



# POLICY RESOLUTIONS 2013



**Positions on Selected  
2013 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 29-30, 2013 at the Canadian Chamber's 84th Annual Meeting in Kelowna, British Columbia. Each resolution, once approved by a convention, has an effective lifespan of three years.

The 2013 resolutions were discussed, amended and approved during debate, at which time accredited voting delegates from across the country considered a total of 68 proposals (of which 58 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.

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# TABLE OF CONTENTS

<b>ENVIRONMENT AND NATURAL RESOURCES .....</b>	<b>1</b>
Support Enbridge Pipeline’s Proposal to Reverse Line 9B .....	1
Electricity in Canada – Power for our Future Competitiveness.....	2
Domestic and Industrial Reclaimed Water Use .....	3
Endorsement of a West-East Pipeline .....	4
Supporting Canada’s Steelmaking Coal Industry .....	5
Water for Sustainability – A National Water Strategy .....	6
Pine Beetle Management in Canada .....	9
<b>FINANCE AND TAXATION .....</b>	<b>12</b>
Fiscal Policy <i>fi dXHX&amp;S%LE.</i> .....	12
Interest on Overpaid Taxes .....	15
Payroll Remittance Frequency Rules .....	16
Increase the GST/HST Filing Threshold .....	16
The Treatment of Financial Services Under the GST.....	17
Eliminate or Simplify Sales Tax Rebate Process to Motivate Non-Resident Tour Operators and Meeting Planners to Sell Canada .....	18
Controlling the Canada-U.S. Price Gap.....	19
Extending Advice Privilege to Qualified Non-Lawyer Tax Professionals .....	20
Fair Tax Treatment of Limited Liability Companies (LLCs) by the Canada Revenue Agency (CRA).....	22
Innovation in Canada: Preserve and Strengthen the Scientific Research and Experimental Development Investment Tax Credit Program .....	22
Applying the Accelerated Capital Cost Allowance (ACCA) for Oil Sands, Upgrading, the Mining and Petrochemical Industries .....	24
A No-nonsense Credit Card Processing Approach .....	25
Employment Insurance (EI) Reform .....	26
Deferral of Capital Gains Taxation .....	28
Tax Provision Threshold Indexing <i>fi dXHX&amp;S%LE.</i> .....	28
<b>INDUSTRY.....</b>	<b>30</b>
Streamlining the rules of practice, decision-making process, and governance model of the Copyright Board of Canada .....	30
Pharmaceuticals – Life Sciences as an Economic and Competitive Driver .....	31
The Digital Economy Strategy: Ensuring Canada’s Economic Success using Information and Communications Technologies .....	32
Improved Transparency and Due Process at the Competition Bureau .....	33
Opposition to neutral packaging, an unacceptable expropriation of private trademarks .....	33
Facilitating Structural Change in Canadian Manufacturing .....	34
Creating a New Pharmaceutical Industry in Canada – The Thebaine Opportunity.....	35

<b>INTERNATIONAL AFFAIRS.....</b>	<b>37</b>
Canada-European Union Economic and Trade Agreement.....	37
Common-Sense Approach to Livestock Product Identification and Food Safety .....	37
Streamlined Visa Process Required to Boost Visitation to Canada from Emerging Economies .....	38
A Canadian Services Strategy.....	39
<b>SOCIAL POLICY .....</b>	<b>41</b>
Addressing the Skills Crisis – Preparing People for Today’s Jobs.....	41
Standardized Licensing and Accreditation Requirements Across Provinces for Professions .....	42
Enhancing the Working Holiday Visas is Part of the Solution to Canada’s Labour Shortage .....	43
Reverse Negative Changes to the Temporary Foreign Worker Program.....	44
Addressing economic immigration in the new Expression of Interest (EOI) system .....	47
Territorial Minerals Workforce Development Strategy .....	48
Renew Federal-Provincial Labour Market Agreements Instead of Implementing the <i>Canada Job Grant</i> .....	50
Accepting the List of Designated Programs for the Federal Government’s Educational Institution Eligibility Policy Framework.....	51
Reducing Labour Shortages by Expanding Options for Canada’s Private Educational Institutions .....	52
Acknowledgement of the Base Principles of Pension Reform .....	53
Addressing Homelessness in Canada .....	54
Creating and Amending Protocols for Economic Recovery From Disaster For All Businesses .....	55
Allow the Provinces to Decide on Single Sports Betting .....	57
Another Approach to Reducing Crime in Canada .....	57
<b>TRANSPORT AND INFRASTRUCTURE.....</b>	<b>59</b>
Improving Canada’s Infrastructure Through Public-Private Partnerships (P3s).....	59
Protecting Canada’s Infrastructure (Asset Management).....	60
Infrastructure Investment Essential to Mining Sector Growth .....	61
Air Transportation Infrastructure in Canada’s Territories .....	62
Improving Air Access for the Benefit of the National Economy.....	64
Canadian Air Transport Funding – Security .....	66
Mitigating the Impact of Community Development on Transportation Activity .....	68
Proposed National Marine Conservation Area - Strait of Georgia .....	70
The Need for Trade Enabling Infrastructure: The Critical Importance of Canada’s Gateways .....	72
Rural and Small Transit – The Missing Piece in Canada’s Transport Plans.....	74
Capital Funding Stability for Canada’s International Airports .....	75

# ENVIRONMENT AND NATURAL RESOURCES

## Support Enbridge Pipeline's Proposal to Reverse Line 9B

### Context

Built in the mid-1970s, Line 9 is a pipeline that originally carried oil from Sarnia to Montreal. It was built to provide a secure source of energy to Ontario and Quebec refineries. This line was reversed to flow westbound in the 1990s as oil imports became more affordable. Refineries in Ontario and Quebec now rely significantly on imported crude.

Market conditions now support the reversal of the pipeline to flow from Sarnia to Montreal. Today, western Canadian oil is considerably less expensive than oil currently imported by Ontario and Quebec from the Middle East, Venezuela, Nigeria, and elsewhere.

In July 2012, the National Energy Board approved Enbridge's standalone application to reverse the segment of Line 9 between Sarnia and North Westover (Line 9A).

Enbridge is now proposing to reverse the remainder of the pipeline (Line 9B) from North Westover to Montreal to bring western Canadian and American oil to Ontario and Quebec refineries. The proposal also includes increasing the capacity of Line 9 from 240,000 barrels per day to 300,000 barrels per day.

Line 9B passes through municipalities located along Highway 401 from the Hamilton region to the Quebec border east of Cornwall. It continues in Quebec, passing through the Vaudreuil-Soulange area, the lower Laurentian, the North Shore of Montreal and Laval before ending in Montreal East.

What are the benefits?

- The reversal of Line 9B will help keep more Canadian oil revenue and jobs in Alberta, Ontario, Quebec, and in Canada. It will support the long-term viability of our refinery industry by providing access to lower-priced crude over the short term. Over the long term, it will also enhance the long-term security of Canada's energy supply by improving market flexibility for eastern refineries.
- Alberta will benefit from new internal markets for its oil production.
- Ontario is a beneficiary of the reversal of Line 9B. During construction, 60 per cent (\$180 million) of the total capital costs will be spent within the province. Quebec will receive the remaining 40 per cent (\$120 million) the project will engage local construction workers and local suppliers of steel.
- Over the next three decades, the project will create 3,250 person years of employment and provide \$960 million in benefits to Ontario refineries. Further, more than \$10 million currently flows to municipal tax revenues from the existing line.
- It will secure the competitiveness of the last two refineries in Quebec and secure 2,000 jobs in the petrochemical industry, a vital economic cluster of the Montreal East economy.
- Currently more than \$100,000 flows to municipal and Educational board tax revenues from the existing line in Quebec.
- Overall, the Line 9B reversal would support Western Canada's oil sector, which will spend an estimated \$63 billion in Ontario over the next 25 years.

To learn more, visit [www.enbridge.com/line9b](http://www.enbridge.com/line9b).

### Recommendation

That the federal government support Enbridge's proposal to the National Energy Board to reverse the flow and increase the capacity of pipe Line 9B to create new opportunities to benefit Canadian businesses, Canadian workers and the Canadian economy as a whole.

## Electricity in Canada – Power for our Future Competitiveness

The availability of reliable, abundant and comparatively inexpensive electricity that has minimal environmental impacts both as an input to economic activity and as an export commodity will have a direct impact on Canada's future economic growth and competitiveness.

Canada needs continued investment in electricity generation, transmission and distribution systems to ensure long-term economic growth and competitiveness as well as the need to define the ground rules for energy trade, including electricity, within Canada.

Canada's electricity system is a significant contributor to all aspects of the Canadian economy:

- a direct commodity input to business and industry
- a participant in trade and export markets
- an enabler of technology development and deployment and innovation
- a high-skills employer

Canada must recognize and embrace energy's importance to national and provincial economies. Federal and provincial/territorial governments must foster a business environment that encourages open and competitive capital investment in energy projects. Demand for energy is likely to at least double between now and 2050 – less than 40 years away. From the history of energy systems, this is not a lot of time in which to change energy production practices.

Canada boasts sufficient untapped supplies of electricity, primarily large hydro, to meet its future needs. Providing reliable electricity to business, industrial and residential customers requires a robust and integrated electricity generation, transmission and distribution system.

Canada has seen periodic and significant investments in its electricity system, but for the most part, ongoing infrastructure upgrades were put off. These major investments are now overdue. Investments are now necessary to replace and renew aging generation, transmission and distribution assets that will allow Canada to keep pace with future demand and for the continued efficient, reliable and economic operation of the Canadian electricity system.

An efficient electricity system is a significant direct contributor to the Canadian economy (Conference Board of Canada estimates nearly \$25 billion in 2010) and can impact Canadian competitiveness. A 2012 report by the Conference Board of Canada estimated that \$347.5 billion (current dollars) will need to be invested in Canadian electricity infrastructure (including electricity generation, transmission and distribution) from 2011 to 2030.

For every \$100 million (inflation adjusted) invested in electricity generation, transmission and distribution infrastructure, real Gross Domestic Product (GDP) will increase by \$85.6 million.

Investment in transmission infrastructure is required to accommodate growing stresses on the system that include:

- greater electrical loads
- an increased number of remote (mostly hydro and renewable) generation facilities
- enhanced trade between provinces/territories and with the United States
- increasing reliability demands

Greater interprovincial transmission capacity would allow for additional export flexibility between provinces and can increase trade opportunities to the United States by reinforcing the reliability of the Canadian transmission grid.

The availability of reliable, abundant and comparatively inexpensive electricity that has minimal environmental impacts both as an input to economic activity and as an export commodity will have a direct impact on Canada's future economic growth and competitiveness.

## Recommendations

The federal government:

1. Increase along with the provinces, territories, private enterprise and First Nations regulatory clarity and determine the necessary efficiency needs to ensure transmission infrastructure investments can successfully be implemented and modernization of Canada's electricity infrastructure can occur.
2. Pursue discussions with provincial, territorial and First Nation governments on energy trade and national carbon regulation, and re-engage on negotiations to complete an energy chapter under the AIT.

## Domestic and Industrial Reclaimed Water Use

As a nation, we have long taken for granted the apparent abundance of freshwater within our borders. Canada is frequently said to possess 20 per cent of the world's water but in terms of renewable supply – a more relevant figure – we actually have only 6.5% of the world's supply, much less than Brazil and Russia and about the same as the U.S.<sup>1</sup> And with 60 per cent of our freshwater flowing north to the Arctic and 85 per cent of Canadians living in a narrow band along our southern border,<sup>2</sup> less than half of Canada's reliable flow of freshwater is actually available for use by most Canadians.

Canadians are among the highest municipal water users in the world. The average total municipal water consumption – industrial, commercial, institutional and unaccounted water – is 622 litres per capita per day.<sup>3</sup> Although per capita water use appears to be leveling off after rapid increases through the 1980s, total municipal and residential water use continues to climb. Water use increased by 6 per cent from 1991 to 1999 – with residential water use increasing by 21 per cent.<sup>4</sup> As a result, communities are now reaching the limits of their local water supplies and the capacity of their current infrastructure. Between 1994 and 1999, one in four municipalities reported water shortages due to increased consumption, drought, or infrastructure constraints.<sup>5</sup> Continued urbanization, population growth, and a changing climate will further exacerbate these shortages and increase the pressures currently being placed on aquifers and riparian ecosystems as a result of excessive water use.<sup>6</sup>

The measurable contribution of water to Canada's economy is estimated to be between \$7.5 and \$23 billion annually, values comparable to agricultural production and other major economic sectors.<sup>7</sup> A prime example of the importance of freshwater to Canada's economy is the Great Lakes-St. Lawrence river region. This region supports 45 per cent of Canada's industrial capacity and 25 per cent of its agricultural capacity, and contributes \$180 billion to Canada-U.S. trade annually. The lakes sustain a \$100 million commercial fishing industry and a \$350 million recreational fishing industry and every year 1.5 million recreational boaters enjoy the Great Lakes.<sup>8</sup>

Statistics Canada indicates that grey water is a huge source of potentially reusable water. Treated grey water can be reused for toilet flushing, irrigation and industrial use. Currently there is no regulation for households to recycle their grey water. Canadian statistics state that 35 per cent of the average household's water is considered grey water (showers and bath water). Thirty per cent of the average household water usage is for toilet flushing. Therefore if the

<sup>1</sup> Sprague, J. "Great Wet North", Chapter 2 in Bakker, K.(Ed.), *Eau Canada: The Future of Canada's Water* (2007)UBC Press at p.25.

<sup>2</sup> Environment Canada, *A Primer on Fresh Water: Questions and Answers* (2006) at p.35. Available at: [http://www.ec.gc.ca/water/en/info/pubs/primer/e\\_contnt.htm](http://www.ec.gc.ca/water/en/info/pubs/primer/e_contnt.htm)

<sup>3</sup> Environment Canada, *Municipal Water Use Report– Municipal Water Use 2001 Statistics* (2004) at p.4. Available at: [http://www.ec.gc.ca/water/en/info/pubs/sss/e\\_mun2001.htm](http://www.ec.gc.ca/water/en/info/pubs/sss/e_mun2001.htm)

<sup>4</sup> Brandes et al., *At a Watershed: Ecological Governance and Sustainable Water Management in Canada* (May 2005) POLIS Project on Ecological Governance at p.26. Available at: <http://www.polisproject.org/projects/watersustainability>

<sup>5</sup> Environment Canada, *Urban Water Indicators: Municipal Water Use and Wastewater Treatment* (2001) st p.1. Available at: [http://www.ec.gc.ca/soer-ree/English/Indicators/Issues/Urb\\_H2O/default.cfm](http://www.ec.gc.ca/soer-ree/English/Indicators/Issues/Urb_H2O/default.cfm)

<sup>6</sup> Brandes and Ferguson, *The Future in Every Drop: The Benefits, Barriers and Practice of Urban Water Demand Management in Canada* (May 2004) POLIS Project on Ecological Governance. Available at: [http://www.waterdsm.org/dsm\\_sp.htm](http://www.waterdsm.org/dsm_sp.htm)

<sup>7</sup> O'Neill, D., "A Perspective" in Environment Canada, *Threats to Water Availability in Canada* (2004) at p.xi. Available at: <http://www.nwri.ca/threats2full/intro-e.html>

<sup>8</sup> Government of Ontario, [http://www.gov.on.ca/ont/portal/!ut/p/.cmd/cs/.ce/7\\_0\\_A/.s/7\\_0\\_252/.s7\\_0\\_A/7\\_0\\_252/\\_1/en?docid=EC001033](http://www.gov.on.ca/ont/portal/!ut/p/.cmd/cs/.ce/7_0_A/.s/7_0_252/.s7_0_A/7_0_252/_1/en?docid=EC001033)

use of grey water was regulated, it could be reused for toilet flushing, irrigation and industry which saves fresh water for other uses. By reclaiming grey water this would positively impact the economic and business sectors firstly by saving an extra cost on finding water sources in industries that require it, and secondly by cutting costs financially on water usage costs leaving more capital to be spent otherwise.

Health Canada has guidelines<sup>9</sup> for domestic reclaimed water use in toilet and urinal flushing, irrigation and industry unfortunately the treatment and subsequent reuse of water in Canada is limited in scope at this time. These guidelines in the document, “Canadian Guidelines for Domestic Reclaimed Water for Use in Toilet and Urinal Flushing” by Health Canada, is applicable only to water reclamation where the water source is domestic wastewater or grey-water and the end use is toilet or urinal flushing, either on site or at a nearby residential or commercial location.

Currently the guideline values for domestic reclaimed water for toilet and urinal flushing are:

- BOD<sub>5</sub> ≤ 10 mg/L (median); ≤ 20 mg/L (maximum)
- TSS ≤ 10 mg/L (median); ≤ 20 mg/L (maximum)
- Turbidity ≤ 2 NTU (median); ≤ 5 NTU (maximum)
- *Escherichia coli* none detected (median); ≤ 200 CFU/100 mL

As these guidelines are specific to domestic wastewater or grey-water, it is unknown at this time how using reclaimed water from industrial settings will be handled. It is also understood that industrial reclaimed water may have to follow more detailed standards by Health Canada. Guidelines currently do not allow for Industrial effluents to be reused for toilet, urinal flushing and irrigation although a good portion of industrial waste water meets existing water quality guidelines for grey water reuse.

### **Recommendations**

That the federal government:

1. Promote compliance with the Canadian Guidelines for Domestic Reclaimed Water for Use in Toilet and Urinal Flushing by Health Canada as a starting point with opportunity to move forward for additional recycling of water options in the future.
2. Work with Industry to develop guidelines that permits reuse of industrial reclaimed water with the understanding that this water when treated, meets the Canadian guideline values.

### **Endorsement of a West-East Pipeline**

As Canada seeks to forge its own strength as a global leader in energy independence it is important that we look to place added prominence on those strategies that add value to separate regions of our nation. Alberta has an existing problem, with the inability to get much of their crude effectively to market and New Brunswick struggles with high unemployment.

Alberta has struggled to gain support from other jurisdictions that have sought to refine their crude and bring gasoline to market. Other Canadian regions have dismissed projects and there is much documentation that the Keystone XL project will face long delays if it is ever constructed.

New Brunswick on the other hand has strongly supported a West-East Pipeline that would bring Alberta crude to the Irving Oil refinery in Saint John. The construction phase of the project would generate thousands of much needed jobs and the finished project would sustain hundreds more. As a province that receives equalization payments it is important that New Brunswick be afforded the opportunity to play a key role in this national energy strategy.

<sup>9</sup> [http://www.hc-sc.gc.ca/ewh-semt/pubs/water-eau/reclaimed\\_water-eaux\\_recyclees/index-eng.php](http://www.hc-sc.gc.ca/ewh-semt/pubs/water-eau/reclaimed_water-eaux_recyclees/index-eng.php)



The federal cabinet has identified the West-East pipeline as an important piece of infrastructure to enhance Canada's energy security and our ability to reach markets in Europe, which seeks to reduce their dependence on Russian oil, and Asia, which has a growing energy demand.

To help make that happen, Saint John offers two significant pieces of existing infrastructure: the Irving Oil refinery, Canada's largest; and, Port Saint John, Eastern Canada's largest port. Given the strength of these existing assets and their already strong relationship, Saint John is ideally placed to refine Alberta Crude.

Saint John is an integral part of what has become a national conversation about the development of a west-east pipeline from Alberta's oil sands to Saint John's Irving Oil refinery, Port Saint John and the export markets each can reach. Irving Oil has a strong track record as the first Canadian oil company to produce low-sulphur gasoline and diesel and the first oil company to receive the U.S. Environmental Protection Agency's Clean Air Excellence Award.

Both organizations are proven to be able to handle the demands of this pipeline. Crude equal to that of Alberta Crude is already being imported to the Irving refinery and exported through the deep water port in Saint John. Our city is ready to assist the province of Alberta in getting their crude to market but we need the support of a national energy strategy. This project is too important to two regions to not have the full support of the nation and our federal government.

The Saint John Board of Trade has endorsed this project with the standards expected of any major industrial project, that it will meet community expectations around employment, investment and environmental impact. We are confident that all stakeholders from Alberta to New Brunswick will be engaged in an open dialogue that sees this national energy project come to fruition.

### **Recommendations**

That the federal government:

1. Support the progress of a West-East Pipeline. Seek to support groups such as environmental regulators and Aboriginal organizations to ensure an open and transparent dialogue on this national energy project.
2. Make Canadians aware of the energy independence and cost savings of getting crude to market and the jobs created and cost savings resulting from refining the crude.

### **Supporting Canada's Steelmaking Coal Industry**

Canada's coal industry makes a significant contribution to the economy through employment, tax revenue and contribution to provincial GDP.

There is a long history of environmental responsibility in the mining and transportation of steelmaking coal internationally. Canada's port industry operates under strict environmental regulations that are among the highest in the world, ensuring no health risks for those who live near or work at coal terminals.

Increasingly, inaccurate claims have been made through the media and various groups lobbying local policymakers with unsubstantiated claims against Canada's steelmaking coal industry. Some municipalities have considered instituting policy positions against coal transportation in their communities and opposing expansion and infrastructure improvement projects, which contribute to Canada's export growth strategies and ensure critical upgrades are made to terminal facilities to improve and mitigate environmental and residential impacts.

Restricting or delaying the development of the coal supply chain will result in the loss of livelihood for a significant number of families in many parts of Canada that are supported by the coal industry and reduce Canadian global competitiveness.

It is important that Canada protect the economic benefits of this sector by informing the general public and municipalities about Canada's steelmaking coal industry and corresponding global demand for steel and ensure its transportation is not inhibited at critical points in the supply chain.

## **Background**

As a nation, Canada produced 68 million tonnes of coal in 2010, of which 40 per cent was exported to foreign markets and almost 95% of that coal was steelmaking coal. Canada's production of the world's coal industry is less than 1 per cent, yet our steelmaking coal resources are in high demand due to its superior quality. According to the World Coal Association, Canada is the sixth largest producer of steelmaking coal but only accounts for 3 per cent of total production.

Restricting the availability of Canadian coal will have limited impact on the world market, but will severely impact our domestic economy.

Steelmaking coal is vital to everyday life around the world. It is used to build major projects like bridges, rapid transit systems, wind turbines, high rises and everyday consumer products like cars, bicycles, tools, lawn equipment and household appliances. It is also one of the most commonly recycled products.

Steelmaking, like many industrial processes, does create some emissions. Steelmaking, also known as, metallurgical, coal is an essential part of a chemical reaction needed to create new steel. It is not used to generate power.

Metallurgical coal is inert. It can be handled with bare hands. It is not considered a dangerous or hazardous material by Transport Canada and it is safely handled by thousands of workers every day. Port industry operates under strict environmental regulations that are among the highest in the world, ensuring no health risks for those who live near or work on port terminals.

Rail is the most efficient mode of transport to move commodities and has been shown to be two to five times more fuel-efficient than truck transportation depending on the commodity.

As the population continues to grow, residential neighbourhoods have expanded and in some areas, closer to port terminals. In some communities where rail lines connect with port terminals, public debates have been held in the media and with their municipal representatives, calling for the elimination of coal transportation through communities where rail lines have been located for decades, in most cases, long before the residential neighbourhoods were built around them.

## **Conclusion**

Steel is vital for the world's advancement. Coal exporting is a major economic contributor for Canada and our ports play a critical role in transporting Canadian steelmaking coal to important international markets.

Government at both the Provincial and Federal level have an important role to play in supporting expansion and infrastructure improvements in this important industry and protecting exports from being inhibited at critical distribution points.

## **Recommendations**

That the federal government work with the provincial and territorial governments to:

1. Promote the productive and environmental benefits of high quality Canadian steelmaking coal to international markets.
2. Work with industry to develop and ensure sound public, economic and environmental policies that foster Canada's steelmaking coal mining industry.
3. Support educational opportunities to inform the public of Canada's steelmaking coal resources, its contribution to meeting global demand for steel production and the corresponding economic prosperity through high paying jobs for tens of thousands of families, to Canada's small businesses through local procurement, through tax generation and the related economic spinoff.

## **Water for Sustainability – A National Water Strategy**

Canadians in general expressed concern and the Canadian Chamber of Commerce, through this resolution, expresses their concern how best to deal with "significant pressures" that Canada is facing on its water resources. The past

several years have provided us with numerous examples of the need for a Canada-Wide National Water Strategy. The floods, the droughts, the Great Lakes pollution problems, the waterborne infectious diseases, the issue of water exports, the variability of our climates and the impact of man's activities on that climate all speak to the need for a coordinated effort between the federal, provincial/territorial and municipal governments to develop a Canada Wide Strategy to guide local and National practices and policies for one of our most precious resources. For over a decade, leaders and leadership groups from across Canada have been identifying severe problems with our management of water and calling for the development of a durable Canada-wide Water Strategy. The multiple issues of concern, and the interactions and overlaps among jurisdictions and issues are often cited as the reasons for seeking such an overarching strategy - a strategy that will establish a collaborative vision and comprehensive set of management principles for water.

There is recurrent recognition that Canada's approach to water management lacks coordination. The diffuse responsibilities for protection of water lead to conflicts and gaps. An overarching framework will facilitate the wise management of water into the future by providing agreed principles and enhancing the coordination of action plans that address the highest priority issues. Effective local and watershed-specific management decisions will result with consequent overall cost savings.

Governments, industries and non-government organizations are working on water strategies and plans within their own jurisdictions (and some are taking leadership outside of that) but there is as yet no single place or position that guides the future for our nation's water resources. There is emerging consensus that these efforts alone are inadequate to ensure the future security of water in Canada. The Canadian Council of Ministers of the Environment (CCME) have recently included a quest for a National vision for water in their work plans which is an excellent start, and the next step will be a strategy which must involve all stakeholders in the country.

There are other efforts that span jurisdictions based on shared beliefs and attitudes about our responsibilities towards water - such as those of religious groups in general and some national as well as provincial NGOs. So the need for coordination comes from more directions and has at least as many routes for potential success.

Towards this end, and to sustain Canadian quality of life, healthy water quality and economic well being, the Canadian Water Resources Association (CWRA) has circulated "Sustainability Principles" for Water Resources management. (CWRA.org) In addition, CWRA has also created a roadmap report titled "Toward a Canadian National Water Strategy" illustrating a feasible method to develop a Canada Wide Water Strategy. (The de Loe report)

Historically and economically, Canada has been shaped by our waterways and water infrastructure. The benefits that we have derived from water are diverse. Canada has more lakes than any other country. We have more water per capita than any other large country. Unfortunately we tend to take water for granted and undervalue it. Canada's per capita water use is among the highest in the world, twice as much as the average European.

Despite the fact that Canada possesses 9 per cent of the world's fresh water supply, Canada is not necessarily a water rich country. Viewed globally, Canada's land mass is proportional to its water supply. Approximately 60 per cent of Canada's fresh water drains north, while 90 per cent of our population lives within 300 kilometers of the 49th parallel. Therefore the preponderance of Canada's fresh water is not available to the area where it is needed for economic and domestic uses.

In 1987, the federal fresh water policy was tabled in parliament. This federal policy outlined five strategies: water pricing, science leadership, integrated planning, legislation and public awareness. Since 1987 water quality has become an important issue and it should now be added as a sixth federal strategy. Although the agencies that once looked after federal water policy have been rearranged and divided among many federal departments, the need for a comprehensive cooperative water strategy and related policy remains with us today. There is an opportunity for standardized water policies, practices and cooperative legislation to economically preserve and protect our water resource for future generations.

