



leadership beyond finance

**FEI Canada – Policy Forum
Pre Budget Submission, August 2017**

August 4, 2017

The Honourable Wayne Easter
Chair, House of Commons Standing Committee on Finance

Dear Mr. Easter:

The Policy Forum of Financial Executives International Canada (FEI Canada) is responding to the committee's request for pre-budget submissions.

FEI Canada is the all-industry professional membership association of 1500 senior financial executives with 11 chapters across Canada. Membership consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, representing a significant number of Canada's leading and most influential corporations. FEI Canada provides thought leadership, advocacy services and professional development to our members.

We applaud the government for its leadership on issues raised by FEI Canada in previous submissions, including tax simplification, a focus on infrastructure investment, leadership on retirement planning through a [modest expansion](#) of the CPP, and the collaborative approach with provincial and territorial governments.

Executive Summary

The primary concern for our members is the health of the Canadian economy. The government should continuously examine and align our national strategies and policies focused on enhancing innovation, cybersecurity, energy and environmental sustainability, exports, infrastructure and trade, all while maintaining fiscal prudence. We applaud the formation of the Infrastructure Bank and the creation of Superclusters, which we believe will contribute significantly to the growth and direction of the economy.

Innovation: Increase collaboration with industry, startups, government and academia, encouraging start-ups to remain in Canada when moving to commercialization. Canada has many components of a healthy innovation ecosystem including a highly educated workforce, world-class research institutions, and low barriers to starting a business. Despite these strengths, Canada's innovation landscape is lagging behind higher-performing peers. The creation of Superclusters goes a long way in facilitating the development of new technologies. We propose that it be facilitated by extensive consultation with industry groups to determine investment priorities and ensure that there is meaningful support for start-ups and the entrepreneurial community. We look forward to participating to help programs focus on the best competitive opportunities and promote scale; also, creating solutions to promote funding for R&D and support of commercialization.

Cybersecurity – a growth industry: FEI Canada proposes a national initiative, working in collaboration with industry, to manage a strategic implementation of policies, protocols and best practices to maintain the integrity of the nation's information systems. Its mandate would be to invest in



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technologies and expertise to maintain cybersecurity, re-establishing protocols ensuring the security and privacy of data maintained in Canada.

Energy & Environmental Sustainability: Investment in renewable energy infrastructure would help meet long-term energy needs for Canada, while diversifying the economy, promoting the development of new technologies and value-added products. Environmentally sound pipeline infrastructure becomes a requirement as an economic driver.

Exports, Infrastructure & Trade: Invest in renewable energy, pipelines, rail and highway networks as part of its infrastructure focus, to enhance Canada’s export ability (using the P3 model where appropriate). Expanding high-speed internet in remote areas will also support business growth. We support the creation of the Infrastructure Bank to facilitate this, however, we believe much consultation with industry is needed to determine regional priorities.

Entrepreneurship: Although it is difficult to predict business needs decades from now, promoting entrepreneurship amongst our youth today is imperative to our country’s future success. It is vital for the next generation and critical for our economy that we invest today to create tomorrow’s innovators and business leaders in the areas of biotechnology, environmental protection and enhancement, medical research, nanotechnology, robotics, business and engineering.

Create more Clusters: In line with the creation of Superclusters, Canada must recognize and leverage its regional strengths and facilitate the development of specific industry clusters across the country, while continuing to develop important business relationships worldwide. This would ensure that regions across Canada attract the best talent, enabling industries to constantly introduce new products and services into the market, strengthening our trade and investment presence in the world.

Fostering a Competitive Business Landscape: FEI Canada recommends the government detail the path back to a balanced budget. There are significant opportunities to assist Canada’s businesses by simplifying the Income Tax Act. There would be reduced costs by allowing consolidated tax return filings; for GST purposes, companies should be able to elect to claim input tax credits in a related company similar to the election currently available allowing another taxpayer to remit GST.

FEI Canada is pleased to present this submission and welcomes the opportunity to further discuss any matters related to the work of the Standing Committee on Finance.

Sincerely,

A handwritten signature in black ink, appearing to read "Norm Ferguson".

Norm Ferguson, CPA, CMA

Chair, FEI Canada Policy Forum
Managing Director, Ogilvie LLP

1. Federal measures to help Canadians be more productive.

Entrepreneurship: Promoting youth entrepreneurship is imperative to future success. The government's job creation strategy should be comprehensive and provide clear communication to the industry sectors it is prepared to support. This will create incentives for businesses, educational institutions, and investors to channel resources in support of these programs.

Manufacturing could invest in productivity technologies to the extent that Canada maintains a competitive advantage. Leadership in the area of environmental remediation could be developed and exploited, similar to how Canadian oil industry expertise was exported to the global market.

Apprenticeships: Continued focus should be placed on apprenticeships in higher-valued skills. Corporate support should be sought to support and finance this initiative. Canada will be better able to compete with similar value-added, export-driven economies.

Inter-provincial Trade Barriers: Governments should continue to support the elimination of inter-provincial barriers that hamper the transfer of skilled labour between provinces. We recommend government continue to provide leadership and vision to enhance collaboration between governments, business and industry, with the goal of improving market access for all Canadian exports – commodities, services and manufactured goods – enhancing Canada's economic stability.

2. Federal measures to help Canadian businesses be more productive and competitive.

Recent shifts in the global economy emphasize the need for Canada to further examine and align our national strategies and policies on enhancing innovation, exports, infrastructure, trade, energy and environmental sustainability, while maintaining fiscal prudence and returning to a balanced budget.

