment Committee reviews the performance of the fund managers on a quarterly basis.

In 1999, after interviewing a number of investment firms, the Investment Committee decided to divide the Fund into two equal portions. Knight, Bain, Seath and Holbrook Capital Management, which managed the Fund since 1989, was joined by Beutel, Goodman and Company Ltd. At the beginning of the fiscal 2004-05, the Committee decided to interview a number of investment firms because KBSH had, for some time, fallen short of the benchmark set for the Fund. Consequently, in June 2004, after careful consideration, the Board of Directors accepted the Committee's recommendation to replace KBSH with McLean Budden Investment Managers.

The following table reports the performance of our managers relative to the benchmark over the previous year and over the past four years, where applicable.

Periods Ended	31/3/05	31/3/04	31/3/03	31/3/02
Annual Return				
Beutel Goodman	6.9%	22.5%	-13.3%	11.7%
Benchmark	6.3%	21.2%	- 8.9%	3.8%
McLean Budden	N/A	N/A	N/A	N/A
4 Year Return (annualized)				
Beutel Goodman	6.1%	7.4%	3.7%	N/A
Benchmark	5.0%	2.3%	1.3%	4.9%
McLean Budden	N/A	N/A	N/A	N/A

The combined market value of the Fund, including other net assets (receivables, payables, cash, capital gains) amounted to \$39,688,593 as of March 31, 2005. Of this sum, \$1,712,853 represents unexpended monies authorized during the current and prior years for transfer to the operating account that have been left in the Endowment Fund to maximize the funds managed by the investment counselors.

The following table reports the asset mix at fiscal year-end 2005 and 2004.

	Mclean Budden 31/3/05	KBSH 31/3/04	Beutel 31/3/03	Goodman 31/3/02
Market Value	\$18,329,227	\$18,444,939	\$21,272,153	\$21,017,027
Asset Mix				
Cash and Equivalent	2.7%	2.2%	4.0%	3.4%
Fixed Income	45.4%	39.9%	39.1%	42.1%
Canadian Equities	25.6%	27.0%	26.5%	22.3%
U.S. Equities	13.6%	18.1%	28.8%	31.7%
Non-N.A. Equities	12.7%	12.8%	1.6%	0.5%
Total Equities	51.9%	57.9%	56.9%	54.5%

AUDITORS' REPORT

To the Directors of the
Institute for Research on Public Policy

We have audited the statement of financial position of the Institute for Research on Public Policy as at March 31, 2005 and the statements of operations and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Institute as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP
Chartered Accountants

May 13, 2005

Statement of
operations and
changes in fund
balanceas at March 31, 2005
(in thousands of dollars)

	2005 \$	2004 \$
Revenue		
Investment income approved for operations (Note 3)	2,333	2,391
Excess (deficiency) of actual net investment income over investment income approved for operations (Note 3)	2,523	(589)
Total investment income, net	4,856	1,802
Publications	81	53
Other	370	196
	5,307	2,051
Expenses		
General research and support services	2,247	2,013
<i>Policy Options Magazine</i>	278	292
Publication costs	176	206
Interest	5	5
Amortization of capital assets	28	18
	2,734	2,534
Excess (deficiency) of revenue over expenses	2,573	(483)
Fund balance, beginning of year	33,413	33,896
Fund balance, end of year	35,986	33,413

Statement of
financial positionas at March 31, 2005
(in thousands of dollars)

	2005 \$	2004 \$
Assets		
Current assets		
Cash	74	58
Term deposits and treasury bills	68	66
Accounts receivable		
Accrued income	140	240
Other	180	73
Prepaid expenses	57	50
	519	487
Marketable securities (Note 4)	35,837	33,377
Capital assets (Note 5)	93	55
	36,449	33,919
Liabilities		
Current liabilities		
Bank indebtedness (Note 6)	72	119
Accounts payable and accrued liabilities	168	225
Deferred revenue (Note 7)	62	85
	302	429
Retirement allowance and sabbatical liability	161	77
	463	506
Fund balance		
Invested in capital assets	93	55
Internally restricted (Note 8)	35,893	33,358
	35,986	33,413
	36,449	33,919

Statement of cash flows	2005 \$	2004 \$
as at March 31, 2005 (in thousands of dollars)		
Cash flows from operating activities		
Excess (deficiency) of revenue over expenses	2,573	(483)
Adjustments for		
Gain on sale of investments	(3,115)	(751)
Amortization of capital assets	28	18
Retirement allowance and sabbatical liability	84	37
Changes in non-cash working capital items		
Accounts receivable	65	17
Prepaid expenses	(7)	(15)
Accounts payable and accrued liabilities	(57)	3
Deferred revenue	(23)	71
	(452)	(1,103)
Cash flows from financing and investing activities		
Purchase of capital assets	(66)	(26)
Purchase of investments	(52,925)	(25,455)
Sale of investments	53,580	26,573
	589	1,092
Net increase (decrease) in cash position	137	(11)
Cash position, beginning of year	5	16
Cash position, end of year	142	5
Represented by		
Cash	146	58
Term deposits and treasury bills	68	66
Bank indebtedness	(72)	(119)
	142	5

1. Description of organization

The Institute for Research on Public Policy is an independent, national, not-for-profit organization. Its mission is to improve public policy in Canada by promoting and contributing to a policy process that is more broadly based, informed and effective. The Institute is incorporated under the Canada Business Corporations Act as a not-for-profit organization and is a registered charity under the Income Tax Act.

