THE CANADIAN CHAMBER OF COMMERCE
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# Policy Resolutions 2014

# Positions on Selected

# 2014 National and International Issues

This booklet contains the final approved versions of all the resolutions adopted by the voting members of the Canadian Chamber of Commerce on September 28-29, 2014 at the Canadian Chamber's 85th Annual Meeting in Charlottetown, Prince Edward Island. Each resolution, once approved by a convention, has an effective lifespan of three years.

The 2014 resolutions were discussed, amended and approved during debate, at which time accredited voting delegates from across the country considered a total of 69 proposals (of which 55 were approved) which had been drafted originally by local Chambers of Commerce, Boards of Trade and National Committees and Task Forces of the Canadian Chamber. In accordance with the by-laws, a majority of two-thirds of the votes cast was necessary to approve each resolution.

These resolutions will be brought to the attention of appropriate federal government officials and other bodies to whom the recommendations are directed. The method of presentation of each item will be determined by a number of factors, including subsequent events and legislation which may affect the subject matter, additional information that may become available, the timing of a presentation, etc.

Throughout the year, members will be updated and advised of the action(s) taken on each of these positions by way of summaries and reports in Canadian Chamber publications.

Questions pertaining to these policy positions should be directed to the Policy Division of the Canadian Chamber of Commerce at:


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# FINANCE AND TAXATION

## Fiscal Policy

**Issue**

A rapidly aging population and slower growth in the labour force will exert significant pressure on the public purse in the years ahead. Demand for publicly funded programs, like health care and elderly benefits, will rise significantly and a smaller number of workers will shoulder a larger share of the tax burden. Governments need to re-think how they raise tax revenue and finance government programs and services.

Reining in spending and improving efficiencies will enable the government to eliminate deficits in the near term and regain the fiscal flexibility to respond to changing circumstances and tackle areas that are crucial to Canada's long-term competitiveness, including reducing high marginal personal income tax rates.

**Background**

The February 2014 federal budget stayed the course towards eliminating the deficit— Ottawa looks for the budget to get back in the black in 2015-16—thereby protecting Canadian taxpayers from higher interest charges, while boosting confidence.

A lot of things still need to go right to balance the books by fiscal 2015-16, including sustained spending restraint and a rebound in growth. The 2014 Budget projected annual program spending growth of 1.9% in 2013-14, -0.4% in 2014-15 and 3.7% in 2015-16. Most of the savings realized over the forecast horizon are a result of managing compensation costs of federal employees and by moving National Defence funding for major capital procurements to future years.

Returning to balanced budgets by 2015–16 will ensure that the federal debt, measured in relation to the size of the economy, falls to below 30 per cent by 2016-17, in line with its pre-recession level.

The government continues to incorporate additional prudence into the projections (i.e. a $3 billion annual cushion) to allow for a small underperformance in the economy, a position the Canadian Chamber supports.

Canada's relatively favourable fiscal position sets it aside from most other major industrialized economies and provides a strategic advantage for long term growth, but it is in no position to be complacent.

**Delivering a Better Tax System**

Canada has much to gain by using the tax system optimally to promote employment, productivity and higher living standards. Reducing our heavy reliance on economically-damaging income and profit taxes, broadening the tax base, creating a more neutral business tax system, and reducing compliance costs for taxpayers can significantly boost Canada's international competitiveness.

The following are long-standing principles of good tax policy:

- Tax Neutrality: Economic activities should bear similar tax treatment to encourage the best allocation and profitable use of resources in the economy
- Tax Equity or Fairness: A tax system should distribute its burdens fairly There are two dimensions to equity. The first facet is that people in similar economic circumstances should receive the same tax treatment (horizontal equity). The second aspect is based on the notion that the more an individual earns, the more income tax s/he should pay (vertical equity)
- Efficiency: The tax system should minimize adverse affects on taxpayer behaviour that undermine the efficiency of the economy
- Simplicity: The tax system should be simple, transparent and easy to understand and comply with.

**The tax base**

Ad hoc changes to tax legislation by successive governments and the enactment of temporary provisions have complicated the tax system and increased compliance costs. The C.D. Howe Institute notes there are some 260 tax-preference measures (exemptions, deductions, credits or rebates) listed in the federal government's assessment of tax expenditures.[1] Some credits simply subsidize activities many recipients would have done anyway. Others may stimulate spending in certain areas, prompting suppliers to raise prices, thereby negating the benefit of the tax credit. In many cases, the government is using tax preferences to achieve social objectives rather than funding the initiative through spending programs. The myriad tax preferences enormously complicate the tax structure and increase compliance costs.

The tax base should be as broad as possible, allowing tax rates to be as low as possible at all points so that everyone benefits. This practice leads to fewer economic distortions, improved fairness and efficiency, and lower administration and compliance costs.

**Tax compliance and administration**

The tax code is overly complex as a result of piecemeal changes to tax legislation by successive governments and the enactment of temporary provisions and hundreds of tax preferences. The Fraser Institute estimates it costs Canadians up to $6.7 billion annually to comply with their personal income tax obligations and businesses as much as $17.8 billion to comply with theirs. Additionally, governments spend an estimated $6.6 billion each year to administer the tax system.[2]

A comprehensive review of Canada's tax system is in order with the central objective of reducing its complexity and improving the way Canada raises tax revenue. The Canadian Chamber calls on the federal government to appoint an expert panel that would (among others) review and clarify the language used in tax law; recommend changes to existing legislation that is not achieving its purpose or entails costs that outweigh the revenue being raised or protected; examine the processes used to formulate tax policy and to draft the legislation to give effect to that policy; and evaluate all tax preferences (credits, deductions, exemptions, rebates) with a view of eliminating those that are not cost effective or are not achieving their intended purpose. A broader tax base would make the tax system simpler, fairer and more efficient and would allow general tax rate reductions without loss of revenue.

**Not all taxes are created equal**

The federal government needs to rethink how it raises revenue and the types of taxes that are more efficient.

According to the Department of Finance, for each additional dollar of revenue raised, corporate income taxes impose a cost on society of $1.55. This compares with a cost of $0.56 for an additional dollar of revenue raised through personal income taxes. Payroll taxes impose relatively low costs on society ($0.27 per each additional dollar of revenue) and consumption taxes even less ($0.17).

- Business taxes deter productivity-enhancing capital investment and job creation. They fall directly on Canadian families—workers through lower wages, consumers in the form of higher prices for goods and services, and shareholders (including pensioners who own equity through RPPs, RRSPs and mutual funds) through lower returns
- Personal income taxes reduce the net return that workers get from working, saving or pursuing advanced training and education. They also reduce investors' rate of return and, thereby, the incentive to save and invest
- Payroll taxes (like EI and CPP) result in higher costs for businesses dampening hiring decisions. Over the long run, these costs are passed on to employees in the form of lower wages, taking a bite out of personal income
- Consumption taxes (i.e. taxes on the sale of goods and services) provide fewer opportunities for tax evasion and rely on a broader base. Additionally, consumption taxes do not threaten incentives to save and invest. Finally, they are relatively easy to collect

[1] Laurin, Alexandre and William B.P. Robson "A Faster Track to Fiscal Balance: The 2011 Shadow Budget." Toronto: C.D. Howe Institute. February 2011.
[2] Vaillancourt, François, Édison Roy-César, and Maria Silvia Barros. "The Compliance and Administrative Costs of Taxation in Canada." Studies in Tax Policy. Vancouver: The Fraser Institute. April 2013.

Yet, in Canada, approximately 47 per cent of total tax revenue comes from income and profit taxes compared to 34 per cent in OECD member countries.[3] Thirty-one of the 34 OECD countries rely on consumption taxes to greater extent than Canada does because they are the least economically damaging form of taxation.[4]

Most governments around the world have come to the conclusion that consumption taxes are more stable and reliable and, therefore, value-added tax rates are going up and income tax rates are going down. Canada has much to gain by using its tax system optimally. Reducing our heavy reliance on economically-damaging income and profit taxes and relying more on less damaging forms of taxation, i.e. consumption taxes, can significantly boost Canada's international competitiveness.

**Personal income taxes**

When it comes to Canada's personal income tax system, change has been sporadic and there is much unfinished business. In international comparisons, Canada stands out as having a relatively high burden of personal income tax as a percentage of GDP. Punishingly high marginal personal income tax rates, that are especially affecting Canadians with modest incomes, reduce incentives to work, save, invest in education and skills and undertake entrepreneurial activities, all of which form the basis of a productive and growing economy.

Many low- and middle-income Canadian families with children with income in the $25,000 to $45,000 range face marginal effective tax rates on incremental income in excess of 50 per cent in most provinces because many of the public transfers they receive (including child tax benefits, the GST and provincial sales tax credits, provincial property tax credits, student financial assistance and social welfare) end up being clawed back as income rises.[5] These rates are generally higher than those for high-income families.

The impacts are similar for seniors in that marginal effective tax rates are high at the low end of the income scale. Many low-income retirees encounter effective marginal tax rates as high as 80 per cent as their guaranteed income supplement or the old age security gets clawed back as taxable pension savings—RRSPs/RPPs—are withdrawn.[6]

The Canadian Chamber of Commerce recommends that the federal government implement a multi-year plan to reduce personal income tax rates once the books are balanced. It should focus first on reducing marginal tax rates for low- and modest-income families because they face the highest marginal rates of all Canadians. Specifically, the Canadian Chamber recommends, when fiscal conditions permit, that the federal government reduce the 15 per cent personal income tax rate that applies on the first $43,953 of taxable income to 14 per cent. It also recommends that the 22 per cent rate that applies to taxable income of between $43,954 and $87,907 be reduced to 21 per cent. The

Reducing personal income tax rates can cost the treasury billions of dollars in forgone revenue, which is a major roadblock for cash strapped governments. Most economists believe that the most efficient way to pay for cuts to personal income tax rates is to increase consumption taxes, like the GST/HST—in other words, shift the tax mix away from income-based taxes to more efficient taxes based on consumption. The C.D. Howe Institute has proposed a one percentage point increase in the GST that would pay for a one percentage point reduction in rates in each of the four federal personal income tax brackets.[7]

Going forward, Canada will face the increasing challenge of attracting and retaining skilled workers that are essential to our international competitiveness. To entice high-technology skilled workers, upper management, entrepreneurs

[3] OECD Tax Revenue Statistics 2013 edition.
[4] The Department of Finance has concluded that for each additional dollar of revenue raised, corporate income taxes impose a cost on society of $1.55. This compares with a cost of $0.56 for an additional dollar of revenue raised through personal income taxes. Payroll taxes impose relatively low costs on society ($0.27 per each additional dollar of revenue) and consumption taxes even less ($0.17).
[5] Laurin, Alexandre and Finn Poschmann. "Treading Water: The Impact of High METRS on Working Families in Canada." *e-Brief*. Toronto: C.D. Howe Institute. July 17, 2013.
[6] Ibid.
[7] Laurin, Alexandre and William B.P. Robson. "Prudence and Opportunity: A Shadow Federal Budget for 2013." Commentary No. 375. Toronto: C.D. Howe Institute. March 2013. The C.D. Howe Institute says it will cost $6.8 billion to reduce by one percentage point each of the four federal personal income tax rates (i.e. cut the 15 per cent rate to 14 per cent, the 22 per cent rate to 21 per cent, the 26 per cent rate to 25 per cent, and the 29 per cent rate to 28 per cent, with non-refundable tax credit and charitable donations tax credit rates adjusted accordingly). The federal government can fully pay for this by increasing the GST rate by one percentage point (from 5 per cent to 6 per cent).

and professionals to Canada, the Canadian Chamber recommends that the federal government raise the threshold at which the top federal marginal personal income tax rate kicks in to $200,000 from $136,270. As a result, income in the $136,270 and $200,000 range would be taxed at a rate of 26 per cent, down from 29 per cent.

For Canadian families, reducing personal income tax rates would result in higher disposable income. The benefits to Canada from increasing the incentive to work, save, stay in Canada and undertake further education and training come in the form of higher productivity and economic growth.

**Business taxation**

Once known for having one of the highest corporate income tax rates in the developed world, Canada now has best ranking among G7 countries. Nonetheless, marginal effective tax rates (METRs) on capital investment—which include the statutory corporate income tax rate, sales taxes on capital inputs as well as deductions or credits associated with purchasing capital goods—vary widely by industry. Service providers (e.g., the retail trade, wholesale trade and communications sectors) face a rate of around 23 per cent. In contrast, METRs on capital are relatively low for forestry and manufacturing (well under 10 per cent).[8] This dichotomy is concerning because services are a major source of job creation and are increasingly exposed to international trade and competition.

Corporate taxes can hurt the economy most when they are not neutral among industries because capital tends to gravitate towards industries with the most preferred tax treatment rather than to where growth prospects may be higher. Governments (federal and provincial/territorial) should strive to achieve a neutral business tax system—one that does not distort business decisions by favouring particular industries, investments or activities.

**Recommendations**

That the federal government:

**Re: Debt Management**

1. Balance the federal books by 2015-2016.
2. Ensure that the debt-to-GDP ratio falls below 30 per cent by 2016-17.

**Re: Program Spending**

3. Sustain program spending restraint to balance the books.
4. Continue to examine new ways to reduce costs, modernize how government works and ensure value for taxpayers' money, including in the areas of service delivery, corporate asset management, travel and administrative systems.

**Re: Tax Policy**

5. Ensure that Canada's tax system is as neutral, simple, efficient and fair as possible.
6. Avoid ad hoc changes to tax legislation, like the constant addition of special provisions and targeted tax benefits.
7. Appoint an advisory panel (similar to the Advisory Panel on Canada's System of International Taxation) to identify ways to reduce the complexity of Canada's tax system. This should include a comprehensive review of the hundreds of exemptions, deductions, rebates, deferrals or credits that are part of the federal tax system to determine which ones are inefficient and wasteful. The panel should be supported by a secretariat and rely on the Department of Finance, the Canada Revenue Agency and the Auditor General of Canada for information and data regarding the current system.
8. Reduce Canada's heavy reliance on more damaging, high-cost sources of taxes, namely income and profit taxes, and rely more on consumption-based taxes, like the GST/HST.
9. Once the books are balanced, reduce the 15 per cent rate that applies to the first $43,953 of taxable income (2014) to 14 per cent, and the 22 per cent rate that applies to taxable income between $43,954 and $87,907 to 21 per cent.

[8] Chen, Duanjie and Jack Mintz. "2013 Annual Global Tax Competitiveness Ranking: Corporate Tax Policy at a Crossroads." *SPP Research Papers*. Volume 6. Issue 35. Calgary: The School of Public Policy, University of Calgary. November 2013.

Raise the threshold at which the top federal marginal personal income tax rate kicks in to $200,000 from $136,270. As a result, income in the $136,270 and $200,000 range would be taxed at a rate of 26 per cent, down from 29 per cent.

## Technical Amendments, Implementation of Tax Law Changes and Retroactive Tax Legislation

**Issue**

In 2009, the Auditor General of Canada looked at how the Department of Finance develops legislative amendments to address technical deficiencies in the *Income Tax Act* to more clearly convey the intent of the legislation or to make it easier for taxpayers to comply.

The Auditor General discovered that the Department of Finance has a backlog of some 400 technical amendments[9]—a backlog that continued to grow in the years that followed. It recommended that the government regularly develop and release draft technical amendments so that taxpayers and tax practitioners know what changes will be made and can provide input to the Department. Thus, any concerns they may have can be considered before a bill is tabled in Parliament.

It is important that technical amendments to the *Income Tax Act,* or legislative amendments that involve changes in tax policy, are set forth in proposed legislation in a timely fashion. Announcing proposed amendments and not enacting them within a reasonable short period creates uncertainty and makes it difficult for individuals and businesses to plan their affairs.

**Background**

One situation where technical amendments were necessary was to clarify the taxation of income arising from non-competition agreements.[10] In response to court decisions, the Minister of Finance issued a press release in October 2003 announcing the government's intention to propose amendments to the *Income Tax Act* that would generally treat payments received in consideration for the non-competition covenants as ordinary income for tax purposes (or in some important exceptions, as a capital gain).

In February 2004, the Department of Finance released draft legislation. A number of organization expressed concerns with the draft legislation, including the Joint Committee on Taxation of the Canadian Bar Association and the Canadian Institute of Chartered Accountants ("Joint Committee") which noted the proposed legislation was "significantly broader" than the Department of Finance originally described in its press release.

On July 18, 2005, the Department of Finance released a second round of amendments to the draft legislation. The Joint Committee reiterated many of its previous concerns and expressed additional concerns with respect to the redrafted legislation.

On November 9, 2006 the Department of Finance released a third set of amendments after making some minor changes. The proposed amendments were tabled in Parliament in Bill C-33 which died on the order paper when Parliament prorogued on September 14, 2007, and then in Bill C-10 (November 2007) when the next session of Parliament began sitting. Bill C-10 eventually died on the Senate floor in September 2008 when a federal election was called.

On October 24, 2012, the Minister of Finance released a detailed (close to a 1,000 page) Notice of Ways and Means Motion to implement a significant backlog of outstanding technical amendments, including those pertaining to non-competition agreements. These were contained in Bill C-48 which received Royal Assent on June 26, 2013. The scope

[9] Technical amendments are changes made to correct anomalies that arise after the original measure was passed and to correct consequences that were not intended. These amendments are not intended to introduce new tax policy or change existing tax policy.

[10] When a taxpayer sells a business, part of the selling price may be linked to an agreement by the seller to not compete with the business carried on by the buyer. This type of agreement is referred to as a non-compete agreement, or restrictive covenant. It was commonly understood, and interpreted by the Canada Revenue Agency, that amounts received by a vendor in respect of a restrictive covenant on the sale of shares of a corporation were taxable. However, court decisions in 2000 and 2003 ruled that these amounts were generally not taxable.

of the newly enacted provisions extends well beyond non-competition payments made to a vendor of corporate shares and generally applies retroactively to amounts received or receivable after October 7, 2003, subject to certain limited exceptions.

The Canadian Chamber strongly urges the federal government to draw on the experience and advice of non-government experts to influence policy and assist in the development of legislation. Private-sector experts can provide policy makers and legislators with the knowledge required to understand how a policy or legislative change will impact business and the broader economy. Consulting prior to the development of legislation could avoid the overreaching, over-the-top, and unnecessarily complex response we saw with respect to the non-competition agreements. To its credit, Finance Canada has been trying recently to consult prior to going ahead and changing tax law—for example, with respect to treaty shopping changes and testamentary trust changes.

Additionally, the government should clarify its rationale for changing tax laws on a retroactive basis. The government has stated in the past that "retroactive clarifying amendments should only be made in exceptional circumstances". Due to the general nature of the government's rationale; however, it is open to interpretation which only serves to escalate the level of uncertainty regarding tax law. By allowing the least possible margin of different interpretations, taxpayers will have a higher degree of certainty about the effect of tax law. An atmosphere of mutual trust and confidence between business and government will promote the efficient, effective and equitable operation of the tax system.

**Recommendations**

That the federal government:

1. Provided that sufficient consultation has taken place, make announcements with respect to changes in tax law only if it intends to introduce enabling legislation within 6 months.
2. If the legislation is not issued until later, then make the change(s) effective at the later date and not the date on which the original announcement was made.
3. Clearly specify its rationale for adopting retroactive amendments to tax legislation. Define what constitutes "clarifying amendments" and "exceptional circumstances."
4. Actively expand opportunities to draw on the experience and advice of non-government experts from law, accounting firms and industry to assist in the development of legislation when either the government identifies a problem or the tax community identifies a problem. Where required, confidentiality agreements could be considered to ensure that the advice being sought and provided is treated with the level of sensitivity required.

## Pertinent Loan or Indebtedness

**Issue**

In 2012, in response to several submissions (including one from the Canadian Chamber of Commerce) in connection with certain newly-proposed Budget tax measures, the Department of Finance introduced an exception from the shareholder benefit rules and the foreign affiliate dumping rules for a pertinent loan or indebtedness. In general, where a loan or indebtedness qualifies and is elected to be treated as a pertinent loan or indebtedness, such rules do not apply as they otherwise would. Instead, interest income is imputed for Canadian tax purposes to the extent that the actual interest earned is less than what would have been earned under a specified percentage.

While we agree that the direction Finance Canada took in this regard was necessary, the Canadian Chamber believes this measure should be modified, as set out below, to maintain Canada's competitiveness and its position as an attractive place for multinationals to invest.

**Background**

The Canadian Chamber believes Finance Canada's goal of protecting the Canadian tax base, while allowing Canadian corporations to more effectively deploy cash within a related global group, would be achieved through a lower rate of interest imputation.

At present, a pertinent loan or indebtedness will trigger imputed interest to the extent that the actual interest earned is less than that which would be earned under the prescribed rate in Regulation 4301(b.1), which is generally equal to the average yield of the Government of Canada 90-day T-bill rate sold during the first month of the preceding quarter (rounded to two decimal places) plus four percentage points (4.0%). That effectively places the interest rate for a pertinent loan or indebtedness at (or within a percent of) an amount equal to the prescribed penalty rate for late tax under Regulation 4301(a).

Example:

- Corporation A, a non-resident corporation, controls Corporation B, a corporation resident in Canada (CRIC) with a December 31st tax year-end. On January 1, 2014, Corporation A borrows $5,000,000 from Corporation B at an interest rate equal to the rate prescribed in Regulation 4301(c), plus 1.5 percentage points (1.5%), in accordance with applicable transfer pricing principles. By December 31, 2015, Corporation A has not repaid the loan. If Corporation A and Corporation B choose to elect under subsection 15(2.11) of the *Income Tax Act* for the debt between them to be a pertinent loan or indebtedness, the loan is not deemed to be a dividend for Canadian withholding tax purposes and, instead, Corporation B would, in addition to the actual interest earned on the loan, be deemed to have earned additional interest income on the loan, beginning January 1, 2014, at 2.5%. As a result, for Canadian tax purposes, Corporation B would have to report taxable income on the loan equal to the regular prescribed rate (rounded to two decimal places) plus four percentage points (4.0%), notwithstanding that Corporation A would have only deducted interest payments for its tax purposes at the Regulation 4301(c) prescribed rate, plus 1.5 percentage points (1.5%)

In discussions with our members and their tax advisors, the consensus view is that such a rate is excessively high and cost-prohibitive to many taxpayers who would otherwise be interested in electing into the pertinent loan or indebtedness regime. As a result, the Canadian Chamber believes that the pertinent loan or indebtedness regime is not being used nearly as much as it would be if there was a lower effective interest rate.

Similarly, the Canadian Chamber believes that the Government of Canada is missing out on an opportunity to benefit from greater tax revenues that would result from lower effective interest rates applying to a much broader base of pertinent loan or indebtedness activity.

In addition to triggering greater participation in the pertinent loan or indebtedness regime, to the benefit of Canadian taxpayers and the Government of Canada, a lower effective interest rate would be more consistent with international transfer pricing principles and ultimately better achieve the Department's original goals in having introduced the pertinent loan or indebtedness regime.

**Recommendation**

That the federal government revise the prescribed interest rate in Regulation 4301(b.1) to be equal to the applicable Government of Canada 90-day T-bill rate, unrounded, plus two percentage points (2.0%).

## Taxation of Corporate Groups

**Issue**

Many developed countries have a formal system to consolidate the tax reporting of corporate groups or to otherwise transfer corporate profits and losses among related companies. Canada does not. Instead, various tax-planning strategies are used to directly or indirectly transfer tax attributes between related entities. Techniques include intercompany financing arrangements, mergers of related companies, transfers of property between related corporations and the wind-up (dissolution) of a subsidiary into its parent company.

These techniques entail significant internal reorganization, are disruptive to normal business operations and are time consuming. They result in high compliance and administration costs—associated legal and accounting fees can be significant.

Not all corporations are able to use tax-planning strategies, making the system unfair and inequitable. For small and medium-sized businesses, the complexity of the existing system is particularly challenging and onerous because they do not have the resources—the time, money and management expertise—to engage in complex tax planning arrangements. Additionally, legislative and regulatory constraints may limit the ability of some corporations within corporate groups (for example, those operating in the banking and telecom sectors) from using mergers and windups to consolidate losses.

Canada Revenue Agency (CRA) auditors expend considerable resources auditing businesses to ensure loss consolidation techniques are legally effective and comply with the *Income Tax Act*. In November 1996, the Auditor General of Canada noted "one of the schemes we saw involved over 30 individual transactions to accomplish the loss consolidation. We question why taxpayers should have to go to such lengths if it is Parliament's intent that they be allowed to pay tax only on the net profits of the group."

**Background**

It has been three years since the federal government conducted extensive public consultations on whether new rules for the taxation of corporate groups—like the introduction of a formal system of loss transfers or consolidated reporting—could improve the functioning of the corporate tax system in Canada.

The Canadian Chamber of Commerce felt a formal system of group taxation, if adopted, would further enhance the competitiveness of the corporate tax system, simplify it to minimize compliance costs for businesses and facilitate the administration and enforcement by the CRA.[11]

The government, however, stated in Budget 2013 that discussions with provincial and territorial officials have not produced a consensus regarding how the government could move forward. Businesses are disappointed that the government concluded that moving to a formal system of corporate taxation is not a priority at this time.

While the Canadian Chamber of Commerce recognizes the concerns the federal and provincial/territorial governments have over the potential of reduced revenues and the likely upfront costs for all governments associated with introducing a new approach to the taxation of corporate groups, it also believes that re-engaging stakeholders in a more open dialogue can help the government resolve these and other concerns.

Designed properly, a new formal loss transfer system can increase tax certainty, reduce complexity, enhance flexibility and improve productivity for businesses of all sizes. It would enhance the global competitiveness of Canada's businesses and Canada's economy.

**Recommendations**

That the federal government continue to work with provincial/territorial governments to implement a formal loss transfer system with the following design attributes:

1. Degree of Common Ownership: To allow more corporate groups to participate, base it on >50 per cent common ownership of votes and value and use the concept of "affiliated person" as the basis for determining a control group.
2. Eligible Groups: Exclude trusts and Canadian branches of non-resident corporations. Limit it to domestic subsidiaries of corporate groups.
3. Range of Attributes: Permit group utilization of current-year and prior year non-capital losses and investment tax credits (ITCs) in addition to allowing the transfer, on paper, of taxable income (net of deductions).
4. Elective Components: Ensure participation is voluntary and allow corporate groups to decide on a year-to-year basis (i.e. annual election) whether to participate.
5. Use of Previously Accumulated Attributes in a New System: Do not exclude previously accumulated losses, where both companies party to the loss transfer were part of the same economically integrated group when the losses arose. However, if there are significant revenue implications, consider phasing in the ability to transfer existing losses over a period of years.

[11] The Canadian Chamber of Commerce believes a more formalized loss transfer system is the least disruptive to the current tax system and a practical approach for the taxation of corporate groups. It would be easier to design, implement, administer and comply with a loss transfer system than with a full consolidation system. The latter would be particularly complex as well as difficult to implement given Canada has both federal and provincial/territorial levels of corporate taxation.

## Tax Credits for Supporting Growth in Canada's Music Industry

**Issue**

The Canadian music industry requires a national tax structure for supporting economic growth and job creation.

**Background**

According to the report *The Next Big Bang: A New Direction for Music in Canada* released in 2013 by the association Music Canada, the commercial music industry experienced sharp declines in revenue due to online piracy combined with a "widespread erosion of respect for the value of music and the investment required to develop artists' careers." However, signs of a reversal were evident in 2012 when global recorded music revenues escalated for the first time in more than a decade. This new direction should provide a significant incentive for all levels of government in Canada to fully capitalize on emerging economic opportunities across the domestic music industry.

Canada was one of the first countries to utilize refundable tax credits as an instrument of support for the creative industries. In 1996, the federal government introduced tax credits for film and TV production as a replacement for tax shelters which had been implemented to encourage private investment on major projects.

The Music Canada report notes that tax credits have played a critical role in the growth of the film and television industry, most notably a 43 percent increase in the value of production from 1996 to 2000. Furthermore, the implementation of tax credits has allowed the industry to survive both the recent appreciation of the Canadian dollar and 2008 recession.

The economic rationale for tax credits revolves around the inherent uncertainty of demand for new products – in other words, the audience or consumer demand for creative content is unknown until the content has been developed. Music companies must make investments without any certainty they will lead to economic return.

Tax credits allow creative businesses to mitigate the on-going challenges of scale, vertical integration and technology risk. In the music industry, artist & repertoire (A&R) activities are the equivalent of research and development across other industrial sectors who receive government support through programs such as the Scientific Research and Experimental Development (SR&ED) Tax Credit.

The risks associated with A&R and marketing investments are higher than past years, and through a tax credit the federal government can mitigate this risk and provide an environment of increased certainty and an opportunity to recover investments. Provincial initiatives in this direction include the Quebec sound recording tax credit that reimburses 35 percent of eligible labour expenditures up to a maximum of 17.5 percent of total productions costs, while the Ontario Sound Recording Tax Credit (OSRTC) reimburses Canadian-controlled sound recording by an emerging Canadian artist when that recording is made in Ontario. The OSRTC also reimburses 100 percent of the marketing expenditures incurred in Ontario and 50 percent outside the province.

An analysis of the OSRTC by consulting firm Nordicty indicated the measure paid for itself and provided a net fiscal benefit for the provincial treasury, specifically noting that every dollar the Ontario government invested in the sound recording industry through the credit returns $1.32 in tax revenue. Furthermore, tracing the impact of the measure through the entire music value chain estimates that $1.5 million in financial support from the OSRTC generates approximately $30 million in global revenues.

The OSRTC provides an annual $22 million increase in the provincial GDP, $16.5 million in additional wages, and the creation of 500 jobs. Music is an integral component of both Canada's creative industry and emerging digital media cluster and continued growth will provide economic and cultural benefits across the entire nation.

