



**Written Submission for the Pre-Budget Consultations in
Advance of the Upcoming Federal Budget**

Submitted to the Standing Committee on Finance
August 7, 2020



List of recommendations

1. Increase the regulatory harmonization between jurisdictions by creating a regulation harmonization council, with representatives from all levels of government in Canada
2. Increase the adoption of regulatory sandboxes
3. Clarify customs procedures and waive duties on small-value shipments
4. Create a single window service for startups and companies looking to start or scale their AI efforts to help them scope out their needs
5. Continue to invest in workforce development so businesses and employees can work effectively in an increasingly digitized and automated world
6. Direct COVID-19 government relief directly into the hands of small businesses

Introduction

Businesses today are grappling with seismic shifts in the economic landscape and a frenetic pace of technological change—and this has been amplified significantly by the COVID-19 pandemic. Small and medium-sized enterprises (SMEs) have been disproportionately impacted by the current crisis. As the backbone of the Canadian economy, their ability to rebuild and thrive in the 'new normal' is key to Canada's economic recovery. It is crucial that the government help Canada's SMEs overcome their losses, invest in their ability to adapt, and guarantee their future.

In this submission, we provide six recommendations to the Standing Committee on Finance. These recommendations focus on five areas that our small business clients have told us are fundamental to their success:

- Enhancing regulatory competitiveness;
- Supporting access to international markets;
- Investing in digitization;
- Helping upskill Canadians so they're equipped for the 'new normal' work environment; and,
- Making it easier to navigate government support programs.

By investing in the following business-focused policy measures in Budget 2021, the federal government will help restart the Canadian economy.

Enhance regulatory competitiveness

As we highlighted in our report, [Making regulation a competitive advantage](#), Canada has a serious competitiveness challenge. Regulatory inefficiency has been a growing concern for several years, with many business groups calling for significant reform. Well-designed regulation will foster business productivity and drive economic growth as we recover from COVID-19 and far into the future. Creating a more streamlined and efficient regulatory environment that protects public interest and addresses potential or existing market failures will greatly mitigate undesirable economic or social outcomes.

Recommendations

1. **Increase the regulatory harmonization between jurisdictions by creating a regulation harmonization council, with representatives from all levels of government in Canada**

Overlapping regulations can cause confusion and inefficiency in the market place, making it more difficult for businesses to navigate their regulatory obligations. For example, in 2018, the [Canadian Chamber of Commerce](#) profiled how the Saskatchewan uranium mining industry is regulated by three government entities: the Canadian Nuclear Safety Commission, the Government of Saskatchewan, and Environment Canada. The operators of mines in the province have a high volume of overlapping reporting requirements, unnecessarily increasing costs for operators. In order to better harmonize overall regulatory environment for business, Deloitte recommends the creation of a regulation harmonization council, with representatives from the federal government, provinces and territories, and municipal governments. This council would facilitate collaboration between governments and provide a common forum for consultation with regulated businesses who have specialized knowledge of the potential economic disruptions or unintended consequences that may arise from burdensome regulatory overlap.

2. **Increase the adoption of regulatory sandboxes**

Regulatory sandboxes relax regulations for a set period of time or for certain regulated organizations—benefiting innovators and enabling regulators and companies to test 'out of the box' approaches to regulating new activities in a collaborative manner. They provide a 'safe space' for companies to test new business models or activities that are constrained by current regulations. This can be particularly beneficial for innovative SMEs that are working with emerging technologies that were not accounted



for when many existing regulations were developed. The Canadian Security Administrators' [CSA Regulatory Sandbox](#) is a positive example of this in practice.

Support SMEs in gaining access to international markets

Exports play a key role in the Canadian economy, totaling \$585 billion in 2018, but the data from [Global Affairs Canada](#) suggests that only about 1 in 10 Canadian SMEs export goods and services abroad. This number has remained largely unchanged since 2011, rising from 10.4 percent in that year to 11.7 percent in 2017. Increased market access is not the only benefit; as our report on [insights from Canada's most successful companies](#) shows, companies with global exposure tend to be more productive, resilient and profitable. Internationally oriented firms have access to talent and ideas that may not be available to those who don't look outside of Canada's borders.

Recommendation

3. Clarify customs procedures and waive duties on small-value shipments

A survey by the [Canadian Federation of Independent Businesses](#) (CFIB) of 8,600 Canadian firms found that 59 percent of SME respondents who engage in international trade with the United States said that border costs were higher than they had expected. One-third of these respondents said that if they had prior knowledge of these costs, they would not have traded in the first place. These transaction costs are only likely to be worse for trade outside the United States, where, according to [Global Affairs Canada](#), many SMEs do not have experience doing business. Administrative costs and duties disproportionately affect SMEs because they make smaller and more infrequent shipments. To combat this issue, the Government of Canada should conduct an economic impact assessment of all border fees imposed by the Canadian government to understand the impact on the trading behaviour of SMEs and identify opportunities for efficiencies. In addition, the government should waive duties in shipments under the \$2,500 threshold, as was the case under the Courier Low Value Shipment program.

