

Canadian Council of Chief Executives

Responses

1. Economic Recovery and Growth

Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

A responsible fiscal framework is a Canadian competitive advantage. Based on Canada's current projected growth rates, we encourage the government to remain focussed on restraining the overall rate of growth in public spending. As we said in a recent letter to the Minister of Finance, the savings realized through careful stewardship of public funds will enable the government to achieve fiscal balance faster than would otherwise be the case, enhancing business and consumer confidence and further insulating Canada from future economic shocks. At the same time, we agree with the Committee's 2011 call for an expert panel to review, modernize, and simplify the federal corporate and personal tax system. Comprehensive review and reform of Canada's taxation system is long overdue. As the OECD pointed out in its 2012 Economic Survey of Canada, the federal government has achieved significant progress with respect to reducing the statutory corporate income tax rate. Nevertheless, the complexity of the tax system imposes a significant administrative burden on Canadian workers and business owners. Comprehensive tax reform that fosters investment and savings, that reduces the disparity in treatment between small and large firms, and that attracts skilled labour would enhance Canada's medium-term economic growth prospects while encouraging smaller companies to expand, invest and enter new markets. The government should complete the implementation of recommendations of the Advisory Panel on Canada's System of International Taxation. Also, there are long-term benefits in the use of business tax incentives to adopt new technologies such as internet based businesses, e-commerce, e-health, e-education and cloud computing. Over the long term, market-oriented economic policies, efficient and transparent regulatory systems, and targeted investments in strategic infrastructure will improve Canada's productivity performance, facilitate growth and help Canadians adapt to demographic changes, a strong currency and intense global competition.

2. Job Creation

As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?

The CCCE supports the timely conclusion of ambitious, comprehensive economic partnership negotiations with the European Union, Japan and India. By joining the Trans-Pacific Partnership negotiations, Canada has taken an important step toward strengthening its commercial relations with the economies of the Pacific Rim. With respect to China, we recommend that Canada pursue targeted trade liberalization initiatives as well as measures to enhance two-way reciprocal investment. Canada needs increased foreign direct investment, and the government should send a clear signal that FDI is welcome, including from countries such as China. Priority bilateral and regional Asian markets should be considered in due course. Ambitious but realistic commercial strategies should also be developed and launched for Turkey, Brazil and Mexico. Canadians have benefited enormously from the continuous pursuit of an integrated North American market that maximizes efficiency, provides high quality

products and services and attracts investment. This should continue even as Canada seeks meaningful access to other global markets. The Government of Canada should utilize the full suite of policy instruments at its disposal to open markets for Canadian business but introduce legislation to implement the Anti-Counterfeiting Trade Agreement at the earliest opportunity. Importantly, with global demand for resources increasing, Canada's wealth in resources has the potential to be a significant contributor to economic prosperity and job creation. The federal government has a vital leadership role to play in establishing and maintaining a policy environment that supports the timely and responsible development of the full range of Canada's resources assets as well as investments in related infrastructure serving both new and existing markets. Economic diplomacy must be at the core of Canada's international agenda. Prime Minister Harper and key members of his Cabinet have undertaken a number of recent trips to key emerging markets and these visits should be repeated as often as possible. The Government of Canada should also consider a single-window approach to mobilize internal support for key investment and commercial global opportunities, including export promotion and supply chain development strategies. Our Trade Commissioner Service should be at the centre of such efforts, in collaboration with other key departments and agencies.

3. Demographic Change

What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?