The following is a quote from the report prepared by the Canadian Water Resources Association (CWRA) and released in the summer of 2008

"Significant threats to water resources exist across Canada. Climate change is an emerging challenge in all parts of the country, but numerous long term problems also exist, with serious implications for Canada's environment, economy and society.

Canada does not currently have an overarching national water strategy that facilitates more effective responses to current and emerging challenges and threats. The benefits of having such a strategy are numerous. Examples include the following:

- More consistent and effective responses to concerns with national dimensions, such as water exports and climate change
- Increased accountability due to broader stakeholder participation in governance
- Enhanced environmental protection and a stronger foundation for economic productivity
- Stronger national capacity to respond to threats and crises
- Better positioning to meeting growing international expectations and obligations
- Greater public acceptance and support for water management decisions

The Canadian Water Resources Association (CWRA) believes that a Canadian National Water Strategy (CNWS) is an effective way to address the water management challenges we face, and that such a strategy is within reach.”

“The CWRA supported a CNWS that had the following broad characteristics:

A CNWS for Canada must be developed and implemented through the participation of all stakeholders. Indigenous people should have leadership roles. The federal government must be a full and active participant, as must all the provinces and territories. However, initial lack of participation by some provinces/territories should not preclude initiation of the process.

Common goals and principles endorsed by all participants should be at the core of a CNWS. These should be comprehensive in their scope, and should be sufficiently specific that they can guide the policies and actions of participants.”

Canada's focus of "Source to Tap" should include specific outcomes for:

1. Safe, secure drinking water.
2. Healthy aquatic ecosystems.
3. Reliable, quality water supplies for a sustainable economy.
4. Knowledge to make effective water management decisions by:
  - cross ministry knowledge sharing (team approach)
  - sharing of resources
  - adoption of a watershed approach to management and decision-making
  - involvement of all Canadians in managing water supplies and resources
  - increasing knowledge and understanding of water resources issues
  - increasing water conservation activities
  - allocating water resources more effectively
  - promoting healthy aquatic ecosystems
  - protecting surface and groundwater quality
  - ensuring Canadians have safe and secured drinking water.

Water touches all of our lives and is a significant factor in the economy of all sectors, but good information at the federal level about the water resource base and various uses is lacking. The development of an effective water policy and strategy can only be undertaken with full knowledge of the quantity and quality of total water supply along with a consideration of water use. To the extent that the watershed approach to water resource management is adopted, so should the reporting of water sources and its uses and returns.

The Canadian Chamber fully expects the Canadian government to seek further comments and feedback from stakeholders on, further, more detailed, action plans for preservation and conservation of both surface water and groundwater quality that emerge from any consultative process.

### **Recommendations**

That the federal government:

1. Continue to take a leadership role in bringing the provinces and territories together to place an urgent and high priority on water management issues in the country.
2. Encourage the associated federal government departments to introduce a national water strategy, developed in concert with relevant stakeholders, recognizing that stakeholders require regionally developed solutions.
3. Place a high priority on development and implementation of a reporting structure that will inform Canadians on:
  - A comprehensive inventory of the quality and quantity of all Water reserves
  - The uses by activity (e. g. residential water use, agricultural irrigation, enhanced oil recovery, power generation, etc.)
  - The quantity and quality of Water returned, if any, from the various uses.
4. Support research and data collection for proper forecasting of upstream flows and possible long-term changes which may impact activities in the areas of water management.
5. Ensure that water -- apportionment agreements do not unfairly prejudice future developments in the watershed providing the Water.
6. Commit that costs for access to expertise and financial requirements for planning, implementing and measuring are not downloaded as primary responsibilities of municipalities:
7. Utilize a cross ministry team approach, which would assist both the federal government and the users in their quest for consolidation of information and resources.
8. Take an active role in communicating and promoting conservation measures (such as watershed protection) and awareness to increase the understanding of the various water management responsibilities of municipalities, irrigation districts, conservation authorities, and provinces and territories throughout the country.
9. Strive to obtain cooperation with United States federal and state governments in these initiatives so that cross-border watersheds Canadian activities are not undermined by conflicting activities in the United States.

## **Pine Beetle Management in Canada**

### **Issue**

The Mountain Pine Beetle (MPB) is the single greatest threat to the health of Canada's forests. After devastating millions of hectares of pine forests in British Columbia and Alberta, the beetle is continuing its South-Eastward trek and, left unmanaged, will soon enter Canada's boreal forest, which provides an unbroken path of pine forest that leads clear across the rest of the nation. Timing is critical to controlling mountain pine beetle infestation. Early detection and treatment of infested trees is a vital method for mitigating the spread of the beetle. Funding for research, planning and long-term ecosystem management is of high priority.

The mountain pine beetle is the most destructive native insect pest of mature pine forests in North America. The current MPB outbreak started in British Columbia in the early 1990's, killing just over 50 per cent of the province's total volume of merchantable pine to-date. It is projected that by 2021, 50 per cent of merchantable pine in the interior of the province will be affected.

Alberta is also experiencing unprecedented increases in MPB populations. Mountain Pine Beetle mortality surveys conducted by the Government of Alberta in the spring of 2012 show marked beetle infestations farther north, east and

south than ever before. The same survey indicates that the probability of in-flights, carrying beetles further eastward from adjacent infected areas, is moderate to high in most regions in that province.

Normally, forest fires and cold temperatures combine to keep the beetle population under control. Enhanced wildfire suppression and recent milder winters have combined to create ideal conditions for the pest. Western forests are full of mature pine—the pests preferred host—and the beetle’s mortality rate is low. The result is the largest infestation ever recorded in North America.

The MPB is native to the lodgepole pine forests of western North America, but breed in any species of pine. As infestations continue to spread eastward and take hold of the jack pine of the boreal forest, the mixture of deciduous and coniferous trees that cover northern Saskatchewan and extend to Canada’s east coast are in jeopardy. With at least one outbreak already recorded east of the Alberta border, this pest is becoming more of a national issue than ever before.

The boreal, or “northern” forest, is Canada’s largest biome or environmental community. It occupies 35 per cent of the total Canadian land area and 77 per cent of Canada’s total forest land, stretching between northern tundra and southern grassland and mixed hardwood trees. The boreal forest’s animals, plants and products affect each Canadian every day, from paper products, to jack pine railway ties, the viability of forestry-dependent communities and through to the air we breathe.

Timing is critical to effectively control MPB infestation. Threat assessment, outbreak detection, treatment and harvesting of infested trees are vital to mitigating the spread of the beetle. Funding and attention for research, planning, and long-term eco-system management, as outlined in the 2007-2010 Mountain Pine Beetle Program “Lessons Learned” package, should serve as a guide for beetle control efforts undertaken by Parks Canada, First Nations and private forestland owners throughout the nation.

Controlling the spread through hazard tree management, removal of post epidemic pine deadfall, fuel hazard reduction and wildfire management, maintenance of recreation areas and management of adjacent access will require continuing efforts from those that manage these protected areas.

Mitigating outbreaks, and adapting to a post-MPB reality in Canada, require a long-term and comprehensive forest management plan. In its 2007-2010 Mountain Pine Beetle Program, the Government of Canada invested \$200 million to reduce the consequences of the beetle infestation and assist in efforts to slow the infestation’s eastward spread. The program focused on controlling the spread, recovering economic value, and mitigating impacts on forest resources and communities.

The National Forest Pest Strategy as well as the “Lessons Learned” package released following the MPB program have identified a number of tactics to increase effectiveness of future Pine Beetle Management programs. However, no new funding has been allocated since the program’s end in 2010 to assist in the implementation of its findings and recommended Pine Beetle Management strategies.

Canada is the world’s second largest exporter of forest products and has 10 per cent of the world’s forests, including 25 per cent of the world’s boreal forests. The impact of MPB on Canada’s forest industry and, in turn, the economic contributions of the industry to our communities and our country, is of significant concern.

In British Columbia, this eco-system altering epidemic is causing widespread mortality of the lodgepole pine forests, the province’s most abundant commercial tree species. In Alberta, more than half of the province’s forest companies rely on pine to continue operations and would be severely impacted by declines in their Annual Allowable Cut caused by MPB. Forests provide economic benefits for many communities and contribute significantly to our nation’s economy as well as the health and well-being of Canadians and our environment.

### **Recommendations:**

That the federal government:

1. In consultation with the affected industries and provincial/territorial governments establish a nationwide Mountain Pine Beetle Strategy to implement strategies and lessons learned from the Mountain Pine Beetle Policy and National Forest Pest Strategy, with adequate funding required for focusing on early detection and removal of infested trees.

2. Form an alliance with the provinces and territories in a strategic attack to mitigate and adapt to the impact mountain pine beetle on our country and its economy by using tactical approaches that will help stop the beetle's spread across the boreal forest.
3. Work with the provinces/territories to develop strategies to rehabilitate areas and recover economic value from affected forest areas.
4. Work to increase public engagement and education through collaboration with the provinces/territories and with non-governmental organizations in addressing this epidemic and mitigating its impact on natural resources and local economies.
5. Be proactive in management of Parks Canada forests by focusing resources on early detection, removal, and burning of affected trees.
6. Assess the impact of the mountain pine beetle epidemic and its impact on communities in forested areas and work with the provinces/territories to assist those communities in the development of strategies that promote adaptation through economic diversification.

# 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 must 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 over the medium 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 March 2013 federal budget restated the government's intent to balance the books by mid-decade (2015-16). The government continues to rule out tax increases to balance its books. This is a victory for the Canadian Chamber and the chamber network that pushed hard for spending restraint over growth-killing tax hikes to balance the books. Annual program spending is projected to grow by roughly 1.5 per cent per year through to fiscal 2015-16.

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, in line with its pre-recession level.

Given the lingering economic uncertainties, the government has incorporated additional prudence into the budget plan. The Canadian Chamber praises this cautious approach as it will provide the government with greater flexibility to handle unanticipated adverse events.

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. According to the C.D. Howe Institute there are some 260 tax-preference measures (exemptions, deductions, credits or rebates) listed in the federal government's assessment of



tax expenditures.<sup>10</sup> 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 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.<sup>11</sup>

### **Not all taxes are created equal**

Business taxes have a significant negative impact on investment and job creation, while personal income taxes affect a wide range of decisions regarding work effort, savings and entrepreneurship. Yet in Canada, approximately 46 per cent of total tax revenue is generated from income and profit taxes, compared to 36 per cent in countries represented by the Organisation for Economic Co-operation and Development (OECD).<sup>12</sup> Twenty-six of the 33 OECD countries rely less than Canada on high-cost income and profit taxes and more on consumption-based tax, like the goods and services tax (GST) and the harmonized sales tax (HST), which are the least economically damaging form of taxation. Consumption taxes provide fewer opportunities for tax evasion and rely on a broader base. Thus, they can be more economically efficient than income taxes. Additionally, consumption-based taxes do not tax the normal return from saving and investment. Switching the tax mix toward consumption-based taxes like the GST or HST would encourage both work and capital formation and, as a result, stimulate productivity and economic growth.

### **Business taxation**

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 22 per cent. In contrast, METRs on capital are relatively low for forestry and manufacturing (well under 10 per cent).<sup>13</sup> This 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.

### **Personal income taxes**

Governments in Canada have done little to reduce tax burdens on work effort. Many low- and middle-income Canadian families with children with income in the \$25,000 to \$45,000 range face marginal effective tax rates in excess of 50 per cent 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.<sup>14</sup>

<sup>10</sup> Laurin, Alexandre and William B.P. Robson “A Faster Track to Fiscal Balance: The 2011 Shadow Budget.” Toronto: C.D. Howe Institute. February 2011.

<sup>11</sup> 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.

<sup>12</sup> OECD Tax Revenue Statistics 2012 edition.

<sup>13</sup> Chen, Duanjie and Jack Mintz. “2012 Annual Global Tax Competitiveness Ranking—A Canadian Good News Story.” SPP Research Papers. Volume 5. Issue 28. Calgary: The School of Public Policy, University of Calgary. September 2012.

<sup>14</sup> Laurin, Alexandre and Finn Poschmann. “What’s My METR? Marginal Effective Tax Rates Are Down – But Not for Everyone.” Toronto: C.D. Howe Institute. April 2011.

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.<sup>15</sup>

The Canadian Chamber of Commerce recommends that the federal government 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 \$43,561 of taxable income to 14 per cent. It also recommends that the 22 per cent rate that applies to taxable income of between \$43,561 and \$87,123 be reduced to 21 per cent. The Canadian Chamber recognizes that reducing personal income tax rates as they apply at the lower end of the income spectrum carry a high fiscal cost. Hence, it recommends this gradual approach.

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 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 \$135,054. As a result, income in the \$135,054 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.

### **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.

#### **Re: Program Spending**

3. Limit growth in program spending to an average of 1.5 per cent per year through 2015-16.
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 \$43,561 of taxable income (2012) to 14 per cent, and the 22 per cent rate that applies to taxable income between \$43,561 and \$87,123 to 21 per cent. Raise the threshold at which the top federal marginal personal income tax rate kicks in to \$200,000 from

<sup>15</sup> Ibid.

\$135,054. As a result, income in the \$135,054 and \$200,000 range would be taxed at a rate of 26 per cent, down from 29 per cent.

## **Interest on Overpaid Taxes**

### **Issue**

Section 225.1 of the *Income Tax Act* restricts the Canada Revenue Agency's (CRA) ability to take collection action for amounts owned by a taxpayer during the first 90 days after the mailing of the relevant reassessment or during the period in which the taxpayer is pursuing an objection or court appeal of the reassessment. However, for a taxpayer that is a "large corporation" – i.e. one that has over \$10 million worth of assets in Canada – the CRA is permitted to collect 50 per cent of the taxes under dispute pursuant to subsection 225.1(7) of the Act.

Additionally, when subsection 225.1(7) was enacted, the rate of interest on overpayments and underpayments of tax was the same. At present, the prescribed annual interest rate that applies to any amounts owed to the CRA is 5.0 per cent while the CRA pays 1.0 per cent interest on any amounts it owes to individuals and corporations.

### **Background**

In Budget 2010, the government reduced the prescribed interest rate paid by the CRA on refunds to corporations from the three-month T-bill rate plus 2 per cent to the T-bill rate, while leaving the interest rate charged on tax owing at the T-bill rate plus 4 per cent. The stated reason for this reduction was that the Auditor General indicated in her Spring 2009 report that if the government (i.e. the CRA) "unnecessarily holds large amounts of deposit, with an obligation to pay interest when making a refund," it "effectively is borrowing those funds at a higher interest rate" than it can borrow directly. The unstated impetus for the proposal was likely to prevent taxpayers from intentionally overpaying their taxes in order to receive a higher rate of interest from the CRA than they would receive from other deposits.

At present, there is a four percentage point spread between the interest rate on overdue taxes and the rate on overpaid taxes.

Taxpayers have legitimate concerns regarding the gap between the taxable lower rate of interest paid by the CRA on refunds and the higher non-deductible rate of interest charged by the CRA on taxes owing. Additionally, under subsection 225.1(7) of the *Income Tax Act*, a "large corporations" – i.e. one that has over \$10 million worth of assets in Canada – is forced to immediately pay one-half of any tax that has been reassessed, even though it is disputing the reassessment. Forcing large corporations to pay one-half of the tax in dispute, only to receive a low interest rate on overpayments of tax if they are ultimately successful in defending their position, is seen by businesses and their non-resident parent corporations as being punitive in nature and an unfair impediment to conducting business in Canada. It also ties up money (possibly millions of dollars) that could otherwise be used to invest in, and expand their business.

Additionally, Canada's practice of collecting 50 per cent of the taxes under dispute appears to be inconsistent with that of other major nations, including the United States and the United Kingdom. The United States, for example, does not allow for the collection of taxes during the appeal process, unless the regular assessment procedure would endanger its collection.

### **Recommendation**

That the federal government:

1. Exclude any refund issued as a consequence of an amount paid pursuant to a notice of reassessment from the reduced interest rate rule.
2. Repeal subsection 225.1(7) of the *Income Tax Act*.

## Payroll Remittance Frequency Rules

Small businesses eligible for quarterly remitter status for payroll withholdings are being moved to accelerated remitter status when their payroll increases resulting in a significant increase in administrative costs.

All new employers and many small businesses qualify as regular remitters for payroll withholdings. This means that the business remits its payroll withholdings once per month on the 15<sup>th</sup> day of the subsequent month. Businesses with less than \$15,000 of average monthly payroll withholdings qualify as regular remitters.

Businesses with more than \$15,000, but less than \$50,000 of average monthly payroll withholdings are classified as accelerated remitters and must remit payroll withholdings twice per month, on the 10<sup>th</sup> and 25<sup>th</sup>.

A few years ago, the Canada Revenue Agency (“CRA”) introduced a quarterly remitter option. This option was available for smaller businesses with lower annual payroll withholding amounts. Many smaller businesses were offered this option by the CRA. Under the quarterly remitter option, payroll withholdings were remitted four times per year, 15 days after the calendar quarter-end.

Due to an anomaly in how the CRA calculates average monthly withholdings, several quarterly payroll remitters are being converted to accelerated payroll remitters. This means that the frequency for filing payroll remittances increases from four times per year to 24 times per year. This is a significant increase for a small business owner.

This is happening to small businesses when their annual payroll withholdings exceed \$60,000, even though businesses with annual payroll withholdings up to \$180,000 remain as regular payroll remitters.

The reason for this illogical result is the method that the CRA uses to calculate average monthly payroll withholdings. Rather than dividing the total annual payroll withholdings by 12 to determine an average monthly amount, the CRA divides the total annual payroll withholdings by the actual number of remittances made in the prior year. Therefore, the CRA calculates that a quarterly remitter with \$60,000 of total payroll remittances has an average “monthly” remittance of \$15,000, whereas a regular remitter with the same amount of payroll withholdings would have an average monthly remittance of \$5,000 and would remain as a regular remitter.

A small business with two or three employees making reasonable salaries can easily exceed \$60,000 of annual payroll withholdings.

Small business owners that were invited by the CRA to take advantage of the quarterly payroll remitter option are being penalized when they grow their business. They are being forced to make 24 payroll remittances per year compared to competitors of the same size that are only required to make 12 payroll remittances per year.

Many small businesses of this size may only require bookkeeping and accounting services once per month. Increasing the number of monthly payroll remittances results in additional cost for them.

### Recommendation

That the federal government change the method in which it calculates average payroll remittances for the purpose of determining payroll remittance filing frequencies for employers. Average remittance amounts should be calculated based on the total annual payroll withholdings collected by the employer divided by 12.

## Increase the GST/HST Filing Threshold

The House of Commons Standing Committee on Finance’s report<sup>16</sup> on its consultations in advance of the 2011 federal budget noted “in an effort to reduce the cost associated with the collection of the Goods and Services Tax/Harmonized Sales Tax (GST/HST) for small businesses, one witness informed the Committee that the income threshold for registration and collection of the GST/HST has not changed since 1991, and advocated an increase in the threshold.”

Our members are still interested in this recommendation being incorporated into budget strategies moving forward.

<sup>16</sup> House of Commons Standing Committee on Finance. “Staying Focused on Canadian Jobs and Growth,” December 2011.

The participation threshold for the Goods and Service Tax (GST) has remained at \$30,000 since introduced in 1991. The federal government recognized the burden it was creating for itself and small business if all businesses were required to participate in the collection and administration of the GST and the Harmonized Sales Tax (HST), and set a threshold for this reason.

This low level is out of date due to inflation. If the threshold was merely indexed to the rate of inflation it would be over \$45,000 today. Additionally, the threshold is not competitive with limits set by countries Canada competes with. Not only does this impede economic growth and job creation, it also contributes to the underground economy resulting in reduced government revenue and extended deficits.

Many countries that Canada competes with have higher thresholds, namely Australia, New Zealand, and the United Kingdom. Their values converted to Canadian dollars are approximately: Australia: \$74,900, New Zealand \$50,100, United Kingdom \$114,000.

Smaller businesses often face a proportionally higher burden than larger businesses in complying with a harmonized tax. Exempting them from collection and filing requirements can reduce the net burden a harmonized tax imposes. By increasing the threshold, administrative costs and compliance burdens can be reduced making businesses more competitive. Moreover, since higher thresholds reduce the number of businesses in the system, they reduce the number of returns the CRA processes, the number of businesses seeking services, the number of input credit refunds, and the number of businesses that are subject to audit.

Businesses that are approaching the current threshold may be inclined to slow business in order to avoid being forced into registering. Such a low threshold does not provide small business an opportunity to see if the revenue trend will continue or if it was simply a spike in sales.

In most cases, the loss of government revenue associated with raising the threshold can be offset by lower administrative costs and lower input tax credit refunds.

### **Recommendation**

That the federal government increase the GST/HST threshold to \$100,000 as of January 1, 2015 and index thereafter.

## **The Treatment of Financial Services Under the GST**

### **Issue**

The term “financial services” covers a broad range of activities including banking, financial securities, insurance, brokerage services and financial advisory services. These services are not treated the same under the GST. Some are taxable, others are exempt, and the degree of recovery of the GST on the inputs purchased by financial institutions used in the provision of services varies. This not only distorts the price of financial services relative to other goods and services, but it also results in an uneven playing field between different types of financial services.

### **Background**

Financial intermediaries add value by reducing transaction costs for clients—for example, by facilitating transactions in the real economy with cheque-clearing services and credit card services. There are many other activities performed by financial intermediaries that add value by reducing the costs of transacting on the part of individuals and businesses, however, this value added is difficult to measure. Thus, when the GST was introduced in Canada in 1991, most financial services were exempt from value added taxation.

Since the GST’s inception, the treatment of financial services has significantly increased in complexity. In particular, legislative changes in 2009 and 2010—some retroactively applied—have significantly altered the scope for exemption from the tax. Some of the affected areas include the treatment of pension plans, imported supplies, arranging for financial services and related party transactions.

This has resulted in an environment where:

- The definition of “financial service” in the *Excise Tax Act* is overly complex and unclear resulting in unnecessary administration and compliance costs for the industry.

- Complex allocation models must be developed and utilized by financial institutions to apportion the GST between exempt activities and taxable activities (including exports). Tracking input use is costly.
- The non-recovery of the GST paid on inputs purchased by financial institutions is embedded in the price charged to consumers and businesses (by way of either the fee or margin) resulting in a cascading of tax to clients.
- Production inefficiencies arise from taxing financial institution inputs. Rather than purchasing inputs on the open market (i.e. outsource), which are subject to irrecoverable GST, a financial institution may opt to provide the input internally, bypassing the market and avoiding the GST. This hampers productivity and eliminates the benefits of outsourcing. Additionally, it gives rise to real economic costs in the form of lower output and production in sectors that outsource services.
- International competitiveness is negatively impacted as the U.S., for example, does not have a value added tax that increases the cost of providing financial services. Canadian businesses have an incentive to import financial services. Additionally, the non-recovery of the GST may pose a significant barrier to the international competitiveness of Canadian financial institutions.
- There is an unlevel playing field between different types of financial products and services. Some financial products bear a greater burden of tax (mutual funds for example incur tax on all of their inputs), while other financial products (like bank GICs) bear tax only to the extent that inputs used to provide these products are taxable.

### **Recommendation**

That the federal government review the current GST treatment of financial services to reduce the type of distortions listed above as well as level the playing field between different types of financial services.

## **Eliminate or Simplify Sales Tax Rebate Process to Motivate Non-Resident Tour Operators and Meeting Planners to Sell Canada**

### **Background**

Tourism is an important sector of Canada's economy, generating \$78.8 billion in economic activity in 2011. Since the global economic downturn in 2008, the sluggish recovery has hampered tourism growth. In particular, the economic climate in the U.S. and in Europe, combined with the strong Canadian dollar, has dampened the outlook for visitation from several key markets. This resolution is in response to an issue that threatens Canada's ability to compete effectively in the international tourism market.

### **Issue**

As of April 2007, there is no longer an individual visitor rebate program which previously allowed non-residents of Canada to reclaim federal tax on departure from Canada. However, Tour Operators and third party Meeting Planners who were eligible for the former GST rebate program – which allowed a rebate on the entire GST on hotel accommodation – are now eligible for the Foreign Convention and Tour Incentive Program (FCTIP) rebate on qualified tour packages. If a non-resident Tour Operator sells hotel accommodation in conjunction with a service, billed on one invoice in a packaged price, they can apply for a full refund of the GST/HST paid on the accommodation only. By comparison, a Canadian based Tour Operator selling internationally can receive 50 per cent of the GST/HST applied to all components of a package.

A number of conditions apply to FCTIP, and the process to obtain a refund changed from an upfront exemption process to an arduous rebate process. Lack of clarity regarding the rebate process and complicated reporting rules have caused much frustration and resulted in long process times. An average turnaround for a rebate is six to eight weeks and in some cases has taken several months.

### **Barriers and their impact**

Due to the rebate process being time consuming, complicated and uncertain, many Tour Operators opt to simply charge the HST and not apply for the rebate, thus causing package pricing to Canada to be uncompetitive with

comparable packages to destinations in other countries. Meeting Planners and Group Tour Operators are more apt to apply, as the rebate can be done in bulk for a group, compared to applying for a rebate for each individual booking; however, the process still requires clarity and simplification for this barrier to be overcome.

### **Opportunities**

Tour Operators and Meeting Planners are motivated by what is easy to sell. If the group/tour rebate process were eliminated or simplified it would be one less barrier to overcome and motivate non-resident operators to sell Canada. Indeed, reducing red tape and the administrative burdens on both the Tour Operator/Meeting Planner (as well as the government) would allow the industry to focus on selling more tourism packages to Canada, which positively drives the economy.

### **Recommendations**

That the federal government:

1. Return to the point-of-sale GST/HST Visitor Rebate program for Tour Operators and Meeting Planners whereby they simply sign an Exemption Form annually declaring they are a non-resident of Canada, as are their clients/delegates.
2. Create a much simpler GST/HST Rebate process for both Tour Operators (FIT and Group) and Meeting Planners with speedy processing and no uncertainty in receiving the rebate.

## **Controlling the Canada-U.S. Price Gap**

As retailers compete in an increasingly global marketplace and consumers gain access to information and goods from multiple sources, Canadian retailers are losing the ability to vie for business on the basis of cost. This is particularly true in competition with retailers in the United States, where Canadians do the majority of their non-Canadian shopping and where prices are often lower.

On 6 October 2011, the Standing Senate Committee on National Finance (hereinafter “the Committee”) was “...authorized to examine and report on the potential reasons for price discrepancies in respect of certain goods between Canada and the United States, given the value of the Canadian dollar and the effect of cross border shopping on the Canadian economy.” The committee published their report titled “The CANADA-USA Price Gap,” in February 2013.

What was once an issue for Canadian businesses in border towns has now spread throughout the country with the popularization of online shopping. The Committee observed on page viii, “As more Canadian consumers become aware of smartphone applications and Internet sites for price shopping and comparison, and become price-savvy consumers, competitive pressures in Canada will increase and the price for products in Canada will converge to U.S. prices<sup>17</sup>.” However, there are several barriers preventing Canadian prices from converging with those in the U.S. These include, among others different regulatory standards and treatment of imports from third countries.

Without a corresponding convergence to U.S. prices for retailers, Canadian businesses will suffer greatly. An April 2013 report from Forrester Research, Inc. further indicated that as Canadians become more aware of the disparity between prices in the U.S. and Canada, they are more willing to purchase from non-Canadian online retailers<sup>18</sup>.

