THE CANADIAN CHAMBER OF COMMERCE

LA CHAMBRE DE COMMERCE DU CANADA

*The Voice of Canadian Business™*

*La porte-parole des entreprises Canadiennes^MD^*

# Policy Resolutions 2016

## Positions on Selected

## 2016 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 17-19, 2016 at the Canadian Chamber's 87th Annual Meeting in Regina, Saskatchewan. Each resolution, once approved by a convention, has an effective lifespan of three years.

The 2016 resolutions were discussed, amended and approved during debate, at which time accredited voting delegates from across the country considered a total of 69 proposals (of which 63 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.

Questions pertaining to these policy positions should be directed to the Policy Division of the Canadian Chamber of Commerce at:


The Canadian Chamber of Commerce<br>
360 Albert Street, Suite 420<br>
Ottawa, Ontario K1R 7X7<br>
Telephone: (613) 238-4000<br>
Fax: (613) 238-7643

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## 01. Acknowledgement of the Base Principles of Pension Reform

**Issue**
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.

**Background**
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 largescale, 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".
4. Create a process for business to transfer pensions for employees when moving to another job to ensure the fluidity of Canada's labour force.
5. To improve the reporting of CPP results, individual taxpayers should receive annual statements explaining their contribution history, the performance of their investment, and their expected return.

## 02. Addressing Barriers to Succession Planning for Small to Medium Enterprises

**Issue**
According to a 2013 survey completed by the Canadian Federation of Independent Businesses (CFIB), 75% of Canadian business owners will exit their business before 2022[1]. The importance of succession planning and the creation of a business exit strategy remains critical. The top reason for exiting a business is retirement[2].The economic impact of the retiring baby boomer generation of SME business owners should not be underestimated.

**Background**
In the 2012 CFIB report: Passing on the Business to the Next Generation, it was estimated that over $1 trillion in business assets would change hands by 2017. A secondary source identified that by 2022, $3.7 trillion dollars of business assets will have changed hands[3].

Industry Canada defines an SME when a business employs anywhere from 1 to 499 employees, which includes Micro-enterprises employing 1 to 4 individuals[4]. The large group of SMEs in Canada account for 98% of businesses, employ 48.3% of the labour force, and account for 40.7% of the GDP[5]. Yet, studies have proposed that only 10% of owners have a succession plan in place[6].

A succession plan helps a business owner deal with complex topics such as[7]:

- tax issues
- required qualifications and skills of successors
- legal issues
- how the successor will be trained/prepared for the role and
- mechanics for the purchase or transfer

Some of the top barriers to succession planning include but are not limited to[8]:

- Finding a suitable successor
- Valuing a business
- Financing for the successor
- Access to cost effective professional advice

British Columbia's *Venture Connect* prepares businesses for a sale so they can be transferred to a new owner – keeping businesses in our communities. Venture Connect began as a project created in response to the challenge that over the next 20 years, there will be unparalleled shortfalls of both business owners and employees resulting in potential closure of large numbers of small businesses throughout the province. The project was supported by BC Ministry of Jobs, Tourism and Innovation, BC's Small Business Roundtable, Island Coastal Economic Trust and six Community Futures organizations throughout Vancouver Island and the Island Coastal region (this includes Powell River and the Sunshine Coast). In 2013 Venture Connect began establishing working partnerships with Community Futures

[1] Canadian Federation of Independent Businesses (2012) Passing on the Business to the Next Generation, page 3
[2] Canadian Federation of Independent Businesses (2012) Passing on the Business to the Next Generation, page 8
[3] Retiring business owners to transfer $1.9 trillion in business assets in the next five years - largest turnover of economic control in Canadian history: CIBC
[4] Industry Canada (2011) Cited in CBC News (2011) 10 Surprising stats about small business in Canada www.cbc.ca/news/business/smallbusiness/story
[5] Ibid
[6] Canadian Federation of Independent Businesses (2011) Unnamed Poll. Cited in CBC News (2011) Canadian businesses score poorly on succession planning.
[7] Canadian Federation of Independent Businesses (2012) Passing on the Business to the Next Generation, page 4
[8] Canadian Federation of Independent Businesses (2012) Passing on the Business to the Next Generation, page 4

throughout the province and now delivers services throughout rural BC[9]. Even with resources such as Venture Connect, SMEs have historically been, and continue to be, vulnerable with respect to receiving approval for financing from lending institutions. This not only includes entrepreneurs starting a brand new business, but also those looking to purchase an existing business, as in the case of succession.

In BC, the Employee Share Ownership Plan (ESOP) and Employee Venture Capital Corporation Tax Credits provide tax based incentives for investors to provide financing to businesses for a variety of purposes[10]. Tax based incentives allow for employees to invest in companies and receive tax credits. While the money can be used by the receiving business for succession planning, there are severe limitations to the programs that have made them ineffective. At present, BC has provided the ESOP to facilitate direct investment by employees in their employer's company, and the succession ESOP which is a special application of the standard ESOP which facilitates a transfer of control of the business from the current retiring or departing owner(s) by involving the employees over a period of time. The succession ESOP plan also does not assist in succession of the large number of SME's that are not incorporated or the many instances where the successor wants to buy the corporate assets rather than the shares[11].

Nationally, the Canada Small Business Financing Program is a federal government program with mandate to increase the availability of loans for establishing, expanding, modernizing and improving small businesses by encouraging financial institutions to increase financing availability to small businesses, yet it does not include succession planning as a reason for a business financing[12]. A study conducted on behalf of the Business Development Bank of Canada (BDC) indicated trends of superior results by SMEs who obtain Canada Small Business Financing Program (CSBF) funding to SMEs obtaining funding elsewhere[13]. While CSBF does not currently allow for the financing to be obtained for the purpose of succession planning, BDC's study proved through historic evidence that financing programs to SMEs do work and help contribute to economic stability and growth.

Government backed vendor financing should be considered in the format of the Small Business Loan Guarantee Program, but instead of guaranteeing loans to start up or expand a business, the loan guarantees to pay the vendor up to 75% of the value of the loan with a maximum loan value of $500,000 to $750,000[14]. The loan allows the purchase of the existing business assets or shares rather than new working capital, capital assets, or equipment required for a new business. Loan programs need to shift more attention to succession rather than wholly focusing on new business.

According to statistics from the Canadian Association of Family Enterprise, between 80 and 90 percent of all companies in Canada are classified as small to medium, and the majority of these are family owned[15]. While almost half of SME owners plan on selling to a buyer or buyers unrelated to them, over one third of them intend on selling or transferring to their family members[16]. Small corporations should be allowed to defer the tax on the capital gains from the transfer of a business to the owner's children.

Since 2013, several tax measures have been introduced to assist Canadian business owners with the transition of their businesses. The Lifetime Capital Gains Exemption (LCGE) is one very important tax measure because for many business owners, the sale of their business is their retirement income[17].

[9] http://www.ventureconnect.ca/about/what-is-venture-connect
[10] Farrow, A. (2012) Issues in Succession Planning for Small to Medium Enterprises in the Greater Nanaimo Area
[11] Heron & Company (2007) Review of SME Loan Guarantee Programs. Research Report: Industry Canada, CSBF. Ottawa.
[12] Statistics Canada (2009) Economic Impact Study of the Canada Small Business Financing Program. Report: Industry Canada, Ottawa.
[13] BDC (2011) SMEs At a Glance
[14] Brennan, M., Miksimovic, V., and Zechner, J. (1988) Vendor Financing. The Journal of Finance, 43 (5), pp. 1127-1141
[15] Keeping it in the Family: Third and Fourth Generation Family Businesses in Calgary, February 2016, Page 3 Christina Frangou
[16] Canadian Federation of Independent Businesses (2012) Passing on the Business to the Next Generation, page 3
[17] Canadian Federation of Independent Businesses (2012) Passing on the Business to the Next Generation, page

The Lifetime Capital Gains Exemption (LCGE) is a federal tax deduction that can be claimed against taxable capital gains on the disposal by an individual of:

- Qualified small business corporation (SBC) shares
- Qualified farm property and
- For dispositions occurring after May 1, 2006 for qualified fishing property

The maximum LCGE was increased from $500,000 to $750,000 effective March 19, 2007 as a result of the Federal budget.

The 2013 Federal budget increased the LCGE amount to $800,000 for the 2014 tax year. The indexation of the LCGE to inflation for the tax years after 2014 was an important step in ensuring that the value of the LCGE's are retained. LCGE is $813,600 in 2015 and $824,176 for 2016.

The 2015 Federal Budget also increased the maximum LCGE for qualified farm or fishing property dispositions on or after April 21, 2015 to the greater of:

- $1 Million; and
- The indexed Lifetime Capital Gains Exemption applicable to capital gains realized on the disposition of qualified small business corporation shares.

It would be prudent to focus on stimulus for succession planning for small business that addresses the various business structures while keeping in mind that vendor's general desire to use the Federal Tax Act provisions to minimize tax on the transition.

Overall, the results of the Chambers research indicate a need for awareness to the issue of succession planning as well as changes to existing government resources for financing to provide sellers and potential purchasers the incentives to conduct succession planning and transition effectively.

Based on the information provided above, it is clear that the importance of business succession planning has been accepted by the senior levels of government in Canada and British Columbia as a relevant issue, and that further action by government to address this matter is timely.

**Recommendations**

That the federal government:

1. Develop and implement improved access to simplified practical information regarding proper business succession practices for SME business owners
2. Increase awareness, particularly among young entrepreneurs and entrepreneurial newcomers, about the opportunities and advantages of purchasing an existing business
3. Expand the scope of current tax based incentives to include unincorporated businesses and instances where successors buy corporate assets rather than shares
4. Expand the scope of existing small business financing programs to incorporate succession planning as a legitimate reason for business financing
5. Expand the scope of existing government backed vendor financing programs so that existing or potential owners of SMEs may access funds to facilitate the various aspects of succession planning including capital funds for purchase of an SME business
6. Allow SMEs to defer the tax on the capital gains from the transfer of a business to the owner's children
7. Continue to index the Lifetime Capital Gains Exemption to inflation and expand it to include some assets

## 03. Applying the Accelerated Capital Cost Allowance to Oil Sands, Upgrading and Petrochemical Industries (Renewal)

**Issue**

The Chamber of Commerce has consistently delivered the message to federal and provincial governments that the accelerated capital cost allowance (ACCA) needs to remain in place as a key component of a strategy to attract new investment in resource extraction and value-added manufacturing including resource upgrading. In support of an enhanced value-added strategy, it is critical that standalone upgraders and other petrochemical industries be eligible for the accelerated depreciation treatment. Under the current rules they do not qualify. With oil prices approaching all-time lows, a stagnating economy and the near complete withdrawal of energy investments, now is the time for the government to reinstate ACCA for all oil and gas related projects.