The Music Canada report also notes that government revenues created as a result of music tax credits far outweigh program costs. Also, continuous innovation is required for the music industry to remain economically viable, which can be achieved through targeted policies and programs. The global music industry invests about 16 percent of total expenditures on A &R, which represents a significant level of risk.

**Recommendation**

That the federal government implement a music tax credit that mirrors existing film and television tax credits, which would mitigate risks in A&R and marketing investments and provide a stable economic environment for industry growth and job creation.

## Enhancing access to the Registered Disability Savings Plan for disabled employees

In Canada, 4.4 million Canadians suffer a disability, of which many are children, or under the age of 44. Of these Canadians, 68,833 have successfully applied for and got the benefits of the Registered Disability Savings Plan (RDSP). According to CBC News, May 30, 2013, the numbers of applications are as follows:

RDSPs by year

| Year | Number of accounts opened |
|---|---|
| 2009 | 20,598 |
| 2010 | 18,144 |
| 2011 | 12,099 |
| 2012 | 13,103 |
| 2013* | 4,979 |
| Total | 68,833 |

*Source: Human Resources and Skills Development Canada. *Figure accurate as of mid-May.*

This number is low considering it is estimated that 500,000 Canadians are potentially eligible for the RDSP.

Based on many interviews with applicants, and personal experience in working with clients to apply for and get this funding, the application process is what is impeding it's use.

The reason for that is the intense, cumberson paperwork that is required from start to finish of the process. The applicants, to succesfully complete, need to get a medical assesment done and file the paperwork to get the federal Disibility Tax Credit (DTC). During our interviews at information seminars with potential candidates, it was discovered that most people with diabilities, as well as their caregivers, are in a low income bracket and do not see the need to go through the process of applying for a disability tax credit. Reason being, they in most cases, do not pay taxes. However, when learing of the bond portion of the RDSP, there was renewed interest in going through the application process.

In an effort to assist in the accessing this program, it was learned that there are similar income assistance programs in the Province of BC (Persons with Disabilaties), that also request a similar, if not more stringent, medical assesment, as the one required to qualify for the DTC.

Furthermore, there seems to be an apetitite by government leaders, as described by BC's Minister of Finance, Mike De Jong, to the Kamloops Chamber of Commerce, that there needs be more collaberation with the Provincial and Federal Government on becoming more efficient and effective.

Therfore, in reviewing the application and requirements for a person to be granted the PWD, there could also be a connection to CRA on the completion of the successful applicant to grant a federal DTC. By doing this, access to the Registered Disability Savings Plan will be readily accessable by those who need it most, those being lower income Canadians.

This could also be enhanced by reviewing the files of the existing British Columbians currently on PWD, and making the application to CRA on their behalf to get the DTC.

From a business perspective, good employeers today are taking more interest in the financial stability and health of their workforce. Studies have shown that employees who are offered financial education, support, and savings programs at work are more reliable and become better, more engaged contributors. By taking an interest in and advocating for improved access to the RDSP program on behalf of the diasabled population, the chamber, and its member businesses, will have demonstrated an active interest in the financial enhancement of disabled employees in Canada.

**Recommendations**

That the provincial/territorial and federal governments, as well as their related ministries:

1. Investigate and implement a cross-linked application process to enable those with recognized disabilities to have access to both a provincial/territorial disability support program and the DTC under one application.
2. Review all existing recipients of a provincial/territorial disability support program to determine eligibility of the DTC based on timing of the last tested application.
3. Create a national program to provide employers a workable linkage to the RDSP program for employees with disabilities.

## Enhancing the Timely Submission of Documents to CRA

**Background**

The Canada Revenue Agency (CRA) phased out counter access at Canadian Tax Services Offices October 1, 2012. At that time the CRA claimed that even with these changes, the CRA will continue to provide taxpayers and benefit recipients with the level of service they require, while doing so at the lowest cost possible for all Canadians. They claimed that by providing services electronically, the Government is reducing red tape and making it easier for Canadians to interact with their offices. The theory was that CRA's safe, secure electronic services allow Canadians to make use of their services, when it's convenient for them, from wherever they are in the world.

The CRA argued that the overwhelming majority of service enquiries handled through its in-person service could have been handled through its phone enquiries service or through its web site. Only 2.5% of all contacts with the CRA were handled in person during the 2011 taxation year. The CRA's general enquiries call Centre handled approximately 17.35 million calls, and 23 million payments were made electronically, through a financial institution or through CRA's web site, last year.

The CRA has a Taxpayer Bill of Rights that sets out what Canadians can expect in terms of service. Below is the Bill of Rights for Small Business, which states:

**Commitment to Small Business**

- The Canada Revenue Agency (CRA) is committed to administering the tax system in a way that minimizes the costs of compliance for small businesses
- The CRA is committed to working with all governments to streamline service, minimize cost, and reduce the compliance burden
- The CRA is committed to providing service offerings that meet the needs of small businesses
- The CRA is committed to conducting outreach activities that help small businesses comply with the legislation we administer
- The CRA is committed to explaining how we conduct our business with small businesses

The Canada Revenue Agency front counter service has been closed now for more that 18 months affecting the following services:

- CRA document submission / forwarding
- Print form pickup (for forms that are not serialized or encoded)
- Accepting responses by Businesses to CRA queries and audits

The CRA will not accept electronic transmissions from businesses when there is an audit or business query. The CRA demands that these businesses send fax copies or mail copies to the appropriate office. Often these reports are in excess of 100 pages and depending on the location of the business the mail is slow and fax lines close down, causing delays of weeks, if not months. This lack of certainty and slow response time impacts business decisions causing significant frustration on the part of businesses being audited or trying to respond to CRA queries.

The impact that the CRA office closure has had will continue to be felt for many tax seasons to come unless it is updated to meet the needs of Canadian Businesses and individuals. It will undoubtedly increase the stress and frustration of those trying to deal with the CRA under its current mandate.

**Recommendation**

That the Canada Revenue Agency (CRA) work to immediately facilitate electronic submissions as the result of business queries and audit information requests.

## The Locked-in Estate Trust - A Response to Canada's Retirement Income Challenges

The Canadian Chamber of Commerce recognizes the severity of the pension reform issue in Canada and at its 2010AGM adopted a policy entitled "The Base Principals of Pension Reform". There looms a pension crisis for Canadians in the near future. The federal government will be unable to fund the pension requirements of the baby boomer retirees let alone the requirements of subsequent generations.

A Locked-in Estate Trust (LIET) is one solution that would allow for individuals to privately fund LEIT's with the money being held in trust for the future benefit of the named beneficiaries of the LEIT. Our federal and provincial finance ministers are seeking solutions to protect older Canadians from income shortfalls during their retirement years, but there are few solutions on the horizon. At the same time, many older Canadians, through hard work and extraordinary windfalls in the housing market, find they have accumulated a great deal of wealth, but ironically, have little cash flow to supplement their own retirement.

According to Decima Research, it is estimated that as much as $1 trillion dollars will pass to the next generation of Canadians through estate transfers. More than 50 per cent of the children of baby boomers expect to receive $283,000 on average. Acutely aware of the value of their estates, many older Canadians have concerns about the wisdom of passing on such large lump sum estates to children and grandchildren.

Creating a new financial instrument could provide seniors with income now from their valuable estates and at the same time allow them to utilize family wealth to ensure that their children and grandchildren are able to receive private pension income when they retire. This could be fashioned similarly to the Charitable Remainder Trust which is widely used and promoted in the United States.

A LIET would provide a creative solution to our specific demographic quandary in which the size of the retired population will soon far outweigh the ability of the working population to adequately sustain it. It also has the potential to remove some of the well documented and anxiously anticipated strain on the government's ability to provide Old Age Security and Guaranteed Income Supplement funding to Canadian seniors as the baby boomer bulge exits the workforce. Furthermore, a LIET would provide an investment vehicle that could ensure financial independence for subsequent generations of Canadians.

In recognition of the importance of responsible federal fiscal policy, the federal tax revenue will actually be enhanced by this account on a deferral basis. Typically, contributions to the LIET will result in a deferral of capital gains tax of which only 50 per cent of the gain is taxed, whereas the subsequent withdrawal can and will be taxed as 100% regular income at the current marginal tax rate resulting in incrementally larger revenue tax stream.

Furthermore, this account could be used for the generational transition of small business interests similar to a "Family Trust" with this inclusion of limiting access to the revenue and pension income by the beneficiary until the beneficiary if at age 55.

Large pools of wealth in private portfolios transferred to a LIET would have the potential to significantly reduce the drain on government pension resources. It could also represent significant tax savings to individuals who make a decision to move wealth into a LIET.

The LIET would work similar to already available trust vehicles (e.g., the Charitable Remainder Trust) but with tax advantages to the donor or the settler, such as a non-refundable tax credit based on the amount transferred into the LIET. Funds inside the LIET would be allowed to accumulate tax free and be professionally managed and guided by a conservative investment strategy.

The donor would be permitted to access a percentage of the income generated by the LIET while they remain alive.

Named beneficiaries of the LIET would only be allowed to withdraw a legislated percentage of the capital and income of the LIET after age 55, similar to Locked in Retirement Accounts (LIRAs). This would ensure the long term viability of the LIET for future generations.

Because of the tax advantages, the decision to create a LIET would be made by the donor before death and would be an irrevocable decision or the LIET could be created as a Testamentary Estate Trust (After Death).

It is anticipated that the tax foregone (by the granting of a tax credit to the donor and by a deferral of a valuation of the donor's estate) is far outweighed by the reduction of costs related to pension benefits over the long term and the reduction in the benefits payable under Old Age Security and other government programs such as income tested health care and Guaranteed Income Supplement.

**Recommendation**

Due to the complex nature of this instrument and its inherent benefit to federal fiscal policy, and in order to more accurately determine the benefit versus the costs, including offsetting the notion of a person's tax obligation to be "settled on death', that the federal government convene a special committee to determine the feasibility of implementing a Locked-in Estate Trust in the context of Canada's overall pension plan framework, and that this study and review be completed within a 2-3 year period.

## Fines and Penalty Reform for Businesses

Filing with CRA for Businesses can be a complicated process; many businesses are required to make over 30 payments a year with GST, Payroll Tax and Income Tax. The tax code is 3000 pages long with hundreds of rules and regulations right down to the kind of form that can be used to file remittance vouchers. Not surprisingly, a significant portion of Canada's 5 million SMEs make mistakes every year when dealing with the Canadian Revenue Agency (CRA). [12]

CRA has little or no forgiveness if a payment is missed and the penalties and fines are steep even if missed by one day… CRA does have an appeal process for penalties and charges for late payment, but it is a complicated, time consuming and costly process for businesses. Regardless of the dollar value, type or frequency of incomplete or inaccurate tax returns, penalties and interest may be applied.

The federal government is currently examining some of its procedures as part of its "Red Tape Reduction Action Plan", an initiative aimed at removing unjustified or undue burdens on small businesses and removing the complexity of dealing with government regulations.

Allowing businesses some margin of error for minor tax filing issues would also remove a significant weight for enterprises that occasionally overlook a detail, miss a deadline or misallocate CRA payments.

**High Number of Errors**

The office of the Taxpayers' Ombudsman, an impartial and independent office to deal with complaints, reports that a significant number of calls to the CRA business enquiries line deal with misallocated payments. These are payments "not allocated according to its (CRA) procedures".[13] For example, about two thirds of all taxpayers use CRA remittance vouchers that are pre-printed with magnetic ink designed to be read by computers using Optical Character Recognition (OCR). Although CRA warns taxpayers that photocopies of these forms cannot be scanned electronically, many taxpayers still make remittance payments on photocopied forms. It's a clerical mistake that can have costly consequences.

The result can be a late payment and "for the tax year 2013 penalties begin at 5 percent on the balance owing plus 1 percent on the balance owing for each full month the return is late to a maximum of 12 months. If CRA charged a late

[12] http://www.cra-arc.gc.ca/gncy/cmplnc/rtpp-pipdr/cnslttnppr-eng.html#fnb2
[13] http://www.oto-boc.gc.ca/rprts/spcl/gttng-rght-eng.html#h114

penalty in 2010, 2011 and 2012 the penalty escalates to 10 percent of the balance owing, plus 2 percent of 2013 balance to a maximum of 20 months."[14]

Even tax preparers, hired to keep business from filing incorrect returns, routinely make mistakes that end up trimming dollars from the company's bottom line. Given the difficulty in filing for the CRA, some leniency is in order.

**Conclusion**

It is important for CRA to be fair and reasonable in dealing with small business and the complex remittance process. Mistakes do and will continue to happen. Penalties, Fees and interest should be proportional to the amounts and escalating for non-payment. CRA should handle their receivables in the business model and charge business for late payments the way business charge their customers

**Recommendations**

That the Canada Revenue Agency in conjunction with the Department of Finance adopt a fair system of forgiveness for businesses that make unintentional errors or miss a tax payment deadline on rare occasions.

1. Charge small business a modest flat late remittance f for missed payroll and/or GST payment deadlines. Interest then accrues if payment is not made within 7 days of the due date.
2. After the "Late Remittance Fee" is implemented then subject businesses that consistently and repeatedly miss payment dates to increasing fines and/or stiffer penalties with every missed payment.

## Review Wealth Transfer Tax Provisions

As "baby-boomer" Canadians reach retirement age (the first baby-boomers turned age 65 in 2010), it is expected that about half of Canada's current business owners will retire within the next 10 years and that a significant amount of wealth will be transferred by these individuals to their adult children, spouses, common-law partners or siblings. According to CIBC World Markets, an estimated $1.9 trillion in business assets are poised to change hands in the coming 5 years, a number that could increase to an estimated $3.7 trillion by 2022. In many circumstances, certain provisions in the *Income Tax Act* (Canada) (the "ITA") do not accommodate the transfer of wealth in an efficient manner. This is particularly true where business assets are involved in the transfer. As a result, the capital of the business is eroded through the imposition of income taxes thereby reducing profitability and impairing growth, re-investment and, in some situations, jeopardizing the well-being of the business. Given that small business is a significant economic driver it makes sense that tax policies be engineered to facilitate ownership transfers, particularly among family members, rather than jeopardizing their financial well-being. Implications of significant tax hits could also extend to employees of family owned businesses who could face lay-offs as a result of business closures or the staff reductions that may be needed to maintain the viability of a family business.

At present, individual fishers are able to transfer fishing property (including fishing licenses or shares of a fishing corporation) to their children without triggering a tax liability at the time of transfer. A taxpayer may also make an intergenerational transfer of farm property in Canada on an income-tax-deferred rollover basis, if the property was principally used in a farming business in which the taxpayer or a family member was actively engaged on a regular and continuous basis. Similar rules apply to intergenerational transfers of shares of family farm corporations and interests in family farm partnerships.

Examples of transactions that do not transfer wealth efficiently include:

- Division of corporate assets where children have inherited shares from their parents or grandparents
- Inability to claim the capital gain deduction where children use a corporation to acquire shares in the capital stock of a corporation owned by their parents or grandparents

[14] http://www.cra-arc.gc.ca/tx/ndvdls/tpcs/ncm-tx/ntrst/menu-eng.html

- Inability to claim the capital gain deduction where a corporation has retained its profits rather than paying them out as dividends
- Where property has been sold and some or all of the proceeds from the sale are re-invested in a replacement business or property it can be very difficult for the taxpayer to qualify for the replacement property deferral provisions which seems to defeat the purpose of the provisions
- Inability to access losses within a related corporate group
- Reduction to capital losses realized by an estate on disposition of shares where life insurance proceeds are received by a corporation
- Inability for common-law partners to divide corporate-owned assets in a tax-effective manner on breakdown of their common-law partnership

Where it is intended that the business continue as a going concern, preservation of the businesses' capital is a significant concern. Income taxes should not be assessed unless the business has been sold and there are proceeds of disposition available to pay the resulting income taxes. Consider, for example, a situation where children have inherited a business and wish to divide it into separate divisions so that they can run the business independently and to engage in their own estate and succession planning. Unless they can divide all of the assets of the business proportionately, income taxes will be payable as if the assets had been sold at their fair market value. This will impose a significant financial burden on the business and may even threaten its financial well-being. Alternatively, children may decide to carry on the business under the status quo to avoid the income taxes – a situation that is not ideal as it prevents them from being able to engage in their own estate and succession planning independent from their siblings – who may have completely different estate and succession planning ideas, risk tolerances and objectives.

The capital gain deduction was originally introduced in 1985 and, in its present form, is applicable to the sale of certain business assets and shares of small business, fishing or farming corporations. Unfortunately, to qualify for the capital gain deduction, a corporation must meet certain threshold tests that are complicated for the business owner to understand and do not always makes sense from a policy perspective. For example, the capital gain deduction may be denied where the balance sheet of a corporation consists of non-business assets in addition to business assets. Alternatively, where a corporation takes steps to "purify" its balance sheet by removing non-business assets so that the requisite threshold tests can be met – an anti-avoidance rule may be applicable to tax the purification transaction. This begs the question – why have a capital gain deduction if it is difficult to claim? It makes more sense to amend the threshold provisions so that the portion of gain attributable to the growth in value of business assets (rather than passive investment assets) is eligible for the small business deduction rather than imposing arbitrary and complicated threshold tests that can cause the entire gain to be ineligible.

The above are examples of provisions that appear to be contrary to good tax policy. It seems far more desirable to facilitate the transfer of family-owned businesses to the next generation where they can remain profitable and continue to provide employment, investment in capital structure and pay income taxes on an ongoing rather than one-time basis.

The Canadian Chamber urges the government to consult on this matter with key stakeholders including taxpayers, small and medium family business owners, academics, tax specialists, government departments such as the Department of Finance and the Canada Revenue Agency, and professional bodies like the Joint Committee on Taxation, the Canadian Bar Association and the Canadian Institute of Chartered Accountants, as well as review best practices in foreign jurisdictions.

**Recommendation**

That the federal government immediately undertakes a comprehensive review of the tax provisions affecting estate and succession planning to determine whether the existing tax regime appropriately considers transfer of family-owned businesses.

## Making the Accelerated Capital Cost Allowance for Computer Equipment Permanent

Capital Cost Allowances (CCA) rates are generally intended to reflect the economic benefit of the asset over time – i.e. over its useful life. The depreciation rate is intended to reflect the fact that depreciable assets contribute to earnings over a period of time and are not consumed in the year in which they are acquired. Given how quickly technology changes, however, it would seem inappropriate to assume that computer equipment has a useful life and contributes to the earnings potential of a business over a period of more than 1 year.

**Economic Incentive Program**

On February 1, 2011, a special economic incentive program to stimulate computer equipment upgrades expired. Now, businesses will depreciate computer equipment (fully) over a longer period of time – i.e. roughly over a period of 9-10 years with most of the depreciation being taken within the first 3-4 years. This depreciation rate (even over 3-4 years) would appear to be inconsistent with the intended principal behind the CCA rates (i.e. depreciating an asset over its useful life) as most computer equipment is not useful for that period of time.

Following is a chronology of tax depreciation for computers:

- Computer equipment acquired before March 23, 2004 – depreciated at 30% per year on a declining balance basis and subject to the half year rule (15% in year one or year of acquisition)
- Computer equipment acquired on or after March 23, 2004 and before March 19, 2007 – depreciated at 45% per year on a declining balance basis and subject to the half year rule (22.5% in year one or year of acquisition)
- Computer equipment acquired after March 18, 2007 depreciated at 55% per year on a declining balance basis and subject to the half year rule (27.5% in year one or year of acquisition)
- As part of their economic stimulus the federal government temporarily changed the depreciation rate on computer equipment. The 2009 Federal Budget provided a temporary depreciation rate of 100% for eligible computers and software acquired after January 27, 2009 and before February 2011. The half-year rule would not apply to these assets. Therefore with this temporary measure, businesses were permitted to deduct 100% of the cost of an eligible computer in the first year or the year in which it was acquired. In general, eligible computers and software eligible for this accelerated depreciation rate consisted of general purpose computer equipment, including related system and data processing equipment. The equipment must also have been situated in Canada and it must have been acquired for the purpose of either earning income in a business carried on in Canada or earning income from property situated in Canada

**Impact of the proposed change on tax revenue:**

On a $1000 piece of computer equipment, the difference in the tax shield under both depreciation rates is not significant. In summary:

- 55% depreciation rate – the tax shield ranges between $250 and $260
- 100% depreciation rate- the tax shield is $265

The tax shield represents the value of the tax depreciation in today's dollars to a corporation under certain assumptions. Conversely, it would also represent the lost tax revenue to the federal government as a result of permitting the depreciation deduction in the calculation of taxable income. What the above example illustrates is that by comparison the lost revenue to the federal government in today's dollars is not significant. However, the benefit to a small business owner is significant from a cash flow perspective as they will receive an immediate benefit of the tax depreciation deduction in the first year as opposed to spreading that benefit out over 3-4 years.

**Recommendation**

That the federal government permanently change the Cost Capital Allowance (CCA) depreciation period for computer equipment, to a period of two years (as reflected in the recent accelerated CCA program).

## Tax Provision Threshold Indexing

When introducing new measures to the Canadian taxation system, a great deal of study is generally conducted to ensure that the measure being introduced fits within the existing Canadian taxation framework. As a result of this process various thresholds and limits are introduced along with the tax measures, to ensure their fairness or that policy aims are achieved and to ensure that there is not an undue amount of administrative burden placed on the taxpayer as a result of the new measure. Unfortunately, following the introduction of a new measure, the thresholds and limits introduced are not re-examined to ensure their fairness and administrative relevance in the future.

Examples of these thresholds include:

- A rebate of goods and services tax ("GST") under the Excise Tax Act ("ETA") on the purchase of a new home reduces the rebate on "luxury homes" with a purchase price of over $350,000 and under $450,000. For homes over $450,000 there is no rebate. The luxury home thresholds were introduced in 1991 with the introduction of the GST, and have not been changed since
- The Lifetime Capital Gains Exemption was increased in Budget 2007 to $750,000 from $500,000, the only increase since it was first introduced in 1988. It excludes from taxation the first $750,000 of gains realized on the sale of qualified small business corporation shares or farm under the Income Tax Act ("the ITA")
- The ITA restriction on capital cost allowance on "luxury automobiles" was first introduced in 1987 and limited the capital cost allowance which may be claimed on these vehicles to $20,000 of the actual vehicle cost. The federal government reviews this limit annually. Over the years the limit has gradually increased to $30,000 but has been unchanged since 2000
- The "small supplier threshold" for registering for the GST under the ETA was introduced at $30,000 in 1991 with the introduction of the GST. This threshold has not changed since. While the federal government has recognized the importance of reviewing certain thresholds / limits, as evidenced by the recent indexation of personal tax credits and registered retirement savings plan limits, many measures have not been revisited in years and some since their introduction a generation ago

**Recommendations**

That the federal government:

1. Immediately revise existing tax provision thresholds to reflect increases in pricing and inflation, ensure the thresholds and limits adequately reflect economic conditions, and are updated to reflect the same benefits and gains as intended when originally introduced. These would include revisions to the:
    - Rebate of goods and services tax ("GST") under the Excise Tax Act ("ETA")
    - Income Tax Act restriction on capital cost allowance class 10.1, specifically luxury automobiles
    - "Small supplier threshold" for registering for the GST under the ETA
2. Ensure that new and existing tax provisions contain thresholds and limits and are introduced and / or updated with annual indexation as an integral part of the provision.

## Small Business Deduction

The largest financial tax incentive provided to privately held small business corporations in Canada is the Small Business Deduction ("SBD"). The SBD allows these companies to pay taxes on their first $500,000 of profit at a significantly lower rate of tax. This mechanism has been a long standing tool to promote growth of small businesses in Canada.

Small businesses are well known to be the drivers of employment and economic growth in Canada. Accordingly, both the Government of Canada and the provinces have recognized the sector's importance and have provided (and expanded) the benefit of the SBD to maintain the sector's health and foster growth.

Commencing in 1994 the Large Corporations Tax (“LCT”) was enacted to generate additional revenues for the federal government. The LCT was a tax on a corporation’s “taxable capital” (essentially the value of a company’s debts and retained earnings) in excess of $10 million. The taxable capital threshold established a bright line test of what was considered to be a small corporation and a large corporation in Canada. In 2004 the LCT was effectively eliminated for most Canadian corporations, and the taxable capital limit was raised from $10 million to $50 million.

However, for the SBD purposes the $10 million taxable capital threshold has remained unchanged, and is still used as the upper limit for qualification. Once the threshold is exceeded the SBD benefit is reduced on a straight-line basis and is eliminated for corporations with taxable capital in excess of $15 million.

This approach to limiting the SBD is punitive and fosters inequality between business and industries in Canada. Corporations and/or industries that are highly leveraged due to the cost of the equipment used in business or the high cost of inventory that must be maintained (e.g. an automobile dealership) are put at an unfair disadvantage. Accordingly, it would be possible for two similarly profitable companies in similar industries to have significantly different tax burdens entirely based on how they financed their growth.

In addition, with the introduction in 2006 of the Eligible Dividend regime and the General Rate Income Pool, private companies will retain more profits within the corporation. While this is a positive change, it will increase a private company’s taxable capital and serve to exaggerate the limitation of the SBD.

**Recommendation**

That the federal government remove the $10 million taxable capital limitation to the Small Business Deduction.

# HUMAN RESOURCES

## Invest in Labour Market Information to Close the Skills Gap

The skills gap and mismatches in Canada are challenging employers, educators and governments to respond. As they navigate skills shortages, changes in skills requirements and the future of the labour force, each are coming up against shortfalls in the utility and accessibility of labour market information (LMI). Although it is clear from an employer perspective that significant skills shortages exist, hard evidence is needed to critically analyze these shortages, determine areas of concern, and develop related strategies. Unfortunately, Canadian employers and policymakers currently lack sufficiently granular and reliable LMI in several areas.

The inadequacy is a critical gap for policy makers who depend on this information to help inform their decision-making on programs such as the Temporary Foreign Worker Program or Employment Insurance. Accurate and available labour market data is also a vital tool for employers, job seekers and educational institutions alike to help them identify what qualifications are needed where, as well as what skills can be obtained in which locationsmployers are interested in LMI for a number of different reasons: to understand the availability of workers in their community, to find the people that match the skills they need and for their human resources planning.

From the Advisory Panel on Labour Market Information as led by economist Don Drummond in 2009 to the 2012 report on labour and skills shortages by the House of Commons Human Resources Committee, many have recommended the introduction of better and more user-friendly LMI. The federal government has also indicated its understanding of the pressing nature of the issue, as Jason Kenney, Minister of Employment and Social Development (ESDC) and Minister of Multiculturalism, has referred to the need for stronger LMI as a "matter of national urgency."[15]

Specific concerns were highlighted in the Auditor General's Spring 2014 report, which pointed to the lack of specificity of LMI currently being collected through federal employment-related surveys. In particular, the report indicated that the monthly Survey of Employment, Payrolls, and Hours, determines job vacancies at the federal, provincial and territorial level, and fails to identify in what cities or communities those jobs are located. The lack of localized context and sector-specific information makes it extremely difficult for employers such as SMEs to get an accurate picture of the trends across their respective sectors. The report also outlined the need for more specific job classification categories so as to identify vacancies for individual occupations.

The need to better coordinate federal efforts on LMI was also highlighted by the 2014 federal budget, where job data did not match Statistics Canada figures. This inter-departmental disagreement on the collection of LMI highlights the need for the federal government to assign a single department to take the lead in gathering more detailed information. This approach has already been proposed by Drummond's 2009 Advisory Panel on Labour Market Information; he repeated this again in a June 2014 paper on the persistent need for stronger LMI.[16]

Other federal resources related to LMI are equally in need of greater detail and timeliness. Currently, the National Occupation Classification (NOC) is only fully reviewed every 10 years, with limited updates every five years. As a result, it is often outdated and unable to provide consistently reliable data. It also lacks a skills dictionary, which would provide a common language for skills in Canada. By outlining the skills and certifications that reflect the core competencies required for each category or job, a skills dictionary would standardize requirements and ultimately lead to more robust comparisons across the country.

In an attempt to address the LMI issue, the federal government announced on June 20, 2014, changes to two Statistics Canada surveys, expanding the sample sizes of both the quarterly Job Vacancy Survey and the national Wage Survey to report at the level of economic regions, rather than provincial and territorial levels. However, economic regions are as large geographically as the province of Prince Edward Island and Vancouver Island, and will not provide data at a local level.

[15] "Jason Kenney, Minister for Employment and Social Development, speaks at the Association of Canadian Community Colleges Summit". October 21, 2013. http://news.gc.ca/web/article-en.do?nid=783549

[16] Drummond, Don. "Wanted: Good Canadian Labour Market Information." Institute for Research and Public Policy. June 11, 2014. http://irpp.org/research-studies/insight-no6/

**Recommendations**

That the federal government:

1. Invest in tools that are currently available to the government, namely:
    - The Job Vacancy Survey which could be improved to reflect vacancies by occupation at the local level, and/or supplemented by means of job bank data
    - The Workplace and Employee Survey, which could be reintroduced and upgraded [17]
    - The Youth in Transition Survey, which could also be renewed
2. Expand national understanding of the supply side of the labour market and educational attainment relative to employment demand by leveraging the data that already exists within post-secondary institutions. This would be achieved by:
    - Reviewing and sustaining the National Graduate Survey and the Five-Year Follow-up of Graduates on a longer-term basis
    - Working with provincial and territorial governments to request additional student survey and employment data from publicly funded post-secondary institutions
    - Investing in timely, careful analysis of this education data, with a particular focus on learning outcomes, pathways, and quantity of students/graduates in high demand occupations
3. Improve the relevance of the National Occupation Classification (NOC) by reviewing it comprehensively every five years rather than every 10 years, and by incorporating a skills dictionary.
4. Improve the dissemination and marketing of all available data, including those available from provincial, territorial and local sources, and integrate existing data from employers, educators and jobs banks. Ensure that the data be made accessible/available/public to Canadians, especially Canadian employers, but also to learners, parents and guidance counsellors in secondary schools. Local Chambers of Commerce can have a potential role in explaining the benefits of these resources and helping businesses navigate through them.
5. Establish formalized partnerships between provinces, business, industry, academic institutions and the public sector to share labour market data, avoid duplication and to collaboratively strategize on labour market challenges. The Forum of Labour Market Ministers should have a role in facilitating this coordination.
6. Require either ESDC and/or Statistics Canada to begin collecting and publishing more localized and regionally-based labour market information. Specifically, ensure labour market indicators are collected at the census metropolitan area (CMA) level.