In addition to negative effects on individual retailers, the cost to the Canadian economy generally has been ‘conservatively estimated’ at \$20 billion by BMO’s Chief Economist, Douglas Porter<sup>19</sup>. This figure includes the hit to the Canadian tourism industry, where Mr. Porter notes that there have never been fewer Americans crossing into Canada, with the ratio of Canadian to U.S. border crossings at approximately 3:1<sup>20</sup>.

In the 2013 federal budget, tariffs were removed from baby clothing and sports equipment, but with 1290 product classes from 72 countries (including India and China) losing their general preferential tariff (GPT) status, there will be

<sup>17</sup> <http://parl.gc.ca/Content/SEN/Committee/411/NFFN/rep/rep16feb13-e.pdf>

<sup>18</sup> <http://www.cbc.ca/news/business/story/2013/05/06/business-canadian-online-shopping.html>

<sup>19</sup> <http://www.cbc.ca/news/business/story/2012/05/17/loonie-border-shopping.html>

<sup>20</sup> <http://ca.finance.yahoo.com/blogs/insight/canada-overnight-travel-set-climb-even-higher-210659091.html>

a net cost to business and/or consumers<sup>21</sup>. These changes, along with 2012 increases to duty exemptions for goods purchased in the U.S. are a potentially lethal combination for many Canadian businesses. In 2012, the Retail Council of Canada, along with the chambers in Surrey, Winnipeg, Altona, Niagara Falls and Fredericton called on Finance Minister Jim Flaherty to eliminate import tariffs on finished goods. However, since that time, the situation has only gotten worse for Canadian retailers.

### **Recommendations**

That the federal government implement the following recommendations of the February 2013 Report of the Standing Senate Committee on National Finance, titled "The CANADA-USA Price Gap," as summarized on page vii, namely :

1. Through the Finance Department, conduct a comprehensive review of Canadian tariffs, keeping in mind the impact on domestic manufacturing and Canada's ongoing trade negotiations, to ensure a level playing field between Canadian and American retailers and importers.
2. Through the Canada-United States Regulatory Cooperation Council, continue to integrate the safety standards between Canada and the United States with the intent to reduce the price discrepancies without compromising Canada's safety standards.
3. Through Canadian Heritage, study the costs and benefits of reducing the 10 per cent mark-up that Canadian exclusive distributors can add to the U.S. price list of American books imported into Canada, adjusted for the exchange rate, as stipulated in section 5(1)(a)(iii) of the Book Importation Regulations.

## **Extending Advice Privilege to Qualified Non-Lawyer Tax Professionals**

### **Issue**

Solicitor-client privilege applies to communications between a lawyer and client for the purpose of seeking or giving legal advice and which is intended to be confidential by the parties. Privilege applies to the advice, not the facts. Privilege is governed by the common law.

The purpose of privilege is to facilitate full, open and frank communication. This is accomplished by providing that the solicitor's advice is not disclosed to anyone, except with the consent of the client.

The common law of privilege evolved several hundred years ago. The reality of today's world is that other professionals seek legislative or judicial recognition of a class privilege akin to solicitor-client privilege. There is no privilege for patent agents, trade-mark agents, tax accountants and immigration consultants in Canada. In the case of accountants, it is generally accepted that the tax advice they provide is essentially the same as that provided by tax lawyers. Furthermore, accountants in Canada are the predominant provider of such services and, as such, are essential to the proper operation of the self-assessing tax system.

A taxpayer's right of privilege should be extended to tax advice obtained from all qualified tax advisors, including accountants, similar to the privilege advice provided by lawyers. Any factual information would still remain fully available to the Canada Revenue Agency for its review.

### **Background**

In the U.K., Australia, New Zealand and Japan, privilege has been extended to patent agents by statute. In the U.S., the U.K., Australia and New Zealand, communications with tax accountants are, to varying degrees, protected by an evidentiary privilege. For example, in the U.S., Congress has amended the *Internal Revenue Code* to extend privilege to some communications with accountants who are 'federally authorized' tax practitioners.

New Zealand introduced a statutory "tax advisor privilege" for accountants in 2005. The new privilege was contained in the *Taxation (Base Maintenance and Miscellaneous Provisions) Bill 2005*, which received Royal Assent on June 21, 2005. The commentary on the Bill recognized that:

<sup>21</sup> <http://www.theglobeandmail.com/report-on-business/economy/economy-lab/canadian-consumers-will-feel-the-pain-of-ottawas-tariff-hikes/article10753547/>



“Accountants should, however, also be able to give candid and independent advice to their clients, as lawyers do, without the need to disclose that advice to Inland Revenue. The benefit of enabling this to occur is that the advice can promote voluntary compliance by taxpayers with the tax system and give rise to a consequent reduction in compliance and administrative costs.”

In contrast, the *Income Tax Act* in Canada allows for a particularly unrestrained obligation on tax accountants to disclose information to the Canada Revenue Agency (CRA).

In Canada, both lawyers and accountants provide tax advice; however, CRA practices and the courts acceptance of them have created a disincentive for clients to be open in speaking with accountants. Some taxpayers turn to lawyers for tax advice, rather than specialized tax accountants, to have those communications protected by evidentiary privilege. If a client communicates directly with an accountant, those communications will not be privileged, but if a client retains a lawyer who in turn retains an accountant, the communications between the client and the accountant are granted privilege.

In the U.S., the issue of whether evidentiary privilege should be extended to situations in which “a person obtains skilled legal advice about tax law from an accountant, as opposed to a lawyer” came to the forefront in *Prudential PLC and Prudential (Gibraltar) Limited v. Special Commissioner of Income Tax and Philip Pandolfo (HM Inspector of Taxes)*, [2009]. The argument put forth was that, in modern times, tax accountants perform the same duties as lawyers and, thus, should be afforded privilege on a class basis. However, in October 2010, the Court of Appeal ruled that communications with accountants do not fall within the common law doctrine of legal professional privilege. The Court of Appeal stated that the only way to extend the application of legal professional privilege to accountants is through legislation.

In January 2013, in the U.K. Supreme Court case of *R (on the Application of Prudential plc and Another) v. Special Commissioner of Income Tax and Another*, [2013], the majority of the members of the Supreme Court accepted that there was no principled reason to justify the exclusion of advice given by non-lawyers from the protection of legal advice privilege; however, five of the seven judges declined to extend “legal advice privilege” (or “solicitor-client privilege” as it is referred to in Canada) stating that it is up to Parliament and not the courts to decide. In doing so, Parliament would be able to consider the wider implications of doing so and whether any extension of privilege should be qualified in some way.

Canada’s *Income Tax Act* is a fiscal statute as well as a legal statute blurring the distinction between advice provided by accountants and lawyers. In some cases, the advice is identical in nature. Taxpayers’ rights and requirement of fairness necessitates that businesses and individuals seek out the practitioner, or combination of practitioners, that can provide the requisite level of expertise that best meet their needs. The choice should not have to be made on the basis that one practitioner can provide advice privilege and the other cannot.

It is in the public interest to extend advice privilege for all qualified accounting professionals. Extending privilege would facilitate consumer choice and would promote fairness and equity in the operation of the tax system as all tax payers would be treated equally. Additionally, having clearly defined rules of privilege that apply to all taxpayers would ensure a better functioning self-assessment tax system – taxpayers will have a better understanding of the existence of privilege and will be able to obtain more complete and accurate advice. The advice can promote voluntary compliance by taxpayers. Finally, extending advice privilege would put Canada on an equal footing with its counterparts in other major jurisdictions.

### **Recommendation**

That the federal government, namely the CRA and Finance Canada, work with the legal and accounting community to come up with a reasonable legislative solution under which privilege would be extended to all qualified tax professionals in Canada.

## **Fair Tax Treatment of Limited Liability Companies (LLCs) by the Canada Revenue Agency (CRA)**

### **Issue**

Canadians investing in the United States may not use the flexible and tax-advantaged limited liability company (“LLC”) because, unlike the United States, the Canada Revenue Agency (“CRA”) continues to treat the LLC as a corporation rather than a partnership. This results in classic double taxation to Canadian investors.

### **Background**

In the recent past, almost all states in the United States developed a new investment vehicle: the LLC. The LLC offers the advantage of full limited liability, such as enjoyed by corporations, combined with “flow through” partnership taxation which permits a single level of tax at the partner level rather than double taxation as with a corporation and its shareholders. Further, the LLC offers an advantage with respect to the limited partnership, the other “flow-through” entity, as it does not require a general partner with full liability, or the formation of a corporation or an LLC to take the position of general partner, thereby requiring two entities rather than one.

This limited liability and partnership taxation has made the LLC the vehicle of choice for foreign and U.S. investors in the United States with the exception of Canadians. Canadians must be advised to avoid the LLC as it is considered a “hybrid” entity with both corporate (in Canada) and partnership (in the United States) characteristics and is taxed by the CRA as a corporation, thus eliminating the advantage of “flow-through” taxation.

The U.S. government will treat the LLC as a partnership and tax the partners on income. Canada will then tax you again on the same income when it is distributed as if it was a dividend from a corporation and you cannot credit the U.S. tax paid against your Canadian tax on the dividend.

With an LLP, you will pay U.S. tax and Canadian tax on the income, but you can credit the U.S. tax against the Canadian tax, so it is one level of tax only.

An LLP is nothing more than a general partnership for which a special election is made to give the general partners limited liability. The advantage to an LLC over an LLP is that the LLC is recognized in all states as granting full protection against personal liability. That is not the case with the LLP which provides full liability protection in Florida, but not, for instance, in South Carolina where it gives protection from tort liability but not contractual liability. Some entities which are LLPs have to look carefully at the states in which they do business to determine that there is no liability.

Originally, the CRA did not even grant the LLC status under the Income Tax Convention between the United States and Canada (“Treaty”), so that investors from either side of the border using the LLC would not be entitled to Treaty benefits. In the 2007 Fifth Protocol to the Treaty, Article 4 was amended to include paragraphs 6 and 7 which grant the LLC privileges under the Treaty, but they only work for Americans investing in Canada and not Canadians investing in the United States as the CRA continues to view the LLC, albeit with Treaty privileges, as a corporation, thus eliminating its benefit as a fiscally transparent entity.

### **Recommendation**

That the federal government allow LLCs to elect how they wish to be treated for Canadian tax purposes—either as a partnership or a corporation—but after entity classification election is made, it cannot change its mind.

## **Innovation in Canada: Preserve and Strengthen the Scientific Research and Experimental Development Investment Tax Credit Program**

The federal Scientific Research and Experimental Development (SR&ED) Investment Tax Credit (ITC) was introduced in the 1980s and provides an incentive to Canadian businesses to conduct research and development (R&D) in Canada that will lead to new, improved or technologically advanced products or processes. The majority of Canada’s

provinces and territories also provide tax incentives. The Canadian government is to be applauded for supporting SR&ED.<sup>22</sup>

CRA has reported that based on 2011 projections, the total value of federal SR&ED tax credit expenditure is approximately \$3.6 billion.<sup>23</sup> The tax credits also stimulate the economy. According to a 2007 Department of Finance study, for every \$1 in SR&ED tax credits given out, the government receives back a benefit of \$1.11.<sup>24</sup> Finance Canada and the Revenue Canada (1997) found that the federal SR&ED credit generates \$1.38 in incremental R&D spending per dollar of foregone tax revenue, and that private sector R&D spending is 32 per cent higher than it would be in the absence of SR&ED tax incentives.

Because the program utilizes tax credits as opposed to subsidies or other expenditures, it provides a simple and effective approach to supporting innovation. While both taxes and subsidies are largely considered to distort the effective functioning of a market,<sup>25</sup> tax credits are a reduction in this distortion and so cause affected businesses to invest in research more closely to the way they might in the absence of taxes.

The past number of years have been challenging for small business in Canada. Canadian businesses have faced a recession, high Canadian dollar, volatile oil prices and generally a shaky world economy. In addition, leading countries around the world are seeing the value of supporting R&D. Twelve of the top 24 economies have recently improved their R&D incentives and this global trend will continue. We believe the Canadian government has a major role in ensuring Canadian businesses keep R&D in Canada and in making Canada a more attractive global destination for innovative businesses. The SR&ED program is critical to supporting innovation and keeping the R&D activities in Canada. Moreover, Canada's historic leadership in encouraging innovation is under threat with the global competition for attracting global R&D investments is intensifying.<sup>26</sup>

Canadian businesses that have survived the recession are optimistic about their future. Although short-term market conditions are unsettling, and possibly unfavourable, we believe the next three to five years are where businesses are looking in terms of the investments they have to make. If we are going to compete globally, Canada needs to maintain and strengthen the SR&ED program.

The government appointed an independent panel to review federal support for R&D. The panel produced recommendations, *Review Panel of Federal Support to Research and Development*, otherwise known as the Jenkins Report.<sup>27</sup> There are many good recommendations in the Jenkins Report. However, the measures "to streamline and improve the SR&ED tax incentive program" will harm Canada's innovation economy and the high-value jobs and economic growth it provides. Among the changes announced:

- **The reduction in the general SR&ED ITC rate to 15 per cent from 20 per cent.** This represents a significant reduction in the support of R&D offered through the tax system.

<sup>22</sup> The Canadian Chamber of Commerce. (2011). *The Scientific Research and Experimental Development (SR&ED) Tax Incentive Program*. Retrieved January 2, 2013 from [http://www.chamber.ca/images/uploads/Reports/2011/SR-ED\\_Program-20110419.pdf](http://www.chamber.ca/images/uploads/Reports/2011/SR-ED_Program-20110419.pdf)

<sup>23</sup> Government of Canada. (2012). *Do Your Research in Canada: It Pays Off!* Retrieved January 2, 2013 from <http://investincanada.gc.ca/eng/publications/rd-tax-credit-fact-sheet.aspx>

<sup>24</sup> Department of Finance Canada and Revenue Canada. (1997). *The Federal System of Income Tax Incentives for Scientific Research and Experimental Development: Evaluation Report*. Retrieved January 2, 2013 from <http://publications.gc.ca/collections/Collection/F32-1-1997E.pdf>

<sup>25</sup> For example, see Feldstein, M. (1999). *Tax Avoidance and the Deadweight Loss of the Income Tax*. 81(4), Review of Economics and Statistics or Watkins, T. (unknown). *The Impact of an Excise Tax or Subsidy on Price*. San Jose State University Department of Economics Website. Retrieved January 17, 2013 from <http://www.sjsu.edu/faculty/watkins/taximpact.htm>

<sup>26</sup> Dunn, A. W., Baker, A. (2012). "Letter Outlining Our Concerns with Potential Changes to the SR&ED Tax Credit Program." Deloitte and Touche LLP. Retrieved January 2, 2013 from [http://www.deloitte.com/view/en\\_CA/ca/services/tax/tax-publications/c54b0fed4d3f5310VgnVCM1000001a56f00aRCRD.htm](http://www.deloitte.com/view/en_CA/ca/services/tax/tax-publications/c54b0fed4d3f5310VgnVCM1000001a56f00aRCRD.htm)

<sup>27</sup> Jenkins, T., Dahlby, B., Gupta, A., Leroux, M., Naylor, D., Robinson, N. (2011). *Innovation Canada: A Call to Action*. Review of Federal Support to Research and Development – Expert Panel Report. Retrieved January 2, 2013 from [http://rd-review.ca/eic/site/033.nsf/eng/h\\_00287.html](http://rd-review.ca/eic/site/033.nsf/eng/h_00287.html)

- **Removing the profit element from arm's length third-party contracts for the purpose of the calculation of SR&ED tax credits.** Eighty per cent (down from 100 per cent) of eligible expenditures incurred for SR&ED performed by arm's length contractors will qualify for SR&ED investment tax credits. SR&ED contracts with arm's length parties account for 13.5 per cent of SR&ED spending by small Canadian controlled private corporations and 18.4 per cent for large firms.
- **Removing capital from the base of eligible expenditures for the purpose of the calculation of SR&ED tax incentives.** This discriminates against capital-intensive research projects and it creates a bias towards labour-intensive sectors at the expense of capital intensive sectors like the manufacturing and resource sectors.

These changes will reduce the amount of R&D spending in Canada by a significant order. This will have a negative effect on the nation's capacity to innovate, our economy's productivity and Canada's competitiveness.

### Recommendations

That the federal government:

1. Reverse the Scientific Research and Experimental Development Investment Tax Credit to pre-2012 levels and index with inflation.
2. Identify the Scientific Research and Experimental Development program as vital to economic growth in Canada and not alter it without significant accountability to stakeholders and industry. Consult with major industry representatives, including the Canadian Chamber of Commerce, at least 12 months prior to legislative changes taking place.
3. Introduce a more coordinated approach with CRA and Industry Canada.

### Applying the Accelerated Capital Cost Allowance (ACCA) for Oil Sands, Upgrading, the Mining and Petrochemical Industries

The ACCA needs to remain in place as a key component of a strategy to attract new investment in value-added manufacturing including resource upgrading. In particular, for Canada's value-added strategies it is critical that stand-alone upgraders and our petro-chemical industry be eligible for the accelerated depreciation treatment. Under the current rules they do not qualify.

Accelerated Capital Cost Allowance (ACCA) has been a feature of mining sector taxation in Canada for decades to encourage investment and value-added processing. Capital cost allowance rules specify the rate at which capital assets can be expensed annually. ACCA allows the normal costs of capital to be deducted as fast as income from the project will allow rather than deferring the deductions over time. As corporations recover their initial investments sooner, ACCA reduces the investment risk associated with the mine or project, thus improving the overall economics of the project.

*The ACCA for in situ oil sands projects was introduced by the Liberal government in 1996, when oil prices were low, in an effort to stimulate investment in the oil sands. In addition to the regular capital cost allowance, oil sands mining and in situ projects are able to claim ACCA on the assets of the particular mine, up to the income from the mine or project. Oil sands projects started prior to March 2007 qualify for a 100 per cent accelerated capital cost allowance which is a much higher rate than that provided to conventional oil and natural gas. An oil sands company only pays federal income tax on the income from an oil sands operation once it has written off all of the eligible capital costs.*

*The ACCA for oil sands provided a significant boost for this costly industry and companies had announced investments of \$150-billion in spending before oil prices collapsed.*

In the 2007 Federal Budget, Finance Minister Jim Flaherty eliminated ACCA for new projects and announced that by 2010 the government would phase out the ACCA for mining and oil sands projects. The timing for this decision was unfortunate. The elimination of the ACCA coincided with a plunge in the price of oil and anticipation of significant new costs to combat environmental issues including climate change.

While the federal government was eliminating the ACCA for oil sands, at the same time it introduced an ACCA for investments in manufacturing machinery and equipment. Originally intended to be available for two years, the ACCA for manufacturing machinery and equipment was extended for a further year in 2008. In response to the economic crisis, the federal government extended the ACCA for machinery and equipment for a further two years until 2012, and in the recent budget till 2015. Clearly the government understands the power of the ACCA as an inducement to further investment.

As Greenfield projects, new upgraders in Canada are more costly especially with the higher construction (labour and material) costs as well as the need to develop supporting public and private infrastructure. Competing locations in the U.S. (e.g. the U.S. Gulf Coast and the U.S. Midwest) enjoy the benefits of existing infrastructure. They are also shielded from the inherent high cost of transporting heavy barrels through the averaging down of regulated pipeline tariffs based upon depreciated capital invested in pipelines constructed years ago at lower historic costs.

Alberta, for example, also has in place a rigorous environmental and socio-economic public interest tests for major energy projects operated through the EUB regulatory process. This process extends the lead-time and up-front costs of projects. By providing for more rapid capital recovery, the ACCA will greatly assist making upgrader projects more competitive with U.S. refineries, stimulating growth in this industry and streams of tax revenue that can be used for investments in climate change initiatives which, undoubtedly, will require significant investment.

In addition to the uneven playing field created by applying the ACCA to manufacturing machinery and equipment and not oil sands mining and upgrading, the ACCA has not been available for merchant upgraders or for additional value added processing such as petrochemicals and refining. This means, for example, that some upgraders operating in Alberta's Industrial Heartland are eligible (those with common ownership and processing feedstock from a particular mine or in situ project) and some are not (those purchasing bitumen on the open market). This creates a further disincentive or barrier to investment in upgrading capacity.

*Following the 2013 Federal Budget announcement, the Government posted on its Canada's Economic Action Plan website March 21<sup>st</sup> that "[I]n recognition of the ongoing uncertainty in the global economy, Economic Action Plan 2013 announces tax relief in the form of a two-year extension of the... (ACCA) for new investment in machinery and equipment in the manufacturing and processing sector." Less than one week later, Suncor cancelled its 11.6-billion Voyageur upgrader project.*

Losing potential upgrading capacity to the U.S. will have devastating consequences.

The oil sands boom has been Canada's economic engine over the past decade. Ultimately, the effective integration of oil sands, refining and petrochemical industries will improve this economic engine's output for decades to come. However, these industries are capital intensive, face competition from other jurisdictions, and considerable higher operating costs due to labour and regulatory controls. Faced with these challenges, seizing the new economic opportunities will require our governments to implement fiscal policies like the ACCA that encourage rather than deter investment across the board in manufacturing, mining and processing.

Fairness also dictates that standalone upgraders receive similar tax measures as those directly associated with upstream supply projects. And fairness dictates that value-added sectors like the petro-chemical industry should be treated similarly to other manufacturing sectors and be allowed to apply the ACCA.

## **Recommendations**

That the federal government:

1. Retain Accelerated Capital Cost Allowance for oil sands and mining projects.
2. Extend Accelerated Capital Cost Allowance to resource processing investments, including merchant upgraders/other shared processing infrastructure, such as gasification, cogeneration and water treatment facilities.

## **A No-nonsense Credit Card Processing Approach**

Many businesses accepting credit card payments for goods and services are unclear about the inner workings of merchant services providers (MSPs). This results in many businesses paying higher fees for credit card acceptance than necessary. Several MSPs currently try to entice businesses to switch service providers solely on the premise of

lower rates. However, as most businesses are unaware of the actual VISA and MasterCard rates - the actual Merchant Discount Rate (MDR) - they are misled to believe that a lower MDR results in savings on their actual credit card transactions. On the contrary, a lower than actual MDR means that the MSP is losing money on every transaction and, thus, has to recoup its losses through the card brand fee and/or non-qualified surcharges, which can vary substantially across different service providers.

### **The Three Components to Credit Card processing:**

- Merchant Discount Rate (MDR): This is the base rate charged by the provider. Any rate below 1.54 per cent (the rate VISA charges the MSP for processing one of its credit cards) causes the MSP to take a loss on the transaction. In order to recoup this loss the MSP has to bump up the rates in 2. and 3.
- Card Brand Fee (CBF) - 0.10 per cent or more (the actual cost is 0.08 per cent but is rounded up by most MSPs): This fee is used by VISA and MasterCard to advertise their brands, as well as to improve the stability of their networks.
- Non-qualified Surcharge (NQS) - 0.30 per cent is the average value of this surcharge. However, it can vary greatly depending on the base rate offered by the MSP. Certain MSPs will undercut the Merchant Discount Rate (MDR) and then increase the Non-qualified surcharge (NQS) to make up for the loss they incur. Monies raised through this rate are used by major banks to promote their credit card programs and to pay for benefits received by credit card holders. The rate is also charged on keyed transactions, which are considered higher risk, as well as on all Infinite credit cards (i.e. Avion, Aeroplan, etc.)

Recently the Federal Government introduced a voluntary code of conduct for the credit and debit card industry in Canada<sup>28</sup>, which (when adopted by the Merchant Services Provider) asks the MSPs to:

- ensure that merchants are fully aware of the costs associated with the acceptance of credit and debit card payments
- provide the merchant with increased pricing flexibility to encourage consumers to choose the lowest-cost payment option
- allow merchants to freely choose which payment options to accept.

However, the code of conduct introduced in 2010 is voluntary and, therefore, has been adopted only by a limited number of service providers.

### **Recommendation**

That the federal government, in consultation with the banking industry, change from voluntary to mandatory the code of conduct introduced by the federal government in April 2010 for the credit card and debit card industry in Canada, thereby ensuring that all parties are required to abide by and comply with the existing code's guidelines for greater transparency, disclosure and flexibility.

## **Employment Insurance (EI) Reform**

### **Issue**

In fiscal 2012-13, employers of all sizes paid \$11.7 billion in EI premiums. For this reason, all businesses have a stake in the EI program and demand a voice in how it is financed and structured.

Because the EI program has been used to support government spending in a variety of areas completely unrelated to the original purpose of the EI program, EI premium rates have been kept at unnecessary high levels.

Reducing EI premiums for both employers and employees would reduce real wage costs to employers making it more attractive to hire more workers, and would increase real wages received by employees.

<sup>28</sup> CODE OF CONDUCT FOR THE CREDIT AND DEBIT CARD INDUSTRY IN CANADA [http://www.fin.gc.ca/n10/data/10-049\\_1-eng.asp](http://www.fin.gc.ca/n10/data/10-049_1-eng.asp)

## Background

The desired long-term goals of EI reform are to improve fairness of the system, reduce work disincentives, promote labour force mobility, and ensure program costs do not create a drag on economic activity and job creation.

As the Mowat Centre Employment Insurance Task Force noted, “Canada’s economy and its labour market are fundamentally different than when the EI system was designed and when it was last significantly reformed.” The original objective of the EI program was to provide insurance against temporary and unintended periods of unemployment. However, EI funds have been used to support government spending in a variety of areas (such as employment training; sickness benefits; compassionate care benefits; maternity, parental and adoption benefits; and fishing benefits) completely unrelated to the program’s original purpose. Regular EI benefits now account for less than two-thirds of total EI benefits.

As a core principle of reform, the EI program should be operated as a true insurance program – one that provides temporary income support to qualified individuals who involuntarily lose their job. The social-program aspects of EI (like training-related benefits) should be funded through general revenues, not EI premiums. Employers and employees would continue to fund the workers’ insurance system through EI premiums collected.

To promote fairness and efficiency in the tax system, other structural issues must be addressed.

Employers pay 1.4 times the employee premium rate, or 58.3 per cent of EI premiums. This is a significant cost for businesses, particularly small- and medium-sized businesses. The rationale behind this is that employers have greater control over layoff decisions and, therefore, should bear a higher overall share of program costs. In recent years, however, EI benefits totally unrelated to layoffs (for example, parental leave benefits) have contributed to higher program costs. There is no reason for employers to pay more for these benefits than employees do. The federal government should gradually (i.e. over a five year period) reduce the employer EI premium rate to equal that paid by employees.

If employee EI premium payments exceed the maximum contribution limit, employees are refunded the difference between what they have paid in any given year and the maximum annual contribution limit when they file their yearly income taxes. Employers are not afforded the same treatment. Even though an employee has contributed the maximum amount in his/her previous job during a given year, the employee’s new employer must also contribute on the basis of current employee earnings. While it is difficult to quantify the exact level of over-contributions by employers, it is certainly in the several hundred million dollar range. Given the fact that EI premiums represent a barrier to job creation, the federal government should devise and implement a system that allows for over-contributions by employers to be refunded.