**Background**

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. Accelerated capital cost allowance or ACCA, as the name implies, 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 were 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 currently 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 mining projects. The timing for this decision was unfortunate. The elimination of the accelerated capital cost allowance coincided with a plunge in the price of oil as well as 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 has, since 2008, been repeatedly extended for additional two year periods and is now set to expire in 2017. Clearly, the government understands the power of the ACCA as an inducement to further investment.

As green-field projects, new upgraders in Canada are more costly, especially with our higher construction (labour and material) costs, as well as the need to develop supporting public and private infrastructure. Competing locations in the U.S. (i.e., 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.

Rigorous environmental and socio-economic public interest tests for major energy projects also extend the lead-time and upfront costs of projects. Addressing the climate change challenge will undoubtedly require investment of significant new capital investment. By providing for more rapid capital recovery, the ACCA will greatly assist in making Canadian upgrader projects more competitive with U.S. refineries.

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 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 in Canada.

The transfer of potential upgrading capacity in Canada to the U.S. could have lasting consequences. A strategy is to secure and strengthen an advantage in value-added manufacturing partly based on natural gas liquids (NGL) extracted from new northern gas supplies and new supplies of petrochemical feedstocks and refinery grade petrochemicals that are generated as co-products of the upgrading of bitumen. These new feedstocks are critical as conventional sources of petrochemical feedstocks will decline over time. Without the feedstocks from upgrading by-products, there simply will be no sustainable petro-chemical industry.

The oil sands were Canada's economic engine for over a decade. New investments and the effective integration of oil sands, refining and petrochemical industries can re-position Canada as an energy leader for decades to come. However, these industries are capital intensive, and face competition from other jurisdictions and considerably 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 deter investment.

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 petrochemical industry should be treated similarly to other manufacturing sectors and be allowed to apply the ACCA.

**Recommendations**

That the federal government:

1. Reinstate the accelerated capital cost allowance for oil sands and mining projects.
2. Extend accelerated capital cost allowance to include resource processing investment, including integrated upgraders, merchant upgraders and petrochemical industrial projects.

## 04. Canada as a Global Leader in Venture Capital Financing

**Issue**

Growth of venture capital (VC) financing is critical for expanding the domestic innovation and technology sectors. While VC activity is increasing, targeted government support can further enhance this option and make Canada an international leader.

**Background**

Venture capital is a form of equity financing utilized by innovation-based early stage technology firms. Generally, these businesses present high growth potential with an accompanying high risk of failure, which makes them unattractive for traditional options such as bank loans.

A technology firm can take five to seven years to develop, commercialize and market a product. Venture capital investors buy shares of a firm and take ownership, subsequently influencing business decisions and strategy.

The domestic venture capital sector is growing and presents significant upside potential. A May 2016 news release from the Canadian Venture Capital and Private Equity Association (CVCA) indicates that 2016 Q1 venture capital investment across Canada reached $838 million, the highest volume for any quarter in national history and double Q1 for 2015. The increase was primarily driven by large deals, with the top five estimated at a total of $336 million.

The CVCA has noted that increasingly investments are made into later stage companies, with the average deal growing to $7.1 million compared to past year averages around $4-4.5 million. Also, an increasing number of American VC firms are investing into Canada which is also driving the larger investments.

The September 2015 Canadian Chamber of Commerce report, "Stimulating Canadian Innovation: How to Boost Canada's Venture Capital Industry" provides six recommendations to expand venture capital financing across Canada. The proposals are:

1. **Incentivize Angels - Implement the BC Investment Tax Credit Nationally**

British Columbia currently provides investors with a 30 percent refundable tax credit for investments up to $200,000 in an eligible business, for a maximum credit of $60,000 per investor.

The federal government should establish a 15 percent tax credit matched by the provinces. A national 30 percent credit would also expand angel investment.

2. **Provide a Tax Exemption on Capital Gains for Venture Capital**

Capital gains in tax-free savings accounts are exempt from taxation and a similar approach for venture capital would increase activity.

3. **Secure more investors with flow-through shares for technology companies**

The use of flow-through shares has generated billions in revenue for Canadian mining exploration and the process should be extended for technology companies.

4. **Increase Government Investment in Venture Capital**

The federal 2013 Venture Capital Action Plan (VCAP) provides $400 million over ten years to attract $1billion in private funding into venture capital funds. The Stimulating Canadian Innovation report proposes that investment be doubled to $800 million.

5. **Invest In Incubators**

The federal government should invest, with partners such as post-secondary institutions, in new and expanded incubators and start up centres. The Waterloo Accelerator Centre is jointly supported by FedDev Ontario, NRC IRAP, three local municipalities, three universities and one college. The Western-Sarnia Research Park, home of the Bowman Centre which is Canada's largest clean-tech incubator, is joint initiative of the County of Lambton, City of Sarnia and Western University.

**6. Review regulations on banks, insurance companies and pension funds to encourage investments into venture capital funds**

The CVCA has indicated[1]that a recent substantial increase in VC investment into Canada offers a great reflection of the available investment opportunities. Investors are observing the value of domestic entrepreneurial talent and making significant bets on the future.

**Recommendation**

That the federal government:

1. Implement the recommendations of the 2015 Canadian Chamber of Commerce report Stimulating Canadian Innovation: How to Boost Canada's Venture Capital Industry:
    a. Incentivize "angels" with an investment tax credit.
    b. Provide a tax exemption on capital gains for venture capital.
    c. Secure more investors through flow through shares for technology companies.
    d. Increase government investment in venture capital.
    e. Invest in incubators.
    f. Review regulations on banks, insurance companies and pension funds to encourage investments into venture capital funds.
2. Include life sciences as an industry that would benefit from a flow through shares tax incentive program.

[1] Record-breaking quarter: 2016 Canadian VC investment nearly doubles 2015 results. Canadian Venture Capital Private Equity Association media release, May 18, 2016

## 05. Credit Card Merchant Fees

### Issue

Every year, $44 trillion dollars worth of payments are made in Canada. Only 20% of this value is done with cash, down from 50% in the 1990s. This signals the growing reliance and importance of credit card and debit transactions, not only for consumers, but also for the businesses that rely on these methods to accept payments. However, at $5 billion per year, the current system has resulted in Canadian merchant businesses paying some of the highest credit card acceptance fees in the world, costs which trickle down to the consumer regardless of their payment method.

### Background

Many of the businesses accepting credit card payments for goods and services are unclear on the inner workings of merchant services providers (MSPs). MSPs are a third party such as Visa and MasterCard who process credit card transactions. The current system has resulted in many businesses paying higher fees for credit card acceptance than necessary. Businesses are enticed to switch service providers 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 3 Components to Credit Card processing:

1. Merchant Discount Rate (MDR): This is the base rate charged by the provider. Any rate below 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 thus has to bump up the rates in 2. and 3.
2. Card Brand Fee (CBF) - 0.10% or more (the actual cost is 0.08% 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
3. Non-qualified Surcharge (NQS) - 0.30% 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.)

In 2010, the federal government introduced a voluntary code of conduct for the credit and debit card industry in Canada aimed at alleviating issues of asymmetric information and flexibility. When this code of conduct is adopted by the MSPs, they are expected to:

- to ensure that merchants are fully aware of the costs associated with the acceptance of credit and debit card payments;
- to provide the merchant with increased pricing flexibility to encourage consumers to choose the lowest-cost payment option (i.e. clearly show all components of the total fees, as most credit card

agreements do not allow merchants to use incentives to discourage the use of credit card or premium credit cards); and

- to allow merchants to freely choose which payment options to accept.

However, this remains a voluntary code of conduct and, therefore has been adopted only by a limited number of service providers. Its voluntary nature stands to undermine any real benefits to merchants these policy proposals may have. In a 2013 decision, which dismissed a complaint against two large credit card service providers, finding that they had not violated the Competition Act, the federal Competition Tribunal acknowledged the issues in the country's credit card payment system and called for a regulatory solution. They stated that despite finding that the MSPs had not violated the Competition Act, “"…we note that the Tribunal found that Visa's and MasterCard's conduct is influencing the price of credit card services in Canada upwards and having an adverse effect on competition. At the same time, the Tribunal felt that regulation of the industry would provide a more appropriate solution than any remedy that it could provide[1].”

Providing merchants with greater flexibility in choosing their MSPs and discriminating against more expensive transactions is seen as an OECD international best practice, a practice currently not allowed in Canada[2].

In April 2015, the federal government released *Balancing Oversight and Innovation in the Ways We Pay: a Consultation Paper*, aimed at seeking comments on national retail payment systems. However, there has been no movement on this issue since then, or an indication of the actions the government plans to take post-consultation.

**Recommendations**

That the federal government:

1. Consult with the banking and financial services industry in changing from a voluntary to mandatory code of conduct, as introduced 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
2. Provide merchants with increased pricing flexibility to encourage consumers to choose the lowest-cost payment option
3. Work to better educate merchants on their rights and options to battle any informational asymmetry
4. Enact legislation requiring full disclosure by service providers, including merchant service providers, of all costs associated with acceptance of credit and debit payment

[1] http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03614.html
[2] http://www.oecd.org/competition/PaymentSystems2012.pdf

## 06. Deferral of Capital Gains Taxation

**Issue**

Budget 2016 under a Liberal Party government in their preamble reflects on "Investment is needed and the time to invest is now. Smart investments can strengthen and expand the middle class, reduce inequity among Canadians and position Canada for sustained economic growth", however, the taxation of capital gains is notably absent from Budget 2016.

**Background**

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 2nd, 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 undertaking in personal and corporate income tax reform. In particular, the Canadian Chamber of Commerce strongly believes that 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.