## Increase Apprenticeship Completions in the Skilled Trades

Canada needs to increase the number of certified skilled trades workers if it is to avoid shortages in the skilled trades. Older skilled workers, including journeypersons who train apprentices, will start to retire in rising numbers over the coming years as the boomer generation ages and exits the labour market. For the apprenticeship system to replenish itself, more apprentices must become certified and move into journeyperson roles, to begin training the next generation of apprentices.

"The number of apprentices completing training and obtaining certification has doubled from 2000 to 2011, but apprenticeship completion rates have averaged only 50 per cent over this period," according to *Jobs Report: The State of the Canadian Labour Market,* issued by Finance Canada. [18]

[17] Note that a Workplace Survey was conducted in early 2012 by Statistics Canada. The results of that survey have not been analysed and released as a report, as of this writing. The last report of the Workplace and Employee Survey was in 2006.
[18] Finance Canada. *Jobs Report: The State of the Canadian Labour Market*. Ottawa. 2014, p. 4.

The low completion rates are the result of at least two broad realities. "To some extent, this reflects people deciding the path isn't a good fit, something we also see with university and college students," notes Sarah Watts-Rynard, Executive Director, Canadian Apprenticeship Forum. [19] "Apprentices, however, also face the unique requirement to find and maintain employment. When contracts come to an end or the economy turns, apprentice training can quickly be derailed." It is worth noting that in Canada, as many as 77% of apprentices are employed by small firms who may lose their apprentice-employees to other larger firms, once apprentices achieve their certification. [20]

The issue of non-completion by apprentices warrants attention for a few reasons. For sectors facing potential skilled shortages over the coming decade, the necessity for a higher completion rate and an increased pool of qualified workers is evident. In Alberta, Saskatchewan, and Newfoundland and Labrador, increases in job vacancy rates since 2009 have reflected high labour demand in certain occupations in the skilled trades. [21] These vacancies could expand as rising numbers of older workers retire in the next several years. Skilled labour shortages are a risk to the green-lighting of major projects and to overall economic activity across sectors.

For the individual workers, completion matters to their income and economic outcomes. Statistics Canada researchers found that apprentices who complete their training and obtain certification earn wages that were 25% higher than those who had not completed their apprenticeship programs. [22]

Over the past several years, the federal government has introduced a number of tax and financial measures to support apprentices directly. It also provides a tax credit to employers who hire apprentices in the first two years of an apprenticeship program.

To improve completions, the focus must extend to the later years of apprenticeship training. Among the policy options available to the federal government is the extension of the existing Apprenticeship Job Creation Tax Credit to the later years of apprenticeship training and increasing its value for these years. In the report Economic Opportunities for Young Apprentices, the House of Commons Standing Committee on Human Resources recommended the government explore whether to provide a grant to employers when apprentices complete their apprenticeship program. [23] Another simplified tax option for small business employers would be a payroll break. Any incentive for SMEs to seek innovative solutions for their businesses, including the retention of apprenticeships, would be important given their integral role in training skilled trades workers.

Whatever the financial incentive, the government will realize higher income tax revenues as increased numbers of certified skilled workers achieve higher taxable incomes and tax revenues offset the introduction of incentives for employers.

**Recommendation**

That the federal government create a financial incentive for those employers who retain apprentices in their third or fourth year of training, to support the policy goal of increasing the number of certified trades workers. This incentive should be in addition to (and not in lieu of) the existing tax credit for employers for their level 1 and 2 apprentices.

## Improving the Temporary Foreign Worker Program

Canada's future economic growth will be determined by our ability to access and retain workers with the necessary skills to strengthen our workforce. It will also be determined by establishing sound economic policy in conjunction with fuelling prosperity for all Canadian citizens. The Temporary Foreign Worker Program, in conjunction with Canada's Economic Action Plan, supports Canada's economic and labour market interests.

The Chamber network has watched, with growing concern, moves by the federal government to restrict businesses' ability to utilize the TFWP. The changes introduced in 2013 made the program much harder to use. The further

[19] Watts-Rynard, Sarah. "Skills shortages reflect Canadian-made barriers." Blog. Canadian Apprenticeship Forum. Dec. 5, 2013.
[20] Laporte, Christine and Richard E. Mueller. *The Completion Behaviour of Registered Apprentices: Who Continues, Who Quits, and Who Completes Programs?* Statistics Canada. 2011.
[21] Finance Canada, p. 32.
[22] Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities. *Economic Opportunities for Young Apprentices.* House of Commons, Parliament of Canada. Ottawa: May 2013. p. 5.
[23] Ibid. p. 20.

extensive changes in 2014 are harming many small businesses across Canada, thus changing the original intent to address genuine and acute labour needs so that businesses could grow and create more opportunities for Canadians.

**Institute an Appeal Process for Labour Market Impact Assessments**

In order to hire a Temporary Foreign Worker, the employer must first request a Labour Market Impact Assessment (LMIA), through Service Canada. The LMIA process is the government's way of ensuring that hiring a foreign worker is not taking away employment opportunities for Canadians and permanent residents.

When reviewing LMIA applications, it is necessary for the administrative decision-makers to utilize some level of discretion. Subject to numerous rulings under Canadian administrative body of law, discretionary decisions must be exercised via a standard of reasonableness and subject to procedural fairness. Discretionary decisions made by the administration should be relevant, reasonable, and consistent, with the process being free of any abuse. Unfortunately, this has not been the case with past Labour Market Opinion (recently renamed LMIA) applications.

It is imperative that the administrative decision-makers of the TFWP be subject to the standards outlined under Canadian administrative law, and that decisions made be subject to review and appeal when necessary. Decisions subject to review are made with an increased level of consideration.

**Improving the LMIA Component**

LMIAs may only be requested for full-time work yet often employers have need for part-time workers and there are no local sources of labour to fill the positions. Because the number of employed hours has been deemed more important than other factors, employers looking for part-time workers are ineligible for a LMIA.

The absurdity of this situation becomes evident when we recognize that employers may not apply

for an LMIA for a 0.8 position working as a registered nurse for $32.40 per hour, since 0.8 is less than a full-time position. This is despite the fact that $32.40 per hour is considered a high-wage position, higher than the median wage in 12 of the 13 provinces and territories.

**Retain flexibility within TFW Annex agreements**

The Canadian Chamber agrees with stronger enforcement and tougher penalties for those who abuse the program, but it feels that the federal government needs to increase flexibility of the program for the provinces that have exceptionally low unemployment and high job vacancy, as, for instance, Saskatchewan and Alberta.

The federal government announced that during the next year (until the spring of 2015) it would make changes to the provincial/territorial TFWP Annexes it has with Alberta, British Columbia, Ontario, Nova Scotia and Yukon as part of their respective immigration agreements with Canada. The annexes to immigration agreements have allowed the provincial/territorial governments to identify situations where certain occupations could be exempted from the requirement to obtain a LMIA (before called LMO), facilitating access to the program. According to the Overhauling the Temporary Foreign Worker Program document, the Government will be changing the existing annexes with provinces/territories to limit their use of LMIA exemptions.9

In the near future, Canada will likely face a nation-wide demand for senior expertise due to increasing global competition for talent, retirement, as well as the need for foreign expertise in emerging Canadian industries. Training local talent to replace retired workers will take years and in the meantime, rapidly growing industries desperately need to fill the empty gap between newly trained labour and locally available senior talent.

Therefore, annex agreements should be renegotiated to include only a limited list of industries and occupations where qualified Canadians are not available, in order to address immediate labour needs on a temporary basis.

**Recommendations**

That the federal government:

1. Place a priority on enforcement and prosecution of offenders prior to placing any further restrictions on the program.

2. Ensure that any further changes to the TFWP reflect the needs of the economy on both a regional and a sectoral basis.

3. Institute an appeal process for denied LMIA applications.
4. Give clearly detailed explanations to applicants when LMIA applications are denied.
5. Remove restrictions for full-time employment on the LMIA application.
6. Negotiate with provinces and territories new Annexes on the Temporary Foreign Worker Program to the immigration agreements with provinces and territories in ways that will increase the flexibility to use the TFWP in provinces and territories with areas of low unemployment and high job vacancy rates.
7. Introduce Annexes related to the use of Temporary Foreign Worker Program into immigration agreements with all provinces and territories, tailored to their specific economic goals and priorities.
8. List key industries in the federal-provincial/territorial Annex Agreements that are eligible for occupation-specific (but not employer specific) work permits for TFWs without a requirement to apply for an LMIA.
9. Include industry representatives in TFW Working Groups prescribed in the Annex Agreements.
10. Not require LMIAs for work permits in key industries, or in the alternative, waive the advertising requirements and shorten processing times to one week for work permits in key industries.

## Incentives to Relocate

There are areas in Canada that are experiencing a shortage of skilled labour as well as semi-skilled labour and other regions which have a high unemployment rate and too many workers for the jobs available. The Government of Canada should create incentives to encourage workers to move from areas of high unemployment to areas of low unemployment because such incentives could help to reduce Employment Insurance costs, as well as generate more tax revenue from increased labour force engagement.

This shortage of labour is preventing businesses from expanding and growing to meet the needs of a strong economy and growth in population. Some businesses have had to close or reduce their hours because of lack of staff. Others have not been able to take on new contracts which in turn slow down construction and project completions.

There are areas of Canada where there is high unemployment and this country, certainly the western part of it, was settled by individuals who realized their potential by moving and taking advantage of the opportunities available to them. Often there were incentives offered by the Government of Canada and the railway companies to make it attractive for them to leave their homes and families and embark on a new adventure.

The shortage of labour is one of the threats to Canada's continued prosperity. Businesses closing or offering reduced services reduces the bottom line of businesses and subsequently the bottom line of the country by having less taxes paid. If Canada cannot find a way to solve this problem, the nation will lag further and further behind other countries. In addition, supporting Canadians on unemployment insurance adds to the social costs which is not a good business proposition.

When asked about barriers to relocation, family ties were the most common reason why workers would not relocate for a job, cited by nearly half of all respondents (48%). Similarly, 23 percent reported that being with a partner who was unwilling to move would prevent them from relocating. Aside from relationships preventing relocation, economic factors are also a considerable barrier to moving for work. The cost of relocation was a prohibitive factor for 29 percent of respondents, while only 12 percent specifically said the inability to sell their current home due to depressed housing markets would prevent relocation (*Migration for Work Survey, Manpower Group)*.

Incentives such as relocation allowances, tighter employment insurance regulations for those living in areas of high unemployment, grants to employers in areas where labour shortages are acute to help bring employees in, financial assistance to Chambers of Commerce to conduct job fairs in areas of high unemployment, and airfare re-imbursement for seasonal workers who consider working elsewhere during their down seasons are just a few of the incentives that the government might consider in order to assist with solving this problem.

**Recommendations**

That the federal government:

1. Make changes to the employment insurance program that will incent unemployed Canadians to move or relocate to where the jobs are.
2. Reduce existing barriers to relocation.
3. Raise the awareness of existing support programs and incentives to help advertise opportunities for employment in areas where there are labour shortages.

## Aligning Skills Development with Labour Market Needs

In addition to demographic shifts, Canada's labour market suffers from skills gaps and mismatches. The "skills shortage" refers to a lack of workers with the skills necessary to qualify for high demand jobs in the knowledge and skills-based economy. According to projections, the skills shortage in 2031 will be 2.3 million, meaning there will be 2.3 million available jobs without skilled labour to fill them.[24] This threatens economic growth because businesses struggling to fill positions cut back production and turn down contracts due to a lack of capacity. Productivity and innovation are also negatively impacted. Corrective actions need to better match labour force skills with the skills needed. It is imperative that all future federal actions aimed at aligning labour force skills with high-demand jobs are developed in consultation with employers and other stakeholders.

While efforts are being made to increase the size of Canada's labour, there is also a need to ensure skills entering the labour force actually match up to demands. For instance, there is a need for skilled trades' professionals and science-based occupations such as engineers and IT professionals, yet there is a chronic shortage of these individuals. The Canadian Chamber identifies social biases and education policy as the reasons behind this shortfall despite demand. Specifically, there has been a long-standing social bias against the skilled trades as occupations, leading students to pursue university degrees. Similarly, the education system fails to engage students in pursuing science-based occupations. Furthermore, there is a lack of essential skills limiting potential employees from becoming more productive through training. Even as Canada's labour force is achieving higher levels of educational attainment, there is still evidence pointing to skills mismatches in industries across the country.

To address this skills gap, employers, educators, and government, are seeking innovative and effective skills development and education solutions, including actions to increase apprenticeship completions, advancing essential skills and life-long learning, and establishing more employer-sponsored training. Given the multiple stakeholders and interests affected by the skills gap and skills development programs, future program development by the federal government should be as collaborative as possible. As consumers of the labour force supply, a key stakeholder in federal skills development programs are employers and the overall business community. However, the voice of business is currently not systematically and formally included in the process of developing policy solutions. For skills development and education programs to effectively align employer needs with labour force skills and lower unemployment, programs must address labour concerns and meet labour needs of business, enabling business to fully utilize the workforce.

Understanding business labour needs and incorporating this information into program design requires formalized stakeholder consultation**.** As part of program development, Employment and Social Development Canada (ESDC) should adopt a formalized stakeholder engagement and consultation process. Through on-going dialogue, employers offer experience-based insight on labour challenges and evaluation on programs, while being part of designing programs from their insider perspective. Employer input should be combined with consultation from other stakeholders.

An ideal dialogue model/framework that can be adopted by ESDC for incorporating business perspectives in skills programs is the Canada Employment Insurance Commission (CEIC). The EI Commission is a tripartite organization with representation from business, labour, and the Government of Canada. Thus, the interests of all stakeholders are reflected and represented on issues and functions related to employment insurance, including support of the appeal system, making EI regulations, reviewing and approving policies related to EI, and development of the EI monitoring and assessment report. A similar commission can be established for skills development programs that may be

[24] Miner, R. (2014). "The Great Canadian Skills Mismatch: People without Jobs, Jobs without People and More." Miner Management Consultants.

considered, designed, implemented, and evaluated in the future. This would allow employers a role in counselling the minster on what actions and types of programs are most desirable and effective for addressing the skills gap issue.

**Recommendations**

That the federal government:

1. Adopt a collaborative approach to addressing the skills gap by establishing a formal dialogue framework with a defined process and governing principles. The mandate should include the incorporation of business perspectives in the development of federal actions and programs on skills development and training.
2. Use the EI Commission as a model for dialogue emphasizing transparency and ensuring representation from various stakeholders to reflect and represent the interests and input of their constituents. This formal body should not only contribute to the development of programs but evaluate the effectiveness of implemented programs.

## Improving Canada's Immigration System: Visa Processes and Foreign Qualification Recognition

The projected shortfall of labour resources remains a major concern for Canadian businesses. Given an aging population and stagnating population growth, the labour shortage will require multiple coordinated solutions. Immigration can play a central role in addressing short- and long-term labour market needs. However, a number of limitations to the effectiveness of the current immigration process and challenges to full employment of immigrants continue to exist. Innovative policies are needed to attract people from around the world with the right mix of skills and talents to support economic growth. To reinvigorate the current immigration process, improvements to visa processes for various classes of immigrants and foreign qualification recognition are important places to start.

RBC Economics Research indicates that an overall labour shortage will occur as the numbers of workers available is outpaced by the number needed over the next couple of decades.[25] The shortage will affect a range of industries across various regions in the country. A 2012 parliamentary report found that 34.4% of firms in the biotechnology sector are facing skills shortages.[26] The mining industry estimates that by 2021, it will need to hire 3 990 skilled professionals.[27] The electricity sector estimates it will need to recruit over 45 000 new employees between 2011 and 2016.[28] The Canadian Association of Petroleum Producers (CAPP) estimates that it will need 9 500 new employees by 2015 and between 50 000 and 130 000 by 2020. [29]

**Temporary Foreign Worker Program**

Pending changes to the processing of permanent residents via the Express Entry system that will be introduced in 2015. many employers will rely on the Temporary Foreign Worker Program (TFWP) for workers . The old TFWP process required two-steps: the first was acquiring a Labour Market Opinion (LMO) from Service Canada, followed by a visa or work permit, provided by CIC. The LMO confirmed that there are no Canadians available to fill the position, taking approximately 4-6 weeks plus time for required advertising and recruiting. The expedited (e-LMO) process, designed to speed up the process for selected occupations, was discontinued. Throughout 2013, changes to the TFWP were introduced, limiting access and causing additional regulatory burden for users. Currently, the TFWP continues to undergo major changes, resulting in a restructuring of the program entirely. Given the federal

[25] The Canadian Chamber of Commerce, (2012) "Canada's Skills Crisis: What we Heard: A Canadian Chamber of Commerce Report on Cross-Country Consultations in 2012".

[26] Report of the Standing Committee on Human Resources, Skills, and Social Development and the Status of Persons with Disabilities, (2012) "Labour and Skills Shortages in Canada: Addressing Current and Future Challenges".

[27] Ibid.

[28] Ibid.

[29] Ibid.

government's commitment to redesign the TFWP, a number of concerns that were prevalent under the old system should be considered and addressed in addition to the changes.

First, the former LMO process was inaccessible, slow, and unresponsive to current labour market conditions related to pay, labour shortages, and recruitment processes. The data used during the LMO process suffers because it does not factor in localized, regional or specialized needs . Many of the recruitment advertising requirements, particularly for professional and high-skilled occupations, are out of touch with how businesses actually recruit talent. The Labour Market Impact Assessment (LMIA) should not contain the same disadvantages. However, since wage levels are replacing the National Occupational Classification as the main basis for administering the program, it is important that data on wage levels is as accurate as possible.

Second, despite the potential to benefit employers facing immediate labour shortages, the TFWP has previously been not only slow and ineffective but subject to abuse by some employers. Action is needed to speed up the processes of the program while limiting opportunity for abuse. A rigorous approved employer list will expand latitude and increase speed of processing temporary foreign workers for employers with a demonstrated history of utilizing the program appropriately. This would also free up Service Canada to scrutinize more files, expending their time pursuing employers and files that may not be adhering to the intent of the regulations.

**Foreign Qualification Recognition (FQR)**

Unnecessary barriers to foreign qualification recognition (FQR) exist in many professions. In 2007, about 37% of foreign born individuals between 25 and 54 years had a university degree, compared to 22% of their Canadian born counterparts. Yet the immigrant unemployment rate is twice as high as those who are Canadian born.[30] New Canadians need the shortest, most practical route to obtain Canadian qualifications in their professions without sacrificing standards. The ultimate goal is to give new immigrants the tools to become self-sufficient and take full advantage of opportunities in Canada. Failure to recognize foreign qualifications and experience, leaves immigrants unemployed and under-contributing members of the Canadian economy, earning less income, paying less in taxes, and unable to afford necessary goods and services. It is important that government, business, and qualification-granting bodies improve processing times and policies for the qualification recognition of internationally-trained professionals, alleviating labour shortages and enabling labour market participation of all members of society.

There are nearly 500 professional regulatory authorities, numerous credential assessment/accreditation bodies, and hundreds of vocational institutions involved in assessing foreign credentials in 13 Canadian jurisdictions. The provinces are responsible for licensing and certifications in 55 regulated professions (15% of Canada's labour market), while employers evaluate qualifications in the other unregulated occupations (85% of Canada's labour market).[31] This creates a complex and confusing regulatory landscape for immigrants and employers to navigate. It is difficult to obtain transparent, accountable, and systematized information about regulatory requirements. Additionally, assessments have become more complicated since the range of immigrant source countries has broadened.

The 2009 Economic Action Plan committed $50 million to develop a framework to speed up FQR and assessment. In addition, the Pan-Canadian Framework for the Assessment and Recognition of Foreign Qualifications is in place, reporting to the Forum of Labour Market Ministers. However, given the current complex nature of the FQR landscape, the federal government should emulate successful models in other jurisdictions. The governments of Australia and New Zealand have centralized the assessment of credentials through the establishment of independent bodies.

Australia's National Office of Overseas Skill Recognitions (NOOSR) provides official information and advice on the comparability of overseas qualifications with Australian qualifications, using the Australian Qualifications Framework as the benchmark. It also provides country education profiles, which are online recognition tools for assessing overseas educational qualifications used by post-secondary institutions, professional bodies, employer, international organizations, and governments. The NOOSR assessments are guides to the educational level of an overseas qualification in terms of a qualification on the Australian Qualifications Framework. Similarly, the New Zealand Qualifications Authority established the National Education Information Center (NEIC) to provide

[30] The Canadian Chamber of Commerce (2010). *Canada's Demographic Crunch: Can underrepresented workers save us?*.

[31] Becklumb, P., Elgersma, S., (2008). *Recognition of the foreign credentials of immigrants*. Library of Parliament Research Publications.

information and advice on the New Zealand education system, secondary and tertiary qualifications, and recognition of overseas qualifications. The role of the NEIC is to provide information and advice on the recognition of foreign diplomas, degrees, other academic or professional qualifications, and on both New Zealand's education systems and educations systems in other countries.

**Recommendations**

That the federal government :

1. For the administration of the new TFWP and during the LMIA process, consider a broader range of information sources on wage data to determine the appropriate salary or wage-level, ensuring the system and process is more responsive and sensitive to actual labour market conditions.
2. Reinstate a version of the e-LMO process and streamline the LMIA process for any worker in an occupation on the Occupations-Under-Pressure list by considering the broader labour market for that skill rather than only the specific applications received and interviewing efforts of each individual employer.
3. Direct Employment and Social Development Canada to create and administer Approved Employer List of employers with a proven track record of explicitly following both the letter and the spirit of the TFWP regulations. Eligibility for this list must contain requirements that are rigorous enough to ensure abuse will not occur, yet it should not place unnecessary burden on smaller businesses looking to utilize the TFWP.
4. Reduce the complexity of foreign credential assessment by directing Canada's Foreign Credential Recognition Program to provide policy guidance, in addition to strategic financial support, to provincial and territorial governments and organizations involved in the credential assessment process, using the foreign credentials assessing models of Australia and New Zealand as a successful reference.
5. Develop an education profile of the main source countries of immigrants in order to have a transparent and comprehensive description of their educational systems available for business and other hiring entities similar to what is offered in Australia and New Zealand.

## Easier Access to Visa Programs

Canada's visitor visa system could better facilitate economic trade and tourism and the business opportunities for British Columbia and Canada would result.

At Canada's airports, information received from the Canadian Airports Council (CAC) is that over the past few years that visas have a tremendous but underappreciated impact not only on aviation but also on the trade and tourism related industries. Visas impact Canada's competitiveness as a tourism destination, the attractiveness of our international airport hubs for connecting traffic, the viability of potential new international routes, and the capacity, traffic volume and competition on existing routes, both international and domestic. This is important not just for our international gateways, but also for making smaller centres, which receive business travellers, international students and visiting family members from around the world. [32]

There is broad interest in visas in two ways: Making the process easier for travellers who need visas, and low risk ways to get legitimate visitors out of the need for a visa altogether for travel to or through Canada. This is increasingly relevant to Canada's aviation sector because some of this country's biggest business opportunities for both the tourism industry and trade are with countries whose residents require a visa to visit Canada.

It is appreciated that visas play an important role in Canadian security and controlling who enters Canada. There are countries with tremendous tourism potential for Canada from which we currently require visas – countries like Brazil, China, Mexico, Turkey and India. In terms of economic trade and tourism growth, we suggest visa free travel from these countries, but we do recognize that visa requirements are in place for valid security reasons.

[32] Discussion regarding citizenship and immigration is drawn from a presentation by Daniel-Robert Gooch, President, Canadian Airports Council, before the House of Commons Committee on Citizenship and Immigration December 3, 2013.

There is a balance involved. The right balance is in place, but that through greater use of technology and international best practices, we can be even more precise in facilitating the trade and tourism markets without sacrificing security and in a fiscally conservative manner.

It is also important to note that there is progress being made today. 130 Visa Application Centres are being opened, bring visa services closer to applicants and helping to reduce and helping to reduce application errors in important markets like China. We now have ten-year multiple entry visas, as well, visa requirements were just lifted for the Czech Republic. And while the introduction of a visa requirement for visitors from Mexico definitely had a negative impact on the tourism sector, we are hopeful that enough progress has been made to mitigate risk in other areas that this requirement can also be lifted soon as well. Mexico alone could deliver more than 130,000 additional visitors a year.

The Electronics Travel Authorization (ETA) requirement we understand to be implemented in 2015 will involve a new step for visitors from countries that currently require no visa today. This is a concern. That ETAs be low cost and low hassle is an imperative to soften its impact on travel demand, but ETAs also represent an opportunity if they are used as an intermediate screening tool that can allow for formal visa requirements to be lifted from some lower-risk markets.

So there are positive developments to report and we see this as an indication that the government is hearing what the air carrier, business and tourism sector have been relaying over the past few years about the importance of improvements in visa policies and procedures.

There are still ample opportunities for improvement. The current visa application process today is cumbersome. It asks a lot of information, is paper based, often requires a traveller to surrender his or her passport, and may entail long distance travel for in person interviews. It also can take a long time which is a huge problem for business travellers in particular. Business travel often needs to be arranged within days – not weeks or months – and a visa delayed is essentially a visa denied. Surrendering of passports can be a non-starter for many travellers and it is important that alternatives be both available and well communicated.

There are reports from foreign airlines, governments and from travellers themselves about how visas are impacting business and leisure travel, and Canada's reputation abroad. The Tourism Industry Association of Canada notes in its recent report that visa restrictions on travel are estimated to negatively impact inbound visits by up to 31 percent, which means about 250,000 fewer visitors each year from Brazil, China, India and Mexico alone. Considering the average long-haul visitor spends nearly $1,600, this would mean an additional $375 million in foreign spending in the Canadian economy from just these four countries if we could significantly improve the visa process.

Improvements could include increased reliance on electronic visa application processing and issuance such as it exists in Australia and elsewhere, procedures that allow applicants to keep their documents, regardless of application method and improved foreign language services. Also, consider taking a different approach to potential visitors who we have already screened or who have been screened by other countries. Visitors should be able to transfer Canadian visas to a new passport, for example. And while it is appreciated that Canada evaluates potential visitors based on different risk factors than other countries, a visa to the U.S. or to the European Union nevertheless demonstrates a certain amount of pre-screening, which should be a consideration for less complicated entry into Canada.

As well, there are individuals who have been granted long-term or permanent residency in a country from which we do not require visas – like the United States. For instance, a Chinese student studying at the University of California who would like to visit Vancouver for a weekend faces the same process that we would apply to a potential visitor who has never travelled outside of his or her country. A second area of visa policy of interest to our sector is getting travellers out of the visa and border queues altogether. In particular, Transit Without Visa is a program in place today that allows travellers from certain Asian cities visiting the United States on certain airlines to transit through Canada without a visa. This program has been successful and with very few abuses or violations of the program. Its expansion and improvement have been areas in we have seen some progress in our work with both Citizenship and Immigration and CBSA, but it is important that this progress continue as there are additional opportunities for Canada to take advantage of.

While it may not be obvious how a traveller who spends just a few hours at a Canadian airport connecting to somewhere else is good for Canada, Canadian airports and air carriers are direct beneficiaries of these passengers. These additional passengers make viable international routes that might not otherwise be viable. On existing routes, they grow demand, which can grow both capacity and competition. New routes, more capacity and greater competition, in turn, help bring more travellers who are destined for Canada, which delivers benefits throughout the economy. In fact, a recent Conference Board of Canada study estimated that expansion of the existing Transit Without Visa program could have a $270 million benefit in GDP and 3,200 jobs if Canada is able to attract just 5% of the connecting traffic between Asia and the United States. Canada's aviation sector isn't content to just stop there, however, there are tremendous opportunities available to flow travellers from Central and South America to Asia and Europe if we are able to expand Transit Without Visa to these travellers as well. Other countries understand this, which is why we have seen countries in the Middle East grow their market share of traffic between the Americas and both Europe and Asia exponentially in recent years – at the expense of North American hubs and airlines.

**Recommendations**

That the federal government support the amendment of the Visitor Visa program by:

1. Streamlining the process for travellers who need visas and remove the obstacle of surrendering passports for visitors who pose no threat to Canada's security.
2. Considering low risk and proven ways, based on international best practices, that allow legitimate visitors to forego a visa altogether for travel to or through Canada.
3. Expanding the Transit without Visa program.

## Accountability of the Canadian Employment Insurance Commission (CEIC)

**Issue**

The Employment Insurance (EI) program has been a tool developed and administered by the Government of Canada to enable stability as it relates to employment, labour market participation and the skills upgrading to maintain the relevancy of broad skill bases throughout the Canadian labour pool.

The Employment Insurance program, in its current form and without appropriate business representation is not fully meeting the needs of the primary contributors to its funding, the businesses and employers in Canada.

**Background**

The administration and use of the EI program has long been criticized as a contributor to persistent barriers impeding labour market mobility in Canada from jurisdictions with high unemployment to jurisdictions with high demand for labour. The recent imposition of the Canada Job Grant (CJG), operational July 1, 2014, by the federal government onto provincial and territorial governments charged to deploy and administer labour market development and training is another example of the dysfunctional approach the federal government pursues to solve labour market challenges. Employers are asked to continually and increasingly, fund programs to solve labour market issues they already provide funding to resolve. The federal government has yet to demonstrate proportional value for deployment of funds already collected to solve these issues on the taxpayer's behalf.