Finally, Canada’s EI system, with its variable entrance requirements, allocates benefits based on local unemployment rates across 58 regions. The criteria to qualify for EI benefits ranges from 420 to 700 hours of insured work in the previous 52 weeks, and benefits can last from 14 to 45 weeks. Where benefits are less accessible, Canadians who lose their jobs are unfairly treated. Where they are more accessible, they discourage labour mobility both within and among provinces and dissuade some workers from pursuing skills development or education. This undermines overall economic output and hampers productivity. When fiscal conditions permit, the government should move toward a national eligibility standard (560 hours) and standardize duration of benefits (22 to 45 weeks). The cost of this proposal is roughly \$500 million.

## Recommendations

That the federal government:

1. Operate the EI program as a true insurance program to facilitate further reductions in EI premium rates. Remove the social-program aspects of EI from the regular premium structure, and fund these programs out of general revenue.
2. Gradually (i.e. over a five year period) reduce the employer EI premium rate to equal that paid by employees and maintain employee portion at current levels.
3. Implement a system that allows for over-contributions by employers to be refunded.
4. Ensure equal access to benefits across Canada by standardizing eligibility requirements at 560 hours and benefit duration at 22 to 45 weeks.

## Deferral of Capital Gains Taxation

During Election 2006, a key Conservative Party election promise called for the elimination of the capital gains tax for individuals on the sale of assets when the proceeds are reinvested within six months. At the time of this proposal in the election platform, very little detail was provided to guide the development of this idea into potential legislation. In Finance Minister Flaherty's May 2<sup>nd</sup>, 2006 Budget, the Government of Canada introduced legislation to eliminate the taxation of capital gains on the donation of marketable securities to registered charities, but there was no mention of the campaign proposal of broad capital gains tax relief.

The Canadian Chamber of Commerce believes that the principle of reducing taxes on investment income (including capital gains) is positive and requires significant attention in the Government of Canada's continued promise to undertake personal and corporate income tax reform. In particular, the Canadian Chamber of Commerce strongly believes that the pre-election commitment to reform the taxation of capital gains must be a focal point in any upcoming fiscal announcement. However, due to the complexity of the issue, it is imperative that the Department of Finance carefully consider the parameters for the implementation of the deferral regime and be open to recommendations with respect to the defining principles and implementation process for any proposed legislation in this regard.

One important consideration is the fact that a good number of Canadians have investments in real property; however, these investments would not currently qualify as an asset for consideration in capital gains deferrals. Investments in real property lack liquidity and portability due to the immediate application of capital gains, therefore making it difficult for investors to grow their real property investments. The result, as stated by the Canadian Real Estate Board, is a "lock-in" effect where real property owners do not sell assets that have increased in value and have a disincentive to maintain the overall quality of both commercial and residential investment properties. In addition, the Canadian Chamber of Commerce recommends that the Government of Canada continue to review the taxation of all sources of investment income in order to develop strategies that encourage all Canadians to save and invest for their future and retirement.

### Recommendations

That the federal government and specifically, the Department of Finance:

1. Move to implement legislation to provide for the deferral of income taxation on taxable capital gains incurred in a taxation year when the proceeds are reinvested within a six month period. Any amounts not re-invested within the stipulated period be taxed on a prorated basis in consideration of the amounts actually re-invested.
2. Carefully consider the definition of a "qualifying asset" for the purposes of re-investment to ensure that no significant barriers to Canadians exist on re-investment of capital gains.
3. Ensure that all capital property, including real property, that currently gives rise to a capital gain on its disposition will frame the definition of a "qualifying disposition" for the purposes of the deferral of the capital gain on disposition.
4. Avoid adding unnecessary complexity to this proposed legislation by avoiding implementation of annual or lifetime limitations; term-certain limitations (akin to the 21-year deemed disposition rule) or complex adjusted cost basis determinations.

## 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 reexamined 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.

### **Recommendation**

That the federal government make certain that new and existing tax provisions containing thresholds and limits are introduced with annual indexation as an integral part of the provision.

## INDUSTRY

### Streamlining the rules of practice, decision-making process, and governance model of the Copyright Board of Canada

Business needs certainty. Virtually all businesses in Canada make use of copyrighted materials to some extent. In the case of materials whose use is subject to regulated tariffs set by the Copyright Board of Canada, a consistent, timely and transparent process for setting tariffs and licensing costs is essential for business decision-making.

The Copyright Board is a government mandated economic regulatory body empowered to establish the amount of royalties to be paid for the use of copyrighted works in those cases where the licensing of such works is entrusted by the owner of the copyright to a collective society appointed to administer the collection of royalties on those works. The Board also is empowered to supervise agreements between users and certain collectives and issues licenses for the use of works when the owners of copyright in a work cannot be located.

The Copyright Board has published a series of strategic priorities, summarized as:

- *Fair decision-making to provide proper incentives for the creation and use of copyrighted works through Copyright Tariff Setting and Issuance of Licenses.*
- *Ensure timely and fair processes and decisions ensure that participation costs in the hearing process are kept as low as possible, thus encouraging participation of the parties and streamlining the process. In 2012, the Board established a working group comprised of key stakeholders that will examine possible avenues to improve the Board's rules of practice and procedure. These improvements were intended to reduce uncertainty and streamline procedures while safeguarding fairness of the process.*
- *Advance the analytical framework for decisions and the regulatory processes for tariff-setting.*

Despite these stated priorities, several problems exist with the current regulatory regime: delays in publishing tariff rates have caused accounting challenges and disruptions for business users; Board decisions have been perceived as being inconsistent and unpredictable – adding costs and uncertainty to the system; there are delays in the timing of Board appointments; and there is no transparency with respect to the activities of stakeholder working groups.

#### Recommendations

That the federal government:

1. Structural Review
  - Under the leadership of the Minister of Industry, undertake a review of the current Copyright Board model in particular the role of the Board in the context of the collective administration of copyright and how it should respond to the needs of the many industries that it regulates.
2. Efficiency
  - Ensure that a full complement of qualified Board members is in place.
  - Ensure that Board member vacancies are filled in a timely fashion.
  - Minimize the delay between the filing of proposed tariffs and the certification of those tariffs, and in particular the delay between the filing of settlement tariffs and the certification of those tariffs, thereby minimizing the extent of retroactivity of the tariffs.
  - Promulgate procedures which encourage collective societies and users or their representatives to negotiate licenses.
3. Transparency
  - Encourage and foster means of enhancing stakeholder review of the Board's procedures and practices and other Board related information, including selection criteria for participants, the recommendations of any stakeholder review working groups and stakeholder surveys.

- Ensure that rules governing dispute resolution processes and tribunal hearings are fully disclosed and, if those rules are departed from on a case by case basis, the grounds for such departure.
- Establish and publish a database of the Board’s rulings.

## **Pharmaceuticals – Life Sciences as an Economic and Competitive Driver**

This resolution is seeking to increase industry investments into the research and development of innovative medicines and vaccines. Improved protection of intellectual property (IP) is necessary to achieve this objective.

IP is the economic engine of progressive countries. IP rights can drive job creation, economic growth and innovation. As Canada continues to climb out of the recession, focusing attention on IP as a key economic theme is vital to thrive. 45,000 people in Canada are directly and indirectly employed by the research-based pharmaceutical companies. . If we properly protect IP in Canada, we can grow jobs and investment in the knowledge-based economy. It’s clear – proper IP protection equals jobs and investments in a nation.

Currently, generic drug manufactures have the right to appeal an adverse court ruling on a patent challenge. Allowing innovative companies an effective right of appeal would restore fairness and balance and put Canada within the mainstream of international IP law.

Another key IP concern relates to the Canada’s interpretation of the patent utility standard, which due to legal decisions is now higher than the equivalent standard in other nations, which in turn has resulted in the invalidation of important life sciences patents upheld elsewhere in the world. Canada’s patent utility standard must be brought into line with those of our major trading partners and competitors.

Improving data protection, equivalent in both scope and duration to that provided by our key trading partners and competitors, would raise our level of protection, making it consistent with that of other industrialized nations with whom we compete for investments and highly skilled and well-paying jobs.

Similarly, a five-year patent term restoration (PTR) system would put Canada on the same competitive level with other OECD countries. PTR is required to offset regulatory delays in the approval of a medicine. Domestic market conditions matter and the complete absence of PTR in Canada discourages investment, job creation and early adoption of new medicines that bring innovation to the Canadian health care system. Similarly, Canada is one of the few developed countries which provides no incentives to facilitate the development of orphan drugs.

The federal government must ensure that Canada’s pharmaceutical intellectual property protection regime is ‘best in class’ in all material respects with the regimes of Canada’s key competitors.

### **Recommendations**

That the federal government:

1. Increase the present term and scope of data protection for new innovative medicines;
2. Introduce a system of patent term restoration to compensate innovators for patent time expended due to clinical trials and regulatory approval processes;
3. Restore equity and balance under the Patented Medicines (Notice of Compliance) Regulations by providing innovators with an effective right of appeal;
4. Address the issue of heightened patent utility standards created by recent case law by aligning Canadian utility standards with those of our major trading partners; and
5. Introduce an extended exclusivity period in conjunction with any new regulatory pathway for orphan drugs.

## The Digital Economy Strategy: Ensuring Canada's Economic Success using Information and Communications Technologies

Canadian business is not online. A recent study by the Boston Consulting Group of G-20 countries indicates that Canada is behind in the adoption of technology by business, and in the size of our Internet economy. This study concludes that this gap will widen over coming years, meaning that Canada will lag behind its global competitors even more. The 4.2 trillion dollar opportunity represented by the Internet will pass Canada by. This gap exists across the economy, across sectors, and regardless of the size of entity.

It is no secret that productivity is directly linked to innovation and the adoption of technology. Countries like the United States, Britain, Australia and Denmark are pouring resources into the digital economy and in some cases, creating federal ministries to oversee opportunities and challenges. Canada's productivity gap compared to the United States remains problematic. While the business community understands the government's current financial constraints, there are pioneering ways to work together to advance the digital economy strategy.

The federal government must do more to stimulate the adoption of information and communication technologies (ICT) in Canada. Many countries have recognized that investments in e-commerce and ICT result in increased productivity and growth in the overall economy, and Canada needs to be a leader in this area. For Canadians to continue to enjoy a high quality of life and standard of living, we must improve our productivity and competitiveness through innovation. The Conference Board of Canada has noted that "innovation is the ability to turn knowledge into new and improved goods and services" and that "Canada's performance on innovation over the past three decades rates a consistent D." That's simply not good enough.

Approximately 98 per cent of Canada's population is able to obtain access to broadband Internet. According to the "Connectivity Scorecard" report overseen by University of Calgary business school dean Leonard Waverman, Canada ranks eighth in "useful connectivity," reflecting both the world-class networks available to Canadians but also deficiencies in the adoption and usage of broadband – and investment in ICTs generally – across the economy (see <http://www.connectivityscorecard.org/>). It is worth noting that the U.S. and Australia have made national-level commitments to investment in broadband, particularly in rural and remote areas. Clearly, Canadian businesses need the right incentives, such as tax incentives and continued improvements to the SR&ED program in order to keep investing in next generation infrastructure if Canada is to rise to the very top of the international rankings and most effectively lever broadband for competitive advantages. Further, while both wireline and wireless broadband is critical infrastructure and the cornerstone of economic growth, addressing the availability of broadband is not sufficient without a broader focus on adoption and usage of information and communications technologies (ICT). Government policy must also ensure access extends to rural communities and do its part as a major user to stimulate demand.

Across the economy, as a large user of information technology, the government can play a large role by mandating online interactions, for its partners, for citizens, and for suppliers. Already, tax returns can be filed on line. Like any large user, by undertaking a commitment to online commerce and the related technology, governments can defray costs for suppliers and provide valuable incentive to adopt technology. To this end, the government should design initiatives to drive demand and adoption among key user groups, such as small and medium enterprises. As the Competition Policy Review Panel noted in its June 2008 final report, the Internet is "a force for productivity growth because it promotes the more efficient use of business resources."

Canada can become a global innovation leader. With the right plan, Canada can dominate the global digital economy. By building on our strengths and working together with the federal government, Canadian businesses will be in the right position to realize the benefits of digital technologies and achieve a competitive advantage internationally.

### Recommendations

That the federal government:

1. Under the leadership of the Minister of Industry, lead the implementation of the Digital Economy Strategy across the government and make adoption of information and communication technology (ICT) a government-wide priority.

2. Accelerate investments in next-generation networks by amending tax policies to stimulate investments on a geographically and technologically neutral basis.
3. Continue to rely on private sector investment and competitive market forces to drive the roll-out of broadband networks and facilities in Canada.
4. Ensure that any initiatives designed to help facilitate access to broadband facilities by Canadians in rural and remote areas, where market forces are not sufficient, are introduced in the least market-distorting manner possible by working with relevant not-for-profit organizations, utilities, and service providers.
5. Promote digital literacy as a critical aspect of skills development.
6. Increase engagement with the private sector to accelerate e-business adoption among SMEs, especially given the increasing growth rate in this sector.
7. Systematically identify and streamline regulatory barriers to provide efficient, secure and productive use of digital technologies by business.

## **Improved Transparency and Due Process at the Competition Bureau**

The Commissioner of Competition and the Competition Bureau (the “Bureau”) are responsible for the administration and enforcement of the Competition Act, Consumer Packaging and Labeling Act, the Textile Labeling Act and the Precious Metals Marking Act. (the “Acts”). The Acts give the Commissioner considerable powers to pursue inquiries into conduct relating to mergers, price fixing, single firm conduct and deceptive telemarketing/misleading advertising. These include, depending on the specific context:

- Generally, the ability to seek an ex parte court order requiring production of documents, response to a written return of information and/or witness evidence in support of an inquiry;
- In merger reviews, the power to unilaterally require further information from merging parties pursuant to a supplemental information request;
- In criminal cases, the power to seek authorization for wiretap evidence;
- The ability to elect whether to pursue a case under the criminal or civil track, depending on the provisions in question.

Over time, the Bureau has made great advances in communicating its enforcement policies and objectives through formal and informal means. However, increased transparency and due process considerations should remain critical to its mandate, notwithstanding statutory confidentiality requirements. For example, it remains the case that there are no consistently issued explanations of the results of Bureau merger reviews (though backgrounders are issued from time to time in the discretion of the Bureau). Similarly, and with respect to conduct that could be examined under criminal or civil provisions of the Act (in particular under the criminal conspiracy provisions or civil horizontal agreement provisions), uncertainty remains about which track the Bureau would pursue in certain important contexts.

### **Recommendation**

That the federal government improve the transparency and openness in the administration and enforcement of the *Competition Act*.

## **Opposition to neutral packaging, an unacceptable expropriation of private trademarks**

### **Background**

In 2011, the Australian government passed a law mandating neutral labeling on tobacco products. This means cigarette and small cigar packages bear the same grey image. The producer’s name appears in small letters. In short,

the legislation eliminates the trademark completely. The Canadian government is studying the Australian initiative, and may intend to imitate it.

Legal proceedings have been launched against the Australian government because seemingly this is a clear case of unjustified expropriation of private intellectual property.

This issue goes beyond tobacco producers. Many businesses spend huge sums of money to develop and market their product trademarks. A trademark associates the product to the business and some of its corporate values. It is a unique identity that belongs as of right to the business. Governments cannot encroach upon the trademark, or make it disappear, because in so doing they are attacking a tangible corporate asset. It is indeed an expropriation.

Moreover, such labeling restrictions contravene international trade rules, including those of the WTO (World Trade Organization), NAFTA and the Paris Convention for the Protection of Industrial Property. The latter states that “The use of a trademark in the course of trade shall not be unjustifiably encumbered...”

Since 2011, illustrated warnings imposed by the Canadian government cover 75 per cent of the front and back of cigarette and small cigar packages.

The Canadian Chamber of Commerce supports government public health concerns. It believes consumers must be informed of risks associated with the use of tobacco products. But the elimination of trademarks is not required to meet the goal of adequately informing consumers.

The imposition of neutral packaging would add to the multiple restrictions and surtaxes imposed on the tobacco industry which have largely contributed to the proliferation, in all provinces, of illegal trade in tobacco products. Today, almost one third of all cigarettes sold in Canada are smuggled, and this fuels organized crime and deprives governments of hundreds of millions of dollars in revenues.

### **Recommendations**

Since the imposition of neutral packaging equates expropriating a private trademark and goes against several international trade rules, that the federal government:

1. Focus on the protection of intellectual property and trademarks, which are important for the development of free enterprise values in Canada.
2. Avoid adopting such a measure to products sold in Canada.
3. Avoid other forms of encroachment on trademarks through excessive mandatory labeling which would go beyond giving adequate information to consumers.

### **Facilitating Structural Change in Canadian Manufacturing**

The Canadian manufacturing sector employs more than 1.8 million people, or approximately 10 per cent of the domestic workforce, in 80,000 facilities across the nation. In 2011, total Canadian manufacturing sales exceeded \$571 billion – an increase of more than seven per cent from 2010 and 17 per cent over 2009. Canada’s leading manufacturing sectors include transportation equipment, food products, coal and petroleum products, and primary metals.

Manufacturing accounts for two-thirds of all Canadian business investment in R&D and half of all R&D activities in Canada. According to the Canadian Manufacturing Coalition, more than half of Canadian manufacturers expect to increase their investment in facilities as well as R&D over the next three years, while approximately two-thirds anticipate higher levels of investment in machinery and equipment.

A 2012 report from KPMG<sup>29</sup> indicated that Canadian manufacturing is shifting from labour intensive to innovation intensive, where labour intensive production has moved abroad. The transition to innovation intensive production has been relatively slow, and overall success is dependent upon increasing efficiency and expanding into new markets.

<sup>29</sup> Canadian Manufacturing Outlook 2012: Push and Pull – Reducing Costs and Investing in Innovation. KPMG LLP.

At the 2013 Annual General Meeting of the Ontario Chamber of Commerce, a resolution was passed which recommended that the Ontario Government immediately commence the development of a provincial manufacturing strategy, including the designation of a lead ministry for coordinating inter-ministry initiatives. A recommendation also identified, as a priority, provincial collaboration with the Department of Foreign Affairs and International Trade (DFAIT) on developing a strategy to expand opportunities in emerging global markets.

The Canadian Manufacturing Coalition, post 2013 federal budget, has stated that each provincial government needs to develop action plans in support of manufacturing investment, skills training, regulatory efficiency, and energy infrastructure.

The 2007 federal budget introduced a temporary Accelerated Capital Cost Allowance (ACCA) for investments in new equipment and machinery. This measure, subsequently extended in the 2008, 2009, 2011 and 2013 budgets, provides a 50 per cent straight-line depreciation rate. The 2013 budget notes that by allowing a faster write-off of eligible investments, this measure advances concrete support to businesses in the manufacturing and processing sector to help them purchase new equipment and machinery to remain competitive across the current global environment.

The Canadian Manufacturing Coalition and Canadian Manufacturers and Exporters (CME) have both proposed that the ACCA be implemented as a permanent component of the national tax system. The CME, in their 2012 federal pre-budget submission, also recommended that the government study the possibility of providing separate tax credits for the acquisition of machinery and equipment, which are the most important drivers of productivity. This measure would potentially support Canadian manufacturers in catching up with competing nations.

The 2013 budget also extended, for five more years with an additional \$921 million in funding, the Federal Economic Development Agency for Southern Ontario (FedDev Ontario). Within the aforementioned allocation is \$200 million for a new Advanced Manufacturing Fund starting on April 1, 2014. The CME noted that other regional agencies should follow the FedDev precedent and provide dedicated funding for manufacturing innovation.

### **Recommendations**

That the federal government:

1. Make the Accelerated Capital Cost Allowance a permanent component of the national tax system for all types of Canadian processing and manufacturing, including mining and oil and gas.
2. Work with provincial/territorial governments to develop a blueprint for manufacturing competitiveness. The blueprint will seek to create a world-class manufacturing sector and companies that are leading innovators, expand access to global markets and supply chains, and ensure access to a highly skilled workforce.

## **Creating a New Pharmaceutical Industry in Canada – The Thebaine Opportunity**

There is currently a thriving pharmaceutical industry growing poppies for pharmaceutical medicines in the United Kingdom, Europe and Australia, but not in North America.

A new variety of poppy, the thebaine poppy, can be used to produce prescription drugs such as oxycontin and codeine, and does not contain the narcotic properties of traditional poppies.

Canada is the only G8 country that does not grow or process the raw materials for poppy processing, however, Canadians purchased over 500 million dollars worth of prescription medications derived from poppies in 2008.

Several locations have the ideal growing conditions for a high yield thebaine poppy crop in our country.

It is critical for the Federal Government to open the way now for the private sector to innovate so we can find new higher value added opportunities in using our soil, water, processing factories, and research scientists. This is especially important so that national objectives are achieved to replace public sector fiscal stimulus with private sector investment and to enhance farm incomes from the market.

The Canadian Chamber of Commerce supports the creation of a cluster of biological science industries in our nation using farm commodities and biotechnical research that has the potential to adjust to foreign exchange fluctuations impeding the international competitiveness of many agricultural and manufacturing sectors.

## **Recommendations**

That the federal government:

1. Facilitate the creation of a new pharmaceutical industry by communicating to the federal Minister of Health that when reviewing applications for approval, the Minister recognizes the potential of farming and processing of the thebaine poppy in Canada for the pharmaceutical industry; and that these applications be expeditiously reviewed and approved by Health Canada and the Canadian Food Inspection Agency.
2. Support ongoing research at universities which are currently working on projects, including thebaine poppies that foster a new national pharmaceutical industry.



# INTERNATIONAL AFFAIRS

## Canada-European Union Economic and Trade Agreement

### Background

The CCC has always supported efforts to negotiate and conclude a Canada-European Union (EU) Comprehensive Economic and Trade Agreement.

The CCC supported this European market openness initiative from the start. The implementation of this agreement would increase the value of Canadian exports to the EU by more than 20 per cent (based on the first 7 years of implementation).

The commercial potential with the EU is very real. Despite existing trade barriers, bilateral trade between Canada and the EU has increased significantly.

One of the lessons of the last recession is that a diversified economy absorbs economic shocks more easily, including a lower demand from one of our natural commercial partners like the United States.

Free access to a market representing 30 per cent of the world's GDP, stretching over 27 countries and including 500 million inhabitants, will undeniably benefit the Canadian economy.

Negotiations up to date call for high-level political involvement in order to conclude an agreement favorable to both parties quickly, before other discussions begin (i.e. with the United States) and call into question the progress made.

Finally, concluding this Canada-European Union agreement will send a positive message regarding Canada's willingness to conclude new conventions in order to promote international trade.

### Recommendations

That the federal government:

1. Together with the provinces/territories, conclude negotiations quickly and accelerate the signing of this agreement with the European Union.
2. Ratify the agreement after its signature according to requirements for provincial/territorial participation.

## Common-Sense Approach to Livestock Product Identification and Food Safety

Country of Origin Labelling (COOL) legislation, as adopted by the U.S., is market protectionist in nature, constitutes a technical barrier to trade, and is deemed inconsistent with international trade rules including those established by the World Trade Organization (WTO). COOL legislation adds additional implementation and enforcement costs throughout the supply chain which are then being levied against Canadian producers in the form of immense price discounts applicable to livestock exported into the U.S.

The U.S. COOL legislation is predicated on the idea that foreign food, which meets a different safety standard than domestic, should be processed differently and separately from domestic food because the possibility of incongruent food safety standards is thought to create risk to U.S. consumers. As such, foreign foods which are processed in the U.S. must be segregated from domestically sourced foods and undergo separate production, which then creates added costs on Canadian food exports that are processed in the U.S. These added costs result in a discount on Canadian food exports. Country of Origin Labelling, as a marketing policy to help provide information to consumers is not an unacceptable policy, however, its requirements on processing has negatively impacted Canadian producers.

Furthermore, in contrast to the above description, the U.S. acknowledges that the instituted COOL legislation was never intended to address food safety; rather this legislation governs "marketing issues," and was only developed to give consumers the right to make informed purchasing decisions based upon the "country of origin."

In 2011, the WTO ruled in Canada's favor, deeming Country-of-Origin Labelling a protectionist measure for the U.S. market. The U.S., who was expected to appeal this decision, was given a deadline of May 23, 2013 to bring their COOL legislation in line with their WTO obligations. The U.S. failed to meet this deadline and has not yet eliminated

the aspects from its COOL legislation. In response to their failure to comply, on June 7, 2013, Minister of International Trade, Ed Fast, announced that Canada would begin the process of retaliation pending support of the WTO. A list of commodities which would be considered for trade action was published in the Canada Gazette on June 15, 2013 and indicated a potential surtax of 100 per cent on certain foods, including animal meat products and several other import products.

Canada has some of the most stringent food production standards in the world, and as a result Canadian consumers benefit from some of the safest food in the world. The concern of different food safety standards, which provide the justification for the U.S. COOL legislation, would be circumvented by the creation of a common food safety standard. Such a standard would easily be implemented given Canada's existing rigorous food safety environment. By negotiating a common bilateral food safety standard, processing of both U.S. and Canadian foods could occur in the same facility. This would reduce the production-based discount of Canadian goods and would reduce the negative effects of COOL legislation.

COOL legislation has negatively and profoundly impacted prices paid to Canadian producers on exports into the U.S., such that our entire red meat industry, particularly the pork industry, is at a serious competitive disadvantage and potentially on the verge of collapse. Speedy resolution of the issues caused through the COOL legislation is imperative to prevent the marginalization or complete collapse of the Canadian red meat industry.

### **Recommendations**

That the federal government:

1. Continue to pursue trade action to combat the market protectionist aspects of Country-of-Origin Labelling (COOL) legislation including continued bilateral negotiation, working with the WTO, and pursuing retaliatory measures if necessary.
2. Take a leadership role in promoting the highest level of international food safety standards and practices applicable to international trade involving all perishable foods and food products, with an aim to unify food safety and quality standards and to eliminate the need for processing segregation of Canadian food from U.S. food.

## **Streamlined Visa Process Required to Boost Visitation to Canada from Emerging Economies**

### **Background**

Tourism is an important sector of Canada's economy, generating \$84.8 billion in economic activity in 2012. Since the global economic downturn in 2008, the sluggish recovery has hampered tourism growth. In particular, the economic climate in the US and in Europe, combined with the strong Canadian dollar, has dampened the outlook for visitation from several key markets. In this context, emerging markets present a significant opportunity. However, Canada's visa policy poses a significant barrier to tourists from these countries.

### **The issue**

As emerging economies continue to grow, the potential tourism opportunity from these markets is also expanding. In particular, Mexico, Brazil, Russia, China and India present short-term and long-term growth potential for Canada. However, the visa application and approval process for these potential tourists is onerous and unpredictable. In addition, in countries such as China and India, embassies have reduced staffing levels which has further increased delays for visa applications.

There are reports that visas have not been granted to Russian tourists, resulting in luxury groups having to cancel their already booked Canadian vacations. The implementation of a visa requirement for Mexicans in 2009 resulted in an immediate and negative impact on visitation to Canada from Mexico. More recently, there have been discussions about including biometrics in Canadian visas, which would only further negatively impact tourism. Requiring applicants to travel to visa centres for recording of biometrics, such as fingerprints and eye scans, would further reduce demand for travel to Canada and limit Canada's ability to maximize opportunities in these markets at a time when demand is increasing.

## **The way forward**

While it is important to ensure that appropriate security checks are conducted as needed, a reduction in processing times, increased certainty of approval and elimination of unnecessary bureaucracy would have an immediate and positive impact on tourism from emerging markets. This is evidenced by the positive impact of the recent changes implemented to the Mexican visa process.