The Investment Industry Association of Canada (IIAC) reported in their 2016 pre-budget consultations on February 19, 2016, "The economic and financial environment remains challenging. Continued weak global economic conditions and depressed energy prices have placed a stranglehold on economic growth. The near-term outlook for both growth and commodity prices has deteriorated since the previous government presented its budget in April 2015. The strategic focus of the new government on infrastructure project spending as the backbone of economic growth should be commended, but the government should also consider more innovative approaches to improving access to external capital for new and emerging businesses. Specific incentives can be targeted to take advantage of Canada's deep and effective capital markets, excellent availability of quality investments and the expertise to identify them, and the savings to fund attractive opportunities with good returns." And is followed by a recommendation 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 in small business shares within a six-month period."

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 Canadian 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 one year period. Any amounts not re-invested within the stipulated period could 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.

## 07. Employment Insurance (EI) Reform

**Issue**

In fiscal 2014-15, employers of all sizes paid an estimated $13.2 billion in EI premiums, based on projections. For this reason, all businesses have a stake in the EI program and deserve 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.

**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. Special benefits are expensive. 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 jobs. 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.

Enhancements to EI may also discourage labour force participation. The 2012 legislative changes to EI did not go far enough – in terms of changes to the definitions of suitable employment and acceptable wage -- to reduce any disincentive to work.

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.

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.

In terms of unfair treatment, consider that even as Alberta's unemployment rate spiked in 2016, its rate was only then reaching the Ontario's prevailing rate. Unemployed workers in Alberta were offered more generous EI benefits than their Ontario counterparts, who were experiencing similar unemployment rates.

The government should also 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.

Regarding EI-funded training programs, the government has indicated its intention to provide the province and territories an extra $500 million annually in EI funds for training programs, in addition to the average annual transfer of approximately $2 billion annually. Before increasing the transfer of EI funds for training, the government should thoroughly evaluate the effectiveness of the programs currently funded. In addition, it should provide the rationale for the estimated 25% increase in EI funds toward training, reporting on how these funds will be directed relative to labour market needs. In light of the changing nature of work (including more precarious work) and skills required for work (including more digital skills and few routine manual skills), this evaluation should allow for EI-funded programs to address new challenges facing unemployed workers and prospective employers.

**Recommendations**

That the federal government:

1. Reduce the EI premium as much as possible, operate the EI program as a true insurance program.
2. Standardize the eligibility requirements and benefits duration across Canada to ensure equal access and to address the current inequity and unfairness to workers based on their location. Without equal access, the government will be discouraging labour mobility.
3. Be cautious about EI enhancements, by recognizing that EI is in direct competition with employers offering positions in low-wage occupations.
4. Increase the accountability regarding how EI-funded training programs are spent and seek increased input from employers on the effectiveness and relevance of the programs to ensure governments are spending in the right areas relevant to labour market needs.
5. Given the shifting nature of work and demand for skills, explore how EI-funded training programs can take into account Canadians with precarious employment and/or facing skills transitions.

## 09. Federal Fiscal Policy (Update/Renewal)

**Issue**

Persistently low commodity prices, energy sector layoffs, a tenuous recovery in Canadian manufacturing output and exports, combined with our rapidly aging population and slower growth in the labour force will continue to 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. With unbridled deficit financing of these social supports, future generations will face the challenge of potentially unmanageable debt levels.

The extremely difficult economic environment is for the most part externally driven and beyond our control. However, it is being exacerbated by actions of municipalities, provincial governments and the Government of Canada. Each order of government is announcing policy shifts that will impact the competiveness, sustainability and cost of doing business. A complete federal budget rethink is now necessary.

**Background**

The Canadian economy is experiencing weakened export activity and the full ripple effects of severe commodity price shocks. In particular, oil prices have fallen more than 70% since June 2014, one of the largest declines on record. As a result, the economic downturn will be deeper and longer than previously expected.

Internationally, the US economy is slowly exhibiting signs of strength but global economic conditions are barely improving. Across the Atlantic, the Euro zone is still facing fiscal challenges and with the "Euro Vote", geopolitical tensions are threatening to undermine the European economy for some time. In the Middle East, major political tensions continue with unrest still evident in countries like Saudi Arabia, Iran, Egypt, Israel, Syria, Libya and Iraq. This will continue to have a significant impact on global trading patterns. Continued monetary rebalancing in China is still unsettling financial markets around the globe and economic uncertainty has also been furthered by slower growth and military posturing in other parts of Asia.

This increased uncertainty about the economy overall continues to play on business confidence and the confidence of an already tapped out consumer, resulting in reduced private sector spending and a further dampening of the speed and extent of an economic rebuild. Government spending will also fail to provide much lift. The federal government is stretched thin with seemingly unbridled deficits and similarly, the provinces are mostly in cut-back and/or social support mode. With limited natural resources strength and an overbuilt housing market in Canada, that leaves exporting goods and services as our best option for full economic recovery and growth.

However, in following this path Canada must compete and succeed in a challenging global economy with huge gyrations in commodity prices, currencies and stock markets happening around the world. Competiveness has become even more critical to our growth and prosperity. To improve our competitive position, the Canadian Chamber of Commerce has identified the following issues that must be addressed:

- Skills and labour: Canadian business is facing skills gaps and mismatches right across the board. There is still a need for skills and education that are aligned with the needs of employers.
- Infrastructure: Strategic investments in infrastructure can make Canada more competitive, bring down costs and help get our goods to market. Business leaders emphasized that the priority has to be placed on trade-enabling infrastructure that will improve productivity along with extending existing incentive programs to encourage investment and value-added processing for oil sands projects.

- Environment and consultations: For years, Canadian business and the Canadian Chamber have called for a coherent plan to improve the environment and reduce green-house gases without damaging Canada's competitive position. There is a recognition that improved energy efficiency and green technology can be a source of competitive advantage. In addition, a stronger federal role is needed in consultations and outreach with First Nations and local communities.
- Innovation and the digital economy: Canada must support more start-ups, attract more venture capital and provide more incentives to commercialize new technologies right here at home.
- Trade and regulatory harmonization: Canada must move quickly to ratify the Trans-Pacific Partnership and the Canada-Europe Trade Agreement. For many industries in the knowledge economy, regulations, ownership requirements and restrictions on data flows can be the most difficult barriers to success. This issue must be a global priority for the Canadian government and for the G20.

*Fiscal Restraint*

Considering global and local factors and the cumulative impact of policy decisions influencing business competitiveness in the coming years, chambers of commerce believe it is imperative that the government re-examine its fiscal priorities by focusing on long-term economic sustainability, enabling businesses to remain competitive and confidently plan for the future. One of the best ways to achieve this is to show leadership with fiscal restraint.

With this in mind the government needs to undertake an in-depth review of spending and revenue sources in order to identify the "transformational changes" necessary to return to balanced budgets.

In upcoming budgets, the federal government also needs to limit operational spending to a zero-per-cent increase over the previous year. The economy is in a downward spiral and we may not have seen the bottom, yet. As a result, our businesses are really hurting and the ripple effects are impacting all sectors of our economy. Now is the time to hold back on any new program spending and initiatives, so there are no additional increases to the already heavy burden on taxpayers. It's not the time to be increasing taxes on any segment of the economy, nor is it a time to increase long-term debt without a detailed plan to return to balance.

*Delivering a Better Tax System*

Canada also 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 the individual should pay (vertical equity).
- Efficiency: The tax system should minimize adverse effects on taxpayer behavior that undermine the efficiency of the economy.
- Simplicity: The system should be simple, transparent and easy to understand and comply with.

- Minimize Compliance Costs: The *Income Tax Act* continues to become more complex and this frequently creates additional compliance burdens and therefore costs to many privately held companies. One example of this is the proposed amendments in the 2015 Federal Budget dealing with the ability to move funds within a corporate group on a tax-free basis. In order to still be able to do this, the proposed amendments would require Canadian businesses to maintain safe income calculations which would add significantly to the tax compliance burden. The amendment was meant to deal with an abuse of the *Income Tax Act*, but the proposals were far broader and would have created a significant compliance burden faced by Canadian businesses.

*Strategic Infrastructure Investments*

It's important that the government focus on strategic infrastructure that will improve access to markets for all Canadian products, allowing them to flow seamlessly within the country and to international customers. To that end, we recommend that the government develop a national / utility corridor plan that will serve to integrate all urban centres and regions in Canada and support a comprehensive transportation/utility system.

We further recommend that the Government implement this proactive plan by working with all orders of government to secure transportation/utility corridor rights of way throughout Canada with the potential for rapid transit, freight networks, telecommunications, regional municipal utilities, transmissions lines and pipelines.

The Government should also commit to the creation of a competitive regulatory framework which encourages investment, promotes regulatory alignment across jurisdictions, and does not introduce additional barriers that would compromise project viability. In addition, the accelerated capital cost program for oil sands projects need to be reinstated and extended to include investment in resource processing.

**Recommendations**
That the federal government:

1. Fiscal Restraint

    **a.** Undertake an in-depth review of spending and revenue sources in order to identify the "transformational changes" necessary to return to balanced budgets within three years.

    **b.** Achieve and maintain a debt-to-GDP ratio below 30 per cent with financial contributions to debt reduction as necessary to sustain that position.

    **c.** Confine program spending to core areas of federal responsibility and limit operational expenditures to zero percent increases. Maintain this no-growth policy until economic activity is generating sustained government revenues sufficient to support increased spending with overall rates of taxation and fee collection at levels similar to or lower than the existing regime.

    d. 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.

2. Tax Policy

    a. Ensure that Canada's tax system is as neutral, simple, efficient and fair as possible by immediately completing a comprehensive review of taxing statutes with the objective of identifying and ensuring the implementation of ways and means to simplify tax legislation, reduce the complexity of Canada's tax system and decrease compliance costs.

The review should include an examination of the hundreds of exemptions, deductions, rebates, deferrals and/or credits that are part of the federal tax system to determine which ones are inefficient or wasteful and can be eliminated.

b. Avoid unnecessary complications to tax legislation by rigorously reviewing any addition of special provisions and targeted tax benefits. A good example of this would be proposed amendments to the taxation of inter-corporate dividends and the additional compliance burden and cost this would have added to Canadian businesses with no increase in tax revenue.

c. 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 in combination with a multiyear plan to reduce personal income tax rates with an immediate focus on reducing marginal tax rates.