In addition to the contribution the EI program has made to restricting labour mobility in the country, employers find themselves negatively affected further the by one-size-fits-all approaches to labour market development represented by the CJG. This new approach to labour market development does not respect, or acknowledge, the regional needs or the diversity of local economies across this vast nation. In fact, the imposition of the CJG underscores the critical issue undermining the effectiveness of the EI program for supporting a competitive and productive Canadian economy - accountability to its primary funder, the businesses and employers in Canada.

Employers supply 60 per cent of EI contributions with employee contributions supplying the remaining 40 per cent. EI forecasts for 2014 are approximately $13 billion with 20 per cent, or $2.6 billion, of the total revenue funded by employer top up dedicated to training.

It is the role of the Canadian Employment Insurance Commission (CEIC) to support the deployment and administration of these funds by assisting Human Resources and Skills Development Canada (HRSDC) in managing the Employment Insurance (EI) Program. It is a tripartite organization with representation from business, labour and the Government of Canada.

The EI Commission is responsible for:

- Supporting the EI appeal system
- Making regulations with the approval of the Governor in Council
- Reviewing and approving policies related to EI program administration and delivery
- Continuing development of the EI Monitoring and Assessment report as a permanent annual report.

The Commission performs duties and functions in relation, but not limited to:

- Employment insurance
- Employment services
- The development and utilization of labour market resources

Despite being the majority contributors, employers represent only one third of the tripartite relationship forming the organization of the CEIC. Further contributing to the lack of fairness and accountability inherent in the current state of this arrangement, the employer representative only stands as one of four commissioners. An employee representative fills another commissioner role with government representatives standing for the other two. In essence, a 60% contribution only equates to 33% representation as there is one vote for each respective interest. This grants responsibility to enable labour market development relevant to the needs of the business community, into the hands of political and non-business representatives. The result is a significant lack of accountability to the employer funders of EI and a risk to economic competitiveness

For Canada's economy to be sustainable and competitive in the long term, this arrangement and representation must be amended to reflect of the needs of the primary driver, and contributor, to labour market activities in the country – the employers and business community in Canada.

**Recommendation**

That the federal government amend the representation of the Canadian Employment Insurance Commission to two employer representatives, one employee representative and one additional member representing the interests of government; and that the Minister of Employment and Social Development be appointed as Chair of the Commission, only voting on issues where there is a stalemate between the four primary representatives of the commission.

## Meeting Canada's Labour Needs by Attracting and Retaining International Students

In the report titled "The Top 10 Barriers to Competitiveness", the Canadian Chamber of Commerce has identified the Canada's skills crisis as the *major socio-economic challenge confronting this country*[33]. The Government of Alberta estimates that Alberta alone will experience a shortfall of 114,000 mostly skilled workers by 2019.[34] Many initiatives, as engaging the Aboriginal people, youth and older people to the labour market, are underway to help mitigate the challenges associated with the massive shortage. Nonetheless, the business community fears that what is currently being implemented is not sufficient and does not provide the access to highly educated and specialized workforce.

Despite government's concerted efforts placed on solving labour challenges with economic immigrants and the underemployed sectors (i.e. persons with disabilities and Aboriginal populations), Canadian employers continue to be faced with a stressful, looming shortage, which in the long term will have serious negative implications on Canada's growth and prosperity.

In October 2011, the federal government launched an Advisory Panel on Canada's International Education Strategy that will reinforce Canada as a country of choice to study and conduct world-class research. In 2012, Canada welcomed over 100,000 international students and over the last three years more than 23,000 international students

[33] Canadian Chamber of Commerce, Retrieved on May 16, 2012 from: http://chambertop10.ca/skills-crisis/
[34] Government of Alberta. Employment and Immigration. Alberta's Occupational Demand and Supply Outlook, 2011-2012. Retrieved in August 2011 from: http://employment.alberta.ca/documents/occupational-demand-and-supply-outlook.pdf

transitioned to permanent residency status. The federal government estimates that international students currently contribute more than $8 million to the economy and support 86,000 jobs across Canada.

International students are increasingly seen as an excellent talent pool and there is a strong push to keep international students in Canada after they finish their studies through the post-graduation work permit and permanent immigration through the Canadian Experience Class. The federal government also recently announced a new International Education Strategy which proposes to double the number of foreign students studying in Canada, to 450,000 by 2022.

Bill C-24,"Strengthening Canadian Citizenship Act," was introduced in the House of Commons on February 6, 2014 and passed into law on June 19, 2014. It is the first comprehensive reform to the Citizenship Act since 1977. The changes will require permanent residents to wait longer to apply for citizenship, introduces tougher language laws, and increases the power of the Minister of Citizenship and Immigration. It also aims to reduce the current backlog of applications by streamlining the application process.

Despite the new International Education Strategy and *Strengthening Canadian Citizenship Act*, Canadian employers believe their skills and labour needs should also be incorporated into the effort to attract and retain international students. In spite of the urgent need for skilled workers in many parts of Canada, a number of regulatory and legislative barriers still exist which prevent and/or delay the successful attraction and retention of skilled labour into the country and remain unaddressed by the new act. While the intention of the bill to make sure applicants are supporting and integrating within Canadian society is laudable, removing the ability to count time spent studying and working in Canada prior to receiving permanent resident status disadvantages and delays citizenship to the very individuals we most want to preserve for Canada's workforce.

At present, attracting a potential international student to consider Canada a place to study and retaining that student in the country post-graduation, as a permanent resident, has four main stages:

- Stage 1: Student to start the study permit application processes and get accepted into Canadian institution
- Stage 2: Student to possibly find work opportunities during their studies; ie. working on campus, working off campus, co-op & internships
- Stage 3: Post-graduation work permits procedure; begin work with a Canadian employer
- Stage 4: Student, now employee, applies for permanent Residency in the frame of Alberta Immigrant Nominee Program (International Graduate Category) or Canadian Experience Class procedures.

At present, the processing times for study permit applications examined by the visa officers outside Canada can take up to 15-18 weeks.[35] In comparison, the applications for a study permit submitted online inside Canada require only two weeks.

Once the international student is accepted and enrolled in an educational program at the public or private post-secondary institution recognized by the Citizenship and Immigration Canada (CIC), there are three options for him to gain Canadian working experience. These are working on campus, working off campus and co-op & internship programs. Nonetheless, none of these experiences currently count when applying for the Permanent Residency.

It is possible for a student to apply for the post-graduation work permit (within 90 days of receiving written confirmation stating that the student has met the requirements for completing the academic program).[36] One of the impediments to benefit from young, well-educated international workforce is the duration of the post-graduation work permit they are given by the CIC. According to the present regulations, an international student has to complete an educational program that would last at least 8 months. Then, the work permit is awarded for the exact same number of months that the duration of one's educational course. If the student was enrolled in a two year program or longer, than the work permit is awarded for 3 years. The international graduates that completed 8-11 month educational program are particularly harmed by this regulation as they are not legally allowed to gain a full one year professional experience in their skilled discipline.

[35] Citizenship and Immigration Canada, Retrieved on May 15, 2012 from: http://www.cic.gc.ca/english/information/times/temp/students.asp
[36] Citizenship and Immigration Canada, Retrieved on May 15, 2012 from: http://www.cic.gc.ca/english/study/work-postgrad-who.asp

It is generally accepted for an employer to get full economic benefit from a hire, the employee needs to be employed with the organization about four to five years. Having an international graduate of an 8 month program only being able to work for 8 months, presents a disincentive for employers to hire international students. This creates a large incentive for these educated, skilled and already assimilated potential employees, to leave our country, making Canada never actually see the full long term economic value from these students.

Once the international graduate obtains the post-graduation work permit and starts working for a Canadian employer, there are two possibilities to apply for Permanent Residency, both which are at present fairly cumbersome.

To become a permanent resident, the international graduate can either apply on the provincial level, in the frame of the Alberta Immigrant Nominee Program (AINP) for International Graduates, or on the federal level through Canadian Experience Class (CEC) category. In both cases, it takes approximately 15 months for the CIC to provide the applicant with a response if he has been given the Permanent Residency status and can fully contribute to the Alberta and Canadian economy.

Attracting and increasing international student numbers without a long-term strategy on how to keep them in Canada will result in not only damage to our international reputation as a world-class destination for education, but will deter students from seeing Canada as a destination of choice for permanent residency.

The new Citizenship Act should consider and give recognition to students who have graduated from Canadian post-secondary institutions, who stayed on work permits after graduation and made the decision to immigrate permanently by applying for their permanent resident status. It is important to recognize that these individuals are integrating into and contributing to Canada, with no interventions from the government, and are the ideal new Canadians we want to attract and retain.

**Recommendations**

That the federal government:

1. Work with post-secondary institutions to continue to attract international students to Canada's post-secondary system, especially in the fields that particularly suffer from the insufficiency of qualified labour force.
2. Change the length of time for which a post-graduation work permit can be valid, from the current status of valid for no longer than three years, to five years regardless of the program of study, so long as obtained from a recognized Canadian institution.
3. Improve its student visa procedure to make it quicker and easier for potential international students to receive study and work visas.
4. When considering applications for permanent residency, take into account the working experience that an international student gains through working off campus, working on campus and co-op & internship programs.
5. Speed up processing times for the overseas study permit application as well as for the permanent residency applications from all international students who graduated from recognized Canadian institutions, and are currently employed in Canada.

# INDUSTRY

## An Innovation Box Approach in Canada

**Issue**

Canada lags other member countries of the Organisation for Economic Co-operation and Development (OECD) in the rate of growth in patent registrations and in the rate of commercialization of new products and services. Concerns have also been raised about the share of Canadian patents that are held and exploited abroad. A new approach is needed to encourage business investment in innovative processes to improve productivity, economic growth and incomes.

**Background**

Governments around the world are looking at adopting tax incentive regimes to encourage companies to exploit and commercialize intellectual property in their jurisdictions.

A number of countries (the U.K., Belgium, Luxembourg, France, Spain, Hungary, Ireland, Switzerland and China) have adopted a "patent box" tax approach which sharply reduced the normal corporate tax rate on income derived from the exploitation of patents. The Netherlands widened the policy to an "innovation box" to encompass a broader class of intellectual property.

The types of profits that qualify for the lower tax rate, and how acquired intellectual property is treated, differ significantly among countries. Additionally, the "patent box" rate varies considerably among nations. Finally, some countries put caps on the total tax relief companies can receive from patent boxes.

The reference to "box" comes from having to tick a box on the tax form that indicates this type of revenue is being claimed.

Given the tax advantage provided in some countries for holding intellectual property, the question arises whether Canada should adopt similar incentives and, if so, how should they be designed?

The Canadian Chamber of Commerce proposes the implementation of an "innovation box" approach in Canada that would reduce the normal corporate tax rate for income derived from developing and commercially exploiting patented inventions and other intellectual property connected to new or improved products, services and related innovative processes to the benefit of Canada.

An "innovation box" approach would encourage companies to locate intellectual property activity and the new high-value jobs associated with the development, manufacture and exploitation of innovation inside Canada. If properly designed, it would promote and enhance the innovation capacity of sectors that leverage science and technology innovations throughout Canada. Firms in all sectors across Canada will have a greater incentive to adopt, commercialize or otherwise exploit the output of the R&D process here in Canada.

This would drive new and sufficient economic activity and government tax revenue to more than offset the immediate revenue costs of the proposal. The government could also apply the savings that will be realized from streamlining the SR&ED tax incentive program to offset all the immediate revenue cost of this proposal.

Finally, an "innovation box" approach would complement the existing SR&ED Investment Tax Credit program—firms would have an incentive to base their R&D activities in Canada AND to commercialize them in Canada.

We would be remiss if we did not note that according to the Organisation for Economic Co-Operation and Development (OECD), base erosion and profit shifting (BEPS) can occur as a result of aggressive government competition for a share of the tax base, including the introduction of favourable tax regimes targeted at activities like intellectual property. This is one of the issues being addressed as part of the BEPS Action Plan. Additionally, EU finance ministers have called upon the EU Code of Conduct group to conduct an analysis of patent box schemes in EU member states by the end of 2014 and that this analysis be conducted against the background of the OECD's BEPS initiative. If patent box approach is  determined to be legitimate tax structure, Canada will need to seriously consider implementing such schemes to remain competitive. The Canadian Chamber's recommendations below should be considered in this context.

**Recommendations**

That the federal government:

1. Implement by 2016-2017 an "innovation box" approach to encourage more business investment in innovation processes in Canada.
2. Consult with senior business leaders/technologists to define what intellectual property would qualify, e.g. patents, copyright, radical design?
3. Ensure that any such regime adopted in Canada delivers the clarity and simplicity that encourages participation/ innovation from both SMEs and large companies.

## Putting Federal Government Data to Work for SMEs

It is a commonly-known statistic 98 per cent [37]of Canada's businesses have 1-99 employees. What may not be so commonly-known is the degree to which Small and medium-sized enterprises (SMEs) - via digital technologies including the internet and social media - have access to data to help make them more competitive. Not so long ago, this information was available only to large companies with the human and financial resources to mine large volumes of data.

Data mining/analytics gives SMEs tools to allow them to identify new markets and customers, clients they may be at risk of losing, etc. According to Beth Brady, President, Nielsen Segmentation and Local Market Solutions, "When you have the right data, combined and analyzed from the right angle and delivered it in a simple intuitive way, the challenge of finding your most valuable customers and creating products, services and experiences that matter to those customers becomes so much easier. We believe in a future where small businesses can do this just as well as bigger ones."[38]

Often, federal government data – for example demographic and geographic information – can greatly enhance the utility of market intelligence. In its Digital Canada 150 Strategy, launched in the spring of 2014, the federal stated, "Open data—the ready access to government data in easily usable formats—will expand public dialogue, stimulate citizen engagement and foster greater cooperation among governments, businesses, academia and individuals." The Strategy also states: "Canada will open up its vaults and release datasets that can promote economic development, spark innovation and help find ways to make government work better."[39]

The federal government's data.gc.ca website offers a portal into federal data and provides links to other levels of government (where available). While businesses appreciate the single point of access to a broad range of government data, some users have been frustrated by:

- Actions having to be repeated, for example downloading data for one municipality and then having to go back to the beginning to access the same information for another city
- Datasets from different government agencies and departments having different layouts and formats, requiring users to spend a lot of time converting them before they can be used
- Datasets using different statistical standards, for example, some being grouped according geographic regions/municipalities, while others are grouped according to economic regions
- Some datasets being out-of-date
- Some datasets being incompatible with Microsoft Office ™
- Some of the links provided not working

[37] Industry Canada, Small Business Branch, Key Small Business Statistics, August 2013
[38] Nielsen Newswire, How Small Business Can Scale the Big Data Barrier, http://www.nielsen.com/us/en/newswire/2014/how-small-businesses-can-scale-the-big-data-barrier.html, March 18, 2014
[39] Digital Canada 150, Industry Canada https://www.ic.gc.ca/eic/site/028.nsf/vwapj/DC150-EN.pdf/$FILE/DC150-EN.pdf

Businesses – and all Canadians – would find government data much more useful if it were consistently presented/formatted, for example the naming and placement of variable across datasets. This would enable users to compare, merge, etc. information much more easily.

**Recommendations**

That the federal government:

1. Undertake to present its data in a consistently formatted manner.
2. Work with the provinces/territories and municipalities to adopt a consistent format in dataset presentation.
3. Release all data, with the exception of data that threatens privacy or public security, in formats that can be easily read and manipulated by computers.
4. Work with the provinces/territories and municipalities to release the data with a license that gives users the right to use and modify the data, merge it with other data, and distribute it for commercial and non-commercial purposes without restrictions.
5. Fully implement Open Data in Canada by the end of 2016

## Fostering Growth in Canadian Productivity

**Issue**

For the past 30 years, the gap between Canadian productivity and that of other leading economies, including the United States, has grown.

While the Federal Government has taken positive steps to address the issue, more is required to enhance Canada's competitiveness in the global economy and protect Canada's standard of living in the years to come.

**Background**

For three decades, growth in Canadian labour productivity (measured as output in dollars per hour worked) has lagged behind productivity growth in the United States and other major countries. In 2012, Canada's level of labour productivity was US$42, compared to US$52 in the United States. This places Canada in 13th place among 16 peer countries on the level of labour productivity, with only Finland, Switzerland and Japan exhibiting lower levels of productivity.[40]

The cause of the productivity gap in Canada is difficult to identify and is almost certainly influenced by multiple factors. Research suggests less investment in capital compared to other countries, less focus on research and development, fewer large multinational firms based in Canada, and cultural differences (i.e. many perceive Canada as being a more risk adverse culture) all play a role.[41]

Further, Canada has a much larger proportion of small firms compared to peer countries, including the United States. Recent studies suggest that while innovative, smaller businesses have comparatively less labour productivity than larger firms who are able to capitalize on economies of scale.[42]

Canada's productivity gap can also be attributed to lower levels of spending on research and development and capital equipment. In Canada, firms actually spend comparatively less on research and development as the company grows. OECD research measuring entrepreneurship shows that firms in Canada with 50 or fewer employees spend 0.29% of GDP on research and development, ranking eighth among 27 OECD countries. However, for firms with more than 250 employees, Canada's ranking falls to 16th.[43]

[40] The Conference Board of Canada, "How Canada Performs", March 2013, http://www.conferenceboard.ca/hcp/details/economy/measuring-productivity-canada.aspx
[41] Waning Productivity Set to Sap Canadian Growth, Globe & Mail, October 29, 2013.
[42] Statistics Canada, "Study: The impact of Canada's firm-size disadvantage on the labour productivity gap between Canada and the United States", January 8, 2014.
[43] Deloitte, "The Future of Productivity in Canada", 2012.

There has also been considerable research done on Canada's immigration system and how attracting and improving the immigration process for highly skilled immigrants could help drive Canada's growth and productivity.[44] A better immigration system will be critical in light of the aging domestic population in Canada.

Finally, encouraging more foreign direct investment (both outward and inward) can help to address the productivity gap. Recent research shows that foreign controlled firms spend more on research and development and are more capital intensive than Canadian controlled firms.[45]

While we commend the government for enacting measures to encourage productivity growth such as eliminating capital taxes and lowering corporate tax rates, we believe more needs to be done to encourage Canadian businesses to innovate, take calculated risks, and enhance their competitiveness in the global economy. Higher productivity will result in increased wages, higher returns on investments, and more taxable income from business in Canada.

Not addressing the productivity gap will put increased pressure on government tax revenue and jeopardize the standard of living for all Canadians in the years to come.

**Recommendations**

That the federal government:

1. Enable more investment in machinery and equipment by expanding current grants/subsidies for the purchase of state of the art technology, and increasing tax incentives for applicable purchases of new capital equipment including extending the temporary accelerated capital cost allowance of 50 percent for eligible manufacturing and processing machinery and equipment indefinitely and extending the accelerated capital cost allowance rate of 50 percent to all new machinery and equipment purchases.
2. Continue to improve the efficiency and flexibility of Canada's immigration system. The flexibility should be geared towards Canada's labour needs and increased action should be taken on the recognition of foreign credentials.
3. Facilitate foreign direct investment in Canada by clearly defining which industries are protected in Canada and the parameters and conditions under which Canadian entities may be acquired by foreign firms and lifting some of the barriers that currently exist to increase competition (eg. such as in the telecommunications sector).
4. Ensure that policies and incentives aimed at improving Canada's productivity are focused on company growth, rather than size. For example, research and development credits could be assessed based on incremental research and development undertaken by a company, as opposed to the current system that provides higher credits and refundable amounts for smaller companies. This will encourage companies of all sizes to expand and become global competitors.
5. To increase Canadian businesses competitiveness, the federal government must drive productivity growth through reducing trade barriers, both domestically and internationally.

## Expanding Markets and Technology for Canadian Food & Beverage Manufacturers

**Issue**

Canada requires growth industries that are driven by exports. The national food & beverage industry, with supportive policies for technology and innovation, provides significant potential for job creation and opportunities across the global market.

**Background**

Advanced food & beverage manufacturing is a vital component of the Canadian economy with large and viable operations in all regions of the nation. In 2011, the sector employed 236,000 people, exceeding total employment in transportation equipment which includes the auto sector.

[44] TD Bank Financial Group, "The Productivity Puzzle: Why is the Canadian record so poor and what can be done about it", June 3, 2010.
[45] Ibid.

In March of 2014, the Canadian Agri-Food Policy Institute (CAPI) and the Ivey Business School at Western University (Ontario) released two research papers on the domestic food manufacturing sector. Both reports indicate that the environment for Canadian operations has been dramatically changed in recent years due to a higher Canadian dollar, increased foreign competition, retail concentration and higher input and commodity prices. Consequently margins have been restricted and growth limited in relation to value-added productivity.

The rising Canadian dollar has driven down the cost of imports and positioned exports by Canadian companies as less competitive. Food imports have increased significantly and the domestic trade balance in processed foods continues to decline.

Although the food manufacturing industry created 3,500 jobs – a 1.5 percent increase – between 2004 and 2011, the skills requirement has shifted towards workers trained and experienced in advanced manufacturing to operate new production equipment. Sub-sectors that experienced employment growth were dairy, grain, oilseeds and bakeries, while areas losing workers included sugar and confectionaries, animal food, fruit and vegetables, and seafoods.

A combination of the above referenced trends have lead to closings and restructuring across the industry, most notably the Heinz plant in Leamington, Ontario and the Kellogg's facility in London in late 2013. However, although Ontario firms accounted for over 50 percent of all Canadian jobs eliminated from 2006 to 2014, the province did gain employment suggesting that new openings, investments and expansion balanced out and exceeded the losses from closings.

As noted in the reports from Ivey and the CAPI, the food manufacturing industry has been relatively steady and consistent in their productivity and profitability results. However, in the current global economic climate, Canada needs growth industries that are driven primarily by exports.

The priority for the federal government should encompass negotiating trade agreements with policy regulatory environments that support food exports, and the improvement of Canada's one percent share of the global market in technology for food equipment. Alignment and coordination of regulatory regimes with major competitors is also required. Like many other industrial sectors, the food industry requires programs and other initiatives to drive investment in innovation, new technology and productivity.

The federal government must encourage the technology industry to act as vehicle to drive advanced manufacturing. In June of 2013, the Waterloo, Ontario based Accelerator Centre announced a partnership with the City of Waterloo to launch a new program, Canada's Technology for Food (CTFF). A major focus of CTFF's activities will centre on advanced manufacturing through the application of information and communication technology (ICT) to food processing operations, and facilitate collaboration between manufacturers and providers of technology. When a technology application is successful beyond the initial operation, the Accelerator Centre will provide commercialization and expand the business, eventually reaching global markets. Programs such as CTFF are critical for productivity, export growth, sustainability and innovation.

The CAPI and Ivey reports also note that "policies and resource allocations for food manufacturing should not be integrated with, and masked by, primary agriculture's (farming) business risk management policies which continue to be the central focus of provincial and federal agri-food policy." With access to a wide range of products and markets, food manufacturing should be a powerhouse industry for Canada.

Overall, while the industry is under pressure and firms are restructuring, food manufacturers have demonstrated a remarkable level of resilience and stability. The federal and all provincial/territorial governments must understand the industry and its many components to develop a policy agenda that will support sustained growth and long-term stability.

Discussions with food industry executives indicated that the current federal tax rate is perceived as highly competitive. Many Canadians facilities are relatively small and utilize outdated technology, indicating that government programs for investments in innovation are required. The Scientific Research and Experimental Developmental (SRED) program is generally viewed as an effective initiative for the industry.

**Recommendations:**

That the federal government:

1. Develop and implement trade agreements and policy/regulatory environments that support the export of Canadian food products.
2. Support productivity and efficiency enhancements to allow Canadian firms to become more productive domestically and subsequently develop technology for export into global markets.

## Technovation: a shift in philosophy, an investment in Canada's future

From around the globe, technovation's (technology driven innovation) influence on our lives continues to increase at an exponential pace. Technology is a common factor in the daily lives of virtually everyone and in every sector of the Canadian economy. Mobile apps, Facebook™, in-vehicle monitoring systems, office webinars, robotic field personnel – technology and the knowledge-based economy are here and must be embraced for any level of productive living, working, interacting.

As the global economy evolves at an increasing rate of speed, technology and cyber or e-business is now a fundamental part of mainstream commerce.

Canada is lagging in its investment in and commitment to innovation and technology. According to a white paper written on Silicon Valley[46], the private sector plays prominently as a key contributor to a robust technovative society.

This paper lists five major components that contribute to the success in technovation experienced by Silicon Valley:

- Publicly-funded researchers
- Privately-funded innovators (technovators)
- SMEs/Entrepreneurs
- Venture capitalists
- Political advocates

Critics cite a focus on traditional sectors and resistance to adaptation as factors undermining Canada's transition to the knowledge-based economy[47]. Conventional approaches to innovation (e.g., SR&ED, IRAP, Tech Futures, etc.) focus on products birthed in, or in some fashion attached to, academia, resulting in overlooked knowledge-based business ideas born in the field rather than the lab. Private sector inspired, innovative knowledge or cyber-based business ideas such as mobile apps, cloud-based computing apps, and social networks, etc. run into obstacles that often prevent them from getting to market. Effective programs should provide aid and support for firms advancing throughout the continuum from inception to commercialization. The Digital Technology Adoption Pilot Program (DTAPP) was a good example of a program designed to help SMEs (particularly manufacturers), but was discontinued after the pilot period ended.

The Conference Board of Canada's Report Card on Canada continues to give Canada a 'D' on innovation, describing a lack of understanding of and commitment to knowledge-based innovation. E-business entrepreneurs whose ideas may not have tangible assets are at a distinct disadvantage, contributing to Canada's brain drain.

The adaptation of a Proof of Concept[48] project model approach for Canada's technology-related grants, loans and new business programs would offer technovators latitude to create, prove out and patent valuable assets that could be legally protected and then made available to entrepreneurs for commercialization in Canadian and global markets.

Many enduring mainstream technologies today were born in garages and cyber space, and the majority of technovations have come from the private sector. With focus on, and public sector investment in, private sector R&D and technological innovation, new technovations could become more readily available to enterprising

[46] Silicon Valley White Paper, Jarunee Wonglimpiyarat www.sciencedirect.com

[47] Innovation Policy for the Knowledge-based Economy, David A. Wolfe
http://www.utoronto.ca/progris/pdf_files/Wolfe_InnovationPolicy.pdf

[48] http://www.businessdictionary.com/definition/proof-of-concept.html

SMEs/entrepreneurs, who in turn would build business on the technovation creating profits, giving back to our economy through an increased tax base, employment, competitiveness, provincial/territorial acclaim, and ancillary economic activity through the supply chain.

Although Venture Capital (VC) can and should play a role in the commercialization of technovation, it is the Canadian economy that stands to gain. An article in the Globe and Mail report on Community Futures cites that, "For every $1 spent in loans to SMEs on average, Canada gets $4.2 back".

Provinces such as Ontario have recognized the need for this type of change and are implementing programs to accommodate and support private sector knowledge-based business[49], recognizing that meaningfully supporting and promoting technovation reaps many benefits. However, there is no national strategy.

Through capitalizing on a balanced combination of educational programming and the cultivation of market-driven, private sector technovation opportunities, Canada can address issues such as job creation, a stable, diverse economy, brain drain, wealth creation and global competitiveness and strengthen its enviable position as a stable, robust, continuously growing global economic force.

**Recommendations**

That the federal government:

1. Expand current narrowly-focused grants and loans programs funds to support small and medium enterprises/entrepreneurs willing to take patented or IP protected technovations to market.
2. Augment the budget for R&D to include applicants who wish to execute intellectual property (IP) copyrightable and/or patentable technovation Proof of Concept projects.
3. Revise the current pre-qualifying definitions of technology innovations across ministries and initiatives country-wide to be consistent and current, and to ensure such definitions are kept current.
4. Consistent with positions taken on this issue by the Canadian Chamber of Commerce, modernize Canada's IP regime by reviewing and revising legislation related to intellectual property (IP) rights and patent laws to help protect innovators as well as SMEs and Canadian multi-national companies willing to commercialize these patented innovations.

## Prioritizing Regional Cluster Development

Economic Development based on targeted funding towards knowledge clusters within cities and regions is an important policy tool for Canada's economic future. The Government of Canada should increase its investment in regional innovation centres and post-secondary institutions to create ecosystems around areas of regional strength, as well as continue to provide funding for targeted infrastructure programs and venture capital grants to help accelerate such cluster development.

Clusters by definition are geographic concentrations of interconnected companies, specialized suppliers, service providers, and associated institutions in a particular field that are present in a nation or region. They emerge from regions that have achieved critical mass in a particular area of expertise and are often anchored by strong research universities, industrial laboratories and/or entrepreneurial companies with human capital to match. Within these organizations, overlapping interests and shared benefits must be realized. This is generally accomplished through focused efforts among stakeholders, and an integration agent is often required to foster and develop collaborative opportunities between these organizations.

In many cases across the world, the integration agent tends to be a government agency that through a combination of funding and policy levers enables other regional stakeholders to collaborate. Existing knowledge clusters in Canada are also generally centered around higher education institutions or not for profit business incubators funded through the provincial or federal government. Informational technology and digital media clusters in Waterloo and Toronto are prominent global examples.