FEI Canada believes that, in ordinary course, government should balance budgets and reduce the debt-to-GDP ratio without raising taxes, to remain attractive for capital investment and globally competitive. FEI Canada understands this must be weighed against economic pressures that negatively affect government revenues. It remains important to document the steps the government will take to return to a balanced budget.

Taxation: The taxation system must allow Canadian businesses to operate in a competitive global environment, where flow of capital is widespread and investors seek returns in varying jurisdictions.

To this end, higher tax-rates than those of Canada's immediate trading partners will discourage new investment and, potentially, transfer investment and jobs abroad. Lower rates, with limited deductions, and their uniform application across all industry sectors would achieve: (i) transparency and ease of understanding; and (ii) an improved platform for investment in growing businesses, as opposed to investing in those favoured by the tax system.

FEI Canada considers that broadening the tax base by reducing both rates and deductions should be largely neutral to tax revenues collected.

Innovation: Government can play an important role in a collaborative relationship in the development of future visions with Canada’s business leaders, and providing an environment that nurtures and develops our future innovators, entrepreneurs, and leaders.

As noted in Minister Bains’ Innovation Agenda, we agree innovation is needed to further leverage Canada’s strengths in sectors such as:

- Natural resources – Canada should be proud of responsibly developing natural resources, including oil and gas, forestry and hydro-electricity;
- Agriculture and forestry – Canada should build on its leadership position as world demand for food and fiber continues to grow;
- Health sciences/biotechnology – Canada has strong foundations in these industries, which will grow as the population ages.

We need to review regulatory barriers to innovation in Canada; ensuring regulation fosters the introduction of new ideas in an economically achievable manner. The government should increase funding for innovation projects that promote growth and employment, including those that advance climate change technologies.

Canada is one of the world’s more generous indirect tax incentive funders of innovation; this is not an achievement in itself in today’s fast-paced globally competitive marketplace if Canada does not ultimately rank among global leaders. According to World Economic Forum’s [Global Competitiveness Index](#) 2016-17, Canada ranked 15th in the world, down from 13th in 2015-16, lagging well behind the U.S. which ranked third.

FEI Canada’s research arm, the Canadian Financial Executives Research Foundation (CFERF), produced a study entitled [The Funding of Innovation in Canada](#), reveals challenges in the following areas:

1. The process to obtain direct or indirect funding from governments and banks is slow and time-consuming. It is challenging to go from first-stage to second-stage research to full commercialization. There is concern funds are spread too thin across eligible projects versus placing funds with higher potential-success projects.
2. When companies require more funding to finance from second-stage to the latter-stage, many start-ups are often acquired by U.S. and/or foreign concerns, buying out our tech gems and other industry successes who have now made it beyond “proof of concept”. With the loss of successful start-ups and innovative companies to foreign concerns, this creates a vast “brain drain” away from Canada. Canada needs these people to develop products and solutions that keep our companies innovative, competitive, and sustainable.

We recommend companies be permitted to issue flow-through shares to monetize development and related commercial expenses. In the end, CFERF found that money is there for start-ups, funding

programs spark innovation, and long-standing Canadian organizations have been galvanized. Developing effective strategies for getting the funding is the challenge. Companies thinking about second-stage, commercial viability and export should also be working with EDC/BDC creating leverage on the pathway to full commercialization. This can maximize the true benefit of government funding, as government partners are involved every step of the way.

FEI Canada encourages the government to review the current state of support for innovation, with an emphasis on commercialization.

Create more Clusters: Start-ups should continue to be supported by innovation hubs. Canada must recognize and leverage its regional strengths and facilitate the development of specific industry clusters across the country, while continuing to develop important business relationships worldwide. This would ensure that regions attract the best talent, enabling industries to constantly introduce new products and services into the market, strengthening our trade and investment presence around the world.

Cybersecurity: FEI Canada produced a study on [Cyber Security and Business Continuity](#) highlighting potential shortfalls within the readiness of Canada's IT infrastructure to combat cyber threats. As a matter of national security and a prime concern to members, FEI Canada proposes the government establish a national initiative, working in collaboration with industry, to manage the implementation of policies, protocols and best practices to maintain the integrity of the nation's information systems.

This National Cybersecurity Initiative would invest in technologies and expertise to repel cyberthreats, establish protocols ensuring the security and privacy of data maintained in Canada, promoting best cyber-security practices to Canada's businesses and government institutions.

Exports, Infrastructure & Trade: Trade represents more than half of Canada's GDP. We encourage the government to demonstrate leadership in infrastructure enhancements that improve access to export markets. The construction and long-term operation of port and pipeline infrastructure can provide lasting economic benefits for all of Canada.

We recommend the government continue to enhance collaboration between provincial governments, business and industry, with the goal of improving labour mobility as well as market access for exports.

Energy & Environmental Sustainability: Infrastructure priorities should focus on what best can help drive the economy, protect our environment and meet regional priorities. For example, investment in renewable energy infrastructure addresses long-term energy needs for Canada, while diversifying the economy, promoting development of new technologies and value-added products.

An integrated, collaborative approach stimulating energy development, emerging and sustainable technologies and alternative energy sources such should be encouraged. Finally, to facilitate the export of energy projects to overseas markets, the government should ensure Canada has modern port infrastructure and world-class spill prevention and response protocols.