3. Strategic Infrastructure Stimulus

a. Strategically develop the country by working with all orders of government to secure transportation / utility corridor rights of way throughout Canada with the potential for rapid transit, freight networks, telecommunications, transmissions lines and pipelines that will improve access to markets for all Canadian products, allowing them to flow seamlessly within the country and to international customers.

b. Increase funding for municipal projects through the Building Canada Fund and with provincial / territorial and municipal governments, promote the viability of P3 projects for infrastructure initiatives in urban centres across Canada.

c. Seize new economic opportunities in industries such as value added petrochemicals by reinstating the accelerated capital cost program for oil sands projects and extending the program to include resource processing investment like integrated upgraders, merchant upgraders, and petrochemical projects.

## 10. Increase the GST/HST Filing Threshold

**Issue**

In 1991 the federal government recognized that the collection and administration of the Goods and Services Tax/Harmonized Sales Tax (GST/HST) was too burdensome for small businesses. A threshold was established so businesses earning up to $30,000 would not be required to register for a GST/HST account. The government established this threshold 25 years ago and, despite inflation, it has remained the same ever since.

**Background**

The $30,000 GST/HST threshold is outdated. If it were 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.

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.

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:

1. Increase the GST/HST threshold to $50,000 as part of the 2017 federal budget and indexed to inflation thereafter.
2. Maintain the option for businesses earning less than the threshold to collect and administer GST/HST if they so choose.

## 11. Restore TFSA Limits to Encourage Retirement Saving

**Issue**

Improving the current system of retirement saving would increase the rationale to save, improve access to capital, and flexibility for deployment of capital, thus spurring significant economic growth.

**Background**

Enhancements to the Registered Retirement Savings Plan (RRSP), including the Home Buyers Plan and Life Long Learning Plan have expanded the use RSPs. New plans such as Registered Education Savings Plans (RESPs), Registered Disability Savings Plans (RDSP), and Tax-free Savings Accounts (TFSAs) have been developed to help Canadians fund other needs such as education, care for the disabled, and for other uses.

With an aging population and subsequent reductions in the personal income tax base, the funding of an individual's retirement and social services is becoming more of a responsibility of Canada's employers – the business owner. Each of these existing plans comes with its own rules and complexities. They are costly to offer to administer, costly to offer to employees, and are frequently not used to their full potential.

TFSAs give Canadians a flexible and cost-effective funding mechanism that encourages Canadians to self-fund many of the financial needs that currently are paid through ad hoc government programs or not funded at all. However, the TFSA had its efficacy greatly diminished when the contribution limit was reduced from $10,000 to $5,500 in January 2016.

In addition to retirement savings, TFSAs give Canadians the flexibility to save for:

1. Investing in a personal business
2. Home purchases
3. Home renovations
4. Childcare
5. Temporary loss of employment
6. Disability

Increasing TFSA limits would increase savings, improve capital deployment and utilization, and reduce government and investment administration overhead costs. It would also allow Canadians greater flexibility to use their savings as their unique and individual needs require.

**Recommendation**

That the federal government restore Tax Free Savings Account annual contribution limits to 2015 levels.

## 12. Strengthening the Canada Pension Plan to Support the Most At-Risk Canadians

### Issue

Some Canadians currently do not have sufficient combined public and private financial resources (pensions and savings) in place to adequately provide for their retirement years. If not addressed, there is the risk that these individuals will not only be left with a significantly lower standard of living but that they will put additional pressure on an already strained public social system.

The needs of these individuals however often conflict with those of business. Adding too many additional costs to business owners in the form of additional CPP contributions or other payroll taxes may have the unintended consequence of stifling growth in these companies, which will only further exacerbate the problem.

### Background

According to a 2014 report written by McKinsey and Company a "*strong majority of Canadian households are actually on track to maintain their standard of living at retirement*". According to their 2014 study, McKinsey estimates that only "17 percent of the nation's households [are] financially unprepared for retirement" and they fall into two categories in middle- to high-income households: "those that do not contribute enough to their defined contribution (DC) plans or group RRSPs and those that do not have access to an employer plan and have below-average personal savings".

Furthermore, the survey results of the McKinsey report conclude that "*a couple with two income earners and a constant combined income of $40,000 or less throughout their working life would be able to maintain their standard of living in retirement based solely on income from GIS, OAS, and the CPP/QPP*".

Canada's balanced system between public programs and private savings, which ensures shared accountability, has worked well for most Canadians – improved public pensions cannot resolve the problem fully. All Canadians should be both financially literate and motivated to use the tools and products that are currently available to properly save for their own retirement income needs. Banks, Credit Unions and other financial service efforts are already providing the necessary coaching and advice to their clients and owners. No doubt these institutions are ready to partner with the federal government to extend that effort to the public at large if that is what is deemed most appropriate.

The financial services sector have the financial tools, products and resources to provide Canadians channels for retirement saving without adding costs to business and administrative overhead at the public level.

Since the majority of Canadian households are on track for retirement, any enhancements to the CPP should be targeted at the individuals that most need the help rather than to all households – this will avoid any unintended negative consequences of a broad program.

We do note however that there is a role for government when someone in a defined contribution pension plan isn't saving enough to fund their retirement but caution that Ontario businesses will be at risk if they are required to pay higher CPP premiums in addition to the proposed Ontario Registered Pension Plan (ORPP).

The Canadian Chamber of Commerce is encouraged to learn that after the provincial and territorial finance ministers met to discuss CPP reform "*that there was strong support among premiers for a targeted change aimed at*" (Globe and Mail, December 21 2015) middle-to-high income Canadians.

### Recommendations

The Canadian Chamber of Commerce recommends that the Federal Government:

1. During the course of any reforms to CPP, promote the use of existing private financial products such as Group RRSPs, Personal RRSPs, Life Insurance, Stock Purchase Plans, etc.

For example, individuals could have the option to contribute retirement savings to these products rather than to participate in increased CPP contributions. These products could consist of "locked-in" accounts in order to ensure that the funds will still be available when the individual retires.

2. That any reforms to CPP are aimed specifically at targeting those Canadians who are not saving enough for retirement. As noted by Finance Minister, Bill Morneau in his interview with the National Post, enhancements to CPP should be fully funded by those who will actually use it.

3. Promote a greater degree of financial literacy among the public through educational programs which specifically focus on helping Canadians understand how much they need to save for retirement and which types of financial products are available to help them do this.

4. That in order to mitigate the cost to business and its effect on the economy that reforms to CPP be phased in over a period of 5 to 10 years and to be delivered within CPP's current spending envelope.

## 13. Tax Fairness for the Sports Entertainment Industry

**Issue**

For many years, the federal tax code has discriminated against claiming golf memberships and related entertainment amounts as a business expense.

**Background**

Due to a 1971 tax reform, the Canada Revenue Agency does not allow deductions for expenses incurred by business people entertaining clients at golf courses. Canada's 2,300 golf courses, most of whom are small business operators, feel that they cannot compete fairly with all the other industries where CRA does support entertaining clients. Over time, the unfairness of this discrimination against the golf industry has become more and more significant.

Example: You can take a client to a hockey game and write off 50 per cent of the cost as a business expense for tax purposes, but the same does not apply to golf.

In a 2014 study, golf employed just over 300,100 Canadians and contributed about $8.3 billion to the economy in household income, $ 1.4 billion in property and other indirect taxes and $2.2 billion in federal and provincial taxes.

Based on direct, indirect and induced impacts, Canada's 2013 golf cluster economic impact accounts for about $14.3 billion of Canada's Gross Domestic Product (GDP), up from $12.2 billion in 2008.

**Recommendation**

That the federal government:

1. Amend the Tax Code to permit golf as a business expense similar to other business entertainment expenses.
    a. That the cost of green fees and meals at a golf course be an eligible business entertainment expense.

# Special Issues

## 14. Business Needs More Clarity Regarding Its Role In Reconciliation With Indigenous Peoples

**Issue**

The Prime Minister's mandate letters to all Cabinet ministers include the statement, "It is time for a renewed, nation-to-nation relationship with Indigenous Peoples, based on recognition of rights, respect, co-operation, and partnership." The mandate letter of the Minister of Indigenous and Northern Affairs includes more specific direction in her priorities, i.e., "to implement (the) recommendations of the Truth and Reconciliation Commission, starting with the implementation of the United Nations Declaration on the Rights of Indigenous Peoples"... and to ...

> "Undertake, with advice from the Minister of Justice, in full partnership and consultation with First Nations, Inuit, and the Métis Nation, a review of laws, policies, and operational practices to ensure that the Crown is fully executing its consultation and accommodation obligations, in accordance with its constitutional and international human rights obligations, including Aboriginal and Treaty rights."

Canadian businesses see opportunities in the government's commitment to a renewed relationship with our indigenous peoples and believe they have a role to play in its accomplishment. It is clear that indigenous peoples see agree.

Recommendation 92 of 2015's Truth and Reconciliation Commission's report is a call-to-action for Canada's businesses to:

"… adopt the United Nations Declaration on the Rights of Indigenous Peoples* as a reconciliation framework … This would include, but not be limited to, the following:

1. Commit to meaningful consultation, building respectful relationships, and obtaining the free, prior, and informed consent of Indigenous peoples before proceeding with economic development projects.
2. Ensure that Aboriginal peoples have equitable access to jobs, training, and education opportunities in the corporate sector, and that Aboriginal communities gain long-term sustainable benefits from economic development projects.
3. Provide education for management and staff on the history of Aboriginal peoples, including the history and legacy of residential schools, the United Nations Declaration on the Rights of Indigenous Peoples, Treaties and Aboriginal rights, Indigenous law, and Aboriginal–Crown relations. This will require skills based training in intercultural competency, conflict resolution, human rights, and anti-racism."

*Article 19 of the Declaration states: "States shall consult and cooperate in good faith with the indigenous peoples concerned through their own representative institutions in order to obtain their free, prior and informed consent before adoption and implementing legislative or administrative measures that may affect them."

Canada's businesses are willing to do more in the interests of their projects moving forward. However, it is not clear to businesses what reconciliation means and what is required of them to participate in the reconciliation process, as well as the impacts and outcomes they can expect as a result.