[49] http://www.itworldcanada.com/news/canada-3-0-wraps-up-with-15-ideas-from-co-chairs/140649

In Canada the best practice for fostering this model is the Centres of Excellence for Commercialization and Research (CECR) program which matches clusters of research expertise with the business community to share the knowledge and resources that bring innovative products and processes to market faster. The program invests $30 million per year in Canadian innovation, through a portfolio of 21 active centres across the country. Since 2008, CECRs have helped launch more than 100 new companies and have leveraged $420 million in partner contributions. The public-private nature of CECR also aims to productive working partnerships between university and college research departments, research hospitals and the business community. Through a combination of public and private funding these centre's offer services like the organization and delivery of conferences, events, workshops, and programs, a higher profile, access to venture capital, provision of communication solutions; and referral of advisors, clients, partners, and projects. The CECR is a subsection of the National Centres of Excellence which operates a suite of programs on behalf of the three federal granting agencies—the Natural Sciences and Engineering Research Council (NSERC), the Canadian Institutes of Health Research (CIHR), and the Social Sciences and Humanities Research Council (SSHRC), in partnership with Industry Canada and Health Canada.

These regional institutions have been successful in translating Canada's research and innovation capital into economic productivity and job growth through the incubation of small and medium enterprises, technology transfer, supply chain integration, increasing business productivity.

However, there is still room to strengthen cluster growth a series of policy strategies.

**Recommendations**

That the federal government:

1. As part of Canada's ongoing Science and Technology Strategy, prioritize the development of innovation clusters based on regional strengths and redesign federal funding vehicles (e.g., Canada First Research Excellence Fund) to drive this collaborative behaviour across post-secondary institutions and the private sector to create robust ecosystems that focus on both research and commercialization.

2. Continue to critically re-evaluate and reallocate the annual Science and Technology budget to focus additional resources towards funding tools that foster regional collaboration like the Centres of Excellence for Commercialization and Research program50.Continue to fund programs that support critically needed research and innovation infrastructure, such as the Canada Foundation for Innovation program.Continue to expand the scope of the Build Canada Program into a comprehensive permanent program.

[50] http://www.nce-rce.gc.ca/NetworksCentres-CentresReseaux/CECR-CECR_eng.asp

# INTERNATIONAL AFFAIRS

## Expanding Mutually Beneficial Investment Between Canada and China

**The issue**

Canada's economic ties with China—the world's second largest economy—are essential to our future prosperity. China recently overtook the U.K. as Canada's second largest destination for exports. An expanding consumer class and ongoing urbanization will continue to drive demand for Canadian products.

While trade has been growing strongly, there is unrealized potential on the investment side. To develop our resources and get them to market, Canada needs hundreds of billions in patient capital that China is well-placed to provide. And many Canadian companies need to establish or expand their operations in China to support sales and marketing efforts, take advantage of local productions capabilities, and plug into the region's competitive supply chains. Yet, according to Statistics Canada, China accounts for only 2.4% of total foreign investment in Canada, and only 0.6% of Canadian investment abroad. There is clearly room for growth.

**The barriers**

Policy and regulatory uncertainty is a big part of why the investment relationship remains limited. A 2012 survey of Canadian companies by the Asia Pacific Foundation of Canada found that 70% considered doing business in China to be more difficult than in other foreign markets. The top challenges they identified related to the rule of law: the protection of intellectual property, inconsistent regulations and laws and limited access to dispute settlement mechanisms. It's even harder for small companies that find it hard to navigate the system and can't distribute risks over their global operations. Likewise, the announcement in December 2012 that Canada would increase its scrutiny of acquisitions by state-owned enterprises has made Canada's investment climate more uncertain for Chinese investors.

**The way forward**

In September 2012, Canada and China signed a Foreign Investment Protection Agreement (FIPA) that would address concerns about policy and regulatory uncertainty. Without jeopardizing either government's ability to review in-bound acquisitions or regulate company activities, the FIPA ensures a minimum standard of treatment for investors and protects them against discriminatory measures and expropriations. Protections also apply to intellectual property rights and the open transfer of profits and other financial flows. However, despite its potential to boost investor confidence, the FIPA has not been ratified by either country.

**Recommendation**

That the federal government undertake the necessary steps to ratify the Canada-China FIPA and bring it into effect as soon as possible.

## Preserving the Openness of the Global Digital Economy

**The issue**

Like railways and shipping routes before them, data flows have become the blood vessels of the global economy. According to the McKinsey Global Institute, cross-border Internet traffic grew by a factor of 18 from 2005 to 2012.

This has brought enormous benefits to businesses, workers and consumers in Canada and around the world. Products such as music, books, video, news, education, software and even traditionally in-person services, such as accounting and legal work, are increasingly digitized and shipped around the world, lowering production and transportation costs. Cross-border data flows also support physical trade. Small businesses use e-commerce platforms to sell their wares to customers in new markets. Data analytics enhance the efficiency of supply chains and help businesses adapt to the needs of their customers. And the payments system to facilitate international transactions depends on the free and rapid movement of information between counterparties.

**The barriers**

This engine of economic growth and prosperity is under increasing pressure as some governments seek to pass measures restricting cross-border data flows or requiring that businesses store their data on local servers. This "digital protectionism" increases costs, discourages investment and job creation, blocks access to services, stifles innovation and makes the local economy less competitive.

In some cases, these restrictions are part of broader attempts by certain governments to move the Internet from its current multi-stakeholder model to one controlled and regulated by national governments and inter-governmental organizations. The potential proliferation of censorship and red tape would have ramifications far beyond the business community: it could even harm the core values of Canada and other democracies around the world.

The spread of cyberspace has raised legitimate concerns related to privacy, security and law enforcement. But restrictions on data flows or localization requirements would do little to address these challenges. And they cannot be used as an excuse for heavy-handed or protectionist measures that would jeopardize the openness of the global digital economy.

**Recommendations**

That the federal government:

1. Seek strong provisions in international trade agreements such as the Trans-Pacific Partnership and Trade in Services Agreement to promote and strengthen cross border data flows, including:
    - Enforceable rights to transfer, process and store data across borders in permitted business activities
    - Prohibition on requirements to use local computer servers or data centres
    - Regulations applying to cross-border data must be necessary to serve a public policy objective and not discriminate or be a disguised restriction on international trade
    - Avoid strict or diverging approaches to privacy or other regulatory standards
2. Work actively in international fora—including the United Nations, International Telecommunications Union and Internet Governance Forum—to protect the current multi-stakeholder governance of data flows and combat efforts by other states to put the Internet under government control.

## Recognizing and devising strategies to counteract the generous incentives offered by competitor jurisdictions

**Issue**

Canada's international competitors are increasingly using hyper-aggressive techniques to lure Canadian businesses, causing job losses here at home and weakening the Canadian economy. Government has a responsibility to both fully understand the impact that competitor jurisdictions' business attraction efforts are having on the Canadian economy and devise strategies to counteract them.

**Background**

In January 2014, manufacturers in Eastern Ontario received a letter from the New York economic development agency urging them to relocate south of the border. The letter advised Canadian businesses that in light of rising energy prices, "setting up an operation just across the border in St. Lawrence County, New York, may be a competitive strategy you should consider."

These kinds of overtures from competing jurisdictions are becoming increasingly common and are reflective of the tremendous effort American states and other countries are exerting to attract foreign investment. For example, American state and local governments have spent approximately $64B in the last 30 years on grants, training programs, and tax credits designed to attract and retain business investment (Mattera et. al, 2013).

Most worrying from a Canadian perspective is the fact that neighbouring jurisdictions are among those that spend the most on foreign attraction. New York state leads the way ($11.4B spent on grants and credits encouraging investment and job creation over the last 35 years), followed by Michigan, Oregon, and Washington.

Canada has much to offer in terms of a competitive tax system, a highly skilled and educated workforce, and an improving regulatory regime. However, in a globally connected economy where capital is increasingly mobile, possessing a good business climate may no longer suffice.

**Recommendations**

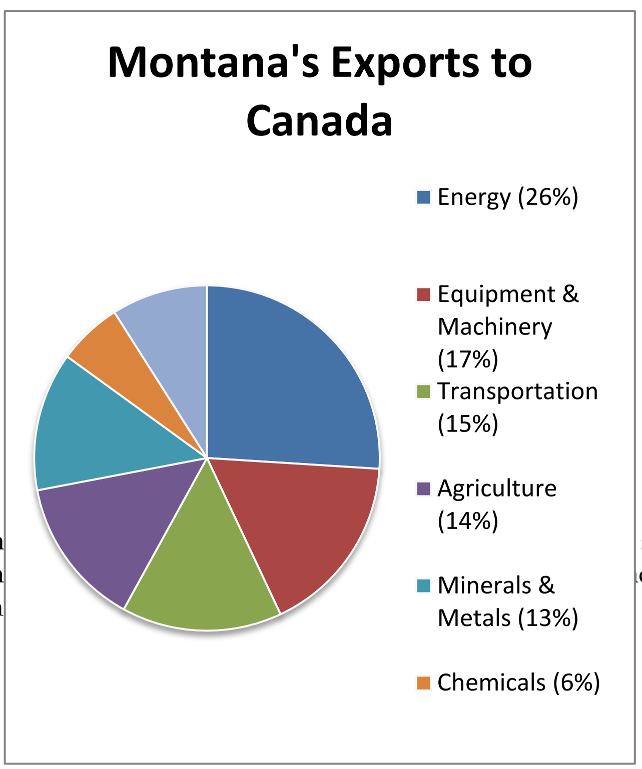
That the federal government in coordination with businesses and chambers of commerce from across Canada, undertake an expedient review of the full impact – in terms of both GDP losses and job losses – that competitor jurisdictions' business attraction efforts are having on Canada's economy.

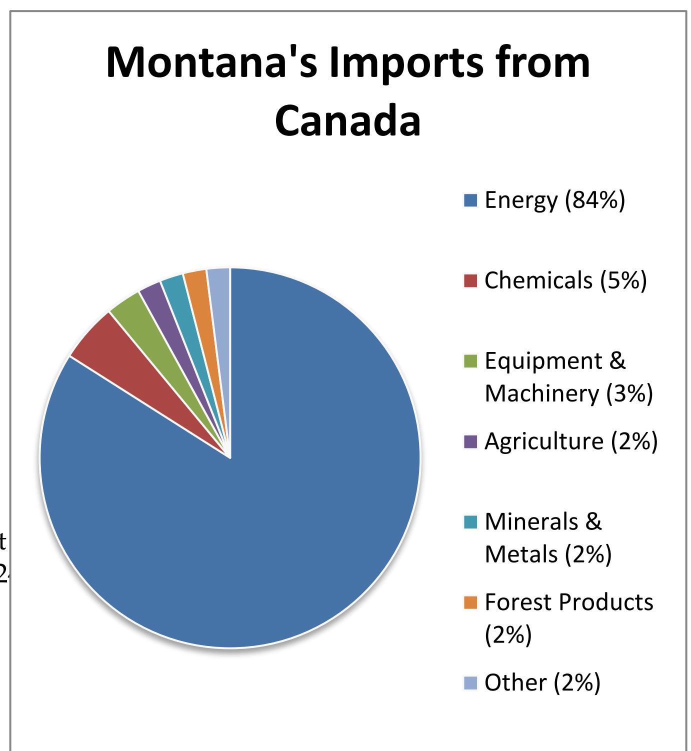
## Commercial Border Crossing Access

The country relies heavily on accessible transportation corridors and border services to facilitate the ever-growing economy, particularly in expanding natural resource investments, development of supply chain manufacturing and applicable service sectors. Although Alberta continues to have a very prosperous trading relationship with its neighbors in the U.S. it is the only province in Canada with access to only one 24 hour border crossing. A second 24 hour border crossing is essential to the expansion of the economy to facilitate efficient trade between Canada and the U.S.

Canada and the U.S. enjoy one of the most prosperous relationships in the world, with a staggering volume of bilateral trade totalling $680 billion in 2011. This equates to over $1.8 billion in two-way trade and over 300,000 travelers crossing the border each day. In particular, Montana and Canada continue a profitable trading relationship with bilateral trade flows climbing to $5.8 billion in 2012, with the largest proportion of trade coming in the sectors of energy and equipment & machinery. Moreover, Canada was Montana's most important export destination, purchasing more from the state than all other countries combined. Total Montana exports to Canada totaled $634 million in 2012 while total Montana imports from Canada totaled $5.2 billion.

In 2012, 26% of Montana's total exports to Canada originated from the energy sector, with fuel oil being the top export at $123 million. Continuing the trend, Montana looked to its northern neighbor for energy, whereby 84% of the imports from Canada were in the energy sector. The state bought $4.2 billion in Canadian crude petroleum, primarily from the western provinces of Alberta and Saskatchewan.



Even with this important trading relationship, a current disparity in the relationship between population and the number of border crossings in each province currently exists across our country:

| | 24 Hour Crossing | Total Crossings | Population (July 2013) |
|---|---|---|---|
| British Columbia | 9 | 19 | 4,582,000 |
| Alberta | 1 | 6 | 4,025,100 |
| Saskatchewan | 2 | 12 | 1,108,000 |
| Manitoba | 3 | 17 | 1,265,000 |
| Ontario | 13 | 14 | 13,538,000 |
| Quebec | 23 | 33 | 8,155,000 |
| New Brunswick | 12 | 18 | 756,100 |

It is critical that we encourage the government to remove any barriers or encumbrances on imports and exports of our key sectors between Canada and the U.S. and work to improve international trade by removing pressure and congestion on a single 24-hour commercial port and corridor. To achieve these goals it is important for the Canadian and U.S. Governments to work together to mirror expansion efforts on both sides of the border. For example, at the Port of Wild Horse in Alberta, the U.S. Customs and Border Protection (CBP) agency and the Canadian Border Services Agency (CBSA) consistently extend their operating hours in the summer, but frequently have had disparity in when the extended hours begin and end for the season. In 2014 CBP extended their hours at the Port of Wild Horse from June 1 to September 15, while CBSA extended their hours from May 15 to September 30. Other examples of this are apparent, such as the CBSA closing the Port of Big Beaver, Saskatchewan in 2010 forcing the CBP to close the U.S. side of this port, the Port of Whitetail, after they had begun reconstruction of the port. This decision cost American taxpayers and reduced cross-border access to eastern Montana and to Saskatchewan. Additionally, when the opportunity arose for CBP to expand the border facility at the Port of Wild Horse and move forward with an enhanced facility, CBSA had not mirrored the expansion or evaluated the opportunity for a shared port facility. CBP was able to celebrate the opening of a new facility on April 1, 2011 and the facility on the Canadian side is aging and does not mirror the same facility standards.

Transportation access is fuel for economic development. Regions with flexible, efficient transportation networks can access product markets, suppliers, vendors, workers and customers more efficiently and more cost effectively than those that do not. We need to encourage the further development of north/south trade and remove delays, restrictions and limitations on crossing times and access. Investment leads to trade, as companies' activities increasingly become part of the global value chain, necessitating not only clear and open investment rules, but also ensuring that goods and services produced have easy access to markets in both countries and internationally.

Increased border access would enhance economic development, investment and security as well as address growing safety concerns. It would also assist truck traffic by providing an alternate route, easing lineups and delays and it would improve tourism travel by allowing increased travel service between Canada and the United States.

It is in the best interest of Canada to expand trade linkages with the United States through transportation crossings and corridors that link Canada to the United States to facilitate a growing trading market. A continued effort is needed to eliminate the obstacles that continue to prevent the expansion of 24 hours commercial port facilities and promote this as access to a north-south trade corridor.

**Recommendations**

That the federal government:

1. Accelerate dialogue with U.S. counterparts to ensure that the hours of Canadian border crossings consistently match the U.S. border hours in both traveler and commercial service hours and that facility standards are equivalent on both sides of the border.

2. Work to accommodate shared port of entry facilities where the opportunity exists.
3. Ensure that provinces with high volumes of bilateral trade and corridor traffic have access to sufficient 24 hour commercial border services and provinces with high volumes of trade and traffic volumes have more than a single 24 hour full-service commercial port of entry.

## Improving regulatory processes to support the growth of Agribusiness

Current federal legislation does not allow for meat, poultry, eggs, dairy products, fruits and vegetables to cross provincial/territorial borders, or to be exported out of Canada unless these products are processed in a federally licensed facility. The new *Safe Food for Canadians Act* will expand this to include all foods shipped out of each province/territory. The Canadian government claims that this is required to ensure that Canada fulfills its commitments under current world trade agreements. The *Safe Foods for Canada Action Plan* presents an opportunity to not only improve food safety in Canada but to improve the environment in which food processors in Canada operate within.

Currently, implementation of Canadian Food Inspection Agency (CFIA) regulations and licensing requirements is cost prohibitive to many small to mid-sized processors, and therefore constitute a major barrier to interprovincial/territorial and international trade, particularly for Small and Medium Enterprises (SMEs). Furthermore the processor's share of these costs is excessive when compared to costs incurred by their competitors for similar services in other jurisdictions, notably in the USA. This places Canadian processors at a potential disadvantage to some domestic and foreign competitors.

SMEs advise that current CFIA food safety regulations are outdated and need to be revised to remove unnecessary regulations that lack adequate scientific validation of enhancing food safety outcomes, but constitute significant impediments to sound business interests. CFIA inspection and testing services have inadequate capacity and prevent significant volumes of trade from occurring. There is also a need to minimize duplication of administration costs between provincial/territorial and federal regulators.

Facility construction requirements, along with steep inspection, licensing and testing fees all constitute major obstacles for processors that want to trade interprovincially or internationally. Unified provincial/territorial standards and regulations, with increased accessibility to federal licensing would be of significant financial benefit to small and medium sized processors that want to increase their business through interprovincial/territorial or international trade. Easy to implement, cost-competitive, and uniform food safety standards and regulations, for both interprovincial/territorial and export markets, are required, <u>without compromising food safety standards</u>.

With the current CFIA modernization in progress under the *Safe Food for Canadians Act* (SFCA), it is important to protect the competitive advantage of Canadian businesses by reducing these barriers to trade and business growth opportunities. This is especially important with the impending impact of the *Comprehensive Economic and Trade Agreement* (CETA) that will put Canadian and European processors in direct competition.

Canadian processors trading interprovincially/territorially or internationally operate at a disadvantage to international competitors. For example, the United States Department of Agriculture Food Safety and Inspection Service (USDA FSIS) does not levy licensing and inspection fees on their food processing plants (up to the first 40 hours per week[51].) As a comparison, the Province of Alberta charges $4 per hour for the first 7.25 hours per day[52]. CFIA inspection stations cost from $9,855 per year for one red meat station to $16,218 per year for a poultry station. If an abattoir is processing more than 25 cattle/hogs per hour or 28 birds per minute, they must purchase an additional table. There is also the requirement to pay for inspection fees and various tests for Listeria, Salmonella, and E.Coli.

[51] United States Department of Agriculture. (2013). *Applying for a Grant: General Information. Retrieved from* http://www.fsis.usda.gov/wps/wcm/connect/01ede099-849e-4ed5-bb9b-f6759b0d5487/Grant_of_Inspection.pdf?MOD=AJPERES on Jan 3, 2014.

[52] Province of Alberta, *Meat Inspection Act 2009.* Web. 3 Jan 2014. http://www.qp.alberta.ca/1266.cfm?page=2009_116.cfm&leg_type=Regs&isbncln=9780779740383

Before food products are imported into Canada, the CFIA conducts an initial inspection of the processing plant from which these products originated, and then conducts random inspections of the imported products. This same *oversight and outcome-based approach* should be applied to all interprovincial/territorial and international trade.

Interprovincial/territorial trade of agriculture and food products comprises a major portion of the Canadian agri-food business. "From 2000 to 2005, interprovincial exports of agricultural and food products were higher than Canada's agri-food exports to the United States. Interprovincial exports of agri-food products rose by 20% during this period, increasing from $21 billion to $25 billion in value. During this period, the value of agri-food exports to the United States was between $16 billion and $20 billion.[53]"

While the exact cost of interprovincial/territorial trade barriers caused by differing food regulations is not known, the Canadian Chamber of Commerce estimates that internal barriers to trade cost the Canadian economy up to $14 billion each year[54]. While much of this loss can be attributed to the limited potential customer base, there is also a 55% overlap of administrative and regulatory service between Canada and Alberta[55].

Despite numerous efforts to reduce interprovincial/territorial trade barriers such as the *Agreement on Internal Trade* (AIT) and regional trade agreements such as the *New West Partnership Trade Agreement* (NWPTA), the *Atlantic Procurement Agreement* (APA), the British Columbia – *Alberta Trade, Investment, and Labour Mobility Agreement* (TILMA), and the *Agreement on the Opening of Public Procurement for Ontario and Quebec* (AOPPOQ), the problems persist and are an obstacle to the growth and profitability of Canadian businesses.

**Recommendation**

That the federal government work collaboratively with provincial/territorial and federal inspection agencies to effect positive changes to food safety outcome inspections, enabling processors to compete more efficiently in both domestic and international markets:

1. To support a single industry food-safety outcome that can be implemented with consistency and cost-effectiveness across Canada by the provinces/territories, with each provincial/territorial regulator subject to Canadian Food Inspection Agency oversight.
2. The food safety regulations need to be reviewed for relevancy and modified/broadened if current criteria are unnecessarily restrictive and insensitive to sound business interests.
3. The implementation must be consistent and cost-effective throughout the food distribution chain, <u>without compromising Canada's reputation for high food safety standards</u>.
4. To encourage the Canadian Food Inspection Agency and provincial/territorial agencies to shift away from a rules-based regulatory regime to an outcomes-based food safety discipline.
5. Reassess inspection and regulatory costs and how they are allocated, to enable processors to trade across provincial or national borders, without being at a competitive disadvantage.

## Attracting International Tourists to Benefit Canada's Regions and SMEs

Tourism is a growing industry around the world and an essential part of Canada's economy, accounting for $84.3 billion or 4.5 per cent of national GDP in 2013.[56] Nearly ten per cent of small and medium-sized enterprises (SMEs) are in the tourism industry.[57] It is of serious concern, therefore, that Canada has had trouble attracting international tourists in recent years. The success of this important sector and its SME operators depends on a strong Canadian

[53] Aïcha L Coulibaly. "Does the Agreement on Internal Trade Do Enough to Liberalize Canada's Domestic Trade in Agri-food Products." *Library of Parliament.* 26 August 2010. Publication No. 2010-25E
[54] Canadian Chamber of Commerce. (2013). *Internal Barriers to Trade.* Retrieved from http://www.chamber.ca/advocacy/top-10-barriers-to-competitiveness/internal-barriers-to-trade/ on Jan 8, 2014.
[55] Parsons, Graham. 1996. *The Distant Realities of Free Trade in Canada.* Calgary: Canada West Foundation.
[56] World Travel and Tourism Council: Economic Impact Report 2014.
[57] Small Business Financing Profiles: Small and Medium-Sized Enterprises in Tourism Industries, Small Business Branch, Industry Canada,
December 2011.

brand that it is the mandate of the Canadian Tourism Commission (CTC) to market internationally. The global tourism market place is extremely competitive with each country investing heavily to attract international tourists. Making it easier for tourists to travel to Canada is also important.

**Background**

The global tourism market continues to increase and is forecasted to reach 1.8 billion international tourist arrivals worldwide by 2030.[58] Many jurisdictions are vying for market share because the sector 'provides significant potential for economic growth and development'.[59]

Revenue generated from international travellers represents new dollars for the Canadian economy and the primary growth opportunity for the Canadian tourism industry. According to the Tourism Industry Association of Canada (TIAC), domestic travellers spend on average $260 per trip, while international travellers spend $1,547 per trip on average.[60] Dependence on the domestic market is a concern with the limited growth potential available from Canada's relatively small population. However, in 2012, 81% of Canada's tourism revenues came from the home market, leaving significant potential to expand sales to international travellers.[61]

International tourism is also associated with stronger exports more generally. According to a 2013 Deloitte report, "there are some strong links between inbound Canadian tourism and Canadian exports – and that strengthening tourism could have a positive impact on Canadian companies and Canada's economy overall."[62]

The tourism industry has special significance for Canada's remote regions as they try to offset the ups and downs of the natural resources sector. The Northwest Territories Government's Tourism 2015: New Directions for a Spectacular Future notes that "[t]here is more than gold, diamonds and gas in our land. A strong economy is built on a foundation of diversity, and individual businesses must incorporate diversity in their business planning."[63]

**The barriers**

The global tourism marketplace is increasingly competitive and Canada is falling behind. Between 2000 and 2012, international tourist arrivals to Canada declined from 19.6 million to 16.3 million.[64] Canada's market share has dropped from seventh in the world in 2002 to sixteenth in 2012. This performance is at odds with Canada's renowned natural beauty, vibrant cities, unique history, and cultural attractions.

One reason for this declining competitiveness is the significant decrease in investment in tourism through cuts to the budget of the Canadian Tourism Commission (CTC), Canada's national tourism marketing agency. Attracting international tourists depends on the strength of the Canadian brand abroad. Canada's local communities and SMEs often do not have the capacity to market themselves outside of Canada. The CTC therefore coordinates branding and marketing activities with provincial, regional and city Destination Marketing Organizations (DMOs) and the private sector to drive visitation to Canada. The tourism industry strongly supports the CTC and the well-researched strategies it employs. In 2013, CTC produced a return on investment of 38:1 on its core marketing activities.[65]

Despite the proven success of the CTC, its core funding has declined by almost 50 per cent from a high of nearly $100 million in 2001 to $58 million in 2013/2014.[66] This places Canada twentieth in the world in terms of national tourism organization funding. Tourism Australia, by comparison, receives an annual base investment of $132 million CDN

[58] UN World Tourism Organization - Tourism Highlights 2014 Edition, Page 2. http://mkt.unwto.org/publication/unwto-tourism-highlights-2014-edition

[59] World Economic Forum, The Travel & Tourism Competitiveness Report 2009: Managing in a Time of Turbulence. https://members.weforum.org/pdf/TTCR09/TTCR09_FullReport.pdf

[60] Ibid, page 7.

[61] Tourism Industry Association of Canada, 2013 Annual Report, pages 6, 9. http://tiac.travel/_Library/TIAC_Publications/2013_TIAC_Annual_Report_WEB_FINAL_EN.pdf

[62] Passport to Growth: How International Arrivals Stimulate Canadian Exports, Deloitte, 2013.

[63] Tourism 2015: New Directions for a Spectacular Future, Government of the Northwest Territories, February 2011

[64] TIAC, 2013 Annual Report, page 11.

[65] Canadian Tourism Commission, 2013 Annual Report, page 23.

[66] Canadian Tourism Commission, 2013 Annual Report, page 53. http://en-corporate.canada.travel/sites/default/files/pdf/Corporate_reports/final_2013_annual_report_en.pdf

from the Government of Australia.[67] The CTC's decrease in funding comes at a time when it is needed most: global tourism is growing and Canada is facing increasing competition from both traditional and exotic market entrants.

In response to these trends, the CTC has had to sharpen its strategic focus and reduce the number of long-haul countries where it targets high-yield travellers. For example, the CTC no longer invests in consumer marketing in the United States. While the CTC is producing excellent, cost-effective business results in markets where it continues to have a presence, it's unlikely to be enough for Canada to achieve its stated goal of $100 billion in tourism revenues by 2015.[68] Additional investment in tourism by increasing the CTC's budget would provide the long-term stability needed to enhance the its marketing and sales strategies, encourage further partner contributions, and implement phased campaigns that would help meet the national tourism revenue target.

Another barrier to attracting international tourists comes from federal policies that make it difficult to travel to Canada. In 2009, for instance, Canada imposed visa requirements on Mexican nationals at a time when the market was already under stress from the global recession. From 2002 to 2011, travel from Mexico dropped by 18 per cent.[69] Air access continues to be problematic too. Under the auspices of Canada's 2006 Blue Skies Policy, Canada has signed a number of new international agreements that enhance air services between Canada and other countries. However, as outlined in a 2013 Canadian Chamber policy resolution, "Improving Air Access for the Benefit of the National Economy", Canada continues to lag other jurisdictions when it comes to more liberal 'open skies' agreements.

**The way forward**

Canada urgently needs to take action to improve its attractiveness as an international tourist destination. Expanded investment in tourism marketing abroad and improved access for international travellers will help Canada's regions and SMEs compete on an even footing with other markets.

**Recommendations**

That the federal government:

1. Increase the CTC's budget to $120 million in the 2015/16 budget cycle.
2. Review the market efficiencies between the Canadian Tourism Commission, provincial/territorial and local/regional organizations in order to maximize the returns on total funds invested.
3. Move the Canadian Tourism Commission from Industry to Foreign Affairs, Trade and Development to ensure a better focus on tourism as an export commodity.
4. Continue to enhance access for foreign visitors through improvements to Canada's visa system and by aggressively pursuing mutually beneficial liberalized air agreements.

## Fostering the role of municipalities within the North America advanced manufacturing and trade corridor

Since the establishment of the NAFTA agreement, advanced manufacturing sectors today extend their supply chains across the United States, Mexico, and Canada, anchored by productive metropolitan hubs in all three countries. Efforts must be undertaken to foster and enhance the integration of Canadian and other municipalities and their constituent businesses within supply chain corridors.

According to a recent report from the Brookings Institute titled "Metros as Hubs of Advanced Industries and Integrated Goods Trade"[70], metropolitan areas within North Americas generate an overwhelming 86 percent of the combined GDP of Canada, Mexico and United States. They are an especially concentrated host of advanced

[67] Tourism Australia, 2013 Annual Report, page 90. http://www.tourism.australia.com/documents/corporate/TACA7893_AnnualReport_2012_13.pdf

[68] In September 2009, Canada's federal, provincial and territorial tourism ministers set a new national tourism revenue target of $100 billion by 2015, representing an increase of approximately $29 billion over 2009 revenue.

[69] Destination BC, Visitor Market Profile – Mexico, July 2012. http://www.destinationbc.ca/getattachment/Research/Research-by-Market/North-America/Mexico_Market_Profile_2012.pdf.aspx

[70] http://www.brookings.edu/research/interactives/2013/metro-north-america

manufacturing industries in the automotive, aerospace, agri-food, clean technology, pharmaceutical and electronic industries amongst others. It is also estimated that over three quarters of North American trade in advanced manufacturing occurs between these metropolitan areas.