2. Significant accounting policies

These statements have been prepared in accordance with Canadian generally accepted accounting principles, using the deferral method of accounting for contributions.

Use of estimates

The presentation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Revenue recognition

Restricted contributions relating to operations are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Endowment contributions are recognized as direct increases in the fund balance.

Publication costs

Publication costs are expensed as incurred.

Capital assets

Capital assets are recorded at cost. Amortization is computed using the straight-line method at rates calculated to amortize the cost of the assets less their residual value over their estimated useful lives. Computer and office equipment are amortized on the straight-line basis over five years. Leasehold improvements are amortized on the straight-line basis over the term of the lease.

Investments

Investments are evaluated annually and are written down when there is a decrease in value that is other than temporary.

Gains or losses on disposal of investments are calculated on the average cost basis.

Appropriations

The Board of Directors of the Institute may, at its discretion, appropriate to the Endowment Fund all or a portion of any operating surplus.

3. Investment income

The Operating Fund retains for its use investment revenue equivalent to 5% of the average market value of the Endowment Fund at the end of the three preceding years. Under this formula, the Board of Directors has made available to the Operating Fund an amount of \$1,947,317 (2004 - \$1,985,901). In addition, the Board of Directors approved the use of \$385,697 (2004 - \$405,548)

for the current year's operations from the Operating Fund accumulated surplus for a total of \$2,333,014. As at March 31, 2005, the Operating Fund accumulated surplus was \$142,000 (2004 - \$439,000).

Investment income earned consists of the following:

	2005	2004
	\$	\$
Income earned on resources held for endowment	1,938	1,224
Gain on sale of investments, net	3,115	751
Investment management and custodial fees	(197)	(173)
	4,856	1,802

4. Marketable securities

	2005		2004	
	Cost	Market value	Cost	Market value
	\$	\$	\$	\$
Bonds	17,251	17,773	16,448	17,145
Stocks	18,586	21,629	16,929	22,277
	35,837	39,402	33,377	39,422

5. Capital assets

	Cost	Accumulated amortization	2005 Net book value	2004 Net book value
	\$	\$	\$	\$
Computer equipment	331	(264)	67	53
Office equipment	111	(85)	26	2
Leasehold improvements	63	(63)	-	-
	505	(412)	93	55

6. Bank indebtedness

A Canadian chartered bank has provided the Institute with a line of credit of \$500,000 at the prime lending rate. As security for any borrowings under the line of credit, a letter of undertaking has been provided to the lender confirming that the Endowment Fund investments are not subject to any encumbrances which would make them unavailable to service the Institute's debt.

As at March 31, 2005, none of the line of credit has been used as the bank indebtedness results solely from outstanding cheques.

7. Deferred revenue

Deferred revenue in the Operating Fund relates to the following:

	2005	2004
	\$	\$
Fourth Decade Fund(a)	46	25
Policy Options subscriptions	16	18
Trade migration and security conference	-	42
	62	85

(a) The Fourth Decade Fund represents amounts received and restricted for purposes specified by the donors. These amounts will be recognized as revenue in the period in which the expenses related to such specified projects are incurred.

8. Restrictions on Fund balance

The assets of the Endowment Fund have been internally restricted by the Board of Directors of the Institute, stipulating that these assets are to be managed permanently to support the operating activities of the Institute. These internally restricted amounts are not available for other purposes without approval of the Board of Directors.

9. Commitments

Operating leases

The Institute has entered into operating leases relating to equipment and office premises. The amounts due in each of the next five years are as follows:

	\$
2006	69,034
2007	66,631
2008	70,216
2009	71,710
2010	71,710

10. Financial instruments

a) Interest rate and foreign exchange risk

The Institute is exposed to financial risk arising from fluctuations in foreign exchange and interest rates in relation to its investment in marketable securities. The Institute does not use derivative instruments to manage its exposure to these risks.

b) Fair value

The fair value of marketable securities are disclosed in Note 4. The fair values of other monetary assets and liabilities approximate their carrying values.

11. Comparative figures

In the prior year, the activities of the Operating Fund and the Endowment Fund were disclosed separately. Due to the fact that it provided no meaningful additional information, only the combined results of all activities have been presented.

In addition, certain figures for 2004 have been reclassified in order to conform with the presentation adopted in the current year.