Canadian governments have a constitutional duty to consult and accommodate indigenous peoples when proposed developments have the potential to impact their constitutionally protected rights (e.g., land, hunting and fishing, etc.). There is confusion in the business community regarding its role in the duty to consult process and lack of clarity regarding businesses' responsibilities to indigenous peoples has become more obscured in light of the government's commitments. These include:

- What does the government's commitment to "implement" the United Nations Declaration on the Rights of Indigenous Peoples actually mean?
- What is the scope of the "full review of laws, policies, and operational practices" in the Minister's mandate letter?

- Will Canadian laws be changed so that obtaining indigenous peoples' "consent" equals their right to "veto" projects?
- What resources will be available to businesses — particularly SMEs — to fulfill the obligations in recommendation 92 of the Truth and Reconciliation Commission report?

This lack of clarity can lead to the failure to pursue, delay or cancellation of private sector projects that have the potential to provide long-term economic and social benefits to indigenous communities and all Canadians including:

- education and training;
- employment;
- aboriginal business development;
- health care;
- housing; and
- the means to sustain cultural priorities including language, traditions, etc.

The federal government — as the primary interlocutor between our indigenous peoples and other constituencies — needs to lead the way.

**Recommendations**

That the federal government — by mid-2017 — establish the framework and timelines for a process for reconciliation with indigenous peoples that includes:

1. Examining international best practices, and
2. Seeking the perspectives of a broad range of stakeholders including businesses and indigenous communities to share ideas and provide greater clarity regarding:
    a. The meaning of its commitment to "implement" the United Nations Declaration on the Rights of Indigenous Peoples
    b. The scope of the "full review of laws, policies, and operational practices" and its intentions for amending current laws, including the meaning and potential implications of Free, Prior and Informed Consent
    c. Tools to be available to businesses and indigenous communities to help both — as well as government — fulfill the obligations required of them, including guidelines for engagement to seek the level of cooperation and trust required as a foundation for reconciliation.

## 15. 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. Examples include the recent forest fires impacting Fort McMurray and the oil-sands industrial complexes, the potential of a major subduction earthquake on the west coast, major storm events throughout central Canada, and any other event that would greatly impact a region's ability to have business as usual.

While first responders do their important work, business owners are left to fend for themselves, which may mean temporary closures. However, the concern is that the longer a business is closed, the less likely it will be able to re-open, leaving workers and owners alike unemployed and the area's 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. Employees are paid and that income contributes to recovery. Businesses can relocate and continue to function without having to wait for insurance settlements. As conditions improve, recovery will occur faster because the economy is active in those first few weeks post-disaster.

Such a program would rely on quick, turn-around loans or other forms of assistance that would be tracked and, where appropriate, paid back in part or full as insurance and other funding mechanisms are available.

Such a 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. The national government provided temporary financial relief based on the number of a business' full time equivalent (FTEs) employees. Payments were given to the employer who paid the employees and effectively developed a cash-flow for the region, supporting employees, their families, and the local businesses. The community was sustained and businesses survived.

Public Safety Canada has prepared comprehensive plans that address issues of business continuity post-disaster:

"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."[1] The goal of the protocol is to enable "critical services or products to be continually delivered to clients"[2] (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 critical services or products, and encompass the whole business community. In order for a region's economy to survive, it will need cash flowing throughout the recovery period, therefore all companies in the affected area may qualify for emergency funding and help prevent the economy from stalling. The funding would be provided on the basis of partial or complete repayment as and when time and the economy allows.

[1] Reference: http://www.publicsafety.gc.ca/prg/em/gds/bcp-eng.asp
[2] Ibid.

All businesses also need to participate formally by registering their business in Business Continuation Plan program. The BCP would include provisions that 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 and 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 study from which to develop next steps. It concludes:

> "Recover Canterbury was always to be a temporary organization. This month, after 26 months, it closed its doors. In that time, the organization 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."[3]

**Recommendations**

That the federal government, to better prepare for and protect Canada's 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.

[3] http://www.recovercanterbury.co.nz/

## 16. Deferred Prosecution Agreement

### Issue

When an employee or a business leader commits fraud or another type of illegal act, the company can generally be held responsible and made to answer for its actions before the courts. This procedure is lengthy and can cause important financial losses. Some countries, while correctly applying the principles of justice, established the Deferred Prosecution Agreement (DPA), a tool used by Crown attorneys/prosecutors to negotiate with companies in order to settle certain disputes efficiently and fairly.

### Background

Obviously, companies must obey their country's laws and regulations. They are also responsible for establishing governance rules and methods of control which give maximum assurance that all employees and administrators obey the laws and behave ethically.

However, individuals sometimes violate the laws and act illegally in the course of their duties. Then it is important:

- That persons found guilty are penalized by the company and brought to justice;
- That the company demonstrate that it has established sound control measures to avoid and discourage repeated unlawful and unethical acts.

In Canada, companies that experience this type of problem are generally brought before the courts. These are often very long procedures lasting several years. During this period, the company loses clients, reduces or ceases operations and is sometimes put into insolvency.

Without denying company responsibility in any way, several countries including the United States and the United Kingdom have established a mechanism called the Deferred Prosecution Agreement (DPA). Under this type of agreement, a Crown prosecutor takes note of the illegal acts and determines financial and other remedies to be granted.

The Deferred Prosecution Agreement forces the company to recognize its wrongdoings, collaborate in good faith with competent authorities and adopt fair and equitable remedial actions. This faster procedure limits negative impacts like job losses and saves taxpayers time and money by avoiding legal proceedings.

The Deferred Prosecution Agreement does not exclude criminal proceedings if the company committed offences which justify such a judicial remedy.

Several countries, including France, Australia and Ireland, are considering this type of measure and the OECD has been asked to establish best practices. Deferred Prosecution Agreements and similar schemes are now part of the business environment in a growing number of countries. Canada is one of the few developed countries that do not make tools available to Crown prosecutors for negotiating settlements with companies in these situations.

### Recommendations

That the federal government:

1. Support the establishment of a Deferred Prosecution Agreement mechanism allowing Crown prosecutors to make arrangements with accused corporations whose employee or leader has committed an illegal act, as long as these corporations recognize their wrongdoings and reinforce the governance rules and methods of control which ensure probity and ethics.
2. Collaborate with provincial and territorial governments to apply such a mechanism. Deferred Prosecution Agreements arise when corporations want to cooperate, it's not about getting them off the hook for wrongdoing.

## 18. Emergency Slaughter - Update to the Transportation of Animals Program

### Issue

In order to reduce food waste, and to keep beef stock off the black market, producers and licensed abattoirs need the ability to work with the Canadian Food Inspection Agency (CFIA) and veterinarians to assess both compromised and unfit animals for possible transport to slaughter facilities.

### Background

The health and welfare of all animals is of the utmost importance to all sectors of the meat producing industry. The Canadian Food Inspection Agency states "Protecting animal welfare in Canada is a shared responsibility between governments (federal, provincial, and territorial), and industry (producers, transporters and staff in registered slaughter establishments).[1] With this statement in mind, industry currently has a concern regarding the transportation requirements for compromised animals. With the current regulations in place that deem 'unfit' animals only available for transport to a veterinary establishment there is the potential for food waste, as well as undue costs being placed on producers to send these animals to the veterinarian.

Industry states that certain compromised animals can be humanely transported to a slaughter facility using specialized provisions for transport to ensure the animals do not incur any undue suffering, however this transport provision does not include animals deemed 'unfit' who are only allowed to be transported to a veterinary establishment. The CFIA "recognizes that some degree of suffering by all animals is inevitable"[2] and in these cases the animal would incur the same amount of discomfort being transported to a veterinary clinic as it would being transported to an approved slaughter facility, and would be treated with the same utmost care upon arrival. Federally inspected slaughter plants are already required to follow policies related to handling of non-ambulatory animals as referenced in the *Transportation of Animals Program Compromised Animals Policy*.

The 'Rationale' section of the Canadian Food Inspection Agency's *Transportation of Animals Program Compromised Animals Policy* states:

> "Loading and unloading a non-ambulatory animal with the intent of providing veterinary diagnosis or treatment does not expose the animal to unjustified and unreasonable suffering. In fact, veterinary diagnosis or treatment has an associated animal welfare benefit for either the transported animal or the herd of origin.
>
> In this regard, the suffering that the animal will endure is not undue. The Regulations refer to "undue suffering," recognizing that some degree of suffering by all animals is inevitable. The qualifier "undue" prevents the word "suffering" from being taken literally. Therefore, the loading of a non-ambulatory animal can be carried out in accordance with the Health of Animals Regulations to provide veterinary diagnosis or treatment."

With this rationale in mind, it can also be argued that transportation of an unfit animal to an approved slaughter facility does not cause 'undue suffering' as the animal will receive an ante-mortem inspection from a licensed inspector which will be beneficial to the producer and potentially the herd of origin, and the animal can be salvaged for processing which solves a food waste issue that is also of concern with compromised animals.

[1] Canadian Food Inspection Agency
http://www.inspection.gc.ca/animals/terrestrial-animals/humane-transport/eng/1300460032193/1300460096845
Accessed June 1, 2016

[2] Canadian Food Inspection Agency
http://www.inspection.gc.ca/animals/terrestrial-animals/humane-transport/compromised-animals-policy/eng/1360016317589/1360016435110#aboutthecfia
Accessed June 1, 2016

Current Health of Animals Regulations prohibit the movement of some compromised animals to an accredited slaughter facility, allowing these animals to only be transported for veterinary treatment. Part X11, section 138, point 2 states:

> "(2) Subject to subsection (3), no person shall load or cause to be loaded on any railway car, motor vehicle, aircraft or vessel and no one shall transport or cause to be transported an animal:
>
> (a) that by reason of infirmity, illness, injury, fatigue or any other cause cannot be transported without undue suffering during the expected journey;
>
> (b) that has not been fed and watered within five hours before being loaded, if the expected duration of the animal's confinement is longer than 24 hours from the time of loading; or
>
> (c) if it is probable that the animal will give birth during the journey.
>
> (2.1) For the purpose of paragraph (2)(a), a non-ambulatory animal is an animal that cannot be transported without undue suffering during the expected journey.
>
> (2.2) Despite paragraph (2)(a), a non-ambulatory animal may be transported for veterinary treatment or diagnosis on the advice of a veterinarian."