Additionally, Canada's largest exporting destination is the United States. Of the $1.5 trillion in exports in 2013, $338 billion were manufactured products, with advanced manufacturing industries like automotive ($58.4 billion) and mechanical machinery ($23.1 billion) making up a considerable portion of that figure.[71]

Many of these industries operate within complex "value chains" of intersecting natural resources, talent, innovation ecosystems, infrastructure and knowledge capital. Value chains are formally defined by the OECD as "full range of firms' activities, from the conception of a product to its end use and beyond."[72] Advanced information and logistics management systems allow businesses to spread out production lines over multiple countries globally, while also allowing smaller businesses to seamlessly integrate within the manufacturing cycle of multinationals. Furthermore, these industries tend to congregate within municipalities due to the availability of STEM graduates and knowledge spill overs.

A prime example is the Michigan auto sector, which has slowly evolved from in state production to its current global value chain with many Canadian cities actively contributing parts or manufacturing end products, with the cumulative value of auto exports being $58.4 billion and rising in 2013.[73]

In light of these trends, one must also recognize that the trading climate also has the counter effect of excluding businesses that are unable to maintain their competitive advantage. Some of the environmental factors that inhibit regional clusters are infrastructure and freight movement congestion (especially along nodes leading to Canada-US border crossings, red tape associated with tariffs, low labour productivity and challenges with attracting foreign direct investment.

The Canadian Chamber has already addressed and advocated on a number of these environmental factors through various policy initiatives; however, there remains room for more advocacy.

**Recommendations**

That the federal government:

1. Building on the successful model of the Pacific Northwest Economic Region, expand the capacity of Invest Canada and Canadian High Commissions and Embassies abroad to spearheading and facilitating opportunities for municipalities, local chambers and their constituent businesses to increase their integration within global value chains.

2. Improve goods movement efficiency by targeting additional freight infrastructure investments, including by increasing the annual allocation for the Border Infrastructure Investment Plan, Gateways and Border Crossings Fund and the Asia–Pacific Gateway and Corridor Initiativ**e**. Special considerations should be added for transportation nodes leading into the border crossings and between major sectoral supply chains.

3. Continued implementation of work plan objectives for the Regulatory Cooperation Council related to transportation[74]. Regulatory alignment will increase the ability for Canadian businesses to integrate within North American value chains. For example, Australia's Trans-Tasman Mutual Recognition Agreement[75] provides a framework so that goods produced or imported into one territory may be made available in the other without additional approvals or requirements.

## Labelling of Agricultural Products

[71] Canada`s State of Trade and Investment Update- 2013. http://www.international.gc.ca/economist-economiste/performance/state-point/state_2013_point/index.aspx?lang=eng
[72] Organization for Economic Cooperation and Development, "Interconnected Economies: Benefiting from Global Value Chains" (2013).
[73] Cities and Metros as Hubs of Advanced Industries and Integrated Goods Trade, 2014. Brookings Institute.
[74] http://actionplan.gc.ca/page/rcc-ccr/transportation
[75] http://www.coag.gov.au/the_trans-tasman_mutual_recognition_arrangement

**Background and expectations**

An increasing number of Canadians are favouring food produced in Canada, for two reasons. Firstly, they consider that Canada enforces stricter hygiene, health and environmental standards than many countries that export produce to Canada and hence minimize the risks to their health when they "buy Canadian." Secondly, they wish to encourage local producers and stimulate their region and the country's economy.

However, to promote the purchase of local produce, one must first be able to identify it at the supermarket or grocery store. For a long time, the "Product of Canada" label was used to identify a product with at least 51% of direct costs incurred in Canada, regardless of country of origin. Thus, the "Product of Canada" label was authorized for certain processed olives and pineapples.

In December 2008, the federal government amended the guidelines on food labelling. Under the amended federal labelling guidelines, a food can only be labelled "Product of Canada" if its ingredients and components, as well as the processing and labour costs used to manufacture the food, are 98% Canadian.

Several stakeholders in the agri-food business, both in Québec and elsewhere in Canada, are demanding that the percentage of Canadian content required to be authorized to use the "Product of Canada" label be reduced to 85%. The 98% standard is fine for products that undergo minimal processing, such as meats, but processed products that require the use of preservatives (e.g., sugar, salt, vinegar and spices) no longer meet the requirements of the "Product of Canada" standard. Some strawberry jams or even cookies made here are thus judged as not being "made in Canada".

In a report in June 2008 prior to the amended guidelines, the House of Commons Standing Committee on Agriculture and Agri-Food had recommended a percentage of 85% Canadian content for "Product of Canada" claims.

We seem to have gone from one extreme to the other by requiring 98% Canadian content versus only 51% in the past. Many Canadian products that are blended with small quantities of imported ingredients are no longer considered as Canadian products under the new guidelines. This is significantly detrimental to Canadian food production and processing companies.

It is therefore being considered that chambers of commerce throughout Canada join forces with their agri-food sector to demand from the federal government a more reasonable Canadian content standard with respect to the "Product of Canada" label.

**Recommendation**

That the federal government modify the guidelines that apply to the labelling of agri-food products so as to authorize the use of the "Product of Canada" label on foods whose ingredients and components, as well as the processing and labour costs used to manufacture the food, are 85% Canadian.

## APEC Business Travel Card

The importance of the Asia Pacific Gateway to Canada's trade with Pacific Rim countries cannot be overstated. Over the last several years, significant investment has been made into the Gateway with a view to increasing trade of goods and services between Canada and APEC countries. The recent announcement of a Free Trade Agreement with South Korea and potential conclusion of FTAs with India and Japan demonstrate Canada's overall commitment to increasing trade in the region. With the growth of business travel between member nations of the Asia-Pacific Economic Cooperation and our free trade partners, the increasing demand for qualified personnel and the growing scarcity of skilled personnel, there is an accelerating need for travel between Canada and other APEC member nations by executives, professionals and technical specialists.

Overview of ABTC

The APEC Business Travel Card (ABTC) allows members to enter and stay for 60-90 days (depending on the economy) without separately applying for a visa. An added benefit is "fast track" immigration lanes at airports. Unlike 19 full members of ABTC such as Australia, New Zealand and Singapore, Canada has elected to only be a transitional member of ABTC. Transitional membership has very limited benefits to facilitating trade and travel:

- Canadian ABTC members do not enjoy visa-free travel benefits offered to other ABTC members
- Foreign ABTC members are still subject to lengthy business visa requirements to enter Canada
- Canada does not issue ABTC cards or designate Canadian members

Canada has made some progress through implementing the ABTC pilot in 2013 to allow Canadian business travellers, who are both NEXUS and ABTC members, access to designated APEC lines for facilitated border clearance. Although this was a positive step forward, it has limited practical value and a much broader change in policy is needed to allow ABTC members to enter and stay for 60-90 days. More problematic for global investors and business partners, processing times for a Canadian visa can range significantly for nationals from APEC countries – 7 days for Indonesians to 38 days for Vietnamese. The variability of processing times serves as a major constraint on business travel and the positive relationships Canada is trying to build within APEC.

While a meaningful policy change will require appropriate risk management by the Government of Canada, the benefits to the business community and increase in Canada's GDP would far outweigh any incremental costs. From an immigration perspective, major risks will be mitigated by the strict controls established for foreign multi-nationals vouching for individual APEC Card members. It must also be recognized that, although it may presently appear that there is limited interest by the business community in the travel card, this would increase once the card is available and new opportunities materialize as Canada negotiates more free trade agreements with APEC countries.

Australia, one of the originators of the ABTC in 1997, has aggressively pursued access for business travellers. It has exhibited tight control of ABTC eligibility by requiring applicants to demonstrate frequent travel for business purposes and limiting issuance primarily to executives. The Australian model of implementing the ABTC is a huge success -- businesses have benefited from increased access to APEC markets. In 2014, it renewed and simplified its approach to the ABTC to validate employees and corporations in a simplified process to allow new members to join.

The current situation impedes the normal conduct of business between Canada and APEC member countries. The absence of the APTC card prevents Canadian businesses from attracting global investors and business partners – often with damaging effects on business relationships and Canada's reputation. There is a need for a solution that ensures qualified individuals know in advance that they will easily be able to enter APEC countries, while at the same time safeguarding our national security interests and the relationship with the United States on perimeter border security.

The free movement of executive, professional, and technical specialist personnel between Canada and other APEC member countries would be a desirable policy outcome. This is particularly important in light of reports that APEC is in negotiations with the European Union for recognition of the ABTC. Without full ABTC participation for Canada, our business travellers will not have the opportunity for faster border clearance as ABTC continues to grow.

**Recommendation**

That the federal government follow the Australian model to implement the APEC Business Travel Card, with eligibility criteria for businesses active in Canada-APEC region trade. Adopting in full the APEC Business Travel Card will help facilitate foreign business travellers to Canada, and allow Canadian businesses to access Asia-Pacific markets as easily as other ABTC nations.

# NATURAL RESOURCES AND ENVIRONMENT

## A Harmonized Approach to Extended Producer Responsibility in Canada

Disposal of waste is increasingly costly for government: the cost of waste collection, transport and disposal or recycling rose 12 per cent between 2008 to 2010 to $2.9 billion.[76] These costs and concern over the environment impacts of waste has led to the growing popularity of Extended Producer Responsibility (EPR), a policy approach in which a producer's (i.e. brand owners, first importers, manufacturers or retailer's) responsibility for a product is extended to the post-consumer stage of a product's life cycle. EPR programs shift the expenses associated with product end-of-life management from taxpayers to producers and consumers. Their goal is to incent producers to reduce the overall waste volume in the system through innovation, and to reduce the costs of residual waste disposal.

While waste management is primarily a provincial issue, the Canadian federal government has been active on this issue through the Canadian Council of Ministers of the Environment (CCME). In 2009 the CCME prepared a Canada-wide Action Plan for Extended Producer Responsibility that sought to extend the principle across the country in a consistent and harmonized way with maximum impact across the national marketplace.

Unfortunately, the design and implementation of EPR programs across Canada suffers from several flaws that increase their impact on the competitiveness of Canadian business while doing very little to reduce waste or impact on municipal budgets. These challenges include:

A lack of harmonization of EPR approaches across the country – Industries that manufacture complex goods and/or which operate across several Canadian jurisdictions must often comply with multiple programs, an administratively burdensome and time consuming task. The cost of complying with these programs totals around $750 million annually in Canada. While there has been improvement on the harmonization of product categories, provinces still vary on several important issues, such as what items are included within product categories.

Transparency – Consumers ultimately pay the cost of EPR programs, but there are two ways to incorporate these costs: 'visible' fees that are charged in addition to the final price, or 'internalized' fees that are incorporated into the cost of the good. There are benefits and disadvantages to either approach depending on the characteristics of the product in question. Since producers and retailers are in the best position where and when visible fees will be the most successful and where other models should be considered, governments should avoid prescribing one method when designing EPR regulation.

In addition to flexibility regarding fee communications, retailers and producers should be permitted to organize their compliance frameworks in a manner that enhances self-determinacy, ensures individual producer responsibility and the delivery of programs at the lowest cost for compliance consistent with the achievement of mandated environmental targets. In short, government should prescribe outcomes and allow business, under harmonized EPR framework, to determine how best to achieve them. **Recommendations**

That the federal government work with provinces and territories through the Canadian Council of Ministers of the Environment to:

1. Continue to work towards a harmonized approach to extended producer responsibility programs across Canada.
2. Engage with the provinces to encourage a flexible, non-prescriptive approach to fee visibility as well as on the optimal design of EPR management programs to ensure efficient and competitive system.

## A Climate Change Adaptation Strategy for Canada

Canada is ill-prepared for a warming world, and is currently viewed by the international community as the least prepared of all OECD countries.[77] Although the federal government initiated a Federal Adaptation Policy Framework in 2011, there is an urgent need for a comprehensive national strategy developed in collaboration with provincial,

[76] Statistics Canada.
[77] Center for Global Development, Washington, http://www.cgdev.org

territorial and municipal governments that supports adaptation to the new climate reality. A national strategy will help inform Canadians of the wide-ranging impacts of climate change in order to prepare for the unprecedented risks and challenges it presents.

**The Science**

A 2012 report by the Institute for Catastrophic Loss Reduction (ICLR) at Western University in London Ontario reported that Canada temperatures warmed by more than 1.3°C on average between 1948 and 2007, a rate of warming about twice the global average. Canada has also become wetter during the past half century. On average, Canada now experiences 20 more days of rain compared with the 1950s. These changes to the climate are likely responsible, at least in part, for the rising frequency and severity of extreme weather events in Canada, such as floods, storms and droughts, because warmer temperatures tend to produce more violent weather patterns. Storms that used to occur once every forty years are now occurring once every six years in some parts of the country.[78]

**Canada in a Global Economy**

The Centre for Global Development in Washington places Canada last out of 27 Organization for Economic Cooperation and Development (OECD) countries when it comes to climate change remediation. This is due to our withdrawal from the Kyoto Accord, our high per-capita fossil fuel consumption, our cold climate and large land area, as well as continually rising carbon emissions largely due to oil sands development.

Canada will likely face increased pressure from its largest trading partner, the USA, to take a more aggressive stance on climate change. The Obama Administration released its *National Climate Assessment* report in April 2014.[79] This report emphasizes the importance of responding to climate change with a combination of adaptation and mitigation actions. Not only is inaction on climate change costing Canada our reputation internationally, it is starting to have a tremendous impact on our domestic economy, our environment and human health.

**Human and Economic Impacts**

Severe weather events (ice storms, severe rainstorms, high winds) can destroy homes, cause injury and death, and disrupt businesses. The Alberta Floods of June 2013 caused 4 deaths and displaced more than 100,000 people. Total losses were estimated at $6 billion, with insured losses at $1.7 billion. The Toronto rain event of summer 2013 was Ontario's most costly natural disaster with $1.2 billion in estimated total losses and $850 million in insured losses.[80] As a result of these disasters, Canada's Public Safety Emergency Preparedness program incurred a spending increase of 280% in the first six months of 2013 -14. These expenditures are funded by tax-payers, and in this world of fiscal constraints will undoubtedly lead to cut-backs in other government services or increases in taxes.

Clearly, the economic impact of this changing climate is staggering. The National Round Table on the Environment and the Economy estimated the long-term financial impact of natural catastrophes on Canada is expected to reach $5 billion per year by 2020, and $21 – 43 billion per year by 2050.[81]

**The Opportunities**

A Special Report by TD Economics published April 14, 2014[82] confirmed that businesses and policy-makers need to start thinking of the long-term implications, and place greater emphasis on abating potential catastrophes when making investment decisions. "Governments need to take a close look at their inventory of infrastructure to identify vulnerabilities and areas where proactive adaptation can prevent future damages, loss of life, or economic disruptions. Awareness and preparation is the first step toward ensuring the safety of people, property, and prosperity for Canada's future." The NTREE report claimed that every dollar spent now on adaptation to climate change will yield $9 to $38 worth of avoided damages in the future.[83]

[78] Institute for Catastrophic Loss Reduction, "Telling the weather story," June 2012. http://www.ibc.ca/en/natural_disasters/documents/mcbean_report.pdf
[79] U.S. National Climate Assessment, 2014, http://nca2014.globalchange.gov/report
[80] Gordon McBean, Institute for Catastrophic Loss Reduction, in a presentation to McMaster University April 7th, 2014.
[81] National Round Table on the Environment and the Economy, Report 05 "Climate Prosperity: A Canadian Initiative," 2012
[82] Craig Alexander, SVP and Chief Economist and Connor McDonald, Economist, TD Economics Special Report "Natural Catastrophes: A Canadian Economic Perspective" April 14, 2014.
[83] National Round Table on the Environment and the Economy, Report 05 "Climate Prosperity: A Canadian Initiative," 2012

According to the TD Economics Report, companies in Canada are also starting to exploit commercial opportunities of climate change adaptation. For example, Bombardier is anticipating increased demand for fire-fighting aircraft to respond to more frequent and severe wildfires. Banks and insurance companies are creating special products and services to profit from businesses adapting to the physical impacts of climate change over the long term. These companies are anticipating revenue-generating opportunities based on their knowledge of the changes at hand: information to which Canadian governments at all levels, businesses and individuals need more access.

**Recommendations**

That the federal government:

1. Develop and implement a national strategy on climate change adaptation in collaboration with provincial, territorial and municipal governments that is based on sound scientific and socio-economic research and drives measureable action. This strategy should consider legislation, regulation and incentives to ensure long-term health and safety of Canada's people and property, its economic prosperity and environmental resilience.

2. Provide incentives for academic institutions and businesses to create and market adaptation measures, technologies and processes as a means of creating economic resilience while addressing urgent world climate change issues.

## Fair Competition Among Canada's Certified Forests in Green Building

**Issue**

Many governments across the country have adopted the US Green Building Council and Canada Green Building Council's *Leadership in Energy and Environmental Design* (LEED) rating system to evaluate the environmental impact of a building project. The certified wood credit in LEED's rating system, however, only offers certified wood credits for Forest Stewardship Council (FSC) certified wood and excludes all other certifications, including Canada's two other forest certification programs: the Sustainable Forestry Initiative (SFI) and the Canadian Standards Association (CSA). Because this gives FSC a monopoly on sustainable wood in any building that seeks the LEED credit for certified wood, action by the federal government can level the playing field for responsibly-managed certified forests in Canada.

**Background**

Forest certification provides independent assurance that forest products are legally sourced from sustainably managed forests. Canada leads the world in forest certification. Seventy-five percent (75%) of Canada's managed forest lands are third-party certified to one or more schemes, compared to only 10% of the world's forests.

Canadian forest managers certify their lands to one of three internationally recognized forest certification programs – Canadian Standards Association (CSA), Forest Stewardship Council (FSC) and Sustainable Forestry Initiative (SFI). All three certifications set high thresholds that forest companies must clear – above and beyond Canada's tough regulatory requirements. The three programs have subtle differences, but all promote principles, criteria and objectives that are viewed as the basis of sustainable forest management around the world. [84]

Many forestry experts, including the Forest Products Association of Canada (FPAC) and the Competition Bureau of Canada recognize these certification standards and their role in promoting responsible forestry. The Canadian Council of Forest Ministers issued a statement on forest certification standards in Canada, noting that "Governments in Canada accept that these standards [CSA, FSC and SFI] demonstrate and promote the sustainability of forest management practices in Canada."[85]

***Canada's forests and green building practices***

Due to rising concern about the environment, there is a growing interest in green building practices. Green building rating systems help determine a structure's level of environmental performance. The LEED rating system, developed by the US Green Building Council (USGBC), was adopted by the Canada Green Building Council in 2004. LEED has

[84] Forest Products Association of Canada, http://certificationcanada.org/english/what_is_certification/
[85] Canadian Council of Forest Ministers Statement, http://www.ccfm.org/pdf/CCFM_Statement_FRandEN.pdf#page=2

made positive contributions by promoting green building design and energy efficiency. This system, however, does not recognize all credible forest certification standards equally.

As such, approximately two-thirds of forests in Canada that are third-party certified to credible, internationally recognized standards for sustainable forest management are not eligible for the certified wood credit under the LEED standard. As a result, Canadian builders, architects and designers cannot source our own responsibly-managed CSA- or SFI-certified wood for use in building projects for which they seek to earn the LEED certified wood credit. Further, in some areas of the country, qualifying FSC- certified wood is either not available, or is available in limited supply. This may necessitate transportation of FSC-certified wood from other jurisdictions in order to earn the LEED certified wood credit.

**Green building and our economy**

Natural resources play a key role in Canada's economy. Within our national economy, the gross domestic product (GDP) of the Canadian forest products industry is approximately $19 billion.[86] The forest and paper sector provides Canadians and the world with superior forest and paper products made of wood fibre sourced from responsibly-managed forests. These sustainable practices by the industry protect the environment, conserve forests, protect jobs and strengthen local communities.

Green building programs used in new construction or renovations can improve energy efficiency, reduce waste and deliver long-term cost benefits in buildings. Within North America, there are a number of green building programs that are inclusive of credible, third-party forest certifications (including CSA, SFI and FSC).

Using taxpayer dollars in green buildings promotes sustainable development and reduces the economic and environmental costs of the building. However using green building programs that exclude more than two-thirds of responsibly managed forest in Canada limits economic growth: it creates an unfair competitive landscape for Canada's forests, and it unintentionally sends a message to building professionals across the country and the globe that Canadian forests are not sustainably managed.

By equally promoting and supporting all of Canada's certified forests, the Government of Canada will:

- Promote competition and continual improvement among green building standards
- Promote fair competition among wood products grown or manufactured in Canada's responsibly managed forests
- Advance Canada's forest industry in the global marketplace
- Protect jobs and enhance the viability of Canada's resource-based communities

It is imperative that the federal government advocate for equal credit for all three of Canada's forest certifications in all green building programs in Canada. This resolution, however, also recommends a more immediate solution – specifying the use of third-party certified wood products for all wood materials in green buildings in Canada. This solution is very attainable and will have an immediate positive impact on the forest industry by equally promoting all of Canada's certified forests.

**Recommendations**

That the federal government:

1. Continue to support the use of green building principles and criteria in the construction of new federal buildings, renovations, additions or such projects funded by the federal government (in whole or in part).
2. Promote fair competition in Canada's forest industry by advocating that all green building programs in Canada give equal credit to all credible, third-party forest certifications, including CSA, SFI and FSC.
3. Encourage and educate designers and material specifiers to specify "third-party certified wood products" for all wood materials, acknowledging that the credit available within the LEED rating system may not be achieved.

[86] Forest Products Association of Canada, http://www.fpac.ca/index.php/en/page/industry-by-the-numbers

4. Require all construction of new federal buildings, renovations, additions or such projects using wood and funded by the federal government in whole or in part, if pursuing LEED certification, not pursue MR Credit Certified Wood, but otherwise continue to require funded projects using wood products certified by SFI, FSC or CSA, until such time as LEED recognizes these other third-party certification standards.
5. Advocate having USGBC (CanGBC) define baseline standards for "USGB equivalency" and establish those standards consistently worldwide to enable all qualified third party-certified programs to compete fairly

## Protecting the National Economy by Managing the Lower Fraser River

The Lower Fraser River is crucially important to the 2.7 million people of the Fraser Valley and Metropolitan Vancouver, and is one of the prime economic generators in B.C., and a significant contributor to the national economy. Port activity on the Lower Fraser River rivals Canadian traffic on the St. Lawrence Seaway as well as supporting a myriad of other economic activities vital to the region and beyond.

Port Metro Vancouver (PMV) is not only the largest port in Canada, but the largest port by tonnage in North America, and is the principal ocean gateway to the Asia Pacific. Although the Lower Mainland ports were amalgamated in 2008, if the Lower Fraser River port existed as a stand-alone port, it would still be a significant port for Canada. Prior to the amalgamation, the Fraser River Port Authority was the third largest port in Canada, based on domestic, export and import tonnage. The impact of the port function of the Lower Fraser is comparable in importance to the impact of Canadian traffic on the St. Lawrence Seaway both, in terms of tonnages and employment:

| | | Lower Fraser River* | St. Lawrence** |
|---|---|---|---|
| **Cargo** | (Million Tonnes) | 25.7 | 36.5 |
| **Jobs** | (FTE's) | 52,900 | 63,000 |
| **Wages** | ($ Billions) | $2.62 | $2.88 |

* The Lower Fraser River impact shown above is for 2008, prior to the amalgamation of the three Regional Port Authorities into Port Metro Vancouver in that year; the St. Lawrence Seaway impact is for 2010
** St. Lawrence data covers Canadian cargo carried on the Montreal – Lake Ontario section of the Seaway and the Welland Canal between Lake Ontario and Lake Erie

Looking to the future, given that the majority of developable port lands to accommodate PMV expected growth are on the Fraser River, the Lower Fraser River is destined to play an increasingly important role in overall port activity and future growth of the Canadian economy.

In addition to the integral role to the operations of PMV, there are nine federal government Small Craft Harbours located on the Lower Fraser River. Supporting the commercial fishing industry, these Small Craft Harbours support a variety of fishing, aquaculture, recreation, tourism, shipping and other marine activities. The Fraser River also supports other key industries: The Fraser Valley's agriculture production in 2011 was $1.6 billion (the majority of agriculture output for B.C.), and approximately 47 forest industry facilities operate in and along the River.

**The Risk**

The positive economic growth and development of the region seems unstoppable. However the security of much of the agriculture and industrial lands, as well as the road and rail infrastructure that connects Canada to the port, are vulnerable to flooding and earthquakes.

Each year during the spring freshet, approximately 32 million $m^3$ of sediment is transported by the River, with roughly 10 per cent of this material settling in the navigation channels of the lower reaches. To ensure continued navigation and flood prevention, regular maintenance dredging is required. Dredging increases flow capacity which is a crucial flood prevention measure to keep the river below dyke levels during periods of increased flow.

In 2007 the River came perilously close to overtopping the dykes in the Fraser Valley during the spring freshet. If the dykes had been breached, the national rail lines and the TransCanada Highway, connecting Vancouver to the rest of Canada would have been cut off, choking off the movement of goods in and out of the busiest port in the country, resulting in significant economic losses.

Presently, the adjacent lands of the Lower Fraser River are home to over 50% of British Columbia's population, and in the actual flood plain, $50 billion dollars' worth of development, which are increasingly vulnerable to frequent extreme weather events that are projected to impact the River.

**Ensuring Future Prosperity**

According to recent studies, sea levels at the mouth of the River could rise in excess of one metre by the end of this century. In order to protect the businesses and livelihoods of those dependent on the river, residents and public facilities (including the highway and rail transportation infrastructure), an ongoing, coordinated program of investment in improved diking, dredging and other protective features is imperative. Preliminary estimates place the cost of this program required by 2100 at nearly $9 billion for the tidal areas of the River and adjacent coastal reaches.

The impact of inaction could be severe. The economic damage of losing one or more of the rail links to the port, as well as the major highways through the valley would be significant to the national economy. Damage could be similar to that seen in New Orleans, and require lengthy reconstruction periods, likely costing in the billions of dollars, combined with billions in lost economic activity. In order to mitigate this potential, we must act with some urgency to ensure the appropriate preparations are made.

In addition to environmental challenges, urban growth is also putting pressure on the future prosperity of the region. The demand for residential land has applied tremendous pressure on industrial land that is in transition. As a result, this land in transition has been converted to residential use, resulting in a loss of nearly 3000 hectares of industrial land in the last 30 years alone.

**Coordinating the Administrative Challenge**

Ultimately, the Fraser River is the backbone of transportation for the Asia Pacific Gateway and is of great economic value to all of Canada. It has the ability to provide a significant competitive advantage that will build our nation's economic prosperity as Asia becomes an increasingly important trading partner. Streamlining and facilitating a process that allows a main transportation channel to be maintained will be primary in developing this key opportunity.

One of the main challenges to managing the Lower Fraser River is coordinating the many government and non-government stakeholders that maintain the River. There are currently 15 municipal governments and 29 first nations groups along the banks of the Lower Fraser. There are also over 20 Provincial and Federal ministries involved in the River's administration resulting in a myriad of legislative acts and bylaws that require due process.

As authority and oversight is vested with a multitude of government departments, work on the Fraser River is often done in isolation and not part of a comprehensive and coordinated plan to address ongoing maintenance and safety requirements.

Resolving these issues will require long-term management and funding with substantial financial obligations. Compounding the problem is the fragmentation which requires compromise among various jurisdictions and authorities.

All levels of government and other key stakeholders must come together to manage the Lower Fraser River as an interconnected system in which the interests of the economy, the population, navigation, public safety, and the natural environment are managed holistically as one system. This will require the leadership of the Federal Government, the ultimate authority over the River.

**Recommendation**

To ensure the continuous flow of commerce to and from the Asia-Pacific market, and to ensure the sustainability of the Lower Fraser River, the federal government work with the provinces, municipalities, aboriginal groups, and business stakeholders to:

1. Bring together a task group of relevant stakeholders, to develop a holistic strategy to address the long term funding and management requirements necessary to maintain, protect and further improve the Lower Fraser River.

2. Charge this task group with responsibility for developing a comprehensive plan, addressing but not limited to, flood protection, navigation management, sea level rise, and agriculture and industrial land enhancement,

within the lower Fraser River and ensure the plan includes consideration for the role that the Fraser River can play in further development of the Asia Pacific Gateway strategy.

## Natural Resources are the Power of Canada

Canada's capacity to access new markets for its vast natural resources hinges on the country's ability to define and expedite a coordinated, collaborative framework for prosperity. Oil and gas, electricity, mining and forest products represent almost one fifth of Canada's GDP, half of our exports and 1.8 million direct and indirect jobs across the country. *The agriculture and agri-food industry* adds another $100 billion annually *to Canada's gross domestic product, more than the national GDP of 2/3 of the world's countries.*

The impacts of the sector go beyond the forest, farm, rig or mine. Natural resources drive demand for products and services in many other sectors of the Canadian economy, such as transportation, finance, professional and scientific services, machinery and equipment manufacturers and other suppliers. For example, 70 per cent of Canada's rail cars are transporting natural resource products. In 2013, 60 per cent of the issuers on the Toronto Stock Exchange and TSX Venture Exchange belonged to the resource or clean technology sector.

There is broad acknowledgment that resource development and export will sustain and drive the Canadian economy for decades to come – yet the national dialogue around creating value to the benefit of all Canadians is not sufficiently playing out across each of Canada's diverse regions, sectors and stakeholder groups.

Canada simply does not have the infrastructure needed to effectively reach new and growing markets for our resources. This past year has tough lessons about rail and port capacity with significant impacts for all of our natural resource exports. Existing road networks are not sufficient or efficient to manage these transportation needs. The situation is particularly dire in the energy sector. Canada does not yet have a single facility capable of exporting liquefied natural gas to Asia, where prices can be four times as high as in North America, and we don't yet have the pipelines to move our oil to new markets.