Lead by example and continue to invest in the transformative potential of AI

COVID-19 has dramatically accelerated companies' need for digital transformation to adapt business models, facilitate the move to longer-term virtual work, and meet consumer needs through e-commerce. However, to ensure longer-term prosperity more Canadian SMEs need support to go further and invest in artificial intelligence (AI) to drive innovative, lower costs, and improve performance. As we noted in our report, [Canada's AI Imperative: Start, scale, succeed](#), businesses who had not yet adopted AI regularly raised the issue of the cost of entry as the most pressing concern to embracing technology. This concern was felt most acutely by small businesses with less staff, who felt under-resourced and ill prepared for AI and data-related change.

Recommendations

4. Create a single window service for startups and firms looking to start or scale their AI efforts to help them scope out their needs

For businesses just getting started on their AI journeys, a lack of resources can feel overwhelming. Our interviews with businesses looking to scale found however, that once a business establishes an initial understanding of scoping their high-level needs and opportunities with AI, the startup costs were not as daunting as previously feared. Sometimes, this learning begins with a simple conversation with experts in the AI industry about opportunities to start, scale, and succeed on their AI journeys. The federal government can support businesses, especially SMEs, by creating a single window for startups and firms looking to scale to connect with other businesses that have successfully implemented AI, help them access capital, and connect them with export markets.

Support businesses in upskilling their workers

The COVID-19 pandemic has changed the way we work, and these changes may prove to be permanent. As businesses adapt their business models to thrive in a fast-changing, uncertain work environment, many will have to upskill their employees to reflect the new realities of the COVID-19 era. However, [our research found](#) that only 63 per cent of organizations feel equipped to offer training options for new skills, requirements, and strategies to ensure continued workforce success. Furthermore, even before the pandemic, organizations in every sector were struggling to attract, recruit and retain people with the skills needed to help them succeed in a digitized, automated, AI-driven world.

Recommendation

5. Continue to invest in workforce development so businesses and employees can work effectively in an increasingly digitized, automated world

Many of us are now working and collaborating remotely, some for the very first time, and employees are building their careers in a post-COVID-19 world. As we detailed in a recent article, [‘The upskilling imperative, building a future-ready workforce for the AI age,’](#) investment in workforce development is more critical than ever to adapt in the face of constant change. Deloitte applauds the launch of the Future Skills Centre and the Future Skills Council as positive steps in the right direction. We recommend the government continue to make deliberate, significant investments in learning to ensure businesses and employees alike have the knowledge, skills, and capabilities needed to work effectively in an increasingly digitized, automated world. For example, Canada should invest in broad-based public education about AI, which should include training initiatives outside of formal educational institutions. One promising model is Finland’s Elements of AI free online course, which is geared to people with no technical background. This has allowed Finland to educate a large number of people at low cost—including business owners.

Make it easier for small businesses to navigate government support programs

A Deloitte survey conducted in June 2020 has revealed that the businesses most severely impacted by COVID-19 are those with less than \$1-million revenue, and while there are positive sentiments associated with federal support programs, there is substantial opportunity to improve their effectiveness and accessibility. Our survey also found that SMEs reported the greatest need for ongoing government support.

In working with small business clients over the last couple of months, it has become clear that the design of the federal government COVID-19 support programs does not enable small business uptake. Many small businesses found the support programs offered did not meet their needs, the eligibility requirements were too high, or the application process was too complicated. As a result, SMEs have realized that the best way to survive the economic challenges of the pandemic is to adapt their business models to the new normal so they can resume generating revenue. Small business owners need the government’s help to rebuild, not just to keep them afloat.

Recommendation

6. Direct government relief directly into the hands of small businesses

As mentioned, many small businesses must rebuild and redesign their business models to survive the pandemic and succeed in a post-COVID era. SMEs are looking to reconfigure their production lines, move their sales online, and/or enable automation to reduce human contact until a vaccine is available. Issuing grants to small businesses directly, not issuing loans or funding the surrounding marketplace infrastructure, will give them the immediate capital they need to safely, quickly and efficiently reopen their doors and contribute to rebuilding the economy.

Conclusion

The outbreak of COVID-19 is disrupting many businesses across Canada, and will change the way they do business for the foreseeable future, or at least until a vaccine is available. As the backbone of the Canadian economy, it is imperative that businesses, especially SMEs, are supported so they adjust and recover, but are also set up for success in the 'new normal.'



Contact

Georgina Black

Managing Partner, Government & Public Services
Deloitte
geoblack@deloitte.ca

Charles Perron

Partner, Federal Public Sector Lead
Deloitte
cperron@deloitte.ca

Oren Cainer

Public Policy Lead, The Future of Canada Centre
Deloitte
ocainer@deloitte.ca

About Deloitte

www.deloitte.ca

Deloitte provides audit & assurance, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights and service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 264,000 professionals—14,000 of whom are part of the Canadian firm—make an impact that matters, please connect with us on LinkedIn, Twitter or Facebook.

Deloitte LLP, an Ontario limited liability partnership, is the Canadian member firm of Deloitte Touche Tohmatsu Limited. Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

© Deloitte LLP and affiliated entities.