According to a CFIA guidance document entitled *Livestock Transport Requirements in Canada* certain compromised animals may be transported directly to an "appropriate slaughter establishment" if steps are taken to prevent additional injury or undue suffering; however, this excludes animals that are deemed "unfit". Excluding an entire section of animals from being transported to a slaughter facility, but allowing them to be transported to a veterinary establishment does not assist the animal from any suffering during transport. Unfit animals can be humanely slaughtered at an approved abattoir and not endure any more suffering than would be incurred being transported to a veterinarian.

Oftentimes an animal being transported to the nearest approved slaughter facility is the way to have the animal addressed as quickly and humanely as possible, and this is the ultimate objective when considering animal welfare.

**Recommendations**

That the federal government:

1. Update and expand the *Health of Animals Regulations Act Part XII – Transportation of Animals*, to include transportation requirements for animals deemed 'compromised', animals deemed 'unfit', and animals deemed 'non-ambulatory" to remain consistent with definitions provided in the Canadian Food Inspection policy titled *Transportation of Animals Program Compromised Animals Policy.*
2. Work with the Canadian Food Inspection Agency to update all documents regarding the transportation of compromised animals including but not limited to the *Health of Animals Regulations*, *Transportation of Animals Program Compromised Animals Policy* and the guidance document *Livestock Transport Requirements in Canada* to include that compromised animals and unfit animals may be transported to a licensed abattoir if steps are taken to prevent additional injury or undue suffering of the animal, for humane euthanization and inspection of the meat product.

## 20. Incentivizing Integrity: Adoption of a Canadian False Claims Act

### Issue

Fraud committed against the government within the context of public sector procurement is a serious crime that undermines competitive markets, unduly excludes honest businesses, has significant economic consequences for businesses and the public, and costs taxpayers millions of dollars annually. Despite these consequences, the protections afforded to the Government of Canada under Canadian law are deficient. As the scale and scope of federal spending is set to increase, the federal government should institute a series of reforms, including a more powerful incentive to support whistleblowers, in order to more effectively ferret out fraudulent conduct.

### Background

Governments across Canada spend billions each year providing a variety of public goods and services including health care, defense, transportation, education, infrastructure and other services for businesses, workers, veterans, the elderly and the young. Most of this public sector procurement is conducted through competitive processes. While the overall value of public procurement as a proportion of the Canadian economy is difficult to approximate, we can come to appreciate its scale by studying the activity of the federal department of Public Works and Government Services Canada ("PWGSC"), which provides federal government departments and agencies with procurement services. It is the federal government's central purchasing agent and Canada's largest public purchaser of goods and services. PWGSC's purchases account for more than 85 per cent of the total value of federal government procurement, buying, on average, $15 billion (CAD) worth of goods and services each year, through approximately 60,000 transactions.[1]

Hidden among honest providers of these goods and services, however, are individuals and organizations that defraud the government for private gain. Fraud can take many forms, from bid-rigging and kickbacks, to illegal subcontracting, prevailing wage violations, and other schemes that not only defraud the government of taxpayer dollars, but can allow a perpetrator to obtain an unfair competitive advantage over honest competitors when vying for government contracts. Regardless of their design, fraud schemes share two important characteristics; they can be very difficult to identify without critical and salient inside information, and they can be resource-intensive to investigate and prosecute.

The potential for fraud and malfeasance within the context of public procurement is heightened when one considers the ambitious infrastructure spending plan tabled by the Government in the 2016 Federal Budget. Each year over the next decade, the Government has committed to steadily increasing federal infrastructure investment. At full implementation, this will represent an annual additional investment of $9.5 billion per year. These outlays will almost double federal infrastructure investment to nearly $125 billion – from $65 billion – over ten years, which will be the largest new investment in infrastructure in Canadian history.[2]

Much of this spending will be directed to the construction industry, an industry we know to be particularly susceptible to bid-rigging and other fraudulent practices.[3] In fact, the Competition Bureau of Canada recently conducted a review of bid-rigging matters investigated since 1990. The review indicated that, while hardly the only industry to be active in fraudulent conduct, the highest number of allegations of big-rigging between 1996 and 2009 related specifically to the construction services sector. Approximately 40 per cent of the total number of cases investigated by the Bureau in that period involved the construction industry, a finding that is consistent with the experience of other OECD member states.[4]

[1] Public Works and Government Services Canada's (PWGSC) Report on Plans and Priorities 2016-17. Available online at http://www.tpsgc-pwgsc.gc.ca/rapports-reports/documents/rpp/2016-2017/tpsgc-pwgsc-rpp-2016-2017-eng.pdf.
[2] Finance Canada. *Growing the Middle Class*. [Ottawa], 2016. Available online at http://www.budget.gc.ca/2016/docs/plan/budget2016-en.pdf
[3] OECD Policy Roundtables: Construction Industry 2008. Available online at http://www.oecd.org/daf/competition/cartels/41765075.pdf
[4] OECD Policy Roundtables: Collusion and Corruption in Public Procurement 2010. Available online at http://www.oecd.org/competition/cartels/46235884.pdf.

Fiscal stimulus through increased and accelerated infrastructure spending has raised the specter of possible fraud in the past. In 2009, in its Second Report to Canadians on its Economic Action Plan, the federal government indicated that it was accelerating and increasing expenditures on infrastructure, including $12 billion (CAD) in new stimulus funding announced in the January 2009 budget.[5] At the time, the Commissioner of Competition indicated that "bid-rigging and other fraudulent practices are areas where we reasonably fear we may see an up-tick in activity in view of the likely significant increase in public infrastructure spending."[6] More recently, current Commissioner of Competition John Pecman commented on the billions proposed to be spent on infrastructure beginning in 2016, saying "I think it is fair to say that when procurement is done in haste and perhaps the competitive bidding process is done quickly and there is not a lot of care taken, it increases the likelihood of bid-rigging…[K]nowing what we do, that the construction sector and the whole infrastructure sector is susceptible to bid-rigging, it is incumbent on us to prioritize our awareness and work to help deter this type of conduct from happening."[7]

*The False Claims Act (FCA)*

While Canadian law does provides some baseline protections for whistleblowers in both the public and private sectors[8], and public procurement agencies do have established steps that they can take to promote more effective competition in public procurement to reduce incidents of fraud or malfeasance, the overall basket of protections under existing statutes afforded to the Canadian government, and ultimately the taxpayer, is woefully inadequate.

One of the most effective tools against such fraud currently missing from Canada`s enforcement basket is what is known as the *False Claims Act,* a statutory scheme prevalent in the United States that provides a meaningful incentive structure for whistleblowers to bring credible information forward to government in order to facilitate the investigation of such crimes and the recovery of lost proceeds. Individuals and organizations committing fraud can be assessed with treble damages and whistleblowers can be awarded out of the proceeds. Taxpayers are made whole, crime is deterred, and integrity is incentivized.

The principle of the law is straightforward: any citizen who finds the existence of fraud against the government may initiate and sustain a recovery proceeding against the perpetrator of the fraud in the government's name. The citizen-informer (known as a *relator*) can then expect to receive in return a portion of the sum recovered by the state if successful (between 15% and 30%). The private right of action that the *relator* is entitled to, known as a *qui tam*, or whistleblower, provision, is what makes this approach so effective, providing an innovative and powerful legal avenue that allows the government to leverage the power of the public to detect and punish fraud against the state and recover money embezzled by dishonest companies and individuals.

By any measure, the U.S. False Claims Act[9] has been the most effective legal tool in combating fraud against the public purse. Prior to 1986 (when amendments were made to the U.S. law to strengthen its qui tam provisions), the U.S. Department of Justice recovered less than $50 million (USD) a year under the False Claims Act. In the 10 years following 1986, the Justice Department recovered $1 billion. In 2015 alone, they recovered more than $3.5 billion, $2.8 billion of which came from qui tam suits brought forth by private individuals and companies. The total recoveries in the past six years to the U.S. Treasury are $26.4 billion. At a time when people question government efficiency and effectiveness, the False Claims Act has a twenty-to-one return in fighting public sector fraud (for every dollar that the federal government spends on FCA enforcement, it recovers $20 in return). In fact, the legal tool has been so effective that 30 separate U.S. states have followed suit and implemented their own versions of the legislation.

As has been noted, fraud schemes are complex, and the government concludes thousands of contracts each year to purchase goods and services. It does not always have the information it needs to detect collusion and corruption in the allocation and management of these contracts. Moreover, the state does not always have the resources to act on

[5] Canada's Economic Action Plan: Budget 2009. Available online at http://www.budget.gc.ca/2009/pdf/budget-planbugetaire-eng.pdf.
[6] Speaking notes for Melanie L. Aitken, Commissioner of Competition to the Northwinds Professional Institute 2009 Competitive Law and Policy Forum. Available online at http://www.bureaudelaconcurrence.gc.ca/eic/site/cb-bc.nsf/eng/02994.html at pg. 5.
[7] Bill Curry, "Competition Bureau warns of bid-rigging as Ottawa set to spend on infrastructure," *The Globe and Mail*, May 29, 2016. Available online at http://www.theglobeandmail.com/news/politics/competition-bureau-warns-of-fraud-as-ottawa-set-to-spend-on-infrastructure/article30200239/.
[8] E.g. Sec. 425.1 of the Federal Criminal Code, Sec. 52 of the Competition Act, and the Public Servants Disclosure Protection Act of 2006.
[9] 31 USC 3729-3733

the information it receives, given the volume of cases and the complexity of the schemes. By providing an incentive for whistleblowers to come forward, as well as a pathway for relators to pursue cases unilaterally, the False Claims Act helps to solve both of these problems in an effective and efficient way, and can bolster the enforcement capacity of the federal government without necessarily expanding the federal workforce or devoting additional financial resources for that purpose.