Thanks to the Federal government, and the efforts of Immigration Minister Jason Kenney and others, and without compromising the necessary security checks, significant improvements have been made to the visa application process in Mexico, through new express visas and increased Visa Application Centres (VACs) in secondary cities in the past two years. Similar VACs are now being opened in other Latin America countries e.g. Brazil, making it easier for families to obtain visas. However, there remain opportunities to improve processing times and decrease bureaucracy.

An online visa application process, similar to the one completed by Canadians when travelling to Australia, should be considered. This process grants automatic approval to applicants unless there is a reason for concern. Approved applicants are only required to print evidence of their successful application which they carry while travelling. Implementing a process for inbound visitors to Canada would deliver a significant advantage in attracting visitors from emerging markets.

## **Recommendations**

That the federal government:

1. Implement an online visa application process with automatic approval for those travelling from qualifying countries that meet the government's policy criteria.
2. Expand the Visa Application Centre model from Mexico to other countries such as China and India.
3. Encourage Canadian embassies to staff appropriately according to high demand periods in their respective countries.

## **A Canadian Services Strategy**

The services sector is a vital component of the Canadian economy, accounting for 71 per cent of GDP and 76 per cent of employment. The services sector has also played a major role in Canada's economic recovery – generating 79 per cent of all new jobs since 2009.

Moving forward, the Canadian economy is expected to become more services-based, as the sector is projected to be the dominant driver of job creation and economic growth. A dynamic and competitive services sector enhances the competitiveness of the entire economy.

The services sector is comprised of a wide range of industries and activities, including government, finance, insurance, education, information and communication technology, transportation/logistics, research and development, marketing, media, professional and engineering services. These industries require a highly-skilled, multi-disciplinary workforce and, in turn, offer high-wage, high-value employment for Canadians.

Services are also an essential input in the production of virtually all industrial and agricultural goods. According to data released by the OECD and WTO, services inputs accounted for 39 per cent of the value of Canadian exports in 2009. A firm's competitiveness and productivity is not merely a function of its employees and capital stock, but also of the quality and cost of the services it procures.

Increasingly, services themselves are being sold and procured on a global basis. Information and communication technologies are globalizing markets for information-based and knowledge-based services. In 2012, Canada exported nearly \$83.3 billion worth of services. And there is room for growth. Despite the size of the services sector, Canada currently exports five times more goods than it does services.

To encourage its growth, there are important challenges facing the Canadian services sector that must be addressed, such as limited awareness and knowledge of the sector, labour skills shortages, and continued barriers to trade, both domestically and internationally.

Given the integral role that services play in the Canadian economy and the possibility of expanding our presence in international markets, it is imperative that Canada increase its strategic focus on services.

Canada needs a comprehensive services strategy.

## **Recommendations**

That the federal government develop a services strategy that focuses on five pillars:

### **1. Awareness:**

Create a formalized working group comprised of senior government representatives of federal, provincial and territorial departments with a mandate in services. Focus the group's attention on increasing information sharing, conducting in-depth policy reviews and the promotion of services sector growth. Collaborate with industry and academia to ensure adequate communication of services related initiatives.

### **2. Metrics:**

Ensure that Statistics Canada is properly resourced in order to improve its collection of services metrics. In particular, Statistics Canada should increase their efforts to collect data on the operations of Canadian firms providing services both inside and outside of Canada as well as foreign firms providing services in Canada.

### **3. Research:**

Actively assist the Organisation for Economic Co-operation and Development (OECD) in establishing comparative services statistical data collection.

### **4. Education:**

Identify current and future labour market gaps and develop a nationwide strategy for identifying how to meet these needs within the current educational system. Create a dedicated task force to examine Canada's education system in relation to services with a view of identifying "best practice" multidisciplinary courses and support ways to leverage these across the country.

### **5. Trade barriers:**

Make the removal of trade barriers a priority to ensure the domestic free-flow of services. Work with provincial and territorial governments to ensure that temporary entry barriers to cross-border labour mobility are as least trade restrictive as possible, and to harmonize regulations with countries with similar regulations to our own.

# SOCIAL POLICY

## Addressing the Skills Crisis – Preparing People for Today’s Jobs

Getting people into the labour market is crucial to foster innovation, economic growth and social well-being. Ensuring the right balance between specific labour market needs and generic competencies is a challenge faced today by higher education institutions around the world.

Improving job readiness within an industry sector by exposing employees to specific challenges within the sector and offering training to increase their skills, is in theory a good practice. However, skeptics would argue that industry is in business to make money and if they can just as easily find the talent they need by bringing in foreign trained workers, or poaching from their competition, why wouldn’t they. It’s a partial solution but only a small part.

An analysis of the skill composition of employment based on occupation and educational attainment shows a difference between the supply of and demand for highly skilled employees in most countries. The attractiveness of research positions and skilled careers is critical for innovation.

According to Rick Miner’s estimates, there will be 550,000 unskilled workers who won’t be able to find work by 2016. By 2021, the number could be well over a million. At the same time, it is estimated there will be 1.5 million skilled job vacancies in 2016, and 2.6 million by 2021, according to data cited by Chris Sorenson in, *Maclean’s Magazine*, March 2013.

Economists call it a skills “mismatch.” The country is in dire need of engineers, health workers and skilled tradespeople. Yet tens of thousands of students continue to pursue degrees in the arts and humanities. The result is an unemployment rate that refuses to fall below seven per cent (about 13.5 per cent among youth), while employers increasingly complain about vacant jobs that promise good wages – particularly in Western Canada, where the oil, gas and mining industries are booming. “The new phenomenon here is that we’re going to be seeing pockets of persistent high unemployment existing right alongside serious worker shortages in particular industries,” says Perrin Beatty, the Canadian Chamber’s CEO, in an interview in *Maclean’s Magazine*, March 2013.

Careers in the skilled trades are not promoted sufficiently in secondary schools and that affects post-secondary enrolment toward training for those careers.

The Construction Sector Council declared that between 2012 and 2020, the construction sector will need 319,000 new workers.

Engineers Canada projects that 95,000 professional engineers will retire by 2020 and Canada will face a skills shortage because the workforce cannot be replaced fast enough.

A study by Prism Economics and Analysis for the Ontario Society of Professional Engineers concluded that there is, and will be, a “chronic shortfall between the demand for experienced engineers and the current and projected supply”.

There are federal departments and agencies, as well as sector councils, that can carry out nation-wide labour market forecasts that will deliver a roadmap to where the jobs of today and the future lie. This can only help in producing the labour force necessary.

### Recommendations:

That the federal government:

1. Improve the Business Data Platform, Job Bank and Working in Canada Portal to build an extensive database on labour supply and demand. The database needs to be user-friendly and focused on collecting employer demand per occupation and region so that individuals can better understand current and projected labour market demands.
2. Direct the appropriate department and/or agencies to create or commission labour market forecasts that list the in-demand occupations and fill the other data gaps that were cited in the final report of the Advisory Panel on Labour Market Information in 2009.

## Standardized Licensing and Accreditation Requirements Across Provinces for Professions

As a collection of 10 provinces and three territories in a single federal structure, negotiating governmental rules and regulations at various levels is often a burdensome web of red tape for business. Provincially-based licensure and accreditation requirements for professions is an issue that if alleviated could: (a) have an impact on enhancing competitiveness for Canadian businesses; and (b) provide clarity to potential skilled immigrants considering relocating to Canada.

With the skills crisis facing many Canadian businesses, the national economy is hindered by this internal barrier exacerbating the recruitment of employees from other provinces and countries. In many ways the issue is analogous to the Canadian chamber's Top 10 Barriers to Competitiveness - "Internal barriers to trade," as suggested in Perrin Beatty's interview with Richard Blackwell in April 2013<sup>30</sup>. Other Top 10 Barriers that could be positively impacted include skills shortages and inadequate workforce productivity. Additionally, the benefits to potential skilled immigrants would align with population growth strategies in place across the country.

Currently, the practices in place to recognize credentials interprovincially vary widely amongst professions. Some professions, such as architects, engineers, securities traders, Certified Management Accountants and pharmacists have taken steps to nationalize their credentialing process and report little to no labour mobility issues. Others, such as occupational therapists and teachers have labour mobility agreements in place involving minimal red tape. Physicians have similar interprovincial agreements in place, but there is a varying level of red tape between provinces. Some professions require further testing in addition to documentation to move between provinces, these include land surveyors, massage therapists (for some provinces), and social workers.

The roots of the province-based licensure and accreditation scheme is found in section 92(9) of the British North America Act<sup>31</sup>, which gives the provinces authority over issuing professional licences. However, as advances in technology and transportation have made the country (and the world) increasingly interconnected since 1867, this section has become correspondingly less relevant and appropriate in application, as evidenced by the five enumerated categories of licences listed: "shop," "saloon," "tavern," "auctioneer," and "other."

In part, provincial licensure powers were intended as a source of revenue for provinces and municipalities, which could still be maintained with standardized regulations, whether administered by the federal or provincial governments. There may also be opportunities for efficiencies in a standardized system, which could enhance licensure schemes as a revenue source.

Standardized licensing would also satisfy the spirit of section six of the Canadian Charter of Rights and Freedoms, dealing with mobility rights, which states in part: (2) Every citizen of Canada and every person who has the status of a permanent resident of Canada has the right: (a) to move to and take up residence in any province; and (b) to pursue the gaining of a livelihood in any province<sup>32</sup>.

While the federal government, provinces and territories created the Agreement on Internal Trade (AIT)<sup>33</sup> in 1995, the Council of Federation agreed to work on a plan to fully implement the AIT in 2004, and the First Ministers agreed to amendments in 2009, progress has been sporadic on the labour mobility front for skilled professions. The most progress made on the labour mobility front is with the skilled trades through the red seal program. This initiative has brought standardize regulations and requirements for skilled trades throughout the country. The red seal program may be used as a model for professions to attempt further standardization of credentials to increase mobility, reduce red tape and make Canada a more attractive location for potential immigrants.

### Recommendation

That the federal government work with the provinces and territories to fully implement and enforce the provisions and spirit of chapter seven of the *Agreement on Internal Trade* through:

<sup>30</sup> <http://www.theglobeandmail.com/report-on-business/economy/canada-competes/why-are-we-blocking-free-trade-between-provinces/article11541453/?page=all>

<sup>31</sup> <http://laws-lois.justice.gc.ca/eng/Const/page-4.html#h-19>

<sup>32</sup> <http://laws-lois.justice.gc.ca/eng/Const/page-15.html#h-43>

<sup>33</sup> [http://www.ait-aci.ca/index\\_en/ait.htm](http://www.ait-aci.ca/index_en/ait.htm)

1. Prioritization of professions whose standardized licensure and accreditation would most benefit the Canadian economy in the context of closing the skills gap.
2. Consultation and coordination of discussions between provinces and territories to standardize licensing requirements.

## **Enhancing the Working Holiday Visas is Part of the Solution to Canada's Labour Shortage**

Canada faces steep demographic and workforce challenges in the coming years. As an example, in BC alone, more than one million jobs are due to be created in the next decade with only 650,000 workers to fill them. The tourism industry alone is projecting an average rate of employment demand growth of 1.6 per cent from 2011-2020 that translates to more than 100,000 full-year job equivalency openings from 2011-2020 (44,000 due to anticipated growth, 57,000 due to retiring workers), from a base of approximately 250,000 full-year job equivalencies<sup>34</sup>.

Immigration will play an enormous role in Canada's ability to address its labour market challenges and secure its economic development success in the next decade. This is because<sup>1</sup>:

- Under-represented labour sources e.g. older, disabled, aboriginal and new immigrants will address only a small portion of the anticipated supply shortages.
- Aside from aboriginal youth, the only growth in the labour market will be from immigration.
- Entry-level, front-line and seasonal positions are traditional first jobs of youth, but the declining youth population means existing supply side challenges for these positions will deteriorate significantly.

The IEC Program, formerly known as the Working Holiday Visa Program, manages Canada's youth mobility arrangements and agreements with different countries around the world and offers travel authorization and temporary work permits to young people aged 18-35 for up to one year. In 2007, Canada struck a bilateral agreement with Australia that extended the duration of their respective Working Holiday Visas from one to two years. The Agreement was also amended to enable Canadian and Australian youth to make multiple applications via the program.

Although the IEC Program is available and accessible to a range of sectors, the tourism sector in particular relies heavily on the Program to attract and retain workers.

The tourism sector's reliance on the program is reflected in the results of the most recent Canada West Ski Area Association's annual employer survey<sup>35</sup>. Of most interest is the number and percentage of international workers – both temporary foreign workers and those who work under IEC Program – as a proportion of the workforce:

- The total number of all positions included in the survey was 5,910. Of these positions, 62 per cent were Canadians and 38 per cent were foreign nationals (a 2 per cent increase in foreign nationals over the previous year)
- Of the total number of international workers hired, 89 per cent were acquired through the IEC Program with the remaining 11 per cent sponsored through the Temporary Foreign Worker Program.
- Visas secured under the IEC Program represented 33 per cent of overall counted hires.
- International workers outnumbered Canadians in the Busser/Dishwasher, Housekeeping, and Short Order Cook occupations. Foreign nationals, acquired primarily through the IEC Program, represented 62 per cent of total reported Busser/Dishwasher positions, 64 per cent of total reported Housekeeping positions, and 54% of total reported Rental Attendants positions.

The extension of the Australian Working Holiday Visa has now been in place for five years. In the context of the tourism sector alone, the following observations can be made.

<sup>34</sup> go2 submission to BC Immigration Task Force, February 2012

<sup>35</sup> Canada West Ski Areas Association, Annual Employer Survey 2012

Although causality has not been proved, and noting that there are many other factors that have contributed to the growth in numbers of visitors from Australia e.g. strong AUD, strong economy, cheaper flights etc, the extension of the Australian Working Holiday Visa may also have contributed to the 18 per cent increase in number of Australian visitors to Canada over the same period<sup>36</sup>. A stronger relationship with e.g. the UK, would likely have a positive, long-term impact on tourism from that market.

The extension of the Australian Working Holiday Visa has positively impacted employers, employees and our communities in the following ways:

- Employers have access to a pool of highly qualified, often skilled and engaging individuals who settle into the community quickly and who contribute positively to the overall guest experience.
- Employers save time and money by not having to dedicate substantial resources to annual international recruitment process and instead can dedicate time and resources towards provision of staff development and retention throughout the two year period.
- Employees, under a two year visa, have a more comprehensive and fulfilling experience with their Canadian employer and, as a result, can leave with a valuable addition to their resume.
- Some employees who are on a progressive career path and who enjoy the Canadian lifestyle pursue Canadian permanent residency in order to continue their career here, build families and contribute to the community in a variety of ways over the long term.

The extension of the Australian Working Holiday Visa has resulted in multiple benefits as outlined above in the context of only one sector. It needs to be maintained and replicated with other countries in order to help address our provincial and national labour market challenges that extend across a variety of sectors.

### **Recommendation**

That the federal government enhance the IEC Program by:

1. Maintaining the present bilateral agreement provisions with Australia that allows a Working Holiday Visa with duration of a minimum of two years to be issued between the two countries.
2. Modifying the current bilateral agreements with the United Kingdom, Ireland and New Zealand, so that their associated conditions and criteria mirror those of the Canada-Australia agreement.
3. Creating a similar arrangement, modeled on the Canada-Australia agreement, with other countries where capacity exists.

### **Reverse Negative Changes to the Temporary Foreign Worker Program**

Recently announced changes to the Temporary Foreign Worker Program (TFWP) put business in Canada at risk. Announced changes slow down access to temporary foreign workers (TFWs), on which many of the businesses across the country depend heavily. The changes suspend the Accelerated Labour Market Opinion (A-LMO) process and will require each application for a TFW to include a transition plan to replace the temporary workers with Canadian workers. The introduction of new user fees will also disadvantage and discourage applications to the program.

These changes reflect intense regional pressures and put all Canadians into the same situation at a time when the economic climate across provinces varies greatly.

On April 29, 2013, the federal government announced changes to the TFWP which reduces its flexibility, increases the wait times, and adds costs for employers. These changes to the program appear to be in response to concerns about abuse of the program and the need to ensure Canadian workers were able to access available jobs. The TFWP is designed to ensure that any positions for which TFWs are requested are offered to Canadian workers first. Given the design of the program, changes made by the government are unnecessary to ensure that Canadians are given priority

<sup>36</sup> *Tourism BC, International Visitor Arrivals, December 2012*



to fill these positions. However, the program does not appear to have been managed in such a way as to deliver the intended objective.

The following table illustrates the distribution of TFWs across the country in December 2008 and December 2012 and highlights the unemployment rate in April 2013.

Western Canadian provinces have been experiencing tremendous growth. Alberta's economy grew by 3.9 per cent in 2012 while Manitoba and Saskatchewan showed strong numbers at 2.7 per cent and 2.2 per cent, respectively.<sup>37</sup> The announced changes to the TFWP will have a strong negative impact on these economies, as they are increasingly reliant on this source of labour in the midst of a growing labour shortage.

The information contained in the table below indicates that the greatest growth in the use of TFWs has been in some of the provinces with significant unemployment. While BC, Ontario, and Quebec have seen their use of TFWs grow by 28 per cent, 30 per cent, and 70 per cent, respectively, these provinces also now suffer from high unemployment. At the same time, other provinces, such as Manitoba, with lower unemployment have seen only modest growth in the use of the program. Other provinces such as Saskatchewan, are drastically increasing their use of the TFWP due to increasing key worker shortages. Recent studies indicate that in Saskatchewan, employers, particularly in small business and construction, identify shortages of skilled labour as the biggest challenge for doing business in Saskatchewan.<sup>38</sup>

Provinces across Canada currently face identical policies regarding temporary foreign workers while facing significantly different labour situations. Current labour policies in Canada do not reflect the varied economic climate across the provinces. Restrictions on TFWs may be more merited in provinces where plenty of labour is available, for example, Ontario and Quebec have an unemployment rate of 7.7 and 7.8 per cent, respectively, with a combined total of over 910,000 unemployed workers<sup>39</sup>.

<sup>37</sup> RBC Economics. (2013) *Provincial Outlook Update*, Retrieved from <http://www.rbc.com/economics/market/pdf/provupd2013.pdf> on May 23, 2013

<sup>38</sup> Canadian Federation of Independent Businesses. (2013). "Sask small business optimism #1 in Canada: Hiring plans at 4 year high." Saskatchewan News Release. Retrieved from <http://www.cfib-fcei.ca/english/article/5030-sask-small-business-optimism-1-in-canada-hiring-plans-at-4-year-high.html> on June 4, 2013

<sup>39</sup> Government of Alberta. (2011). *Alberta's Occupational Demand and Supply Outlook (2011 – 2021)*. Alberta Enterprise and Advanced Education. Retrieved from <http://eae.alberta.ca/documents/occupational-demand-and-supply-outlook.pdf> on May 21, 2013

### TFWs and Unemployment, by province or territory

Province	TFWs 2008 <sup>40</sup>	TFWs 2013 <sup>2</sup>	Percentage increase	Unemployment rate April 2013 <sup>41</sup>
NL	1,060	2,550	140	12.1
PEI	467	1,119	139	11.6
NS	2,511	4,364	73	9.0
NB	2,017	2,880	17	10.9
Quebec	25,857	44,115	70	7.8
Ontario	90,802	119,899	32	7.7
Manitoba	5,294	5,572	5	5.8
Saskatchewan	4,306	9,349	117	4.0
Alberta	57,545	68,319	18	4.4
BC	58,151	74,216	28	7.0
Yukon	245	415	69	6.5
NWT	301	302	=	8.4
Nunavut	32	53	65	11.7
Not stated	938	5,036	436	
Total	249,526	338,189	35.53	7.2

Of the changes announced on April 29, three major changes to the TFWP are of particular concern.

#### **Suspending Accelerated Labour Market Opinions (A-LMO)**

When introduced in September 2012, the A-LMO option significantly shortened the process and waiting period to apply and be approved for TFWs, allowing trusted and proven employers to bring in much-needed workers quickly and efficiently.

The sudden suspension of the A-LMO has created instability for many Canadian businesses which have learned to rely on this effective program. Businesses in Canada must, now, potentially wait months for approval to even begin the long process of seeking, securing and retaining the workforce they need just to keep their doors open.

Although the A-LMO suspension is “temporary,” the federal government has not provided any indication of how long the suspension will be in effect.

The suspension and consultation period will undoubtedly slow down the regular Labour Market Opinion (LMO) process even more.

<sup>40</sup> Government of Canada. (2013). *Canada – Temporary foreign workers present on December 1<sup>st</sup> by province or territory and urban area, 2008 – 2012*. Citizenship and Immigration Canada. Retrieved from <http://www.cic.gc.ca/english/resources/statistics/facts2012-preliminary/04.asp> on May 27, 2013

<sup>41</sup> Government of Canada. (2013). *Labour force characteristics, seasonally adjusted, by province (monthly)*. Statistics Canada. Retrieved from <http://www.statcan.gc.ca/tables-tableaux/sum-som/101/cst01/lfs01b-eng.htm> on May 21, 2013

### **Transition plan requirement for LMOs**

A new stipulation of the LMO process will require businesses to submit a plan to transition to a domestic workforce “over time.”

The transition plan requirement does not recognize the fact that businesses that hire TFWs do not prefer TFWs to domestic workers. Employers face lower costs when hiring domestic workers as there are fewer potential costs associated with housing, travel and cultural assimilation.

Requiring a transition plan creates unnecessary and additional burden for business. It will particularly affect small business owners who do not have human resources personnel to assist with the additional workload.

### **User fees for LMOs and increased cost of work permits**

The Government of Canada will introduce an LMO user fee to ensure taxpayers are not subsidizing the cost of administering the TFW process. It will also increase the cost of work permits for the same reason.

Business understands the philosophy behind user fees but these should truly reflect administrative cost; they should not be set to a level that purposefully discourages businesses from applying for TFWs.

New fees and increases to existing costs have the greatest impact on small business.

There are already many costs and additional requirements associated with hiring TFWs; only businesses that truly need to recruit internationally decide to choose this option. Special measures to dissuade business from using the program are unnecessary, and show a lack of federal understanding for regional labour shortages.

### **Recommendations**

That the federal government:

1. Immediately restart the Accelerated Labour Market Opinion process to prevent a needless and costly slowdown of Canada’s economy.
2. Eliminate the proposal to make the transition plan a part of the LMO process.
3. Ensure that the new user fees and work permit fee increases accurately reflect the cost of administering the TFWP.
4. Eliminate fees as a means of discouraging business from accessing the program.
5. Increase communications and awareness about the TFWP to help Canadians realize its importance to Canadian economic growth.
6. Develop a program of regional flexibilities in the federal immigration policy that would allow the Government to respond to the realities of the availability of labour and the performance of the economy in provincial and territorial jurisdictions.
7. Work with provincial governments on changes to the TFWP that would take into account the specific needs of the individual provinces.

### **Addressing economic immigration in the new Expression of Interest (EOI) system**

Citizenship and Immigration Canada will be introducing an Expression of Interest (EOI) system to turn the Federal Skilled Worker program into a demand-driven approach with an increased role for employers to select potential immigrants. The new EOI system is expected to be introduced by the end of 2014, or early in 2015.

Since the fall of 2012, CIC has been holding consultations on the implementation and detailed design of the new system. Both New Zealand and Australia have EOI programs which are potential models for Canada. (New Zealand’s program has been in place since 2003, while Australia introduced its program in July 2012).

An EOI system has three key features: 1) it is just-in-time (and will be online only); 2) it will allow CIC to manage front-end intake (by adjusting criteria, or even closing the system to applicants); and 3) it will be demand-driven, by involving employers through the selection process.

CIC is considering establishing an employer registry for employers to have access to the EOI database of candidates. A job offer by an employer would take a candidate from stage 1 in the EOI system to stage 2, when the permanent resident (PR) application can be submitted for processing and screening. In Australia, the processing time is between three to six months for candidates' PR applications.

Many employers rely on legitimate third parties to assist them with their immigration and recruitment needs. Those employers and others may prefer not to register for access to the EOI database. This raises the question where CIC would be willing to allow third parties to be registered and possibly bonded to be eligible players, on behalf of employers, within the EOI system.

There will be several key benefits to employers with this system including the opportunity to review potential candidates who have "expressed interest" and then to benefit from a timely processing of candidates with job offers.

A demand-driven process will still require attention to other aspects of economic immigration.

For example, the location of employment should still be combined with the availability of settlement services for immigrants, wherever possible. In addition, it is important that candidates are aware of the state of the local economy where they may work, including the availability of housing and the cost of living relative to wages.

For as long as National Occupational Classification (NOC) codes are used in a new EOI system, there should be an effort to ensure that the skills required within a regional or local economy are reflected on a timely basis by the NOC codes listed as eligible occupations for entry via the program. Currently, NOC codes are updated once every five years and the revision of the eligible occupations list is completed on an ad hoc basis.

It is also worth considering the potential impact of an EOI system on the Provincial Nominee Program, which is largely a demand-driven approach where employers are involved in the selection or nomination of immigrants. CIC has indicated, however, that there are fraud issues with the PNP. As the CIC moves to implementing an EOI system by late 2014, employers who have relied on the PNP should ensure the EOI will help attract immigrants to regions outside Canada's major cities as the PNP has in certain provinces.

### **Recommendations**

That the federal government, working in concert with provincial and territorial governments, ensure that the new Expression of Interest system for immigration:

1. Be expedient, responsive, and efficient in identifying regional labour needs and in processing applications from both employers and potential workers to meet those needs.
2. Be open to third parties including, but not limited to, international recruitment firms, immigration lawyers and industry groups, which are acknowledged by the Regulated Canadian Immigration Consultants and/or provincial regulatory boards.
3. Encourages regional distribution based on skills and population needs.

## **Territorial Minerals Workforce Development Strategy**

### **Background**

Mine Training Organizations (MTOs) in Canada's territories were initially co-funded by mine industry partners and the federal government through the Aboriginal Skills and Employment Partnership (ASEP) program. ASEP funding was discontinued on March 31, 2012 and MTOs were advised to look elsewhere for funding or close down operations.

There is a compelling business case for the continuation of federal training investments in the territories to ensure resource development succeeds and, with it, the economic benefits that would flow to the rest of the territorial and Canadian economies. The Conference Board of Canada, the Canadian Chamber of Commerce and other national

bodies forecast that all or most of Canada's territories could continue to lead the country in GDP growth over the next several years. The development of mining projects in the territories is key to making this possible.

There are more than 20 new mining projects in the territories at various stages feasibility and regulatory assessment. Collectively, these opportunities represent \$2 billion in resource royalties and tax revenues to the federal government in addition to existing mining royalties.<sup>42</sup>

Additionally, the chambers of mines for the three territories have estimated that mining companies will invest \$19 billion in projects over the next 7-10 years. This represents a significant body of additional revenues to the federal government through the Goods and Services Tax (GST).

If all of these mines progress to the operations stage, the territorial mining industry alone will require over 10,700 additional workers by the year 2017. Natural Resources Canada estimates that for every direct mining job, there are three indirect jobs created. That translates into 32,000 jobs in the three territories and throughout Canada to provide goods and services to territorial mining projects.

