



2019 Pre-Budget Consultations

Standing Committee on Finance

House of Commons

August 3, 2018

Desjardins Group would like to submit comments to the House of Commons Standing Committee on Finance for the 2019 pre-budget consultations. Our recommendations are grouped under four major themes: tax and fiscal policy, international trade, business support and regulation of the financial sector.

Tax and Fiscal Policy

The Government of Canada has made substantial efforts in recent decades to put its fiscal house in order. These efforts have been successful, and have given Canada more flexibility than a great deal of its peer countries. Canada's position has given it the opportunity to use budget deficits to invest the funds needed to renew infrastructure, create support programs for businesses, and provide tax relief for individuals.

Given the economy's current good health, maintaining budget deficits appears to be less and less justified. Continuing in this direction could limit the latitude the government should give itself in the event of an economic crisis or shock. The country's aging population is putting more and more pressure on provincial budgets, and the high levels of household debt could be a problem for the Canadian economy, given the current increase in interest rates and housing costs. It would therefore be wise to set targets for returning to a balanced budget in the medium term.

In recent years, the Canadian government has been examining its tax system, and has adapted it to make it fairer and easier to understand for all taxpayers. With a similar objective in mind, it supported OECD measures to fight base erosion and profit shifting, making it better equipped to close tax loopholes as a result.

The government's concern for fairness should also lead it to examining the other aspects of its tax system, particularly for online shopping, digital businesses, and the sharing economy. As these sectors grow, the government may miss out on greater and greater tax revenue if it does not assert its authority on the matter. Not only is this an issue of fairness, but it is also one of ensuring funding for infrastructure and social programs in the longer term.

International Trade

Desjardins Group is of the opinion that free-trade agreements are an essential part of economic development, and generally have a positive impact on Canada's economy. The last few years have given way to negotiations that have resulted in a series of new bilateral and multilateral trade agreements, such as the one between Canada and the European Union, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. It would be desirable for the Canadian economy to continue to develop in this context of openness.

The current state of the negotiations on reopening NAFTA has instilled a climate of uncertainty for the future of the agreement, and has negatively affected Canadian companies and their ability to plan for future growth. Furthermore, new tariffs have forced some of them to relocate part of their production to the United States. Access to the American market is paramount for Canadian companies, especially those in Quebec and Ontario. Despite the turbulence, the economic relationship between Canada and the United States remains strategic, and it will become even more important in light of the Canadian government's efforts to stimulate innovation and diversify its economy.

The government has sent a clear signal by adding economic diversification to the responsibilities of the Minister of International Trade, and by making the Minister of Intergovernmental Affairs responsible for overseeing domestic trade. Cooperation between the various levels of government and the economic stakeholders will remain an essential added value, whether for pursuing NAFTA negotiations, managing the impact of NAFTA, or opening up other markets.

Furthermore, certain sectors of the economy, such as the agriculture, cultural and forestry sectors, are more exposed when their markets become more open and when trade pressure mounts. The government must consider that the risks actually affect much broader social, economic and purely Canadian issues, such as land use and regional vitality. That is why the government should continue to vigorously defend supply management in the agriculture sector, as it has been doing for a long time now. Any erosion of the system must also be compensated by support for producers and the regions affected.

Similarly, the government must also support the vitality of other sectors by implementing, when necessary, measures for compensation as well as targeted support, as it did for the softwood lumber, steel and aluminum industries. This support will give companies the opportunity to develop adaptation strategies while maintaining the required market stability. This is particularly important for regions where economic activity depends more on the sectors adversely affected by negotiation tactics and tariff hikes.

Business Support

Uncertainty around trade has made business support all the more important. With the purpose of providing a counterweight to the current climate, we encourage the government to implement support measures that will help businesses to better adapt to the new market realities.

In recent years, labour shortage has become a critical issue for Canadian businesses. To remedy it, the government could encourage older workers to stay in the workforce by giving them tax incentives, by streamlining the process for issuing work visas, and by shortening the delays in obtaining those visas.

Building training centres in collaboration with the provinces could also facilitate the integration of newcomers. These centres should not only be focused on language and culture, but also on getting people to join the workforce in sectors where labour needs are greatest.

Furthermore, it may also be appropriate to provide businesses with more direct support, in the form of tax credits tied to export targets. This would help boost the government's efforts to reduce its dependence on the American market, and would open new markets. In the same vein, the government could improve its credits for research and development to foster innovation in Canadian SMEs, while streamlining the administrative processes related to obtaining government contributions and credits.

To continue their development, Canadian SMEs need measures that are adapted to their growth and to their various operations. Such measures include supplying patient capital, which promotes long-term, sustainable results, and facilitating business transfer for owners who wish to transfer ownership of their property while ensuring that the property remains in their region. These economic development aspects deserve particular attention from the government, because they are courses of action that will help it achieve its goals.

Some approaches in recent years have proven to be successful. Desjardins Capital and its ecosystem are a good example. As a partner of some 450 businesses, co-operatives and investment funds, this division of the Desjardins Group helps to maintain more than 67,000 jobs. Capital régional et coopératif Desjardins (CRCD) is the main fund managed by Desjardins Capital. The mandate of this fund is to provide financial and strategic assistance to its partners, in order to actively support them in every step of their development. It endorses close relations with its vast network of administrators and businesses, which allows it to provide concrete solutions to enter new foreign markets, ensure the transition of business ownership, and embrace the most recent technological advances.

CRCD is an innovative and unique tool, unparalleled in the Canadian financial landscape. Its mandate to provide long-term support allows businesses and co-operatives to improve their productivity and competitiveness on a stable and sustainable basis. This approach helps enhance the economic development of cities as well as remote regions in a concrete and measurable way. The government would do well to support the momentum created by this type of initiative, especially in a context where it wishes to diversify the country's economy.

Regulation of the Financial Sector

Desjardins Group supports the Government of Canada in its efforts to modernize and strengthen the legislative framework for the financial sector, in order to foster innovation and competition. A key element of this policy is to promote stakeholder diversity and equal market access for all financial institutions under prudential regulation in Canada.

Desjardins Group's unique structure is both a strength and a challenge. It requires special attention and, sometimes, adjustments to the traditional legislative framework, without however compromising on prudential regulations. The government must acknowledge and understand this distinct financial model.

We encourage the government to continue taking into account the contributions that financial co-operatives make in fulfilling their objectives for competition and innovation. To do so, Desjardins Group must have access to business opportunities that is equal to that given to financial institutions under federal jurisdiction. This access undeniably contributes to a healthy competitive dynamic, which is good for the public and the stability of the financial system.

The Government of Canada recently showed that it was aware of this issue by allowing all deposit-taking institutions under prudential regulation, including financial co-operatives under provincial jurisdiction, to use generic banking terms. The work must continue in this direction.

Furthermore, modernizing the regulatory framework must be done within the framework of the Canadian federation. Desjardins Group supports greater consistency and alignment of standards across all levels of government. However, we ask the government to pay particular attention to respect for jurisdictions, and to avoid creating two sets of rules for certain entities. Not only does regulatory overlap unnecessarily complicate the operations of all financial institutions, it also confuses consumers.

We believe that, as the government continues to modernize its financial sector, close ties with provincial authorities are essential before changes are made. That approach would enable financial co-operatives to evolve in a legal and regulatory framework that recognizes their reality and will allow them to continue contributing to the diversity and stability of the Canadian financial system.

We would be pleased to discuss the topics in this brief with the members of the Standing Committee on Finance, and we will continue to participate in consultations that affect sectors of interest to the Desjardins Group and its seven million members and clients.