It is for these reasons that the final report of the Commission of Inquiry on the Awarding and Management of Public Contracts in the Construction Industry (the `Charbonneau Commission) – a Quebec-based commission charged with the task of inquiring into the existence of schemes that entailed activities of collusion and corruption over a 15 year period (1995-2011) in the management of public construction projects, and to examine potential remedial measures to identify, eliminate and prevent collusion and corruption in the awarding and management of public contracts – resoundingly endorsed the adoption of a Canadian False Claims Act. Reflecting on the success and efficacy of both the U.S. federal law, as well as a version of the law effective in New York State, the Commission stated that the FCA ``has proven to be formidably efficient at recovering significant sums on behalf of the public treasury without the necessity of added state resources. We recommend that Government adopt such a law.``[10]

As a legal measure to protect taxpayers and businesses alike, the False Claims Act has proven to be effective. The *qui tam* provisions particular to the U.S. legislation have allowed relators to pursue cases that have resulted in billions of dollars of recoveries that would have otherwise been lost and, even more importantly, has served as an action-forcing mechanism encouraging Government to actively pursue the fraud, waste and abuse of taxpayer dollars. The rate at which federal spending is set to increase, and the haste by which such spending will occur, will invariably increase the likelihood of bid-rigging, collusion and other nefarious behaviour. Therefore, it is incumbent that the Government of Canada instills reasonable taxpayer protections to ensure that public dollars are spent wisely and that the penalty for honesty that companies suffer when competing against businesses willing to break the rules is eliminated.

**Recommendations**

That the federal government:

1. Adopt a federal *False Claims Act* statute that includes whistleblower incentive (*qui tam*) provisions which provide the authority and financial incentive to private individuals to enforce the statute on the government`s behalf.
2. Encourage Provincial and Territorial Attorneys General to explore the adoption of false claims statutes at the Provincial and Territorial level.
3. Include specific penalties within the statute that deter frivolous and vexatious litigation.

[10] See "Rapport final de la Commission d'enquête sur l'octroi et la gestion des contrats publics dans l'industrie de la construction" pp. 166-172 (November 2015). Available online at https://www.ceic.gouv.qc.ca/fileadmin/Fichiers_client/fichiers/Rapport_final/Rapport_final_CEIC_Integral_c.pdf

## 21. Addressing Barriers to Indigenous Participation in Canada's Economy

### Issue

The lack of clarity or progress regarding the federal government's approaches to many Indigenous issues – including the duty to consult and unresolved land claims – threatens the future socioeconomic well-being of communities across Canada while hindering meaningful discourse on the development of natural resource sector projects.

### Background

Consultation

The duty to consult and accommodate Indigenous communities which may be adversely affected by resource development lies with Canadian governments, who are increasingly shifting that responsibility to resource sector businesses seeking to advance projects on or near Indigenous lands. [1] However, the federal government's lack of clarity or direction on the extent of that approach has frequently created considerable challenges for all involved; [2] in some cases, that lack of clarity has led to the stalling or outright halting of projects with potential economic and social benefits for the affected Indigenous communities, and Canada at large. Indeed, addressing the questions surrounding this process would also help to build unity between the Indigenous peoples in Canada and the rest of the country.

The questions left unanswered by the federal government with regards to this approach have grown following its unqualified endorsement of the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) on May 10, 2016. The UNDRIP describes a global set of collective and human rights covering indigenous issues including identity, culture and traditions, though the biggest potential impact for the Canadian resource sector is its focus on free, prior, informed consent regarding resource extraction and other such developments. This move was hailed as a positive one by Indigenous organizations as well as industry groups such as the Mining Association of Canada[3] and the Canadian Association of Petroleum Producers, who view it as an important and much-needed step towards the development of a framework for reconciliation, and "support the implementation of its principles in a manner consistent with the Canadian Constitution and law."[4] However, the lack of details about how the government's commitment will translate into consultative requirements has generated additional questions about its eventual impact on Canadian industry's duty to consult and accommodate.

Though the declaration is not considered legally binding, both the Hon. Carolyn Bennett, Canada's Minister of Indigenous and Northern Affairs, and the Hon. Jody Wilson-Raybould, the Minister of Justice, have indicated the government's intention to build these precepts into federal law.[5] With myriad potential interpretations of these precepts, the Canadian government must ensure that it imminently clarifies how the implementation of UNDRIP will affect this crucial aspect of resource development, and more specifically, what this commitment means for the development of a cohesive approach to consultation and accommodation.

Unresolved land claims

Also in need of immediate attention is the government's lack of progress in addressing unresolved land claims. The land claims process is a complex one, involving multiparty negotiations of complicated historical, property, legal, financial, and implementation issues,[6] which are often further complicated by other concerns such as bureaucratic issues and a lack of resources or capacity. As a result, the process is often lengthy: reaching a final agreement can take from 5 to 20 years. Indeed, since the federal government began negotiating modern treaties with Indigenous groups

[1] Canadian Chamber of Commerce, *Top 10 Barriers to Business Competitiveness 2016*
[2] http://www.republicofmining.com/2016/01/18/mining-and-indigenous-peoples-our-future-by-pierre-gratton-november-23-2015/
[3] http://www.nationalobserver.com/2016/05/10/news/un-declaration-rights-indigenous-peoples-should-not-be-scary-bennett
[4] Canadian Association of Petroleum Producers: Discussion Paper on Implementing the United Nations Declaration on the Rights of Indigenous Peoples in Canada | May 10, 2016
[5] http://globalnews.ca/news/2689538/canada-endorses-united-nations-declaration-on-the-rights-of-indigenous-peoples/
[6] https://www.attorneygeneral.jus.gov.on.ca/inquiries/ipperwash/report/vol_2/pdf/E_Vol_2_CH04.pdf

and provincial/territorial governments in 1973, 26 comprehensive land claims and three self-government agreements have been signed.[7] Numerous land claims negotiations are currently underway across Canada, with 80 comprehensive land claims under negotiation with the federal government.[8]

This backlog of longstanding legal issues poses significant challenges for the natural resources sector and First Nations communities alike, creating considerable investment and operational uncertainties that inhibit meaningful progress. Resolving these issues is of benefit to all, as they allow for paving the way for effective dialogue on resource development, while also benefiting the communities themselves: the unemployment rate in self-governing communities has historically been 28 per cent lower than non-self-governing communities, and the average family income for beneficiaries of a treaty appears to be double that of non-beneficiaries.[9] Resolution and reconciliation with these communities is crucial, especially at a time where they represent Canada's youngest and fastest-growing population.[10]

The federal government has promised to develop a national strategy to address Indigenous land claims and duties to consult in a "reasonable timeframe,"[11] and this commitment must be acted upon in order to provide both industry and the affected communities with the certainty required to derive appropriate economic and social benefits from resource-related projects. Given that the current liability for comprehensive land claims "that have progressed to a point where quantification is possible" is an estimated $4.8 billion, this process must also be undertaken with due financial prudence and in a way that respects Canada's fiscal constraints.[12]

**Recommendations**

That the federal government:

1. Develop a consistent, coordinated approach to Indigenous consultation and accommodation which clearly identifies Indigenous rights and responsibilities and the duties of the Crown and the role of industry as a stakeholder supporting the process; harmonizes provincial, territorial and federal processes; and reflects relevant factors such as new and existing obligations within established case law;
2. Ensure sufficient resources are dedicated to communicating and implementing this approach across government, industry, and Indigenous communities; and
3. Accelerate the process of resolving land claims in a manner that reflects due financial prudence.

[7] https://www.aadnc-aandc.gc.ca/eng/1100100030577/1100100030578
[8] *Public Accounts of Canada 2015, Vol. 1 – Summary Report and Consolidated Financial Statements;* Receiver General for Canada, December 4, 2015
[9] https://www.aadnc-aandc.gc.ca/eng/1406824128903/1406824211834#key
[10] https://www12.statcan.gc.ca/nhs-enm/2011/as-sa/99-011-x/99-011-x2011001-eng.cfm
[11] https://www.liberal.ca/policy-resolutions/61-priority-resolution-aboriginal-issues/
[12] *Public Accounts of Canada 2015, Vol. 1 – Summary Report and Consolidated Financial Statements;* Receiver General for Canada, December 4, 2015

## 22. Maximize the Economic Benefit of Recreational Marijuana

### Issue

The legalization of recreational marijuana, which has been promised by the current government as part of its 2015 election platform, would create a market worth up to $5 billion.[1] In the event that the Government of Canada passes legislation to legalize recreational marijuana use, the Greater Niagara, Windsor-Essex and Abbotsford Chambers of Commerce recommend that the government implement a regulatory framework that will allow competition and consumer choice while also protecting consumers, the public, and youth.

### Background

The legalization of recreational marijuana was a part of the Government of Canada's 2015 election platform, and on April 20th, 2016, the Government duly promised that legislation would be proposed in the spring of 2017. As Member of Parliament Bill Blair, who is leading the federal government's marijuana legalization project, recently recognized, there is an opportunity for the federal and provincial governments to model the regulation of marijuana after that of other intoxicants, including alcohol and tobacco.[2] Strict regulations must particularly be passed and enforced to protect youth, and these existing industries can form a useful model.

There are several options for distribution, and the government should investigate all with a view, firstly, to protecting youth and ensuring that regulations are effectively enforced, and secondly, to ensuring that competition and consumer choice are maintained. With regard to the first, the Tobacco Act (1997) provides a framework and legislation should be along these lines.

Apart from the distribution model of tobacco, in which independent retailers may sell the product and are expected to comply with the law, there are some alternatives. Some pharmacies are interested in retailing recreational marijuana.[3] Existing producers of medical marijuana are already distributing their product to users, and could simply ramp up the scale of their online distribution. The Government of Canada has the power to direct or at least set the tone for sale and distribution, as it has for tobacco, and should seek a model that preserves consumer choice and a free market.