The most common impediment to mining development in the territories is the significant shortage of skilled workers<sup>43</sup>. Over the past nine years territorial MTOs have addressed industry needs by recruiting and training candidates. Virtually all of these candidates were of Aboriginal descent and most were on some form of income assistance.<sup>44</sup> In total, more than 1,400 people in the territories have been trained and placed by MTOs since 2004<sup>45</sup>. This is a remarkable metric given the fact that many trainees began with literacy and numeracy deficiencies.

To address the elimination of ASEP funding all three territories have worked together to develop the Northern Minerals Workforce Development Strategy (NMWDS), which has been discussed with the federal government since the fall of 2011 and presented to territorial representatives in the federal government caucus. The NMWDS is a partnership between amongst the territories and has the support of territorial mining companies and more than 120 industry, national, Aboriginal and territorial leaders.<sup>46</sup> All three territorial premiers have endorsed moving forward in a united manner.<sup>47</sup>

The NMWDS is industry-driven and partnership based. Industry will identify the jobs and careers available and provide job assurances to successful trainees. Funds will only flow where there is a demonstrated, positive outcome. MTOs are performance-based organizations achieving measurable results.<sup>48</sup>

The cost of the NMWDS is \$200 million over five years. The territorial project partners, including mining companies, will invest 50 per cent of the costs. The partners are requesting that the federal government also invest 50 per cent of the costs in support of territorial economic development and in recognition of the national benefits. This is the same funding formula that existed prior to the elimination of ASEP.

As a stop gap, since March 31, 2012, mining companies and partners in the territories have covered the shortfall created by the elimination of ASEP funding. MTOs have also restructured their funding portfolios and sought training dollars on a project-by-project basis through the Skills Partnership Fund. This piecemeal approach is a temporary solution and only works for small projects. The funding envelope needs to provide proponents with greater certainty, capacity and a long-term solution.

<sup>42</sup> Northern Minerals Workforce Development Strategy, March 2012

<sup>43</sup> Canada's mining sector will need more than 112,000 new workers by 2021: *An HR Strategy for the Canadian Mining Industry, Activity Update 2012-2013*, Mining Human Resources Council

<sup>44</sup> According to Hilary Jones, General Manager of the Northwest Territories Mine Training Society, 100 per cent of a test group of trainees vetted by the Northwest Territories' Department of Education, Culture and Employment enrolled in her organization's programs between 2004-2007 were on some form of government assistance. Of these people, nearly all were of Aboriginal descent. After completing their training, 77 per cent went on to become employed and moved off income assistance.

<sup>45</sup> Annual Reports of the Kivalliq Mine Training Society, Yukon Mine Training Association and NWT Mine Training Society 2009-2011

<sup>46</sup> Common Ground – Pan-Territorial Mine Training Organizations Strategic Planning Workshop - Outcrop Communications October 13, 2011

<sup>47</sup> Northern Premiers' Forum, June 2012

<sup>48</sup> Evaluation of Mine Training Society Programs and Employment Targets Summary and Final Reports May 26, 2011

MTOs are the “life lines” of the territorial minerals industry. Mining growth is continuing at a tremendous pace. This growth will be curtailed, however, if MTOs are not co-funded going forward. The corollary is that territorial peoples who would have otherwise been trained for skilled, well-paying jobs in the mining sector will likely remain on income security programs and national benefits will be lost.

The federal government has a vision for Canada’s territories and is taking some action to ensure that vision comes to life for the benefit of all Canadians.

When MTOs were advised to look elsewhere for funding, the private sector stepped up. But unlike provinces, there is not another level of government with revenues available to fund MTOs in the territories, since resource the vast majority – or all depending upon the territory – of natural resource royalties flow to the federal government. It is not unreasonable to expect that a small portion of natural resource royalties and tax revenues would be returned to the territories through a partnership with the federal government to support training that benefits federal finances and is in the national interest.

### **Recommendation**

That the federal government restore its 50 per cent funding partnership with mine training organizations in the territories, as defined in the Northern Minerals Workforce Development Strategy, beginning in fiscal year 2014-2015.

## **Renew Federal-Provincial Labour Market Agreements Instead of Implementing the *Canada Job Grant***

### **Background**

In the Budget 2013 speech, Canada’s Minister of Finance announced a new initiative called the *Canada Job Grant*. This grant would be offered uniformly across the country to businesses that hire and train unemployed workers. The Grant, “will require matching from employers as well as provinces and territories. (...) The Grant will provide access to a maximum \$5,000 federal contribution per person towards training at eligible training institutions. This means the Grant could provide \$15,000 or more per person, including provincial/territorial and employer contributions.”<sup>49</sup>

The Canadian Chamber of Commerce supports the objectives of this initiative to encourage hiring and on-the-job training. The Canadian Chamber recognizes that Canadian employers must invest more in training their workforce and that government employment assistance programs should encourage them to do so.

In the 1990s, the federal government transferred responsibilities, budgets and staff assigned to job training and development programs to provincial governments so that these programs could take into account the diverse realities of the labour market in the various regions of the country.

When renewing the Labour Market Agreements, the federal government needs to avoid certain potential drawbacks and address certain key concerns. The issues and concerns to address include:

- Not reducing the overall pool of funding available to provinces and territories;
- Allowing provinces and territories to determine the use of program funding according to the needs of each labour market;
- Avoiding duplication of provincial programs or making the process more cumbersome and bureaucratic
- Taking into account the very diverse needs of businesses based on economic sectors and regions. “One size fits all” employment assistance cannot meet all these needs; and,
- Recognizing that many small businesses cannot afford to pay much for training, yet SMEs are the ones most in need of assistance.

### **Recommendation**

That the federal government:

<sup>49</sup> <http://actionplan.gc.ca/en/initiative/canada-job-grant>

1. Instead of implementing its own *Canada Job Grant* program, negotiate with provincial/territorial governments to renew labour market agreements that are set to expire in 2014, in accordance with on-the-job training priorities.
2. Work with a task force of CEOs and representatives of provincial/territorial chambers and the CEO of the Canadian Chamber of Commerce who will inform the federal/provincial/territorial negotiations and take an active role in the renewal of the Labour Market Agreements to ensure they are respectful of the regional needs of the businesses in each province and territory.

## **Accepting the List of Designated Programs for the Federal Government's Educational Institution Eligibility Policy Framework**

Through licensing, the Government of Alberta recognizes and/or designates Post-Secondary Institutions for participation in Federal programs (i.e. Canada Student Loans and Grants, Post-graduation Work Permits, Study Permits). The federal government accepts Provincial authority to grant recognition and/or designation and proposes regulatory changes through the Educational Institution Eligibility Policy Framework for students attending institutions designated by provinces and territories.

Licensed status allows students to be eligible for student financial assistance in the form of federal and provincial loans, grants or bursaries. It is also used by government departments and agencies to decide which institutions or programs will receive which rights, benefits or assistance from the provincial and federal governments.

With the exception of Alberta, all other provinces and territories in Canada assign their licensed status to institutions. The Alberta government has an innovative market responsive system that licenses individual programs rather than institutions as a whole. This assures local labour market relevance for the program type and location.

Presently in Canada, with the exception of Quebec, foreign graduates of public institutions are eligible to work in Canada for a varying period of time if they achieve a certificate, diploma or degree from a 'Participating (or recognized) Canadian Post-Secondary Institution'. Foreign graduates of private educational institutions are not eligible to obtain employment in Canada unless the private institution confers degrees.

If the private post-secondary institution does not confer degrees, instead granting diplomas or certificates, foreign students graduating from these programs are not eligible to work in Canada at all; even if the program they graduated from or the skills which they developed fully meet Canada's labour needs.

Private post-secondary institutions operating in Quebec attract foreign and graduate them to work in the Canadian labour market. Private institutions in other jurisdictions can similarly provide foreign graduates to help resolve labour shortages.

By practicing a policy that prevents foreign graduates of private institutions from working in Canada, the federal government eliminates a potential inflow of workers who could easily transition into employment in Canada's market place and help resolve our labour shortage.

In order to reconcile the disparity, provincial governments must submit a list of provincially licensed institutions to the federal government for designation consideration within the Educational Institution Eligibility Policy Framework.

The Government of Canada should recognize designation by program as a responsive methodology assuring local labour market relevance for post-secondary program type and location. And, rather than forcing jurisdictions that are already applying this methodology to revert back to less responsive licensing practices (i.e. licensing by institution), to accept the list of designated institutions provided by each province based on the current licensing requirement of the province.

### **Recommendation**

That the federal government accept the list of post-secondary educational designated institutions provided by each province based on the current licensing requirement of that province.

## **Reducing Labour Shortages by Expanding Options for Canada's Private Educational Institutions**

Current federal government policy, as described in the Federal Government's Post-Graduation Work Permit Program, under Citizenship and Immigration Canada (CIC), limits potential labour force growth and creates an uneven playing field (based on enrolment appeal) between publicly funded and private post-secondary educational institutions. The imbalance is created because post-graduation work opportunities in Canada are not permitted for foreign students who choose to obtain their education, through a Canadian private institution, by way of a certificate or diploma, as opposed to degree program.

Presently in Canada foreign graduates of public institutions are eligible to work in Canada for a varying period of time if they achieve a certificate, diploma or degree from a 'Participating (or recognized) Canadian Post-Secondary Institution'. Foreign graduates of private educational institutions, with the exception of Quebec, are not eligible to obtain employment in Canada unless the private institution confers degrees.

If the private post-secondary institution does not confer degrees, but instead grants diplomas or certificates, foreign students graduating from these programs are not eligible to work in Canada at all; even if the program they graduated from or the skills which they developed fully meet Canada's labour needs.

Certificate and Diploma granting private post-secondary institutions operating in Quebec attract foreign students and graduate them into work in the Canadian labour market. Foreign graduates from certificate and diploma granting Private institutions in all other provinces are prevented from providing foreign graduates to help resolve Canadian labour shortages.

By practicing a policy that prevents foreign graduates of private institutions from working in Canada, the federal government eliminates a potential inflow of workers with Canadian credentials who could easily transition into employment in Canada's market place, and help resolve our labour shortage.

It is a known fact that the skills shortage our country faces is not just limited to higher skilled (degree requiring) positions. By eliminating the current policy barrier, the federal government will not only level the playing field between public and private institutions, which already is reason enough to act, but also ensuring that foreign graduates of all skill levels have an equal chance of gaining meaningful employment upon graduating from a Canadian post-secondary institution.

Further, by removing the work restrictions placed on foreign graduates of private institutions, the federal government will enable Canadian private institutions to attract more potential workers into Canada. This will have tremendous positive effects through increased tax revenue from private institutions and new students as well as a growing labour pool to help resolve shortages.

A 2008 federal government report measuring the economic value of the presence of international students in Canada estimated that total expenditures by international students while they study in Canada (tuition, accommodation, living costs, travel and discretionary products and services) resulted in a \$6.5 billion infusion to the Canadian economy. According to the report, Expenditures of international education students have now surpassed exports of coniferous lumber (\$5.1 billion) and coal (\$6.1 billion). (Note that this amount does not include exports of education services, which were not part of the scope of the study). The same report also found that in 2008 these international students generated about \$291 million in government revenue and created economic activity that sustained employment for 83 000 Canadians.

Furthermore by expanding all work permit availability to private institution certificate or diploma graduates, the federal government would put more control and responsibility for success in the hands of private small and medium sized businesses, which ultimately are what drive the growth of our country's economy.

### **Recommendation**

That the federal government expand the Post-Graduation Work Permit Program to allow foreign graduates from provincially or territorially accredited or assured Private Post-Secondary Institutions to obtain a Canadian Work Permit upon completion of their degree, diploma or certificate program.



## Acknowledgement of the Base Principles of Pension Reform

### Statement of the Problem

While some Canadians are prepared and will be sufficiently funded for retirement either through private or public service pension plans or through their own prudent planning, it is generally acknowledged that many are not.

Within the next decade Canada will see millions of baby boomers enter retirement, many without sufficient savings to sustain a reasonable standard of living.

Although the impact of this shortfall is unclear the risks to our economy and the stability of government –funded old age benefits is so significant to warrant immediate action.

The Canadian Chamber agrees that the fundamentals of the retirement income system are strong. However, there are significant challenges that, unless addressed, will challenge the viability of many retirees' ability to live out their retirement with dignity. The Canadian Chamber believes that government must continue to engage business in developing recommendations to ensure that it can provide for seniors without putting stress on government budgets and forcing business and younger Canadians to carry the burden through increased taxes.

### Details of the Problem

Over the next two decades, Canada will see an unprecedented number of people enter retirement. Dealing with shortfalls for under-funded senior citizens is a complex problem and one that requires government attention immediately.

Not every Canadian has had an opportunity to participate in a private or public sector pension plan and the Canada Pension Plan will not meet the needs of many seniors. The stock market upheaval of 2008 saw many Canadians sustain heavy losses in their personal retirement portfolios.

Asking Canadians to endure a tax hike in order to close the gaps is rightly seen as unfair and represents an excessive burden to younger generations.

The Canadian Chamber congratulates the federal government for recognizing the importance of this issue and its efforts to solicit input through the *Ensuring the Ongoing Strength of Canada's Retirement Income System* consultation. The Canadian Chamber was particularly pleased to see that this consultation process was underpinned by a set of principles:

- "The system should remain affordable for individuals and businesses
- Costs incurred by governments should be appropriate and affordable, as well as sustainable over the long-term
- The system should function so that it does not transfer costs from one generation to another
- There should continue to be an appropriate balance maintained between individual and government responsibility for retirement savings, and an appropriate level of individual choice
- The system should remain accessible to all Canadians."

The Canadian Chamber endorses these principles as the foundation of any recommendation for change and is also pleased to see that efforts are being made to find solutions on a partnership basis with the provinces and territories.

However, the Canadian Chamber is concerned that there is a lack of clarity regarding next steps and timelines. The Canadian Chamber believes it is critical to ensuring this process moves forward in an expeditious manner that a clear and binding timetable be developed for the publication of recommendations for change, that these recommendations be open for public and stakeholder input and that a timetable for legislative changes be introduced.

There may be reforms related to estate issues, or the Employment Insurance program or other initiatives to reduce government overhead that could mitigate the pension funding issues. There may be a need for a retirement education program to help Canadians prepare for retirement costs or there may be a need to create a mandatory individual retirement plan directed by accredited planners.

We recognize the federal government's initiative with Pooled Registered Pension Plans (PRPP) as a positive first step to fostering pension reform. All the provinces support PRPPs in principle. Saskatchewan and Alberta have passed PRPP legislation and Quebec has introduced similar legislation. The 2013 Ontario budget signaled the province's intention to introduce legislation to implement PRPPs. PRPPs will be the first test of a "volunteer" concept – a large-scale, broad-based pension option available to employees – with or without a participating employer – as well as the self-employed.

The Canadian Chamber also acknowledges the federal government's modification of the solvency funding requirements for federally-regulated in an era of record-low interest rates.

There may be some immediate reforms that can be made, and there may be some longer-term solutions to be found. The important fact is that we begin to approach the situation.

### **Recommendations**

That the federal government:

1. And provincial/territorial governments continue to work to create an affordable pension environment for the benefit of all stakeholders.
2. Create a balanced approach to private sector options within the Canada Pension Plan (CPP) environment. A balanced approach would include offering additional employee contribution options without requiring any additional input from the employer. However, the employer would be able to match contributions on a voluntary basis.
3. Create legislative measures to direct recommendations within one year that fall within the guidelines of the "Base Principles of Pension Reform".

### **Addressing Homelessness in Canada**

Chronic homelessness and poverty is an issue for all levels of government and businesses across Canada.

A 2008 study for the Ontario Association of Food Banks authored by Don Drummond and other leading economists notes that not addressing the root causes of poverty costs approximately \$13.1 billion annually. The study indicates that due to the persistence of this condition, all residents of Ontario pay through increased expenditures for healthcare, housing, crime and social assistance and in the loss of tax revenue that accompanies low earnings.

The 2013 federal budget included three specific measures related to housing and homelessness<sup>1</sup>) \$119 million per year over five years for the Homelessness Partnering Strategy (HPS), 2) \$253 million per year over five years to renew the Investment in Affordable Housing, and 3) \$100 million over two years to support the construction of housing in Nunavut.

The Homelessness Partnership Strategy will utilize a "Housing First" approach which aims to move homeless people rapidly from shelters and the streets into stable housing, while providing them with the necessary support for underlying mental health or additional issues to stabilize their lives. The HPS will seek to address homelessness by working in partnership with communities, provincial and territorial governments, and the private and non-profit sectors.

An editorial in the Toronto Star on April 30, 2013 noted that the recent federal budget marked a significant change in the way homelessness is tackled in this country.<sup>50</sup> Authors Sam Tsemberis and Vicky Stergiopoulos claimed the commitment to *Housing First* will dramatically shift the focus in Canadian housing policy from "helping the homeless" to "ending homelessness."

In the U.S., *Housing First* programs have been shown to effectively end homelessness by providing immediate access to housing and support services and then providing required treatments. Previously, individuals were required to meet milestones, such as mental health counseling, just to be eligible for housing.

<sup>50</sup> How the federal government plans to end homelessness. Sam Tsemberis and Vicky Stergiopoulos. Toronto Star, April 30, 2013.

The 2012 report *All Roads Lead to Home: The Homelessness to Housing Stability Strategy for Waterloo Region* compiled by Regional Municipality of Waterloo Social Services noted that all orders of government, businesses, not-for-profit groups and residents have a role to play in ending homelessness.

To achieve housing stability, three key resources are necessary – adequate housing, income and support. The primary goal of the strategy is to end homelessness through a shared approach where all community stakeholders work collaboratively.

In late May of 2013, the national Big City Mayors' Caucus (BCMC) called on provincial, territorial and federal governments to confront the growing housing crisis across the country. The BCMC proposed a new housing partnership by all orders of government dedicated to, among other components, eliminating chronic homelessness through proven strategies, stimulating new rental/affordable housing construction with tax incentives and other measures, and preserving and renovating existing social housing units.

Media reports in May 2013 noted that Calgary and Waterloo Region have more than 3,000 families on lists for affordable housing, while province-wide Ontario has 150,000 waiting. Ottawa Mayor Jim Watson noted the fiscal pressures are particularly intense in Ontario where housing is a municipal responsibility whereas the portfolio is provincially regulated across the remainder of Canada. Like other infrastructure, current affordable and social housing units at 40 to 50 years are reaching the end of their shelf life.

Kitchener Mayor Carl Zehr indicated that waiting lists for housing are getting longer in Waterloo Region due to an increasing population and an insufficient volume of new housing going on the market.

Canada's housing crisis is too large and complex for any single order of government to address unilaterally, given the thousands of builders, investors and community partners working within a myriad of federal, provincial and local regulations. A coordinated approach is, therefore, an imperative.

## **Recommendations**

That the federal government:

1. Maintain the "Housing First" approach of creating and sustaining affordable and supportive housing as a first priority in the development of a national strategy.
2. Coordinate efforts with the provinces/territories and municipalities to stimulate new affordable housing construction.

## **Creating and Amending Protocols for Economic Recovery From Disaster For All Businesses**

### **Issue**

Canada is at risk from a large number of diverse, natural and man-made disasters, many of which are capable of causing damage on a scale well beyond the epicenter of the problem (such as the expected west coast subduction earthquake, central Canada power failure, extreme cold and hot weather, massive flooding annually on the prairies, wildfires, tornados in central Canada, hurricanes and their remnants such as "Sandy" in the Maritimes and so on).

The June 2013 flooding disaster in Alberta (Calgary, Canmore, High River, Medicine Hat, among many) is a timely example of how disaster can strike almost overnight and bring many businesses in these cities, towns and districts to a standstill. The impact on the economy is dramatic. Alberta's recovery may take up to a decade (as has been estimated for Calgary and High River) or more.

While the first responders do their important work, many business owners are left to fend for themselves, which may mean at least temporary closure. Many simply close their doors and sadly some don't survive the event, leaving workers and owners alike unemployed and the area (and even the national economy) damaged.

If economic assistance, as a result of prescribed protocols, can be initiated immediately to all business that can demonstrate need, the severity of an economic disaster can be reduced because, in essence, paycheques will continue to flow into the community, and businesses can relocate and continue to function at some level without having to wait for insurance settlements. As conditions improve, recovery will occur much faster because the economy will

remain in motion throughout the disaster. Note that this does not connote “free money”, but rather assistance would be tracked and, as appropriate, paid back in part or in full as insurance and other funding mechanisms become available.

Such a successful program was created and instituted by the Christchurch (New Zealand) Chamber following the devastating earthquakes of 2010 and 2011. According to Peter Townsend, Chief Executive of the Canterbury Employers’ Chamber of Commerce, a temporary support system was created within days of the last quake where the national government provided temporary financial relief based the number of a business’ full time equivalents (FTEs). Payments went to the employer who then passed it on to the employees providing a cash flow to allow options of re-establishing elsewhere (temporarily) and allowing companies to continue operating, even marginally, sustaining the employees, their families, and the businesses where they shopped and spent money in the economy that would otherwise become cash-starved.

Public Safety Canada has prepared comprehensive plans that address issues around business continuity in the event of a disaster. From their website:

“Recognizing that some services or products must be continuously delivered without interruption, there has been a shift from Business Resumption Planning to Business Continuity Planning.”<sup>51</sup> The stated goal of the protocol is to enable “critical services or products to be continually delivered to clients”<sup>52</sup> (including financial assistance).

Certainly the restoration and maintenance of critical services and products is understood and unquestioned, as is the value of the Business Continuation Plan (BCP). However the goal of this resolution is to expand the criteria beyond just the critical services or products, to encompass the whole business community, so all companies operating at the time of the event, in the affected area, may qualify for emergency funding to help maintain the economy and prevent it from stalling. The funding would be provided on the basis of partial or complete repayment further removed from the disaster as the economy allows.

All businesses also need to participate formally by registering their business in Business Continuation Plan program. The BCP would include provisions that would allow for the partial or complete repayment of assistance based on criteria to be developed in greater detail by a joint team of the federal government, provinces/territories, and the Canadian Chamber of Commerce.

Business organizations, particularly chambers of commerce and boards of trade across the country could then facilitate this process.

Results published by Recover Canterbury the umbrella agency tasked with implementing the program would be an important case to study next step. It concluded:

“Recover Canterbury was always to be a temporary organisation. This month, after 26 months, it closed its doors. In that time, the organisation had contact with around 7,000 businesses. In 2012, Canterbury Development Corporation assessed its economic impact: by the most conservative assumptions, Recover Canterbury saved 617 jobs, and kept \$39 million in the economy. Almost 400 businesses received funding of \$6.1 million”.<sup>53</sup>

## **Recommendations**

That the federal government, to better prepare for and protect Canada’s strategic economic well-being:

1. Review the Public Safety Canada Business Continuation statutes with the view of including all qualified businesses in the protocols to receive emergency financial support to better stabilize the affected economy through the crisis period.
2. Develop a program to promote the need for Business Continuity Plans – and resources to assist in their development – with input from the Canadian Chamber of Commerce and the chambers of commerce and boards of trade across Canada.
3. Evaluate the cost of providing funding to businesses that demonstrate they need assistance in the result of a catastrophic disaster.

<sup>51</sup> Reference: <http://www.publicsafety.gc.ca/prg/em/gds/bcp-eng.asp>

<sup>52</sup> Ibid.

<sup>53</sup> <http://www.recovercanterbury.co.nz/>

## **Allow the Provinces to Decide on Single Sports Betting**

Bill C-290 An Act to amend the Criminal Code (Sports Betting) received all-party support in the House of Commons in March 2012 and has been stalled in the Senate since. Bill C-290 would delete the specific provisions of the Criminal Code that make it illegal to bet on "any race or fight, or on a single sports event or athletic contest." The provinces, under whose jurisdiction gaming has exclusively resided since 1985, would then have the policy lever to decide whether or not, and under what conditions, wagering on single sporting events will be permitted to occur.

If passed, the economic and social benefits of C-290 include:

- Offering people a legal alternative (by using a credit card and an internet connection) to the illegal single event betting and/or offshore single sports gambling market – some of which is linked to organized crime
- An additional source of provincial revenue to support social programs, including healthcare and education
- The creation of additional jobs and a competitive advantage at provincially-operated/regulated casinos
- An additional value proposition for U.S. citizens deciding where to spend their tourism dollars. (This is of particular importance to border communities whose economies have been hit particularly hard by recent increases in duty-free limits for Canadians travelling to the U.S. overnight and lagging U.S. tourism traffic due to our high dollar)
- Allowing provincial legislatures to determine whether or not they wish single sports betting in their jurisdictions

It is estimated that \$14 billion dollars of Canadian offshore and illegal betting occurs under the taxation radar every year. In an era where governments are clamping down on tax evaders and cheats, legalizing this type of betting would be a win for the Canadian economy.

### **Recommendation**

That the Senate of Canada pass Bill C-290 and that it come into force before the end of 2013.

## **Another Approach to Reducing Crime in Canada**

Over the past few years, crime and its impact on businesses and communities has become one of the most important issues for Canadian Chamber members across Canada.

While it is recognized that crime in Canada as a whole has seen a decline in recent years, some regions have witnessed increased criminal activity, and overall remains a significant issue for the business community. One prominent concern is the lack of a focused, coordinated national approach to both the impact of crime and its effect. The Canadian Chamber believes that there are two primary goals on which government should focus to have a significant and lasting impact on reducing crime rates:

- Identifying and tackling the root causes of crime
- Identifying and correcting capacity and inefficiencies in the application and prosecution of justice on a national level.

Improving Canada's record with respect to crime will require a concerted effort among all levels of government, police, prosecutors, the judiciary, those responsible for the treatment of drug addiction, mental health, housing the homeless, health authorities, and educators. There is a need for a consultative and cooperative approach involving all of these parties in a national effort, with a corresponding commitment of adequate resources.

These are significant challenges that cannot be addressed by one level of government, but rather by a coordinated, truly national strategy.

While the administration of the court system (for example, the need for Crown Counsel to lay charges and the delays in disposing of cases) is only within the jurisdiction of the provincial/territorial governments, the challenges with

regards to sentencing and the other substantive provisions of the *Criminal Code* are solely under federal jurisdiction. Without a collaborative approach, we will not be successful.

The Canadian Chamber believes these types of issues can best be addressed effectively through the creation of a Criminal Justice Task Force with a focused mandate. While the Canadian Chamber recognizes that significant changes to the *Criminal Code* have been enacted since 2006, including the 2012 omnibus crime legislation entitled Safe Streets and Communities Act, and many other resources dedicated to this issue; without a more structured approach, these changes and investments could very well prove to be limited in their impact on the wider, more national stage. The creation of a Task Force would be a cost-effective reordering of existing resources (a key concern for the Canadian Chamber given the current fiscal situation) that would allow for a more coordinated approach to government spending. This would lead to better outcomes and a more fiscally-effective use of government resources across the treatment, prosecution and incarceration spectrum.

The key to the success of the Task Force will be the level to which the individuals, and the Task Force as a whole, are free from political interference. The Task Force should be comprised of senior individuals from all levels of government and the criminal justice community. They need to be charged with a specific outcome and timetable to ensure that goals are met in an efficient manner and predictable timeframe.

While the recommendations of the Task Force will be the result of substantive consultation and research, the Canadian Chamber believes that a cornerstone of a national strategy must be one that focuses on cost-effective, evidence-based crime reduction approaches.

Cities are beginning to develop crime reduction strategies in an effort to address the root causes of crime in individual communities. We applaud their efforts, however, in order to reach its maximum effect and sustainability, a national crime reduction strategy is required that will be implemented in every province, territory and region in Canada.