Labour and skills shortages are among the top concerns of Canada's business leaders and will, over time, limit opportunities for private sector investment and economic growth. The federal government should develop a more robust Labour Market Information (LMI) system that includes comprehensive regional intelligence, information on displaced workers and institutional requirements to provide LMI in schools and post-secondary institutions. High-quality, easily accessible LMI can improve both short- and long-term matches of labour supply and demand, while encouraging individuals, particularly students, to acquire the skill sets they need to succeed in a dynamic marketplace. The CCCE welcomes recent reforms to the EI and immigration systems, but believes that further short and long-term reforms are needed. The EI system as currently structured discourages mobility. We recommend: a more uniform standard for access to and duration of EI benefits; enhanced benefits for long-tenure displaced workers who have paid into EI for many years; the implementation of a regular Displaced Workers Survey; and improved emphasis on mobility assistance and retraining. In attracting and recruiting temporary foreign workers, both the federal and provincial governments should streamline inter-provincial differences in employment categories and thresholds, move to a "trusted employer" approach for Labour Market Opinions and extend work permit eligibility to 3 years. We look forward to the release of recommendations by the expert advisory council on Canada's international education strategy. Governments, educational institutions and the private sector must work together to establish Canada as a leading destination for international students at all levels. Aboriginal people represent the fastest-growing demographic group in Canada, with a median age significantly below the national average. Sadly, the unemployment rate among aboriginals remains significantly higher than the national average. Every effort must be made to improve education and skill levels within the aboriginal population and to expand opportunities for aboriginal peoples to participate fully in the economy. The federal government should work more closely with industry to promote employment and enhance economic development opportunities in Aboriginal communities.

4. Productivity

With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?

Competition is the single most important driver of productivity growth. It encourages firms to adopt new products, services and processes, drives prices down and promotes innovation. Greater trade and investment liberalization, smarter regulatory systems as well as more effective tax credit administration, skills development and training, and support for innovation can help to increase Canada's competitive intensity. The CCCE endorses the view of the Competition Policy Review Panel that regular, periodic reviews of sectoral framework policies should be implemented with a view to minimizing impediments to competition. In particular, there is an urgent need to review the policies that limit competition in Canada's supply-managed sectors. Canada's dairy and poultry producers and processors have the potential to become major exporters, but are held back by a system that discourages innovation and risk-taking in agri-food and impedes building export markets for both producers and processors. The Government of Canada should strike an expert group to provide recommendations on the reform of the country's agricultural supply management systems. All relevant stakeholders should be involved in such an initiative. Reforms should be put in place within three years, subject to an adequate phase-in period. In its 2012 Budget, the government proposed a number of changes to the Scientific Research and Experimental Development (SR&ED) tax incentive program with a view to improving Canada's innovation performance. Unfortunately, some of the suggested changes may backfire by reducing the incentives for multi-national enterprises (MNE) to conduct R&D in Canada. The elimination of capital expenditures from the SR&ED tax credit will almost certainly act as a disincentive for capital intensive industries to invest in future. Moreover, the changes proposed would exacerbate the discrepancy in treatment between small and large companies and thereby discourage the growth of small innovative firms. Please see the next section for specific recommendations.

5. Other Challenges

With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?

Canada's defined-benefit pension plans are facing severe pressure as a result of historically low interest rates and poor capital market performance. The federal and provincial governments should consider immediate reforms to the solvency funding rules associated with such plans. This would eliminate the need for repeated requests for temporary relief from solvency-funding requirements at both the federal and provincial levels. Canada offers a low risk, stable political environment for investment but also has a high operating cost environment. Operating costs are growing significantly given the increased costs for energy, labour, regulatory compliance, infrastructure and Aboriginal Impact Benefit Agreements. In the meantime, Canada has an ambitious regulatory cooperation agenda with the United States. This same level of ambition should be applied at the federal-provincial level to mitigate the higher operating costs noted above and to overcome regulatory fragmentation with respect to energy and labour standards, occupation health and safety, pensions, securities, the environment, transportation, food safety and other areas. To ensure a supportive environment for business R&D, we recommend that actions be taken to: • lengthen the transition period of the recently introduced 2012 changes to better reflect the R&D and capital investment planning horizon of MNEs; • provide greater clarity and certainty with respect to accelerated capital cost allowance rates for productivity-enhancing plant and equipment, as well as information and communication technology-related assets; • enhance direct support for R&D investments by MNEs (via the Strategic Aerospace and Defence Initiative and/or

other programs); and • consider further reforms to the SR&ED program that will improve Canada's ability to attract R&D mandates from MNEs.