If we are to seize and preserve Canada's advantage in the context of an extremely competitive global market – and within narrow windows of opportunity – we need to collectively bridge the gaps between political, social and public policy perspectives.

The Partnership for Resource Trade is a pan-Canadian initiative that is working to reinforce pride in our resource-based economy. Members include representation from a broad range of organizations and individuals representing the natural resources, manufacturing, finance, labour and aboriginal groups. Supporters of the Partnership share the following objectives:

- Resources will continue to be the engine of Canada's prosperity now and in the future
- These sectors provides unique opportunities to engage and partner with Canada's aboriginal peoples and remote communities
- Canadian resource producers can balance our role in providing the world with the materials to build and power their societies with the need to protect and preserve the environment
- Canada must reinvest in its trade infrastructure in order to maintain our resource advantage for the next generations of Canadians

### Recommendations

That the federal government:

1. Endorse and support the messages and objectives of the Partnership for Resource Trade.
2. Invest in trade infrastructure by building and/or enabling others to build the necessary roads, rail, ports and pipelines to transport these resources effectively and efficiently.

## Canadian Air Quality Management System (AQMS)

In recent years, the federal government had begun efforts to control air emissions under the Canadian Environmental Protection Act, 1999 (CEPA). Canada now plans to adopt new air quality standards for industry and other emitters. The Air Quality Management System (AQMS) is important because it will provide consistent ambient air quality and industrial emissions standards across the country, which will simplify the process of emissions monitoring for businesses operating in multiple jurisdictions.

The Canadian Council of Ministers of the Environment (CCME) approved AQMS in October 2010 and CCME is working with industry, government, and non-government organizations to implement it. Stakeholders in the regulated community support this approach to air management.

The key components of AQMS are:

*Canadian Ambient Air Quality Standards (CAAQS)* – health-based air quality objectives for pollutant concentrations in outdoor air.

*Place-based air quality management* – Six regional air-sheds have been established covering all of Canada. The federal government will work to understand regional air quality issues and coordinate action to address air pollution, including trans-boundary pollution from the United States and elsewhere. Provinces and territories will manage air quality in air zones that they will establish within their boundaries, and work to ensure that ambient air standards are met in all air zones. The federal government will facilitate monitoring and analysis under its National Air Pollution Surveillance Program.

*Base-Level Industrial Emissions Requirements (BLIERs)* – BLIERS are intended to ensure that all significant industrial air emissions sources in Canada meet a good base-level of environmental performance. The BLIERs are to be based on what leading jurisdictions are requiring of industry in areas achieving their air quality standards, adjusted as needed for Canadian circumstances. New facilities will have to meet their BLIERs beginning the first day of operation. Existing facilities will be expected to meet the BLIERs for their sector by a specified date. When implemented, BLIERs are expected to reduce industrial emissions by 19 percent for $NO_X$, 24 percent for $SO_2$, and 9 percent for TPM.

This collaborative federal, provincial, territorial and stakeholder framework will:

- Focus on air quality and all the sources that contribute to it
- Ensure that a common standard of industrial performance exists across Canada
- Provide for increasingly stringent measures where local conditions require them
- Build on the existing expertise and strengths of governments
- Establish a new collaborative partnership with governments as well as stakeholders
- Provide greater public transparency and stronger assurance of action on air quality

**Recommendations**

That the federal government:

1. Ensure that their role in managing Canadian air quality is focused on CAAQS, BLIERs, air-zone development and establishment, and on controls related to transportation, and not create federal air emission controls under CEPA that would be duplicative of the provincial controls already in place.
2. Increase its national ambient air monitoring network by integrating the existing provincial and municipal systems, and also ensure prompt and public reporting of the data generated from those systems.

## Consistent Regulatory Acceptance for Chemicals Relating to Soil and Water Treatment

There are regulations and other mechanisms in place to approve the chemicals used to treat water or soil impacted by construction and other heavy industries (mining, land development, etc.) The current process to approve these technologies and products require manufacturers to provide a Material Safety Data Sheet (MSDS) and in some cases a

Toxicology report. However, these documents do not include minimum and maximum threshold allowances for the chemicals used in water or soil treatment, which leads to a broad acceptance of products that may pose a significant risk to the environment.[87] As a result, regulatory staff at various levels of government has limited guidance, enforcement and decision making tools available to them when assessing new or existing treatment methods.

In many cases, newer technologies can potentially be safer to the environment and more cost-effective than existing technologies due to increased quality of water and increased efficiencies, reduction in post application costs, reduced maintenance costs, less monitoring requirements, simpler and more passive operations and reduced labor costs. Yet many new technologies and products for soil or water treatment can not find their way easily to market because the regulatory process treats them differently from established water and soil treatments.

End users typically request approvals letters from regulators before they will purchase a new product, regardless of potential cost savings or improvement in environmental performance. Regulators such as Environment Canada often state they are unable to provide such approval. Due to the practice of 'grandfathering' in existing water and soil treatment products, established suppliers are not required to provide similar types of letters of approval for existing products. In some cases, existing suppliers are able to avoid having to provide toxicity reports but can use utilize MSDS sheets in their place. This gives existing technologies a definite advantage over any newer, better, more environmentally preferable technologies.[88]

The cost to bring a new technology or product to market is prohibitive enough without having to overcome regulatory red tape that should be supporting more environmentally friendly solutions instead of barring them.

**Recommendations**

That the federal government:

1. Work with the provincial & territorial governments to develop consistent requirements across Canada and its individual provinces/territories for the chemicals used for water and soil treatment in open environments.
2. Ensure that regulations for treatment of water and soil apply equally to new and existing products, processes or technologies.
3. To ensure that a product or technology is verifiably safe to the environment, require that toxicological data has been provided following accepted standards and practices as opposed to relying solely on MSDS information.
4. Ensure that the regulations are realistic and have a measurable impact on the environment.
5. Implement a harmonized product review standard between the various regulators, municipal, provincial/territorial and federal governments that allows a clear and consistent standard that all product, technology suppliers, manufacturers and or companies must adhere to and or meet. If a product or technology meets acceptable criteria as defined by the product review standard, then the product would become a recognized technology within the various Canadian jurisdictions.

## Protecting Western Canada's Fresh Waters from Zebra and Quagga Mussels

The rapid spread of invasive zebra and quagga mussels through fresh waters east of Saskatchewan has had devastating impacts on hydroelectric power, marine shipping, fishing and tourism industries. These species have recently spread through waterways in the southwest United States, and now pose an imminent threat to fresh waters

[87] Canadian Journal of Fisheries and Aquatic Sciences, 1985. Fish Gill Structural Changes Induced by Toxicants and Other Irritants: A Statistical Review. Retrieved June 23, 2014 from http://www.nrcresearchpress.com/doi/abs/10.1139/f85-083.

[88] Environmental Toxicology and Chemistry, Vol. 33, No. 7, pp.1552-1562, 2014 #2014 SETAC Effects of anionic polyacrylamide products on gill histopathology in juvenile rainbow trout (Oncorhynchus mykiss).

in Canada's western provinces. The federal government must take decisive action now to avoid irreversible damage to our marine and tourism industries.

Quagga and zebra mussels pose a serious and costly threat to aquatic ecosystems, salmon populations, tourist destinations, hydro power stations and other infrastructure facilities throughout western Canada. Native to Eastern Europe and Western Asia, quagga and zebra mussels have caused millions of dollars in damage to the Laurentian Great Lakes area and have cost the North American economy billions of dollars to control. The damage these species cause is diverse; among other things, quagga and zebra mussels:

- Disrupt native ecosystems by altering food webs, concentrating pollutants in their wastes, and inducing bird and fish kills
- Attack infrastructure by clogging water intakes and distribution systems, and by damaging pumps and hydroelectric power generating facilities
- Injure tourism (and tourists) by fouling beaches with razor sharp shells and decay odour
- Hurt marine industry by impairing the structural integrity of steel and concrete (such as are found in marinas and port facilities), and causing damage to watercraft

Zebra and quagga mussels typically migrate from one body of water to another on or in watercraft, but can also be transported on boat trailers, fishing gear, recreational equipment and float planes. In addition to adults that attach themselves to hard surfaces, larvae, which are invisible to the naked eye, are easily transported to new waters in ballast tanks and bilges. Once introduced to a body of water, there is no known way of eradicating zebra and quagga mussels. Their unwelcome presence is permanent, and the damage they cause perpetual.

Fortunately, the advance of these species has not reached the lakes and waterways of Saskatchewan, Alberta and British Columbia. But the danger to these waters and the economies they support could not be clearer. On March 12, 2014, Canada Border Services Agency (CBSA) staff in Osoyoos, British Columbia observed invasive mussel shells on a boat being transported from Lake Pleasant, Arizona. Though federal legislation does not allow mussel-contaminated boats to be stopped at the border, the hauler voluntarily allowed the boat to be detained and decontaminated. This incident represents just one of many potential catastrophes averted.[89]

Canada lags far behind the United States in addressing this issue. To give one example, the Canadian Border Services Agency lacks the legal authority to detain watercraft entering Canada so they can be searched for zebra and quagga mussel contamination. In contrast, the United States has empowered its border agents to detain watercraft pending inspection for invasive mollusks since the *Lacey Act* (16 U.S.C. §§ 3371–3378) was amended in 1969, and since 1990 has had legislation directed specifically to the threat of invasive aquatic species being transported in ballast water (Nonindigenous Aquatic Nuisance Prevention and Control Act of 1990). In addition, several US federal agencies (including the US Fish and Wildlife Service, the U.S. Bureau of Reclamation, and the Environmental Protection Agency) are already taking action to stop the spread of these mussels in that country.

If swift action is not taken to neutralize the threat of incoming mussels, the cost of zebra and quagga mussels infesting western Canadian waters is likely to be in the hundreds of millions of dollars over the next decade.[90] Virtually every industry that interfaces with freshwater will be affected, including the pacific salmon fishery, hydroelectric power generation, tourism, and marine shipping. The federal government must act immediately to stop zebra and quagga mussels from causing severe damage to the Canadian economy.

[89] In 2011 and 2012, authorities in Idaho stopped more than six boats per year bound for western Canada that were infested with mussels.

[90] Damages from an infestation of Lake Okanagan has been estimated at $42 million per year (Self, J., Larratt, H. 2013. Limiting the Spread of Aquatic Invasive Species into the Okanagan. Prepared for the Okanagan Basin Water Board and the Glenmore-Ellison Improvement District., available online http://www.obwb.ca/fileadmin/docs/2013_obwb_ais_report.pdf); damage to BC generally has been estimated more conservatively at $21 million annually (Robinson, D. et al. 2014. Preliminary Damage Estimates for Selected Invasive Fauna in B.C. Prepared for Ecosystems Branch, B.C. Ministry of Environment.); damage to Alberta has been estimated at more than $75 million annually (Neupane, A. An Estimate of Annual Economic Cost of Invasive Dreissenid Mussels to Alberta. ESRD. November 2013)

**Recommendations**

That the federal government:

1. Enact legislation that empowers the Canada Border Services Agency to detain, inspect and refuse admission to Canada to any vehicle contaminated with zebra or quagga mussels.
2. Facilitate cooperation among the states and provinces whose waters are not already contaminated by zebra and quagga mussels and continue to provide support to affected provinces.
3. Support the establishment of a non-contamination perimeter about the Pacific Northwest Economic Region (PNWER).
4. Provide appropriate support to provinces engaged in combating zebra and quagga mussels in their waters.

# SPECIAL ISSUES

## Leveraging CETA to Eliminate Interprovincial Trade Barriers

**The Issue**

Internal obstacles to trade have long created economic barriers within Canada. Negotiations with the EU offer a valuable opportunity to strengthen internal trade.

**Background**

As explicit tariffs between the provinces is forbidden under section 121 of the Constitution Act of 1867, most interprovincial barriers are the result of differing rules, regulations, licensing requirements and regional programs. These barriers to internal trade are often enforced by provincial legislation in attempts to protect local interests (eg. liquor board monopolies).

The overall effect of such legislation however, is that it has cost the Canadian economy an estimated $14-20 billion per year. (Government of Alberta 2008 "FAQs on the Agreement on Internal Trade") To address this, an Agreement on Internal Trade (AIT) was signed by the provinces and territories and federal government in 1994 in order for "parties to reduce and eliminate, to the extent possible, barriers to free movement of persons, goods, services and investment in Canada, and to establish an open, efficient and stable market." (Government of Canada. 2007 "Agreement on Internal Trade: Consolidated Version")

There are also other initiatives which have helped to facilitate trade between the provinces including the New West Partnership Trade Agreement (NWPTA) (an accord between the Governments of British Columbia, Alberta and Saskatchewan that came into effect in July 2010) and the Premiers' Council of the Federation work plan on internal trade which has developed a work plan for improvements to the AIT.

Despite the AIT and other measures, however barriers in many sectors of the economy still exist and a number of examples can be cited:

- Food safety regulations vary across the country and provinces have separate marketing boards for dairy and poultry, which can result in agricultural products produced in one province not able to be on the supermarket shelves of another. A recent example was Quebec's ban on soy and vegetable-oil based dairy substitutes which was recently struck down as a violation of the AIT
- The transportation sector faces differing provincial regulations, as tires sizes and safety regulations for commercial trucks hauling large or dangerous goods are not harmonized across Canada
- Refiners also face differing rules, as the ethanol mix allowed in fuel changes province to province
- The country also lacks a single securities regulator and some barriers to labour mobility still exist. The myriad of differing regulations that exist across the country make Canada a complex market to do business with, and add to the cost of doing business
- There are 60 regulated professions in Canada. Fifty one of them are regulated in two or more jurisdictions. Furthermore, there are approximately 50 skilled trades where certification is compulsory in at least one jurisdiction. Provincial and territorial governments are responsible for establishing occupational standards and have no obligation to reconcile or adopt national standards[91]

The proposed system for settling disputes under the Canada-EU would provide recourse for companies that feel they have been unfairly treated to take action directly against the offending state. Such recourse is not offered to the same extent under the AIT.

This means that unless the federal government takes action now to eliminate internal trade barriers, European companies bidding on Canadian government work will gain an institutionalized edge over Canadian businesses trying to win similar contracts outside their home province once CETA is enforced.

[91] Who Can Work Where: Reducing Barriers to Labour Mobility in Canada: CD Howe Institute, June 2010.

**Recommendations**

That the federal government:

1. Consider the New West Partnership Trade Agreement as a model for further trade liberalization in Canada.
2. Work to fully implement the Premiers' Council of the Federation work plan on internal trade before CETA comes into force.
3. Continue to pursue trade liberalizing agreements with other Canadian jurisdictions through the use of Article 1800 (Trade Enhancement Arrangements) of the AIT, which allows interested parties to move forward when consensus is not possible.
4. Conduct a full review and renegotiation of the AIT with a view to establishing a new pan-Canadian agreement to further eliminate barriers to trade, investment and labour mobility. Any new agreement must:
    - Cover all sectors of the economy and include all government entities including ministries, crown corporations and regional and local governments. A mechanism must be in place which can challenge any exceptions
    - Institute a dispute resolution mechanism for persons that includes access to a panel with binding and enforceable powers and contains significant fines for non-compliance

## Reforming Canada's Child Care Plan

The Chief Economist and Senior Vice President of the TD Bank Group, Craig Alexander, has indicated the importance of early childhood education. In a report in November 2012, he wrote that: "Given the unquestionable number of benefits that early childhood education can provide it follows that more focus should be put on investing in and improving the system."

Business Council of BC president and CEO Greg D'Avignon has said that increasing support for early childhood education in B.C. is "vital to our success."

Canada has become a country in which it is far harder to raise a young family, even though the country's economy has doubled in size since the mid-1970's, producing on average an extra $35,000 per household. Despite this additional prosperity, the average household income for young Canadian couples has flat-lined (after adjusting for inflation) even though the share of young women contributing to household incomes today is up 53 per cent. With their stalled incomes, young families must pay far higher housing prices, which increased 76 per cent across the country since the mid-1970's, according to data cited by Lynell Anderson in the July 2012 issues of *Healthcare Quarterly.*

The generation raising young children today is squeezed for time at home, squeezed for income because of the high cost of housing, and squeezed for services like child care that would help them balance earning a living with raising a family. Yet, international comparisons consistently rank Canada among the worst industrialized countries when it comes to investing in young families. Canada's slow policy response to the decline in the standard of living for the generation raising young kids is not consistent with our proud tradition of building and adapting policy in response to our social and economic environment – a proud tradition that includes public schools and universities, veterans' benefits, workers' compensation, unemployment insurance, the Canada Pension Plan and the Canada Medical Care Act.

**Childcare has a Business & Economic Connection**

Labour and Skills Shortages, plus Productivity & Innovation, are priorities of the Canadian Chamber of Commerce. To complement and create solutions to address both, the federal government must pay attention to children and how they are supported in their early years as well as in their learning years up to the age of 12.

Workplaces do not automatically become family friendly. Small businesses, which comprise about 98% of the numbers of Canadian businesses, are unable to automatically offer childcare spaces or for that matter regulated childcare spaces.

In *The Globe and Mail* in October 2013, it was noted that Canadian parents are stuck with unlicensed and unmonitored care. We are not advocating for the cost of the Quebec model but rather have the federal government invoke policy that regulates child care facilities to ensure foundational learning that will improve the chances that children, especially in poverty, and families can increase self-sufficiency and school success.

As our population ages, Canada will need both more babies and more working adults than ever before – just as young professionals and new immigrants face an unprecedented squeeze on their time and their pocketbooks.

The federal government needs to invoke policy that would include promoting the development of a high quality, comprehensive system of child care services that would meet the needs of all families who wish to access these services that would include high quality services that include centre-based child care, nursery schools, home child care and family resource centres that are regulated, accountable and accessible. All children under 12 years would have access to services regardless of their parents' participation in the labour force.

In the wake of Canada's largest baby boom in 50 years, public spending on licensed child care has barely budged, parent fees are soaring and growth in new spaces has slowed, according to a new analysis by the Childcare Resource and Research Unit who are working with researchers at the University of Guelph and the University of Manitoba on a series of briefs on the topic.

Mothers are in the workforce to stay and the number of young children needing child care continues to rise, but child-care spaces haven't kept pace because government commitment and funding haven't kept pace.

After shrinking for many years, the number of children under age 5 in Canada is on the rise, according to the report. The 2011 Census noted that the 0-4 age group has been growing at the highest rate in 50 years.

At the same time, the labour force participation of mothers with children under age 2 grew to almost 70 per cent in 2012, while almost 77 per cent of mothers with children between the ages of 3 and 5 were working. And yet there were full- or part-time spaces in licensed daycare centres for just 22.5 per cent of Canadian children from birth to age 5, an anemic 0.7-per-cent increase over 2010. In Ontario, for example, there were licensed spaces for barely 21 per cent in 2012.

Even in the limited growth years after 2006, when Ottawa scrapped a $5 billion national child-care plan, space increases never dropped below 1 per cent.

Meantime, parent fees "continue to be higher than university costs" across Canada and most provinces, the report says. Everywhere except Quebec and Manitoba, where fees are regulated, parents were paying more for care in 2012 than in 1998, in inflation-adjusted dollars. (PEI is the only other province that regulates daycare fees.) The range of parent fees by province "was enormous," ranging from $1,824 a year for an infant in Quebec, which charges just $7 a day, to more than $12,000 a year for a baby in Ontario. (In Toronto, infant fees can run as high as $19,000 a year.)

While public funding for child care edged up in all provinces except Newfoundland, Yukon and British Columbia, where it dipped, "increases are generally too small and too unpredictable to allow for more than modest growth of services.

Report co-author Martha Friendly, head of the Childcare Resource and Research Unit, said the report points to the need for a national child-care plan and more data collection to better understand the needs. The baby boom is a national trend. But young families are not being helped at all by the government of Canada. It is not good for the economy and not good for the future of the country."

Investing in early childhood development through an integrated child-care plan will have positive effects on the Canadian economy.

**The Facts**

UNICEF ranks Canada last when it comes to investing in families with kids under age six. The Organization for Economics, Cooperation and Development (OECD) ranks Canada last for investing in child-care services for children under six.

According to Statistics Canada, the Canadian economy has grown 108% since 1976, controlling for inflation. On average, the economy now produces an extra $35,000 per household compared to 1976. Controlling for inflation, average household income for young Canadian couples has flat-lined since the mid-1970s. It used to be $65,160.

Today, it is $68,300. Household incomes are stagnant for young couples even though far more young women earn employment income today. In the mid-1970s, 54% of Canadian women age 25-44 contributed to household income. Today, the figure is 82%. Average housing prices in Canada have skyrocketed since the mid-1970s. Adjusting for inflation, the average cost of housing in 1976 was $192,390. Today it is $339,045. That's an increase of 76%.

Canadians age 25-44 perform more employment hours and more unpaid care-giving than any other age group.

Canadians under 45 inherit a National Debt/GDP ratio that has increased 114% since the mid-1970s.

A typical Canadian couple will go without $13,000-$15,000 in after-tax income when parents share a year of parental leave to care for a newborn. People in Sweden and Germany make different policy choices, which mean the same couple does not lose any after-tax income in those countries.

Workplace standards in Canada mean the typical employee works 300 hours per year (that's over 8 weeks) more than the typical Dutch, Norwegian and German employee.

For children under age six, childcare services cost most parents the equivalent of a second mortgage, even though researchers raise concerns about the quality of many services. The cost of regulated child-care services erodes take-home pay for employed parents more than taxes do.

Although labour force participation rates for men and women have converged, women spend 70% more time doing unpaid housework than men, and 100% more time providing child care.

The decline in the standard of living for the generation raising young kids means it doesn't get its share of economic growth.

**The Implications for Business: Higher Costs, Lower Productivity**

According to a University of British Columbia study by Dr. Paul Kershaw, since parents are an integral part of the labour market, the business community pays a price when employees with young kids bring their time and service squeeze to their jobs. What this means is that Younger working-age are facing lower incomes and are struggling to keep pace with the increased costs of living, and of starting and maintaining a family. The work-life conflict experienced by parents raising young children today is costly for employers. The result is higher absenteeism rates for this group of employees, greater turnover, and increased use of extended health benefits – all of which employers pay for. In collaboration with Warren Beach (CFO) and his CA colleagues at Sierra Systems, UBC's Dr. Paul Kershaw and his team estimated that work-life conflict among employees with preschool-aged children costs the B.C. business community in excess of $600 million annually, and the Canadian business community more than $4 billion. The stress from work-life conflict among adults with young kids costs the Canadian health care system $2.5 billion annually, and the child welfare system another $1.2 billion per year.

**Recommendations**

That the federal government:

1. Work with the provinces and territories to fully examine the potential impact on productivity and the Canadian GDP of a countrywide system of child care with possible implications for child care rates and spaces.
2. The findings and policy recommendations associated with the aforementioned study should be delimited by, and respect, provincial jurisdictional limitations, as well as fiscal considerations, associated with the implementation of child care policy

## Reinstate the Canadian Mandatory Long-Form Census

In April 2014, Statistics Canada announced that it is gearing up for the 2016 Canadian Census. As in 2011, there will be a short, mandatory census questionnaire for all Canadians, and a voluntary household survey for 1 in 3 households.

In 2010 over the objections of a very broad sector of society, the federal government abolished the mandatory long-form census questionnaire, in favour of a voluntary National Household Survey. The impetus for the change was reported to be concern for the privacy of individuals that submit the questionnaire. However, there are no indications that any census information gathered had been compromised nor individuals' privacy put at risk. It has been reported that security of the data, particularly concerning personal privacy, is very high.

During 2014, Statistics Canada has been releasing information based on the census conducted without this tool. This has resulted in a storm of questions about the reliability of the data collected especially when compared with previous census data. According to a Canadian Press report, the agency (Statistics Canada) viewed the results as good for its first voluntary survey, but noted that the numbers were less reliable when focusing on areas with fewer than 25,000 people. In fact while Statistics Canada did increase the number of households that received the survey (1 in 3 from 1 in 5), the response rate was only 68% as opposed to the 94% rate when submitting data was mandatory.

When the agency released its data focused on languages, Statistics Canada posted a warning in the release which said: *"Data users are advised to exercise caution when evaluating trends related to mother tongue and home language that compare 2011 census data to those of previous census'."*

Reasons for the re-instatement of Canada's mandatory long-form census include:

Long-form data are used by businesses, provinces and municipalities, economists, urban and community researchers, policy analysts, sociologists, and other scholars in the humanities and social sciences (including geographers and historians). Religious and ethnic groups are also users. They all rely on the mandatory long form census for solidly representative and accurate data—especially when data are disaggregated to community or minority-group levels. Whatever the unit of analysis, an accurate statistical portrait of the population—one that allows for cross-tabulation—is required. This cannot be provided by the voluntary NHS because of the likely bias due to the under-representation of specific groups. Aboriginal people, recent immigrants, low-income families, and perhaps even busy professionals may fail to respond to the survey.

The loss of comparable, longitudinal, long-form data seriously impairs our ability to monitor change in the social indicators that inform policies and programs related to immigrants, visible minorities, the poor, ethnic groups, Aboriginal peoples, disabled people, or women (e.g. the value of unpaid work in the home). Similarly, it makes it impossible to track changes in educational attainment, labour force participation, type of employment, income (by source), religious affiliation, language use, or migration and commuting patterns. In the absence of accurate, representative, and directly comparable longitudinal data, we will no longer be able to measure the effectiveness of our social programs and economic policies.

Municipalities (including large cities) and even provinces cannot gather such high quality, comprehensive, and reliable or truly representative data themselves. Not only would their costs be prohibitive but, unlike the federal government, they cannot make their surveys mandatory. With respect to the gathering of data, the best gift the federal government can give to our smaller jurisdictions and to Canadian citizens in general is access to high-quality data derived from a mandatory long-form census sent to one household in five.

When we are still climbing out of a recession and relying heavily on immigration for population and labour force growth, we cannot afford to jeopardize our ability to gather high quality, accurately representative data on a range of social and economic indicators that measure adaptation by immigrant groups.

The federal government's decision to cancel the mandatory long-form census (2b) and to replace it with the voluntary National Household Survey effectively undermines its commitment to research excellence and innovation because we need:

- data—based on a truly representative sample—that is vital to education (in a range of disciplines), to research in the social sciences, as well as to the analysis that informs policy and advocacy as well as decision-making in both public and private sectors
- data that are representative, that one can disaggregate to small geographic units, age categories, and relatively small minorities
- data that are strictly comparable to those of previous censuses which allow longitudinal analysis and the measurement of trends in socioeconomic indicators over decades
- the ability to produce an accurate portrait of our country, Canada, that provides the benchmarks against which other surveys can measure the adequacy of their samples

- the data required to measure our standing on the range of social policy indicators (e.g. poverty) used for international comparisons

At a time when Statistics Canada is making its data and analysis freely available to scholars, policy analysts, business, and citizens to encourage research and innovation, returning to a mandatory Long Form Census Questionnaire offers numerous advantages.

**Recommendation**

That the federal government reinstate the mandatory long-form census questionnaire in the 2016 census.

# TRANSPORT AND INFRASTRUCTURE

## Greater Regulatory Harmonization between Canada and the United States

**Issue**

Canada and the United States (U.S.) enjoy one of the most integrated market environments in the world. Our supply chains are so interwoven that we literally build things together. However, the efficiency created by this integration is constantly being undermined by different regulatory policies. Such differences mean that a considerable amount of time, money and human resources are spent ensuring compliance with regulations on both sides of the border. A more coordinated approach to regulatory policy across jurisdictions would create efficiencies, reduce costs and improve the overall competitiveness of the Canadian economy.

**Background**

In 2011, Prime Minister Harper and President Obama launched the Canada-United States Regulatory Cooperation Council (RCC) in an effort to promote greater regulatory alignment between the two countries. The RCC seeks to align federal regulations in four key sectors: agriculture and food; health and consumer products; transport; and the environment. While the RCC should continue to deliver on the existing action items there are ways to strengthen the existing agreement and additional areas where attention is warranted.

For example, the North American trucking industry is a vital component of our multimodal transportation sector. Unfortunately, various regulatory differences prevent this industry from operating at peak efficiency. There are many unnecessary rules that are no long consistent with North America's integrated logistics systems. For example, the current rules governing the repositioning of empty trailers prohibit foreign driver from performing this duty. Due to these restrictions more trucks are on the road than are required and more fuel is consumed than is necessary. Addressing this issue would make the industry more efficient, more cost effective and reduce its environmental impact. Also of concern are the current restrictions on in-transit shipments and different approaches for fuel saving measures. Canada should ensure that its own fuel saving measures align with those being adopted by the U.S.

There are also ongoing issues regarding recognition of security clearances for transport workers. Both Canada and the U.S. have different security clearance programs (TSC/TWIC) and identity cards. Unfortunately, neither country currently recognizes the other's transport security clearances. These differences result in unnecessary inspections and processing delays despite the fact that in most cases the identity of drivers and the specifications of their vehicles are known prior to their arrival at the border.

Similarly, there are several areas where greater alignment on regulatory processes for the marine mode would be helpful. Both Canada and the U.S. should adopt a unified approach to safety, security and environmental standards. In terms of security some of the areas which should be addressed include screening processes for ocean containers, reciprocity for the Seafarer's Identification Document and alignment of marine security regulations and reporting requirements. Differences in environmental policies are also of great concern for the marine industry due to the current patchwork of regulations across jurisdictions. For example, different ballast water regulations and emission standards continue to be a major irritant to businesses operating on the Great Lakes. The Canadian Chamber of Commerce strongly supports a unified and scientific approach to ballast water regulations and emission standards throughout North America.

Members of the Canadian Chamber of Commerce fully support the RCC initiative but believe that a more institutionalized and long-term approach to regulatory cooperation is needed. Beyond the specific examples listed above, Canada and the U.S. should create a permanent mechanism for regulatory cooperation between relevant government departments and agencies on both sides of the border. The goal of this cooperation would be to reduce red tape and eliminate unnecessary regulatory differences. This process should also include a mechanism to ensure that stakeholders are informed of potential new regulations and that these regulations remain open to public commentary. Both governments should work to ensure that all new regulations are based on sound scientific principles and include an analysis of their potential economic impact.