### **Recommendation**

That the federal government work with other levels of government to create a Criminal Justice Task Force, isolated from political interference, that is responsible for the development and implementation of a comprehensive and integrated national crime reduction strategy to address the core issues and challenges facing the criminal justice system across the local, provincial/territorial and federal levels.

# TRANSPORT AND INFRASTRUCTURE

## Improving Canada's Infrastructure Through Public-Private Partnerships (P3s)

The 2013 federal *Economic Action Plan* notes that public-private partnerships, or P3s, can improve the delivery of public infrastructure and provide better value for taxpayers.

The advantages of a P3 model include:

- Achieving value for money
- On-time and on-budget delivery
- Promoting cost certainty and long term asset management. P3s that integrate design, construction, financing and maintenance (and possibly operations) into one contract present significant potential for realizing sound life-cycle management of real property assets
- Allocating risks to the partner best able to manage them
- Supporting innovation through performance-based contracts and competitive bidding.

Canada is emerging as a global leader through PPP Canada Inc., a federal Crown corporation established in 2008 with a mandate to promote the use of P3s when they can generate a higher return on investment. The aforementioned organization administered the P3 Canada Fund for the past five years and received a renewed \$1.25 billion commitment in the 2013 federal budget.

The 2013 budget also indicated that projects with capital costs over \$100 million submitted for federal funding under the new Building Canada Fund will be subject to a P3 screen to determine whether better value for money can be achieved through P3 procurement. The budget also noted that Canadians deserve the best public services for their hard-earned tax dollars, and when an infrastructure project can generate better value for money being delivered through a P3, it should be delivered as a P3.

Since the early 1990s, there have been over 100 P3 projects (completed, under construction or in procurement) within jurisdictions across Canada. The main sectors adopting P3s have been healthcare (40 per cent) followed by transportation (21 per cent).

The Federation of Canadian Municipalities (FCM), in a November 2012 report to the federal government,<sup>54</sup> noted that private sector innovation needs to be utilized by encouraging P3s that make sense. Although Canada has one of the most developed P3 markets in the world, there is clearly more room to leverage the expertise and financing of the private sector to meet national infrastructure challenges.

According to the FCM, costly business cases, excessive program application processes, and up-front legal fees can discourage municipalities from pursuing the P3 option. Current programs do not provide the support that municipalities require to do this work. Without this support, increasing the use of P3s in Canada will continue to be a challenge. Support for building this capacity will maximize federal investments by empowering municipalities to make the best choices for future infrastructure requirements.

Recent successes have indicated that P3 projects can be completed in mid-sized Canadian urban centres. For example, the new Waterloo Region Consolidated Courthouse, a \$379 million design, build, finance, and maintain (DBFM) facility serving a population of approximately 530,000 residents, was recently (January 2013) completed on time and on budget. Additionally, three consortia have been invited to submit proposals for the \$818 million Region of Waterloo Light Rail Transit (LRT) system to design, build, finance, operate and maintain a project that has received \$300 million in provincial and \$263 million in federal funding.

The Canadian Chamber of Commerce report *Tackling the Top 10 Barriers to Competitiveness (2013)* notes that to remain competitive, Canada needs a long-term national infrastructure investment strategy that includes workable funding models and increased private sector involvement, and takes into account the wide range of challenges and opportunities within regions and communities across Canada.

<sup>54</sup> The Road to Jobs and Growth – Solving Canada's Municipal Infrastructure Challenge. The Federation of Canadian Municipalities submission to the Government of Canada's Long-Term Infrastructure Plan Consultation. November 2012

The aforementioned report indicates the Canadian Chamber will advocate for significant improvements to the P3 programs at different levels of government, with the goal of ensuring private money finances the majority of public infrastructure under the supervision of the public sector. A 2012 Canadian Chamber resolution<sup>55</sup> notes that as Canada moves towards greater use of P3s, there will be a need for increased public sector training to enable public sector officials to cope with the challenges of supervising these projects.

### **Recommendations**

That the federal government:

1. Provide technical support as needed to assist municipalities and provinces/territories on developing business cases to analyze the most effective financing model for a particular project.
2. Work with the provinces/territories and municipalities to ensure that all relevant public sector employees are able to efficiently manage P3s and deliver quality P3 investment in a timely manner.
3. Promote, with provincial/territorial and municipal governments, the viability of P3 projects in mid-sized urban centres across Canada.

## **Protecting Canada's Infrastructure (Asset Management)**

### **Issue**

Infrastructure, including transportation infrastructure, is an enabler of economic activity. It is critical to the economic capacity and liveability of our communities. It is aging and failing. Government financing procedures for decades failed to allow for necessary upgrade, renewal and replacement of the infrastructure. This condition continues today. Government support at all levels is required to renew our infrastructure and assist with paying for new and increased regulations and standards. Current estimate of the backlog of upgrade and expenditure of existing municipal infrastructure exceeds \$150 billion (Federation of Canadian Municipalities). While funding to extend the Building Canada plan beyond its expiry in 2013-14 was included in the March 2013 federal budget through federal-provincial funding agreements, demand for funds far exceeds the capacity to fund. The next steps are for the territorial and provincial governments to enter into cost sharing and delivery agreements.

### **Background**

With aging infrastructure and limited resources, our communities face huge challenges in financing the necessary repair, replacement and upgrade of Canada's infrastructure. According to Federation of Canadian Municipalities, there are over 3700 municipal governments in Canada. Residents in these communities, industry and businesses rely on public infrastructure – utilities, transportation and power systems to sustain economic activity. Public buildings and recreational facilities form part of the municipal fabric. Business interruptions due to broken water mains, blocked sewers, power outages and other related causes are becoming the norm with huge economic loss. Employees rely on essentially the same services for a productive happy life, yet these services are failing due to lack of monies available to replace and upgrade these services and facilities. Communities also face financial challenges from increasing standards and regulations without the financial mechanisms to pay for it. The primary source of revenue at the municipal level is property taxes. Businesses pay a much higher tax rate than residential taxpayers. A significant increase in property taxes is not affordable either for businesses or for many residents. Senior levels of government need to be more involved in renewing the basic fabric of our communities.

Today communities receive only eight cents on every tax dollar collected by all levels of government, significantly down from 24 cents a decade ago.<sup>56</sup> The Federation of Canadian Municipalities estimated the backlog of needed expenditure 5 years ago at \$123 billion. Today, this translates in to a backlog exceeding \$150 billion just for municipal infrastructure.

<sup>55</sup> Addressing Canada's Public Infrastructure Challenge. Resolution passed at Canadian Chamber of Commerce 2012 Annual General Meeting.

<sup>56</sup> Speech by FCM President Karen Leibovici in addressing delegates at the Canadian Municipal Sector's Provincial and Territorial Association Annual Meetings. August – October 2012.



The power industry estimates a backlog in excess of \$300 billion to renew the power grid and to cover unforeseen generation renewal costs.<sup>57</sup> There is also demand by school boards, health care facilities and universities and colleges to access public funds for upgrades and replacement, along with billions of dollars of assets owned directly by the federal, provincial and territorial governments. However, for every dollar municipalities invest in local infrastructure, federal, provincial and territorial governments receive a combined 35 cents, mainly through new income and sales taxes – 18 cents going to Ottawa and 17 cents to provincial or territorial governments.<sup>58</sup>

The Federation of Canadian Municipalities states:

*Public infrastructure is the backbone of our economy and quality of life, but after decades of underinvestment, Canada is only just beginning to confront its "infrastructure deficit", a backlog of delayed repairs and construction that hurts every Canadian family and business. For 25 years Canadians have watched the symptoms of the infrastructure deficit grow: rusting bridges, crumbling roads, crowded buses and subways, and thousands of drinking water warnings.*

The federal government may not be aware of what the needs are, as a major portion of the infrastructure is owned and managed by municipal governments. Municipal accounting practices were changed<sup>59</sup> in 2009 for reporting in 2010. The change required an inventory and “accounting for” all municipal infrastructures based on historic costs. Much work continues with communities to identify the condition and life of the inventory, identify replacement costs and develop long term financial plans.

The current Gas Tax Fund (part of the Community Improvement Fund) allocation of \$2.0 billion per year is due to expire in 2014, though the recent budget extended this funding. The support from all communities and provincial/territorial and federal governments to renew and extend this funding further is needed and encouraged. As infrastructure is critical to communities across Canada, businesses and residents, call for action from all levels of government.

## **Recommendations**

That the federal government:

1. Ensure that long term funding programs are sustainable, flexible, predictable, and designed to support, renew and replace ageing infrastructure, including transportation infrastructure, in communities across the country.
2. Ensure that any future investments keep pace with the growing needs created by economic and population growth.
3. Specifically direct funding towards community asset needs assessment to ensure best value for capital allocation. Ensure that funds for studies and assessments do not compete with funds allocated for capital investments.
4. Ensure that federal investments help build capacities of cities and communities to plan, build and maintain their infrastructure assets over the long term. Part of this capacity building should focus on the development of asset management plans that contain accurate information on the state of existing assets.

## **Infrastructure Investment Essential to Mining Sector Growth**

Mining is one of Canada's most important economic sectors and is a major driver of the country's prosperity. In 2011, the industry contributed \$35.6 billion to Canada's gross domestic product (GDP) and employed 320,000 workers in the sectors of mineral extraction, processing and manufacturing. It is an industry that stimulates and supports economic growth both in large urban centres and in remote rural communities, including numerous First Nations communities; mining is an important employer of Aboriginal Canadians. Mining also accounts for 22.8 per cent of Canadian goods exports and \$9 billion in taxes and royalties paid to federal, provincial and territorial governments.

<sup>57</sup> Hume, Gord. “10 Trends for Smaller Communities”. Municipal Knowledge Series.

<sup>58</sup> Speech by FCM President Karen Leibovici in addressing delegates at the Canadian Municipal Sector's Provincial and Territorial Association Annual Meetings. August – October 2012.

<sup>59</sup> Public Services Accounting Board. Standard 3150.

Globally, Canada remains the top destination for mining exploration, attracting 18 per cent of the world's spending in this sector.<sup>60</sup>

However, as outlined in the Canadian Chamber of Commerce's January 2013 report *How Canada Transformed its Resource Endowment into a Global Competitive Advantage*, major mining projects often require significant investment in new infrastructure, which is vital "to ensure that mining companies have the ability to find, extract and remove ores at a competitive cost."<sup>61</sup> Mineral deposits are often located hundreds or even thousands of kilometres from road, rail, energy and technology infrastructure; as a result, companies are often faced with costs in the order of hundreds of millions of dollars in order to simply access their mining claims. Despite the strong benefit these projects potentially provide to the regional, provincial and federal economies, the cost to establish the required infrastructure is frequently too prohibitive for private-sector investment alone.

One example of a significant mining opportunity with extensive infrastructure requirements is the so-called "Ring of Fire," a mineral-rich region in northwestern Ontario worth \$50 billion<sup>62</sup>, and which federal government officials have referred to as "another oilsands," one which will be "a project of national significance for decades."<sup>63</sup> However, the lack of any transportation or energy infrastructure in this 5,000-square-kilometer area is a serious impediment to its progress and any associated economic opportunities for the region's First Nation communities.

Similar infrastructure challenges are faced by many key strategic mining areas throughout Canada, such as the need for additional rail capacity in the Labrador Trough, new road construction and hydroelectric generation in northern Quebec, as well as enhanced electrical transmission in northwestern British Columbia.

The latter also stands as a strong example of federal support for resource development infrastructure, as the Canadian government recently invested \$130 million into a 344-km line in northwestern B.C. as part of a tripartite project that will enable four mining projects, take First Nations off diesel generation, allow upwards of 2,000 MW of green power led by hydraulic power to be put back on the grid, and serve as a workforce training project.<sup>64</sup> This kind of strategic investment must be part of the federal government's approach to enabling crucial mining initiatives throughout Canada.

This type of infrastructure is also a key enabler of Canada's international competitiveness. The development of large-scale projects such as the Canadian Pacific Railway and the St. Lawrence Seaway have historically been crucial factors in the success of Canada's mining sector by providing vital transportation links to both foreign and domestic markets. In turn, the mining industry helps to support the development of infrastructure by acting as a source of demand for large projects, particularly in the transportation sector. Federal government support of these key infrastructure projects must be viewed as a vital investment in future jobs and long-term prosperity rather than an expense.

### **Recommendation**

That the federal government use enhanced funding partnerships with the private sector, other governments and Aboriginal peoples to invest in the transportation and energy infrastructure necessary to promote mining sector growth and stimulate regional economic development.

## **Air Transportation Infrastructure in Canada's Territories**

When he made his annual visit to Canada's territories in 2012, Prime Minister Harper said, "Those who want to see the future of this country should look north."

Canada's economic well-being and international competitiveness could well depend upon the public policies adopted today that create the conditions to fully leverage the economic potential of our territories and their potential to

<sup>60</sup> Mining Association of Canada [www.mining.ca](http://www.mining.ca)

<sup>61</sup> Canadian Chamber of Commerce Report: How Canada Transformed its Resource Endowment into a Global Competitive Advantage

<sup>62</sup> Clement: Ontario 'Ring of Fire' Will Be Canada's Next Oil Sands, [http://www.huffingtonpost.ca/2013/04/26/ring-of-fire-ontario-tony-clement\\_n\\_3159644.html](http://www.huffingtonpost.ca/2013/04/26/ring-of-fire-ontario-tony-clement_n_3159644.html)

<sup>63</sup> Ibid.

<sup>64</sup> <http://investnorthwestbc.ca/major-projects-and-investment-opportunities/map-view/terrace/northwest-transmission-line>

contribute to our nation's wealth. Covering 40 per cent of Canada's land mass with just over three per cent<sup>65</sup> of our population, Canada's territories punch above their weight economically. Much of Canada's untapped natural resources wealth is believed to lie in our territories and in 2012, Nunavut and Yukon had the highest and third highest annual gross domestic product (GDP) increases in Canada (at 4.3 and 3.4 per cent respectively).<sup>66</sup>

From roads and runways, to energy and telecommunications, business people believe the lack of sufficient physical infrastructure is the biggest barrier to the territories' economic development and social well-being.

In formulating its transportation policy, the federal government has generally acknowledged that the unique set of circumstances associated with transportation in Canada's northern and remote regions dictates taking a different approach when it comes to air transport policy. For many communities in the Northwest Territories, Nunavut and Yukon, road, rail and water access is nonexistent or very limited, making air transportation the only viable, year-around connection to the rest of Canada and the world.

There are many challenges facing Canada's air transport sector in the territories. Demand on infrastructure to accommodate growth and opportunity is constant but the ability to address those demands is rather limited. The Standing Senate Committee on Transport and Communications Committee heard about the economic and operational challenges of northern air transport from several organizations over the course of its two-year study. The Committee also heard that competitive forces have a different impact in Canada's territories than they do elsewhere:

"The committee heard that most air carriers charge premiums on heavily travelled routes in order to subsidize service on less travelled routes. When a new carrier competes with existing carriers on the most profitable routes, this may have the benefit of reducing the ticket price on these routes but also has the effect of increasing the ticket price on routes serving smaller communities."<sup>67</sup>

Operations in Canada's territories also are more complex due to aging infrastructure that has not kept up with changes in technology. Changing this situation will require significant investments in infrastructure at territorial airports, in particular for runways.

Only 10 of the territories' 65 airports have paved runways, whereas Alaska, which has a much smaller land mass, has 61. Operators in the territories have little choice but to operate the few models of older, less efficient aircraft that are able to operate on gravel runways. For newer generation aircraft to be introduced on these routes, the runways would need to be upgraded, as well as potentially extended. This would entail a significant financial investment that industry, territorial and local governments simply are not capable of funding themselves. It begs the question of how these communities – particularly those in which major development projects are underway or planned – will be served.

Other infrastructure challenges include deteriorating runway conditions at airports that are paved, a lack of meteorological information, challenges associated with changing climates in the region (examples include melting permafrost and runway icing), a lack of navigation technology and inadequate terminal buildings. Existing federal infrastructure programs, such as the Airports Capital Assistance Program (ACAP), have not done enough to address these needs. ACAP, in particular, is believed to be oversubscribed/inflexible and its annual funding has remained unchanged since the program was introduced nearly two decades ago.

Another area of concern for operators of air transport in Canada's territories is in the impact on proposed regulatory changes, which can disproportionately impact aviation transportation in the region. Measures such as a proposed requirement for a "Runway End Safety Area," if pursued without consideration of their impact on the territories, would dramatically increase costs and hinder the development of air transport in the region.

<sup>65</sup> According to the 2011 census, the total population Canada was 34,482,800. The territories' populations were: Yukon - 34,700; Northwest Territories —43,700; Nunavut —33,300 (Total: 111,700). Source: <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/demo02a-eng.htm> .

<sup>66</sup> According to the 2011 census, the total population Canada was 34,482,800. The territories' populations were: Yukon - 34,700; Northwest Territories —43,700; Nunavut —33,300 (Total: 111,700). Source: <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/demo02a-eng.htm> .

<sup>67</sup> Standing Senate Committee on Transport and Communications, *One Size Doesn't Fit All: The Future Growth and Competitiveness of Canadian Air Travel*, April 2013

Three of the seven recommendations of the April 2013 report of the Standing Senate Committee on Transport and Communications, *One Size Doesn't Fit All: The Future Growth and Competitiveness of Canadian Air Travel*, addressed issues relevant to air transport in Canada's territories, i.e.:

Recommendation 1: "The committee recommends that Transport Canada, together with the Department of Finance, bring together all relevant stakeholders to the table to establish a National Air Travel Strategy.

Recommendation 2: "The committee recommends that within a potential National Air Travel Strategy, future air transportation regulations, policies and funding programs take into account the special needs and unique challenges in regions and the North."

Recommendation 3: "The committee recommends that regional and northern airport infrastructure improvements must be a priority in order to encourage economic growth in Canada's remote and northern regions."<sup>68</sup>

## **Recommendations**

That the federal government:

1. Adopt the recommendations of the report of Standing Senate Committee on Transport and Communications *One Size Doesn't Fit All: The Future Growth and Competitiveness of Canadian Air Travel*, as they pertain to the unique challenges of Canada's territories by:
  - Bringing together all relevant stakeholders to the table to establish a National Air Travel Strategy
  - Within this strategy, ensuring that future air transportation regulations, policies and funding programs take into account the special needs and unique challenges in regions and the North
  - Making regional and northern airport infrastructure a priority in order to encourage economic growth in Canada's remote and northern regions
2. Review infrastructure programs available for air transportation, such as the ACAP program, to ensure that they are adequately funded and flexible enough to meet the needs of Canada's territories and remote areas.

## **Improving Air Access for the Benefit of the National Economy**

Aviation is a crucial link in the multimodal transportation network that connects businesses with opportunities around the globe. It connects visitors with tourism operators and helps international students pursue educational opportunities. It facilitates investment in natural resources and helps to ensure that Canadian products, especially high-value exports, get to market.

Currently the cost of air travel to and within Canada is significantly higher when compared to global competitors, especially the United States. Air travelers are increasingly sensitive to price, with many studies indicating that airline ticket purchases are much more influenced by price than brand. Canada's poor price competitiveness in this area is apparent and not only deters tourists from international markets, but also encourages Canadian travelers to cross the border to utilize US airports and carriers.

In order to strengthen Canadian competitiveness in the aviation sector, Canada must shift from the current policy of 'Blue Sky' bilateral agreements, to the more progressive 'Open Skies' agreements based on simplicity and reciprocity. Open sky policies are market driven and allow for airlines to determine the appropriate level of capacity and competition in the marketplace, while minimizing the opportunity for countries to create artificial barriers to growth.

### **Barriers**

There are a number of factors that influence the competitiveness in Canada's air sector. These range from government imposed costs such as rent, taxes and security costs, through to the restrictive air access policies which drive up prices by limiting competition and capacity.

<sup>68</sup> Ibid.

In order for an aircraft to fly between two countries both governments must negotiate bilateral air transport agreements. These agreements regulate frequency, capacity, ownership, tariffs and other commercial aspects. The trend internationally is to move away from these types of agreements into a more liberal regime known as 'Open Skies' agreements that are typified by unlimited capacity between, and beyond the countries involved, and is inclusive of market driven pricing regimes.

Despite the fact that the current Blue Sky policy commits to liberalizing Canada's air access, it has had limited effectiveness. Since 2006, Canada has Air Transport Agreements with 65 countries. Of these only 16 are Open Skies type agreements. The majority of Canada's bilateral agreements still contain restrictions on issues such as capacity, frequency and designated air carriers. Beyond the relatively recent Open Skies-type agreements with countries like Brazil, South Korea and Switzerland, most of Canada's Open Skies agreements have been with smaller countries such as Costa Rica and Nicaragua. With the exception of South Korea, there has been no evidence of a proactive pursuit of Open Skies Agreements with Asian countries that are among Canada's biggest markets for tourism, trade and investment.

Another issue with Canada's current air policy is the insistence that the terms of most bilateral agreements remain confidential. With a few exceptions, airlines are the only stakeholders that are granted observer status during negotiations. Other stakeholders that are impacted by Canada's aviation policy do not have the opportunity to observe negotiations and provide valuable input. This includes airports, which would represent the view of the community stakeholders.

Lastly, in addition to current restrictive bilateral agreements, existing ownership limitations prevent foreign investment in the Canadian airline industry. This restriction prevents Canadian carriers from supporting their balance sheet through foreign investment, and makes it extremely difficult for new competitors to enter the market place.

## **Opportunities**

The benefits of liberalizing Canada's air policy would significantly improve economic opportunities throughout Canada by increasing connectivity of global business. More Open Skies policies would open new international markets, allow more carriers to operate in Canada, and improve price competitiveness of Canada as a destination.

Negotiating more Open Skies agreements would significantly improve Canada's ability to attract international visitors. A 2008 report by the International Institute of Transport and Logistics found that:

- Open Skies agreements have significant positive effects on the economies of the nations involved, with average traffic growth of 12 to 35 per cent;
- Open Skies agreements with new markets are critical to address a growing competitive disadvantage with the United States; and
- Failure to negotiate Open Skies agreements will result in the loss of key economic benefits to Canada.

Of particular importance is the need to negotiate Open Skies agreements with Asia Pacific nations. This region presents one of the largest growth opportunities; however restrictions in certain bilaterals do not allow Canadian airports, and therefore Canada's economy, to effectively compete in this vastly expanding marketplace.

Where Open Skies agreements cannot be negotiated, it is necessary to improve transparency of bilaterals by eliminating confidentiality clauses. This approach will allow third-parties to more accurately identify the potential of new markets and routes, ultimately leading to increased competition and improved air access for potential international tourists.

In addition to liberalizing bilaterals, reducing foreign ownership restrictions would also improve competition in Canada. This process would allow Canadian carriers to boost their balance sheets in order to compete more effectively. Furthermore, the ownership restrictions act as a barrier to new Canadian airlines from entering the market, as the majority of funding would need to come from within Canada.

Finally, reviewing and reducing the government imposed taxes, fees and charges on air travelers would further improve Canada's ability to attract international tourists.

## Conclusion

Airports and the services they provide are critical to the economy of Canada. Canadian air policies need to be liberalized in order to maintain competitiveness in today's ever increasingly globalized marketplace. Current air policies encourage secrecy and create barriers to growth. Specifically, the federal government must be called on to recognize that the current approach to air agreements is having a negative impact on regional and local economies across Canada. This in turn is hampering the rate of our collective economic recovery.

While the Canadian Chamber has consistently focused on the need for improvement in terms of Canada's air agreements (most recently by calling for an expedited process for the implementation of the Blue Sky policy) the extent of the challenge and the pace of movement towards truly Open Skies in other jurisdictions now means that it is imperative that the federal government must move beyond the current Blue Sky policy and embrace a true Open Skies approach to air agreements.

## Recommendations

That the federal government works with the provinces and territories to:

1. Move beyond the current Blue Sky aviation policy and aggressively pursue true Open Skies agreements in all bilateral air transport negotiations, including passengers and cargo.
2. Where open skies agreements are not possible, further liberalize existing bilateral air agreements, with an emphasis on removing third and fourth freedom capacity caps.
3. Develop a high level and overarching national aviation and travel strategy, which would improve Canada's competitiveness, including government imposed fees, taxes and charges.
4. Recognize the role of aviation in supporting Canada's international trade objectives by transferring primary responsibility for bilateral air transport agreement negotiations to the Department of Foreign Affairs, Trade and Development, with input and guidance from Transport Canada and the Canadian Transportation Agency.
5. Adopt a policy of negotiating open and transparent air transport agreements, to allow for accurate evaluation of route and market potential by allowing observer status to representatives from airports representing their communities.
6. Promulgate regulations flowing from the passage of Budget 2009 allowing for up to 49 per cent foreign ownership in Canadian air carriers.

## Canadian Air Transport Funding – Security

### Background

Established in 2002 as a response to post 9/11 security concerns, the Canadian Air Transport Authority (CATSA) holds the responsibility of screening passengers and baggage at airports across the country. CATSA is responsible for screening thousands of passengers every day and is in essence Canada's frontline of defence for our secure aviation system. The scope of CATSA's business and the manner in which it is conducted affects the security and efficiency of airports across the nation.

Since its inception, CATSA has faced many challenges that have hindered its ability to function in a cost effective manner. Due to the fact that CATSA plays an integral role in the functionality of Canadian airports it is critical that its operations are managed effectively and efficiently. Without proper management, CATSA operations hold the potential to stifle trade and tourism opportunities in the communities served by the aviation industry.

### Context

In 2010 the Government of Canada undertook a review of CATSA which produced the following key findings:

- Keep and enhance the current governance model;
- Introduce smarter passenger screening process to improve services and increase screening efficiency;

- Continue to harmonize screening regulations with those of the international community;
- Increase operational and management efficiencies in screening contacts; and
- Promote continuous modernizations.

The Canadian Chamber of Commerce is supportive of these findings and urges the federal government to work with CATSA on continued modernization and improved efficiency for the organization.

That being said, the major concern to airports for national security regulations and CATSA operations remains financial. Security for international and regional airports should be considered an issue of national security since terrorist attacks are directed against the state and the population as a whole. It is the view of many in the aviation industry, and is evidenced in the funding regimes in many countries, that funding for all counter-terrorism measures are the responsibility of the federal government.

There is no question that the terrorist attacks of September 11, 2001 have had a significant effect on the security needs of air travellers. However, air travel has not been the only target of terrorist attacks. Governments across the globe have adopted measures to improve security for all public modes of transportation.

In response to increased security risks, the Canadian government took steps to improve the security of the air mode. These initiatives included the adoption of measures to improve the detection of explosives, the introduction of full body screeners and the development of behaviour profiling.

To help pay for these changes, the Canadian government introduced the Air Travellers Security Charge (ATSC). The ATSC is designed to recover security costs from users of the air transportation system. Unfortunately, the government has not attempted to treat other modes of transportation in a consistent manner. The use of the ATSC continues to be a concern in the aviation industry as the generated revenues are not tied to specific security costs. Furthermore the actual cost of the ATSC has doubled in recent years.

While we recognize the growing costs associated with air transport security, the increasing amount of additional taxes and service fees are hindering Canada's ability to compete internationally. This is especially true for the travel and tourism industry which is already hindered by the appreciating Canadian dollar and after-effects of the global economic crisis.

The rising cost of air travel in Canada is the primary cause of divergence of travellers to U.S. border airports. For example, according to the Université du Québec à Montréal, the cost of an airline ticket in Vancouver is 44 per cent more expensive than a trip from Bellingham. The same study showed that flights from Toronto are 20 per cent higher than those out of Buffalo, N.Y. Each year, roughly five million Canadians cross into the U.S. to access cheaper flights from American airports<sup>69</sup>. While the Canadian Chamber of Commerce supports measures that improve our security, such measures should not come at the expense of our airline industry. Furthermore, any funding collected via security fees for air travel should be reallocated back into that mode and not swallowed into general government revenues.

## **Recommendations**

That the federal government:

1. Acknowledge that counter-terrorism measures are an issue of national security concern and assume responsibility for funding all of these measures through general tax revenue.
2. Ensure that the provision of air transport security should be effective, efficient and transparent whether through CATSA or other models.
3. Continue to work with CATSA to ensure the full implementation of the CATSA review.
4. Provide CATSA with additional freedom to enhance their productivity and effectiveness through process improvement which do not reduce screening performance.

<sup>69</sup>Gill, Vijay. *Driven Away: Why More Canadians are choosing Cross Border Airports*. The Conference Board of Canada. October 2012.

5. Ensure that any revenue collected from airport security fees is reallocated back into these programs instead of into general government revenue. The fees should go towards improving the passenger experience.
6. Maintain and enhance trusted traveler programs so that CATSA screening resources are directed towards higher risk passengers.
7. Allow airports to buy additional services from CATSA to improve levels of service.

## Mitigating the Impact of Community Development on Transportation Activity

Transportation infrastructure – including ports, railways, airports, roads and bridges – is the backbone of Canada’s economy. Canada is a trading nation, with 52.7 per cent of our GDP depending on merchandise trade.<sup>70</sup> Specifically, our transportation system facilitated the two-way trade of approximately \$511 billion worth of goods with the U.S. and \$342 billion of merchandise trade with the rest of the world in 2011.<sup>71</sup> The federal government has an ambitious trade agenda as they are currently negotiating free-trade agreements with the European Union (EU), members of the Trans Pacific Partnership (TPP), and other large economies such as India, Japan, and Korea. Further, according to the Minister of Natural Resources Canada “There are currently over 600 major Canadian resource projects planned over the next 10 years or underway representing approximately \$650 billion in investments”<sup>72</sup> If we are to capture and benefit from future economic opportunities, our transportation infrastructure must be able to facilitate increased economic growth and trade.

Canada has become an increasingly urbanized society. People are living and working closer to transportation activity as residential and commercial developments grow around transportation infrastructure such as ports, highways, rail lines, and airports. In addition, Canada’s population is expected to grow to 40 million people in 2031.<sup>73</sup> Although transportation service providers and citizens share common objectives, a number of issues can arise when they are in close proximity to each other. As communities have expanded, there has been increasing concern with safety and issues (proximity issues) such as noise, vibration, and emissions. These issues affect both urban and rural communities, as well as those who benefit from access to the nearby transportation infrastructure.

Since 2003, Canada’s railways, through the Railway Association of Canada (RAC), have been engaged in discussions with the Federation of Municipalities (FCM) on a joint initiative to build common approaches to the prevention and resolution of issues that may arise when people live and work in close proximity to railway operations. In May 2013, the RAC and the FCM released “Guidelines for New Development in Proximity to Railway Operations” (Proximity Guidelines)<sup>74</sup>. These new guidelines<sup>75</sup> are intended to assist municipal governments and railways in reviewing and determining general planning policies and provisions for conversion of lands in proximity to rail operations, addressing such issues as noise, vibration, emissions, safety and development design. Also, a model Review Process for New Residential Development, Infill, and Conversions in Proximity to Railway is provided in the report. This proactive initiative is a good step in an effort to mitigate conflict between railway operations and community development, as well as improve overall public safety. However, municipalities are only encouraged by their national association, the FCM, to use these guidelines and to date there has been very few municipalities that have used the Proximity Guidelines to any great extent.

Similarly, Canadian ports work extensively with their respective communities to ensure negative aspects of port operations are minimized and citizens are provided with an avenue to voice their concerns. Investments in cutting-edge noise reduction technologies, dust abatement procedures, and emissions abatement are made to reduce the impact of port operations. Port personnel work with local traffic management officials to eliminate potential bottlenecks caused by trucks and trains loading or offloading cargo, and community outreach officers work with community groups to monitor and address any problems that may arise. Port authorities further seek to enhance

<sup>70</sup> World Bank, <http://data.worldbank.org/indicator/TG.VAL.TOTL.GD.ZS>

<sup>71</sup> Transport Canada “Transportation in Canada, Statistical Addendum, page A12-13”

<sup>72</sup> Natural Resources Canada “Minister Oliver Highlights Economic Impact of Canada’s Natural Resources” <http://www.nrcan.gc.ca/media-room/news-releases/2012/6467>

<sup>73</sup> Statistics Canada, “Population Estimates and Projections,” July, 2008.

<sup>74</sup> Note: A electronic very of the Guidelines can be found, <http://www.proximityissues.ca/reference/new>

<sup>75</sup> Note: These new guidelines replaced pervious guidelines.



their communities by providing parkland for public access to water, funding local enterprises on port lands, and supporting their communities in various other ways. As with rail, these measures have an impact on supply chain performance, both in timeliness of delivery and in cost of shipping.

Transportation service providers, including railways and ports, are dedicating significant resources to respond to and address public complaints. With regard to railways, they employ community relations officers across their networks to work with municipalities and complainants in an effort to resolve issues of concern. This may involve changing the nature of railway operating and/or investing in infrastructure and equipment to mitigate noise. Often, any solution of moving railway operations from one point to another simply leads to iterative complaints. These actions often negatively impact the efficiency and overall cost of railway operations to placate a small number of irate residents. When complaints cannot be resolved, the case can go to the Canadian Transportation Agency (the Agency) for a ruling. Since 2012, the Agency has issued six rulings on noise complaints, more are awaiting an Agency ruling, and railways are currently addressing dozens of other noise complaints. In these instances, scarce company resources as well as costly expert testimony must be dedicated to prepare for cases before the Agency or work with complainants to attempt to resolve their concerns. In addition, rail supply chain partners such as port and marine operators must adjust their operations in response to complaints associated with their operations. This impacts supply chain performance and adds to the total cost of shipping goods in Canada.

Transportation infrastructure is expanding and transportation activity is increasing in order to respond to the changing and increasing demand. Domestic economic growth and increased international trade have resulted in the expansion of transportation infrastructure and activity. The development of the *Asia Pacific Gateway and Corridor Initiative* is an example of the response that the transportation system is undertaking due to changing demand for transportation services. Going forward, the transportation system will continue to expand to accommodate growing demand. With these changes occurring in the midst of rapidly growing communities the potential for safety risk and conflict between citizens and transportation service providers will increase. Transportation operations and planning can also be negatively impacted to the potential detriment of passengers or shippers. Efforts must be made in order to minimize the potential for future conflicts and improve public safety.

As Canada's communities and economy grow, transportation networks also need to expand to meet increasing demand. Minimizing transportation bottlenecks, maintaining infrastructure and updating public transportation will require increased coordination among government, communities, and transportation service providers. An example of successful coordination is the British Columbia Roberts Bank Rail Corridor grade separations. These separations were a partnership between the Federal, Provincial and Municipal Governments, the Regional Transportation authority, the Port Authority and rail transportation service providers. Such cooperation among the myriad stakeholders is critical for the successful development of transportation infrastructure. Transportation planners will have to work in partnership within all affected interests in order to ensure that growth in urban areas will allow for transportation infrastructure and ongoing transportation activity. Greater consideration of public safety and transportation effectiveness and efficiency will also be needed where new developments coincide with transportation corridors.

All federally regulated transportation service providers, including port authorities and railways, have the legal responsibility to ensure the safety of their operations as well as to serve their customers who benefit from the transportation service. However, it is impossible for transportation operators to fully assume such responsibilities in cases where new activities and development are allowed to occur on land in close proximity to their land/operations without consulting with the transportation operator and without proper regard for existing or future operations. Unless transportation service providers are made aware of such proposed developments and activities in advance, there can be no proper assessment of the potential proximity impacts on such developments and activities and no proper mitigations measures can be identified, let alone implemented.

Mitigation efforts can only be pursued, in respect to proximity developments, by requiring that federally regulated transportation service providers be notified and consulted on any proposed changes in respect of the land in close proximity to the transportation activity. It should be noted that the intent of providing notification is not to add additional regulatory burden with respect to new land uses or developments, but to include transportation service providers in existing planning and consultation processes, in order to mitigate the potential of future conflicts. Upon receiving such notification, transportation service providers would then be in a position to assess if the proposed development, zoning or change in land use will impact their transportation operations, safety of the public, or impact the quality of life of local citizens. If such is the case, the transportation service provider can work in collaboration

with the government authority (i.e. municipality) to identify measures to avoid or mitigate any potential adverse impact that the proposed zoning or land development may have on transportation activity and those who live and work in proximity to transportation activity

### Recommendations

That the federal government, in a manner concurrent with and that specifically won't extend existing zoning and bylaw approval processes:

1. Work with provincial/territorial governments, and by extension municipalities, to develop a process to notify and consult with federally regulated transportation service providers of proposed changes in municipal land use or zoning to better mitigate potential future conflict between communities and transportation service providers.
2. Require notice and consultation in respect of lands immediately adjacent to property used for transportation activity, since such change in use or zoning might affect transportation safety, safety of the general public, and mitigate the potential conflict between transportation service providers, users of that service, and communities.

## Proposed National Marine Conservation Area - Strait of Georgia

### Background

In 2003, Canada and British Columbia signed a memorandum of understanding to establish a National Marine Conservation Area (NMCA) in the Strait of Georgia. A Steering Committee made up of senior representatives from the Government of British Columbia and Parks Canada was created to make recommendations to both the provincial and federal governments whether the NMCA is feasible, and to support the negotiation of a federal-provincial agreement. NMCA's are overseen by Parks Canada and are protected from ocean dumping, undersea mining, development and oil and gas exploration but include managed traditional fishing and recreational activities.

NMCA's are established in order to protect a unique marine region's geologic features, marine features, marine and coastal habitats, biology as well as archaeological/historic features. The key difference between an NMCA and a terrestrial national park lies in the regulations dictating which activities are allowed and which activities aren't. In a terrestrial park everything is prohibited, save for the few specified activities that are legally permitted. In contrast, in an NMCA, most activities are permitted, except ocean dumping, undersea mining, and oil and gas exploration and development, although there is the possibility for case specific allowances. Parks Canada's goal is to represent each of the 29 marine regions throughout Canada, and the establishment of new NMCAs is focused on unrepresented regions.

### Area of Consideration



## **Business Concern**

When provincial waters are protected under an NMCA, ownership of the seabed is transferred to the federal government. The federal government is proposing a National Marine Conservation Area located in an intensely utilized marine area and restrictions in activities could have the effect of limiting or eliminating economic activity and negatively affecting the overall Canadian economy. Parks Canada has completed the Feasibility Assessment, and the federal and provincial governments are now entering the negotiation stage of the NMCA establishment process.

The area of consideration is home to hundreds of thousands of people, is a major international trade route, has a considerable amount of foreshore title land, and has a maze of jurisdictional players including municipalities, transportation authorities, island trusts and regional districts and is subject to international marine conventions. The Port of Vancouver handled 123 million tonnes of cargo in 2012, which included a number of trade products (e.g., grain, potash, coal, petroleum products, etc.) from numerous provinces including British Columbia, Alberta, and Saskatchewan. According to an InterVISTAS Economic Impact Study, the estimated value of cargo throughput at Port Metro Vancouver in 2011 was approximately \$172 billion. In 2011, it handled approximately 19 per cent of Canada's total trade, with the overall total value of exported and imported commodities entering and leaving Canada equivalent to \$894 billion. Canada is a trade dependent economy with exports and imports accounting for over half of our GDP. In recent years, countries other than the United States have accounted for over a quarter of Canada's export revenues. Port Metro Vancouver makes up an integral part of Canada's Asian Pacific Gateway, which provides access to growing markets such as China and Japan. Maintaining access to these non-US markets is essential to supporting Canada's trade sector. The creation of an NMCA could not only impact current trade activities, but also limit future growth.

The protection of our environment and habitat is extremely important. It is unclear if this area is more at risk than other coastal areas and therefore in need of extra protection or if there is another motivation for choosing this location.

## **Areas of Concern**

The proposed NMCA poses a number of potential problems, including:

The cost of enforcement has not been recognized

One of the elements of a marine conservation area is enforcement of the rules and regulations. Section 18 of the Canadian National Marine Conservation Areas Act empowers the Minister to create Wardens for the area. The Wardens have in other areas, such as Haida Gwaii, been paid for by a park fee levied on the visitors to that area. The cost of enforcement of this proposed marine conservation area and the source of revenue to pay for such enforcement has not been identified.

Restriction of critical commercial traffic

The Act allows for the regulation of marine traffic and air traffic to avoid disturbances to wildlife and wildlife habitat. Unfortunately the area in question is a transit area for two of the country's busiest airports (Victoria Airport, and Victoria Harbour), is home to Canada's largest ferry fleet, and is the transit route for thousands of cargo shipments per year. The movements of larger vessels (over 20 m) in the region are significant with 137,835 in 2011 and 123,368 in 2012. These cargo shipments support Canada's largest marine port, the Port of Vancouver, and that traffic is forecasted to increase for the foreseeable future. The restriction of this critical commercial traffic, not to mention the significant small boat and fishing traffic, could have significant economic effects on Canada.

*Unintended impact on land claims negotiations with First Nations and private land owners*

Section 12 of the act reads as follows:

12. Except as permitted by this Act or the regulations,

(a) no interest in public lands in a marine conservation area may be disposed of

(b) no person shall use or occupy public lands in a marine conservation area.

The marine conservation area affects both marine and terrestrial activities in the area depicted above. A clause such as this could have the effect of severely hampering land claims negotiations with First Nations. In addition there are thousands of privately owned docks that make use of public land (below high tide mark) and this would prohibit any

future installation of docks or marine facilities within the region. In addition, there are a number of marine activities that require water lot leases from the government to operate including scientific research, marinas and transportation activities. The restriction of all such activities seems unnecessarily broad and limiting.

### **Recommendations**

That the federal government works with the provincial government to:

1. Clearly define the regulation and costs of enforcement in the proposed area, and identify the source of revenue to cover those costs.
2. Conduct an economic and environmental cost-benefit analysis to determine if the proposed National Marine Conservation Area is the best mechanism for protecting the area.
3. Not grant Parks Canada the authority to control the routing of marine and aircraft traffic passing through the area if the Marine Conservation area is enacted.

## **The Need for Trade Enabling Infrastructure: The Critical Importance of Canada's Gateways**

### **Background**

As a trade dependent country, Canada's prosperity is closely tied to its international commerce. Exports and imports account for more than half of our GDP. Historically the United States (U.S.) has been the destination for over three-quarters of Canadian merchandise exports. This number has been decreasing in recent years and for the first time countries other than the U.S. account for more than a quarter of Canada's export revenues. The relative decrease in our trade with the U.S. has been attributed to the high Canadian dollar, the thickening border and competition from Asian economies. While the U.S. will remain our largest trading partner for the foreseeable future, maintaining Canada's prosperity and high quality of life demand diversified international trade. The efficiency and reliability of Canada's transportation network - in particular our transportation related policies and infrastructure - are vital to our success as a trading nation.

### **Context**

Canada is very close to concluding a trade pact with the world's largest single market - Europe - and is now a negotiating party in the Trans Pacific Partnership. We have also launched discussion with several large Asian economies including Japan and India. All of these initiatives have put us on the right track. For Canada to take full advantage of international trade opportunities with key markets, it must ensure that our transportation networks, from infrastructure to operations, are optimal in efficiency, reliability safety and cost. Transportation is an economic enabler. Continued investment and enhancement of our transportation networks is vital if Canada is to position itself as a true gateway into and out of North America.

Canada's trade-dependency requires that the effective movement of people and goods be done more efficiently and cost effectively than our competitors. Unfortunately, Canada's main competitors are investing heavily in trade enabling infrastructure such as ports and transportation networks. For example, the Port of Miami has already secured over \$130 million in state and federal funds for use in expansion of port facilities. In the UK, DP World - the fourth largest terminal operator in the world - will spend \$2.5 billion on London's Deep-Water Gateway. Developing economies are also investing heavily. Brazil has committed over \$31 billion for port improvement (including \$14 billion worth of private sector funds) while India will invest approximately \$60 billion in both public and private funds to create seven new major ports.<sup>76</sup> If we want to remain competitive, we must continue to work with the private sector to improve the efficiency and reliability of our trade enabling infrastructure.

The efficiency and reliability of our trade enabling transportation networks and related infrastructure is critical to our economic health. Without adequate investment by both the public and the private sector Canada will not be able to take full advantage of the opportunities presented by our diversifying trade and our economic growth. Canada needs

<sup>76</sup> Nagle, Curt. "US port-related infrastructure investments reap dividends." Port Technologies International. Accessed online May 3<sup>rd</sup>, 2013.

to focus on infrastructure investments that help build the capacity of cities and communities to plan, build and maintain their infrastructure over the long term.

Canada's private sector has been doing their part. For example, shipowners are investing more than \$1 billion to bring a new generation of super efficient, environmentally-friendly vessels to the Great Lakes-Seaway System over the next three years.

In recent years there has been progress in planning and investment into Canada's border, transportation and logistics infrastructure. For example, over \$1 billion has been allocated by the Asia-Pacific Gateway and Corridor Initiative (APGCI) since its inception in 2006. In 2007, the Canadian government announced the Atlantic Gateway and Trade Corridor Strategy which will help unlock Atlantic Canada's potential as a North American Gateway. Unfortunately, progress remains slow on the Ontario-Quebec Continental Gateway and Trade Corridor Strategy. Should this gateway be properly developed it has the potential to improve access to Canada's industrial heartland and the US Midwest.

While milestones have been achieved, more needs to be done to meet the needs of our expanding trade network. The success of the Asia Pacific Gateway has not yet been replicated by Canada's other gateway initiatives. The prioritization of infrastructure investment – both physical and technological, the reduction of operational setbacks and improvements to our regulatory framework are all necessary to ensure that Canada's main ports of entry are able to adapt to increasing and shifting flows of people and goods. Enhancing port infrastructure is crucial in meeting growing trade demand. In the future, shipping companies and airlines may shun low productivity terminals to avoid long port layover time and more difficult passenger connection experiences.

Infrastructure constraints can prove to be a major setback in the creation of effective gateways. Expansion of existing trade enabling infrastructure is inevitable. The Canadian government must work with private sector operators and investors, the provinces, municipalities and territories to ensure the optimization of physical and technological infrastructure that supports our airports, seaports, marine industries, roadways and railways.

It is vital that there be investment in research and innovation in logistics systems to significantly increase the productivity of the Canadian supply chain. If Canada is to create a more competitive supply chain, it needs an integrated and efficient transport network for rail transport, feeder transport, and inland transport by truck, as well as the vertical and horizontal cooperation which provides value added service to users.

Improvements to Canadian transportation and logistics networks must also be coupled with modifications to Canada's regulatory framework. Before committing to large investments, investors need to be able to accurately assess for themselves the cost and timelines of the projects and to manage the risk without fear of changes in scope or regulation]., Canada needs a competitive regulatory and fiscal environment which would encourage such private sector and foreign investment, particularly in transportation infrastructure. New and expanded infrastructure investments should have a one project – one environmental assessment policy.

Furthermore, Foreign Trade Zones are an important part of a competitive logistics system. The Canadian Chamber of Commerce welcomes the commitment in Budget 2013 to improve Canada's Foreign Trade Zone policies and urges the Canadian government to implement these changes in a timely fashion.

On the people side, Canada's regulatory environment needs to adapt to facilitate fast and efficient flow of people between trading partners. Canada's airports and airlines have made huge investments in their own infrastructure (terminal expansion, aircraft acquisition etc.) and Government cooperation is required to fully leverage their position as global players and gateways.

The nature of Canada's transportation network means that a singular inefficiency can negatively affect the entire supply chain. Regulatory delays run the risk of hindering investment in future projects and can compromise the effectiveness of Canadian gateways. To limit such inefficiencies, the Canadian government must work with the provinces, municipalities, territories and the private sector to develop a national, non-discriminatory, transparent and predictable regulatory framework. To be effective, this framework must not favour one mode over another.

Finally, operational challenges continue to hinder the establishment of Canada as a gateway into North America. Bottlenecks caused by operational inefficiencies can seriously hinder the competitiveness of our gateway strategy. Among the most significant operational setbacks are problems with border customs clearance, which can result in costly delays and setbacks at all major ports of entry.

## Recommendations

That the federal government:

1. Actively and intensely promote all of Canada's major gateways across all modes.
2. Continue to invest and encourage additional private sector investment in transportation, logistics and border infrastructure to ensure Canada is prepared for increasing and shifting flows of people and goods.
3. Recognize that investment in physical infrastructure must also be coupled with investment in technology designed to improve the efficiency of our transportation system.
4. Commit to the creation of a competitive regulatory framework which encourages investment and promotes regulatory alignment across jurisdictions.
5. Optimize customs operations at ports of entry as an imperative for Canada to function as a successful gateway into and out of North America. Customs clearance must be done in a timely, cost effective and predictable way.
6. Work with the US through the Beyond the Border Action Plan to reduce the thickening of the Canada-US border to facilitate the movement of legitimate people and goods.
7. Continue to improve the efficiency and competitiveness of Canada's Foreign Trade Zone policies.
8. Make infrastructure investments that help build the capacity of all cities and communities to plan, build and maintain their infrastructure over the long term.

## Rural and Small Transit – The Missing Piece in Canada's Transport Plans

The lack of a coherent focus on planning and investment in transportation services for rural and small communities is having a significant impact on their ability to grow, attract new workers, as well as on their ability to be proactive partners in reducing the Canada's greenhouse gas emissions.

Strong rural and small communities are an essential part of a vibrant nation. Canada's rural and small communities are characterized by several critical elements - committed people with a strong sense of community; creators of wealth; and guardians of our natural resources. In fact the economic success we enjoy as a country is a direct result of the strength and vitality of our rural and small communities.

As outlined in the Canadian Chamber report "The Business Case for Investing in Canada's remote Communities" our economic potential has been driven by our resource wealth. Indeed, RBC Economics attributed much of Canada's strong economic performance relative to other major economies to its natural resource wealth and high commodities.

As stated in our report our ability to realize the economic potential presented by our natural resources "could well be determined by how we approach the economic development of our remote regions. Not only does more of our untapped natural resource wealth lie in remote regions, the people who can help us leverage it live in them as well."

However Canada is facing a demographic challenge that will present the economy with a significant labour and skills shortage. This is particularly true for our rural and remote communities who face significant challenges in both attracting new workers and retaining their youth. While there are many reasons for this challenge one that has received little attention has been the role a lack of adequate transportation and transit options presents to young people who are entering the job market and often unable to drive or cannot afford a car or young families who may have only a single vehicle.

The Canadian Chamber believes that the importance of this issue goes much further. Improved and expanded transportation infrastructure in rural and remote communities promotes economic development and diversification, reduces the cost of living, improves quality of life and is a key element in ensuring the vitality and sustainability of these communities. Investments in infrastructure effectively link these communities to markets, services and businesses and enable these communities to further contribute to Canada's prosperity. Transportation, more specifically transit connections between communities and regions, has increasingly come to be recognized as a primary responsibility of government at all levels, given its role as an integral part of community stability, growth and economic prosperity. Added to this is the increased recognition that transit services, and the choices these

alternatives provide to individuals, will play a critical role in Canada's ability to achieve greenhouse gas reduction targets.

The challenge we collectively face is that rural and small town Canada is characterized by a combination of low population densities and large distances between towns as well as limited, or no, provision of public transport services.

Some services do not connect with the nearest local service centre, and what services there are generally are so infrequent, that they require an alternative form of transport for individuals, to meet all essential needs. A new model of public transport is needed to support rural populations, particularly as the proportion of elderly people in rural and some regional areas will continue to increase. Funded, flexible transportation needs to be provided around smaller regional communities which do not currently have any adequate public transport service.

The Canadian Chamber recognizes that transit services are divided amongst a number of bodies, and a variety of services. In terms of responsibility, provinces and territories, in conjunction with local bodies are the primary level of government that has responsibility for transit within their jurisdictions. Indeed, for this very reason, the Canadian Chamber has focused its efforts on the challenges facing urban areas. The Canadian Chamber has recognized that the primary challenge facing our transportation infrastructure is the growing trend towards urbanization and the need to ensure the efficient movement of people and goods within Canada's urban areas.

Despite what is an unprecedented level of investment by senior levels of government, Canadian Chamber members are concerned with the lack of two key elements in government programming; a lack of a coherent plan for communities of all sizes and a seeming inherent bias against providing transit service to rural and small communities.

Throughout many rural communities, there are private companies that financially support and offer a transit option to the residents and tourists of the community. By way of private partnerships within the community, there are some transit options available; however, these options are often not adequate enough to address all the transit needs of the community due to the limited amount of funds private partners are able to contribute.

If perceptions are reality, the reality is that many people continue to disregard public transport as within their consideration of travel modes. Many people still view public transport as a provision for disadvantaged people that is unreliable, unsafe, overcrowded and dirty; these views are mostly outdated and ill-informed.

Positive and constructive work could be done to change these perceptions, for the benefit of customers and the transport system. Culturally, we need to move to a European model of provision and regard for the role of public transport in our society.

This might not be the primary issue raised by transport planners and engineers, but the social relationship to transport is an essential key to building ongoing investment in public transport across the political cycle.

### **Recommendations**

That the federal government works with the provinces and territories to:

1. Develop a fully-costed rural transport plan and to look into the creation of partnerships with private companies/organizations that will financially contribute to the success of the plan
2. Work with municipalities to develop an implementation model

### **Capital Funding Stability for Canada's International Airports**

As Canada's economy continues to grow and mature, international and regional airports in the provinces and territories will play an increasingly vital role in providing the essential air connectivity to the major central hub airports.

While Canada's major international hubs have invested significant funds into upgrades and improvements, there is a demonstrable and consistent need for investment in Canada's smaller international and regional airports to support Canada's ability to move goods and people by air.

These “feeder” airports, post federal devolution, now run under a variety of systems and ownership with the predominant commonality being a free enterprise model.

Depending on the size and scope of the airport, a number of outside funding sources are available.

The ACAP (Airport Capital Assistance Program) process requests from airports are far in excess of funding available each year. In addition, ACAP is a line-budget item and, as such, is subject to changes of government and ministers, budget constraints and capital funding burden shift between government priorities.

Federal-provincial infrastructure grants are available that generally offer \$0.66 funding for each capital dollar of expenditure. The criteria vary for each program. These programs have no predictability or guarantee for future years.

It is essential that the entirety of Canada’s airport network have the ability to operate within generally accepted business practices. This includes multi-year capital expenditure program planning.

Currently these airports are forced to institute business plans based on, at best, uncertain levels of capital funding to complete their planning process. The object of running an airport in a generally accepted free-enterprise business model becomes extremely onerous under this funding model.

### **Recommendation**

That the federal government create a long term, consistent, and predictable capital funding model for Canada’s international airports including local, regional and small National Airport System (NAS) airports where traffic is less than 400,000 passengers per year.