This is particularly true for the transportation sector which plays a vital role as an economic enabler in both countries. Efforts to better align regulations governing the transportation sector will help ensure an efficient, safe, reliable and competitive environment for our multimodal transportation systems.

**Recommendations**

That the federal government:

1. Work with the U.S. to adopt a unified approach to reporting requirements, safety, security and environmental standards for the transportation sector.
2. Continue to work with the U.S. government to fully implement the existing RCC workplans and to improve stakeholder consultation mechanisms.
3. Ensure that all relevant government departments and agencies follow the principles promoted by the RCC and promote ongoing cooperation and dialogue between regulators. The goal would be to foster a culture of bilateral regulatory cooperation and consistency across departments and agencies.
4. Work with the U.S. government and other relevant government departments and agencies to develop a long-term, institutionalized mechanism for regulatory cooperation. This process should place emphasis on areas where Canada and the U.S. already share common regulatory objectives and seek to adopt "best in class" regulations..
5. Recognize that there are many sub-national regulatory powers that have a direct impact on North American businesses. As such, any efforts to create a more permanent regulatory cooperation mechanism should be flexible enough to eventually include participation by sub-national regulatory entities.
6. Work with the U.S. government to develop a joint system to notify stakeholders and the general public of potential regulations. This system should include sufficient advance notice for proposed regulations and provide a mechanism for stakeholder input.
7. Ensure that all new regulations affecting the transportation sector are based on science and include an analysis of potential economic impacts.

## A National Plan for Canada's Transportation Sector

**Issue**

Canada's transportation networks play a vital role in the competitiveness of our economy. Our transportation systems connect our communities, allow us to move people and goods across the country and employ thousands of Canadians. Transportation is an economic enabler that provides the framework necessary for economic growth and ultimately our success.

The Canadian government understands the importance of modern and efficient transportation systems and has undertaken several helpful initiatives over the past couple of years.  The investments made through the two Building Canada Plans, the expansion of our foreign trade zone-like policies and efforts to invest in our transit systems are all steps in the right direction.

While these initiatives are welcome advancements, they remain ad hoc and without a clear vision. The lack of overarching, long-term and transparent objectives for the development of our transportation sector is hindering Canada's economic growth.

**Background**

Canada is a trade dependent country. One out of every five jobs in Canada depends on international trade. We are currently pursuing the most ambitious trade agenda in Canadian history with over 12 FTA negotiations currently underway. However, the successful movement of people and goods depends on an efficient, predictable and reliable multimodal transportation network. Furthermore, our close connection with the United States puts us in a good position to be a major entry point for the North American market. To fully leverage this advantage we need a transportation sector that is as seamless as possible. Our ports of entry must be able to compete on a global scale and our border should be treated as part of the supply chain.

The Beyond the Borders Agreement between Canada and the U.S. is an important step in this direction. Under this agreement both countries committed to making the shared border more trade friendly. Unfortunately, progress is slow and a number of deadlines have been missed. More needs to be done to improve the benefits to the trade community and to limit the costs of cross-border trade and travel. For example, the creation of a single window portal for reporting requirements, the harmonization of trusted trader programs and the negotiation of preclearance agreements.

Modern and efficient transportation infrastructure is vital to the success of our economy yet Canada's transportation infrastructure needs investment. Major roads and highways are crumbling and the supporting infrastructure of our ports of entry need continued investment to remain competitive. Canada's multimodal transportation sector is also responsible for the movement of people. Unfortunately, Canadian public transit systems remain badly underfunded by provinces and municipalities and unable to keep up with expanding demand. Congestion has become a major problem in many Canadian cities with a significant impact on our productivity. According to the C.D. Howe institute, congestion costs the GTA's economy between $1.5 billion and $5 billion annually.[92]

Canada faces growing international competition from jurisdictions that are investing heavily in their transportation networks. Many developed countries around the world have recognized that their success is closely tied to the efficiency of their transportation sectors and have developed dedicated strategies to modernize their existing systems.

While Canada has not yet adopted a dedicated plan for its transportation sector, the Federal government has untaken several helpful initiatives over the years. Since 2007, the Gateways and Border Crossings Fund has led to 39 strategic infrastructure investments in 9 provinces. Similarly through two subsequent Building Canada Plans the government will have invested about $80 billion in infrastructure across Canada. While the New Building Canada Plan does not include specific funding for Gateways and corridors, key transportation assets will be eligible for funding under the $4 billion National Infrastructure Component which may lead to better national planning.

The Canadian government has also instituted some policy changes which have helped make the sector more productive. One example is the Transit Without Visa Program (TWOV) which allows certain foreign nationals to transit through participating Canadian airports without requiring visas. Such programs are critical to development of Canadian airports as Gateways between Asia, Europe and the Americas. Similarly, the 2013 Federal Budget contained commitments to promote Canada's Foreign Trade Zone advantages by reducing costs, streamlining programs and improved marketing.

While these initiatives have been helpful, they have not been guided by a long-term and predictable vision to make our transportation sector more competitive. Canada's transportation networks need significant investments, our regulatory policies need to be streamlined, our supply chains strengthened and our environmental footprint reduced. Making these changes in an efficient manner will require long-term vision and a dedicated, predictable plan.

A National Transportation Plan must be an integral part of Canada's Economic Action Plan. It must facilitate cooperation and accountability between the various levels of government, stakeholders and the relevant government departments. It needs to take into account Canada's vast geography, trade agenda priorities, as well as forecasted increases in demand for transportation services.

One of the primary goals of a National Transportation Plan would be to ensure that Canadian citizens and Canadian businesses have access to a cost-effective, efficient and safe multimodal transportation system. This system should be free from artificially imposed barriers caused by unnecessary government policies.

Such a plan should have clearly defined goals and contain five guiding principles:

- Ensure that Canada's multimodal transportation is safe and cost effective by integrating policies concerned with the movement of goods and people in marine, air and land transportation, urban transit, border services and related transportation services
- Maintain Canada's competitive edge as Asia's gateway into and out of North America by ensuring that our transportation networks are adaptable, reliable and responsive to changing economic conditions
- Include a targeted infrastructure investment strategy that recognizes the importance of transportation as an economic enabler

92 The C.D. Howe Institute. Cars, Congestion and Costs: A New Approach to Evaluating Government Infrastructure Investment. Commentary #385. July 2013 Accessed online at: http://www.cdhowe.org/pdf/Commentary_385.pdf

- Measure progress based on a set number of indicators
- Adopt a globally competitive regulatory and fiscal environment which is aligned across jurisdictions
- Ensure that Canada's transportation networks are developed in socially, economically and environmentally sustainable manner

**Recommendations**

That the federal government:

1. By 2016-17, develop a national transportation plan that aims to improve Canada's land, air, and marine transportation infrastructure.
2. View the Canadian transportation sector as a single multimodal system which includes a strong North American transportation vision that:
   - Maintains a secure and trade efficient border which facilitates the movement of legitimate goods and people
   - Establishes a cooperative framework to efficiently utilize and enhance current levels of border capacity and integrate our transportation systems
3. Develop a priority-based multimodal transportation infrastructure investment plan that builds on existing policies or funding programs such as the Building Canada Plan and compliments the previous work done through the Gateway and Trade Corridors initiatives. The investment plan should:
   - Encourage collaboration and alignment
   - Promote the use of public-private partnerships, wherever appropriate and feasible, to maximize efficiency in maintaining and developing transportation infrastructure
   - Recognize and formalize the key role that the federal government plays in urban mobility and public transit
4. Develop a national, non-discriminatory and market-based regulatory and fiscal environment that fosters competition in the transportation system. This system must recognize the multimodal nature of the transportation system and the distinct advantages and competitive situations of each mode of transportation.
5. Ensure going forward that there is sufficient infrastructure to support new markets (including as a result of all the Free Trade Agreements being signed and negotiated), particularly as trade flows move beyond North – South to East – West.
6. Analyze all transportation infrastructure and regulatory projects and weigh these against the economic, social, and environmental axes of sustainable development. This includes:
   - Building public awareness of the importance of transportation in relation to the quality of life enjoyed by all Canadians and sustainability of Canada's economy
   - Taking a leadership role to address community impacts and environmental concerns
   - Attracting skilled people to meet the needs of the transportation infrastructure sector
   - Encourage policies and research initiatives that drive transparency across the supply chain and containing a research initiative tied to the objectives of the *National Transportation Plan*

## Maritime Goods Movement Act

The Maritime Goods Movements Act (MGMA) was proposed in the United States congress in 2013. The legislation would impose a fee on all cargo discharged at Mexican and Canadian ports and bound for the U.S. The fee was based on the value of the goods being shipped and would replace the current Harbour Maintenance Tax (HMT).

Fortunately, the proposed tax was defeated in recent congressional negotiations, but is a clear indicator of the protectionist sentiment among many in the U.S.

The MGMA was introduced as a measure to counter a perceived trend towards diverting cargo to Canadian and Mexican ports resulting from the implementation of the previously enacted HMT. The HMT enacted in the U.S. in the early 1990s as an "ad valorem" tax on all marine imports and exports is generating revenue for the Harbour Maintenance Trust Fund that is utilized for dredging projects throughout the U.S.

The main argument for the MGMA proposed legislation is that the HMT is diverting business from U.S. ports of entry with shipments being diverted to Canadian and Mexican ports and then the cargo being transported into the U.S. by land transportation. The proposal received support from several states with major marine capability (U.S. east coast and gulf states, etc.).

There are a number of issues of concern for the Canadian economy if similar legislation ever becomes law. Primarily, such new legislation will impose additional border fees for goods shipped across the Canada-U.S. land border. The imposition of such a tax would also have other unintended effects on cross border trade and commerce. The consequences include:

- Reduction in the overall maritime shipping
- Significant unintended delays at he border due to the problematic aspects of land border collection of fees

In addition to these negative effects such proposals are inconsistent with the efforts by President Obama and Canadian Prime Minister Stephen Harper to expand cooperation and accelerate the free flow of trade at the border through the Beyond the Border Initiative (BTB). As part of the BTB initiative, the U.S. and Canada last year published an inventory of all border fees with a comment to "reducing the costs to business and promoting trade competitiveness."

A number of maritime and trade related organizations have already stated the same facts and are actively engaged in dissuading the U.S. government from considering such legislation. This resolution also supports the positive role played by the Canadian Ports in the Canada-U.S. international trade and commerce. Canadian ports provide competition and encourage efficiency, provide U.S. importers and exporters with additional options in the event of supply chain disruption and offer U.S. importers and exporters additional shipping channels where U.S. port is not available to them.

The U.S. and Canada share the world's largest trading relationship, valued at over $710 billion in 2012. Canada is the top export destination for 38 U.S. states and more than eight million U.S. jobs depend on trade and investment with Canada.

**Recommendations**

That the federal government:

1. Work with the U.S. government to prevent the imposition of any new fees at the Canada - U.S. border.
2. Work with the Canadian cross-border stakeholders to provide information and facts to U.S. lawmakers on Canada-U.S. cross border trade and commerce.

## Ensuring Viability and Safety in Our National Airport System

Transport Canada is committed to an efficient, safe, secure, and environmentally responsible transportation system. In 1994, the federal government created the National Airports Policy to ensure a viable national airport system that would serve Canada well into the future. In doing so, the policy focused on moving Transport Canada's role in airports from owner and operator toward landlord and regulator. This shift aimed to ensure that Transport Canada would no longer operate airports that it was responsible for regulating. Since 1994 this safety measure has seen Transport Canada successfully transfer ownership of 128 airports to local interests including airport authorities, local governments, and societies across Canada.

To date there are 18 remaining airports yet to be divested. All are unique and require responsible planning for their long-term existence and success. For example, the Victoria Harbour water aerodrome is the only remaining water airport left to be divested from Transport Canada. The unique needs of each of the remaining airports require responsible planning for long-term viability. As recently as 2013, Transport Canada issued letters to interested parties to enter into discussion regarding the ownership and operation of the airport going forward. The intention stated is to assess the viable cost-effective options available.

Airports are a key economic asset not only to the national transportation system but also to the communities where they are located. The divesture of the remaining airports is essential to the overall affordability of the national network of systems. It is also essential for the communities of the remaining areas that there is certainty over air transportation, as well as affordability and long-term sustainability with sensitivity to local interests. The divesture of the remaining airports needs to be managed to ensure the economic, environmental, and safety objectives are achieved.

**Policy Issues and Considerations**

Of the 18 remaining Transport Canada owned airports at least seven of those are under review. However, the federal government has not allocated funding to divest the remaining airports.

The transfer process of the now expired Airport Divesture Program included the Government of Canada seeking interest from relevant provincial/territorial governments, local/regional governments, airport commissions, or private organizations (in that order) to determine interest in the transfer of airports.

Once organizations were identified, then accepted by Transport Canada, letters of intent were signed. Although non-binding, this process reflected the acceptance of both parties to enter into negotiations. The process included negotiations, a confidentiality agreement, and information exchanges as a preliminary step in the process.

Airports, communities and taxpayers have all benefited since airport divestures commenced. The overall tax burden is lightened when costs are shifted from government subsidies to user fees. This moves the costs from taxpayers to actual airport users. In addition, placing the responsibility of airports on local operators allows for more efficient response to local market conditions and development plans. Currently, setting fees and charges as well as regulation of ground transportation services are done through federal regulation. Local operation of airports allows for the ability to customize the level of service needed by the community. Long-term this has proven to be more viable and responsive to community needs as it can better match service levels to local demands and resources, further ensuring long-term viability of local airports.

The Transport Canada Airport Divestiture Program, which expired in 2007, was a successful program. A federally supported program is essential and the re-creation of a similar program to divest remaining airports with adequate funding is needed.

**Recommendation**

That the federal government create a new airport divesture program and allocate appropriate funding.

## Reduce Costs to Improve Canadian Aviation Competitiveness

High fees and government taxes on the Canadian aviation industry represent significant challenges for Canadian businesses, governments and citizens and have resulted in an uncompetitive travel and tourism industry. This has led to lost GDP and government revenue, and the decision made by millions of Canadians to seek cheaper flight options at U.S. border airports.

The Canadian Chamber of Commerce has listed 'uncompetitive travel and tourism strategies' as one of the Top 10 Barriers to Competitiveness for two consecutive years. The Conference Board projects that certain policy improvements could bring two million or more passengers per year back to Canadian airports, along with over $1 billion in Canadian GDP, 10,000 direct jobs, and approximately $200 million in tax revenue.

**Background**

Until the early 1990's, Canada's airports were managed by the federal government with taxpayers responsible for all capital investments and operational costs not covered by airport charges. During this time, the annual cost to taxpayers for operations alone was $135 million a year (with minimal investment in facilities).

Today, major airports in Canada are operated by not for profit, non-share capital corporations that are fully responsible for self-funding all operating and infrastructure costs and must invest any profits back into the airport. Under this system, the federal government retains legal title to the land and collects payments from airports in the form of ground lease payments or 'airport rent'.

Since 1992, this model has resulted in airports paying the Government of Canada $4.4 billion for ground lease payments and investing more than $19 billion in airport improvements with virtually no funding from taxpayers. In 2013 Canada's airports paid $291.72 million in airport rent to the federal government.

Passengers in Canada also pay an Air Travellers Security Charge (ATSC), which ranges from $14.96 on a domestic round trip to $25.91 on an international round trip, making security screening part of the "user pay" model. ATSC revenue is growing annually due to an increase in passenger volume. According to Transport Canada, ATSC revenues for 2014-15 are projected to have grown by $132 million since 2010-11. However, the Canadian Air Transport Security Authority's budget was frozen in 2010 in order to "balance" aviation security costs. As such, there are growing concerns about the future financial stability and resourcing of security screening at Canada's airports resulting in longer and longer security lines and wait times for passengers.

Meanwhile, over the years the federal government has continued to off load costs onto the aviation sector, including in areas traditionally delivered by government in other countries around the world, such as regulatory compliance costs for certain infrastructure improvements (e.g. Runway End Safety Areas), the aforementioned 'user pay' approach to security screening, and the imposition of various taxes and levies that take money out of the system. . This, of course, adds to airline ticket prices and other airport-related charges to consumers, not to mention costs associated with the movement of cargo. This inhibits Canada from becoming a true Gateway into North America.

**Cost Structure**

Canada's airports and airlines have been severely impeded in their efforts to compete for the cost-conscious air travel consumer with their well-funded U.S. counterparts largely because of the fees imposed on the industry by the federal government. As a result, the Canadian aviation industry's cost structure poses a burden on travellers where it matters most – their wallets.

- 21% of Canadians say they travel to U.S. airports, where the cost of a ticket can be between half and three-quarters of the price at home and that number is growing rapidly

According to research by the Canadian Airports Council and the Conference Board of Canada in 2012, the average roundtrip airfare in Canada can be double the cost of fares in the U.S. Fees, taxes and charges account for 43% of the cost of an airline ticket in Canada (about $90) or nearly one-quarter of the difference. In the U.S., taxes account for only 14%. One result of this pricing discrepancy is that about five million Canadians choose to fly out of U.S. border airports rather than their local airport.

The high cost of aviation in Canada renders Canada's air transport sector less competitive relative to other countries. In fact, out of 140 countries the World Economic Forum's 2013 Travel and Tourism Competitiveness Report ranks Canada 136$^{th}$ in the world in ticket taxes and airport charges and 124$^{th}$ in overall travel and tourism price competitiveness.

**Regional airports**

The airport self-funding policy has even more dire consequences for regional airports that do not attract a sufficient number of travellers to finance the maintenance and improvement of their infrastructure. The fees charged to passengers become prohibitive. On top of providing air service to travellers, business people and tourists, certain airports play a fundamental role in providing essential services such as fighting forest fires, rescuing people at sea or shipping food and other basic commodities to remote communities. These airports also play an essential role in the operation and development of some remote resources. Access to an airport therefore becomes a determining factor for investors when deciding whether to operate a mine or develop an energy source.

The federal government has an Airports Capital Assistance Program that can provide infrastructure improvement assistance. The Conference Board of Canada analyzed this program, which has not be revised in close to 20 years, and offered the following critical remarks:

- This program does not meet the needs of small airports
- Many regional airports do not have access to the program (mainly those that do not provide regular air service)
- This program's funding has decreased continually since the Québec Air Transportation Policy was adopted in 1994
- Access to available funds is difficult, the administrative burden is high and a number of small airports are unable to meet all of the requirements
- A few complementary provincial programs exist, but they are underfunded
- In the past years, emphasis has been placed on investing in safety, which may have contributed to improving basic infrastructure

A competitive air transportation system is vital for business, government and Canadians. The federal government must begin to view airports as an economic engine rather than a tax grab. Fees and taxes must become competitive with the U.S in order to reduce passenger leakage and support the growth of a strong travel and tourism industry.

**Recommendations**

In order to improve the competitiveness of Canada's aviation sector, the federal government must:

1. Immediately examine the cost structure of government imposed fees on the airlines and airports in Canada with the goal of reducing costs and stimulating the aviation sector.
2. Halt the offloading of additional costs onto Canada's aviation sector and its travelers.
3. Develop policies designed to mitigate the impact of the transportation surcharges and fee differentials in Canada by incorporating the results of the examination (as per recommendation number one).
4. Move immediately to eliminate airport rents where they still exist.
5. Revise the Airports Capital Assistance Program with a view to improving the quality of regional airport services, expanding air service to regions and ensuring economic development.

## Trucking Disruption of Terminal Operations at Port Metro Vancouver

The operations within marine terminals at Port Metro Vancouver have resumed and are in a recovery mode following a 28 day withdrawal of services by non-union truckers and a subsequent strike called by Unifor-VCTA owner-operators during the later period of the truckers dislocation to port operations. This dislocation follows a similar 47 day work stoppage in 2005 pertaining to drayage compensation and escalating fuel prices, which was exacerbated by price undercutting practices by some drayage carriers and terminal delays being encountered to handle container traffic at the port.

The most recent dislocation held up cargo with an economic value in the order of $750 to $885 million per week and thus negatively impacted the regional, provincial and national economy by approximately $3.5 billion. The B.C. Provincial Government, along with assistance from the Federal Government and Port Metro Vancouver brokered a sidebar deal with UTA and Unifor without input from the trucking sector or other stakeholders to get the trucking entities and port operations functioning again under a Joint Action Plan, which includes the involvement of Mr. Vince Ready, federally appointed facilitator.

The results of the above dislocation have seriously damaged the reputation of Port Metro Vancouver, as the 4th largest port in all of North America handling more than half of containers that go through Canadian Ports[93]. Some 2,825,475 TEU's (twenty foot equivalents) were handled during 2013 according to PMV statistics[94]. Approximately 4500 ILWU longshore personnel are employed in local port operations. The ILWU are working under an unprecedented 8 year negotiated contract intended to provide labour stability in the Gateway which has been disrupted, yet again, by this most recent 28 day work stoppage by truckers.

Port Metro Vancouver is the landlord of the port's federally-owned land. It does not operate the container terminals, it does not contract with shippers, it does not employ truckers, nor does it have any jurisdiction to intervene in any way with negotiations between truckers, their employers and government. Coming out of the 2005 resolution, the port introduced the Truck Licensing System (TLS), which has become one of the mechanisms that caused Port Metro Vancouver to be an involved party. Furthermore, in December 2011, Port Metro Vancouver launched a stakeholder engagement process to develop a broadly supported, long-term vision for the container trucking sector that would enhance the Port's global position as a sustainable and competitive supply chain leader. In February 2013, Port Metro Vancouver announced is Smart Fleet trucking strategy, a three-year action plan to achieve excellence in the local container trucking sector. Smart Fleet is a plan that is guiding the work with industry and government to drive performance, accountability, sustainability and transparency within the container drayage supply chain.

The introduction of a Reservation system wherein the trucking industry is required to secure a reservation to pick-up or to delivery laden or empty containers is currently considered to be seriously flawed. The system is unable to provide sufficient and timely reservations with any reasonable degree of reliability. It frequently impedes the flow of container traffic and is adversely affecting Vancouver's reputation as a Gateway for container trade to and from global markets.

There are numerous issues facing the drayage sector including the conflicting employment and contractual arrangements between drayage carriers with various of unions and non-union truckers. Some truckers are employees of drayage firms and are paid on an hourly basis and others are dependent operators paid on a per trip basis, which results in various levels of earnings and compensation depending on the port turn time achieved for trucks. Over the years, despite set rates for non-unionized, independent container truckers, there has been systemic undercutting of those rates by as much as 50%. Marine terminal service levels have also exacerbated the situation.

The most recent withdrawal of services was achieved by a small core of owner-operators intimidating and harassing drivers who would have otherwise preferred to work. Unfortunately, for the most part this illegal activity was not subject to police enforcement. This is not to suggest that the trucking industry does not have valid issue deserving of addressing – which is acknowledged by all parties.

The fact that, for the most part, the withdrawal of port services was perpetrated by non-unionized owner-operators who only represent a portion of the container truckers and the support by 1 union (UNifor) representing 12 companies created extreme challenges. The task in dealing with a multitude of individual competing trucking firms and independent operators can be onerous for Vince Ready to make recommendations to the assorted parties being trucking firms, trucking owner operators, terminal operators and Port Metro Vancouver as well as the provincial and federal governments. Understandable concern within the industry questions whether this latest round of concessions merely represents a "band-aid" solution which may not lead to long-term stability and be subject to repeat performances of labour strife.

This latest disruption in handling container traffic has been devastating to both shippers and importers. For smaller companies, the ability to divert traffic to other ports has been extremely limited, costly and in some cases prohibitive. Shippers and importers have been held hostage to this strife and severely penalized with storage charges for substantially inaccessible cargo in terminals because drivers were being threatened and their employer/contractor trucking companies chose not to subject them to harm. Storage charges of several hundreds of dollars per day have resulted in the closure of a number of small businesses.

[93] Shipping in Canada 2008, *Statistics Canada*
[93] Port Metro Vancouver Website, Facts and Stats

The severity of the damage caused by the 47 day work stoppage by truckers in 2005, coupled with the 28 day stoppage in 2014, prompts Industry to have grave concerns as to whether this latest round of appeasement merely represents a "band-aid" remedy instead of a permanent solution. Will exporters and importers be subject to continuing repeat performances of labour strife of this nature in the not too distant future?

Following the 2005 trucking disruption, the Federal Task Force review produced certain recommendations that have not been implemented. This latest trucking disruption will serve to justify inquiry into referenced Report, review and update subsequent developments with a view to developing long range solutions with potential regulatory requirements.

Therefore, it is submitted that these issues are deserving of careful examination to better determine long term solutions.

**Recommendations**

That the federal government with the relevant provincial/territorial governments, implement appropriate actions after:

1. Instituting an official inquiry into the intricacies of the convoluted employment of union and non-union truckers under conflicting conditions.
2. Examining the legal ramifications of such employment under prevailing legislation and/or regulations within both provincial and federal laws.
3. Exploring "best practices" of trucking employment in other comparable port jurisdictions recognized for stable trucking employment to determine how they manage the relationship.
4. Including industry representation throughout the process in order to provide the necessary context and help ensure the resulting recommendations are practical and will achieve long-term stability

## Preparing for Canada's Growth by Securing Transportation/Utility Corridors

Market access for Canadian products, movement of goods and services, managing growth in regions facing population booms and energy transmission and distribution are all impacted by land-use planning and are, in many regions across the nation, negatively affected by a lack of coordination supported by thoughtful, inclusive, dialogue for aligning these issues to support the sustainable economic development of the nation.

As growing urban centers increasingly play a more important role in the life of the nation, municipalities, and their citizens, are increasingly impacted by the unilateral control of the provinces and territories. Land-use planning and growth management is one of the jurisdictional issues most sensitive to this friction between all levels of government. By the time of the 2001 census, for example, approximately 23 metropolitan areas had a larger population than the province of Prince Edward Island; six of Canada's largest metropolitan areas each had more citizens than any of the four Atlantic provinces; and 79.4% of Canadians lived in urban areas. Just over half (51%) of the nation's population lived in four major urban regions – Ontario's Golden Horseshoe; Montréal and the adjacent region; British Columbia's Lower Mainland and southern Vancouver Island; and the Calgary-Edmonton Corridor. At the same time, none of the municipalities, whether large or small, could exercise any real fiscal or legislative autonomy.[95]

The need to secure market access for Canadian products or move key goods and services throughout jurisdictions in Canada are also and increasingly impacted by more narrow political interests that do not appear to place economic development of the nation as a priority. Indeed, fragmented vision is impacting the benefits Canadian's receive as a result of getting commodity and energy products to market – Enbridge's Northern Gateway Pipeline Project is a prime example. Market access and domestic distribution or transport of these products rests substantively on regulations or authorities specifically within federal jurisdiction – for example:

- Canada Marine Act
- Canadian Transportation Act

[95] http://www.parl.gc.ca/Content/LOP/researchpublications/bp276-e.htm

- Maintenance of Railway Operations Act
- Canada Airports Act
- National Energy Board

The Canadian Chambers of Commerce believes the federal government can help pre-empt impending growth, market access and energy distribution and transmission issues by working with all other levels of government in acquiring a radiating network of transportation/utility corridors (TUCs) that can serve a diversity of strategic purposes, now and in the future. This includes support of initiatives such as the Canada Energy Strategy, and coordinating infrastructure builds to support services, supply and distribution to and from remote regions with resource assets and actions address of the growing importance of minimizing land-use impacts that result from a resource-based economy. It also includes endorsing support for private sector initiatives like The Partnership for Resource Trade, a pan-Canadian initiative that is working to build support for reinvestment in its trade infrastructure in order to maintain our resource advantage for the next generations of Canadians.

TUCs are vital for long-term planning between communities. They provide guaranteed corridors for transmission lines, pipelines, regional municipal utilities, telecommunications, and transportation. A network of TUC's will reduce land-use conflicts, improve integration of communities, and encourage the development of a dynamic economic region across Canada that is stable and investment friendly.

A proactive TUC strategy to link all of Canada's urban centres and regions will not only help the Canadian government plan for future growth, it will provide the opportunity to develop a world-class national network of highways, rail lines and transit systems designed to ensure the safe, efficient and timely movement of goods and people – while the jurisdiction of provinces, municipalities and communities must be respected, the federal government has the authority to support the coordination of these linkages using its federal jurisdiction as it relates to the infrastructure needs of such a network.

Creating an integrated plan to secure these critical TUC corridors is a fundamental step to proactive national planning, and doing so quickly will save significant funds. Should governments fail to act soon, the cost of acquiring TUCs throughout nation will become increasingly prohibitive and increasingly stymied by intermediary politics that serve neither the national interest nor those of the majority of citizens. Furthermore, lack of action may cause the nation to forgo the opportunity that exists to shape our country's future in such a visionary, and environmentally responsible fashion.

The Canadian Chambers believes the Canadian Government can provide strong leadership and support a common vision and collaborative approach to the economic development of Canada by enabling acquisition of all the future corridors needed for the kind of farsighted planning that will greatly enhance Canadian's quality of life.

**Recommendations**

That the federal government, in collaboration with provincial, territorial, municipal and First Nations governments:

1. Develop a national transportation/utility corridor plan that will serve to integrate all urban centres and regions in Canada and support a comprehensive transportation/utility system.
2. Implement this proactive plan by working with all levels of government to secure transportation/utility corridor rights of way throughout Canada with the potential for rapid transit, freight networks, telecommunications, regional municipal utilities, transmission lines and pipelines.
3. Ensure that the processes for moving these initiatives forward follow best-practices for consultation with communities, Aboriginal peoples, existing landowners and businesses.
4. Endorse and support the objectives of the Partnership for Resource Trade.