The legalization of recreational marijuana in other jurisdictions, such as Colorado and Washington, has realized significant economic benefits. In 2014, Colorado retailers sold $386 million USD of medical marijuana and $313 million USD of recreational marijuana totalling nearly $700 million USD in sales.[4] These sales generated $63 million USD in tax revenue and an additional $13 million USD collected in licenses and fees.[5] The state's Department of Revenue projects that marijuana sales in the state will exceed $1 billion USD in 2016.[6]

It is anticipated that the Government of Canada would similarly benefit from the legalization of marijuana. A report from CIBC World Markets has projected that federal and provincial governments could gather as much as $5 billion per year in tax revenues from the industry.[7] There are nearly 30 licensed producers of marijuana in Canada that are

[1] Financial Post, *Canada's budding marijuana industry could blossom into a $5-billion market if Liberals make recreational pot legal* (http://business.financialpost.com/news/agriculture/canadian-marijuana-stocks-jump-as-liberal-wins-signals-legalization-on-the-table)
[2] Toronto Star, *MP Bill Blair says legal pot could be sold in liquor stores* (http://www.thestar.com/news/canada/2016/01/08/justin-trudeau-picks-bill-blair-to-lead-marijuana-legalization-reform.html)
[3] Globe and Mail, *For Canadian pharmacies, pot is a gateway drug with high upside* (http://www.theglobeandmail.com/report-on-business/rob-commentary/for-canadian-pharmacies-pot-is-a-gateway-drug-with-high-upside/article28866161/)
[4] Washington Post, *Colorado's legal weed market: $700 million in sales last year, $1 billion by 2016* (https://www.washingtonpost.com/news/wonk/wp/2015/02/12/colorados-legal-weed-market-700-million-in-sales-last-year-1-billion-by-2016/)
[5] Ibid.
[6] Colorado Legislative Council Staff, *Focus Colorado: Economic and Revenue Forecast* (http://www.leg.state.co.us/clics/clics2014A/cslFrontPages.nsf/FileAttachVw/Forecast/$File/forecast.pdf#page=32)
[7] CBC News, *Legal pot taxes could add $5B a year to government coffers, CIBC says* (http://www.cbc.ca/news/politics/pot-revenue-government-5-billion-1.3423705)

well positioned to capitalize on this market opportunity. It is in this context that now Prime Minister Justin Trudeau committed to legalizing marijuana for recreational consumption during the 2015 federal election.

In order to safely maximize the economic benefits of the recreational use of marijuana, the federal and provincial governments should coordinate to legalize the sale and distribution of marijuana for recreational use. In addition, the government should coordinate to develop effective health and safety recommendations to promote the safety of recreational marijuana consumers.

**Recommendations**

That the federal government:

1. Upon its introduction of recreational marijuana, ensure that said legislation provides a modern, legal framework for recreational marijuana production and distribution that takes into account health and safety, consumer choice and demand, fairness in production and distribution, and competitive markets.
2. Develop effective health and safety regulations, including road and workplace safety, that will ensure consumer safety and protect Canadians throughout the production and distribution of marijuana for recreational use.
3. Investigate and implement a retail and distribution policy to preserve consumer choice, ensure a level playing field and adherence to regulations and restrictions, and avoid offering special treatment to any person or organization in the industry, and/or encourage provincial governments to do the same, as appropriate.

## 24. Promotion of Innovation-Friendly Rules and Policies in Healthcare Public Procurement

### Issue

The federal and provincial governments recognize the need to promote innovation in the economy. Most other G8 countries also recognize this need and there is a growing awareness of the role that public procurement can play to stimulate it, particularly among SME. For example, the Directive 2014/24/eu of the European parliament clearly states that member states must adopt public procurement policies and rules to achieve the objectives of the *Europe 2020 strategy for smart, sustainable and inclusive growth*, which notably supports innovation. Following the potential adoption of the Comprehensive Economic and Trade Agreement (CETA) with the EU it is appropriate that the federal government should make an effort to harmonize its own public procurement rules and policies with those of the EU and encourage the provinces to do the same, particularly in the field of health.

### Background

Governments are important buyers of goods and services and, in some sectors like health, they are the main buyers.

In several provinces, including Quebec, public procurement policies are essentially based on the notion of 'lower prices' without allowing for the quality or innovation proposed in the offers. Several authors and organizations, including the Conference Board of Canada, the CIRANO and the Canadian government's Advisory Panel on Healthcare Innovation (Naylor Report) have shown the importance of aligning the needs of Canada's healthcare systems with the supply of innovation, particularly through public procurement policies and rules based on value.

Since the Directive of the European parliament was implemented in 2014, procurement strategies and processes have been introduced to make European procurement contracts efficient players, not only in promoting innovation within the life science and health technology industry, but also in using it to maximize health system efficiencies.

Without such policies and in the context of extensive free trade with such a dynamic healthcare economic block, it is likely that the Canadian industry will be at a disadvantage going forward and that the performance gap between our healthcare systems will widen.

### Recommendations

That the federal government:

1. Lay down provisions that need to be modified or introduced to ensure alignment and consistency with the Directive 2014/24/eu of the European parliament, particularly regarding the awarding of contracts based on the 'most economically advantageous tender' (Article 67).
2. Encourage provinces to make any changes necessary to transform Canadian government procurement markets into innovation-based instruments of economic policy like their European counterparts and thus better support Canadian innovation while promoting innovation-driven efficiency in the healthcare sector.

## 25. Remediation Standard for Legal and Illegal Substance Affected Properties

**Issue**

Currently, due to a lack of standardized remediation schedule deemed universally acceptable to lenders and insurers, if a home or commercial property has been identified as having been used to cultivate or manufacture drugs - illegal or otherwise- it would not be financeable by a mainstream conventional mortgage. * Compounding these problems, a lack of standard makes it increasingly difficult or costly to insure affected properties. ** In some cases, this makes alternative financing altogether cost prohibitive. Canadian law enforcement estimates that there are presently over 50,000 illegal grow operations active across Canada. In 2014, Health Canada licenses issued for Personal Use (PUPL) and Designated Personal Use (DPPL) exceeded 57,799 Canada-wide. It is projected that there will be over 443,699 personal grow operations operating from coast to coast by 2024, ergo, an overwhelming number of private dwellings will re-enter the market as stigmatized properties. It is reasonable to say that a lack of acceptable standard poses a substantial risk to the financeability of a vast segment of residential housing stock across Canada.

Although much attention recently has been paid to the real estate markets in the Greater Vancouver and the Toronto areas, remediation is a Canada-wide issue. Non-financeable homes pose diverse difficulties throughout various parts of Canada.

For example: in Quesnel, BC and other similar remote regions around the country, where housing demand is not as high, homes identified as grow-ops are often being left abandoned and are unable to be re-introduced in the housing supply as few financial institution or insurance companies will finance the properties. In areas such as Mission, BC, which has traditionally attracted new homebuyers with affordable homes as an extended suburb of the Metro Vancouver region, their community had 583 PUPL and 73 DPPL licenses, and an additional 671 ATP (Authorize to Possess) licenses covering a population of approximately 34,000 residents, spanning between 15,000-18,000 residential homes. The amount of homes used for the cultivation of legal and illegal substances has decreased the stock of mortgageable properties, making it increasingly difficult for home-seekers to make a purchase. Only those buyers willing to take the risk of buying in cash or with very high interest rate mortgages (if available) are able to access these properties. Due to the limited available buyers who could purchase in cash or qualify for very high risk financing, many of these homes will sell for a reduced market value, ultimately affecting the housing stock values of the area. *(Ref: http://www.mission.ca/municipal-hall/departments/economic-development/community-profile/housing-market/).*

As an alarming secondary concern at the national-level, affected homes cannot be sold and reintroduced into the housing stock legitimately (with full-remediation.) These properties have the potential to be sold privately - perhaps to unsuspecting buyers - after the seller has done some marginal repairs to the home. This problem is not only affecting the current availability of homes, but is also an ongoing public safety concern, since no standardized schedule of remediation exists to ensure quality and compliance.

**Background**

- *"RBC Financial will not enter into any credit deals that have been deemed as current or previous operation (illegal substances)". "Even if the Structure is torn down, the property remains tagged and we still do not fund these credit deals" - Kathleen Haydu, Branch Manager, RBC Financial*
- *"If we (TD Bank) know about the issue (former or current illegal substance operations) at the start of our interview process, we don't proceed with the application." -Bruce Murray, Branch Manager, TD Bank*
- *"All chartered banks and most single stream mortgage lenders will not finance former illegal substance operations such as grow-ops." "In most cases with alternate financing, more than a 50 percent down payment is required and some level of underwriting is required." - Doug Lifford Mortgage Services.*
- *"I (Johnston Meier Insurance) have one regular homeowners market that will insure a former grow op." "No matter how long ago they require Current Air Quality testing provided by a qualified contractor with*

*CGL in place, current Electrical passed permit by someone with a CGL in place and current personal inspection by the broker, no matter how long since the grow-op." -Gloria Allinson, JM Insurance Group*
*"In Niagara Falls and I'm throughout Canada, Realtors are selling homes that have been used as grow-ops. The buyer is not aware because the Realtor is not telling him. Nor is the lender aware, since money for the mortgage would not be available if they were. For insured mortgages, CMHC and GE will not insure homes that were previously used for grow-ops even if they have been remediated. So, the only way to get financing is not to tell the buyer or the bank." – Charles Woods, Broker, Sunshine Realty Corp*

- *"This has far-reaching implications for the property's future marketability, habitation, ability to obtain a mortgage and insurance. As a property owner, you could tear down the house and build an entirely new structure — and the search of deleted instruments will still indicate that it once was a grow-op." – Blair Drummie, Toronto Real Estate Lawyer*

While this problem challenging our housing stock has received limited attention from a few individual municipalities across the country, those organizations that are directly involved in the housing industry such as the Canadian Real Estate Association (CREA), Canadian Association of Accredited Mortgage Professionals (CAAMP), Insurance Bureau of Canada (IBC) and Canadian Homebuilders Association have been actively advocating for federal government intervention. In a concentrated effort to combat illegal property activity, CHBA has actively lobbied the Federal Government for policy reform measures, which would protect consumers, builders and industry affiliates. On a provincial level, the Ontario Real Estate Association (OREA) has actively conducted research, commissioned polls and lobbied their provincial government for intervention, and creation of the Clandestine Drug Operation Prevention Act.

To date, there remains no consistent or universal policy which will satisfy the needs of potential buyers, financial institutions or insurers in any meaningful way. Pending changes to marijuana laws currently before government could lead to more personal grow-ups in homes. This highlights the increasing importance of having clear federal guidelines to address remediation, so that affected homes in the Metro Vancouver and Greater Toronto regions are not lost to the market, thus exacerbating the affordability crisis in these two regions, or any market where supply is tight relative to demand.

We believe that the only way to sufficiently address this situation is for the Government of Canada to take a lead role in developing the necessary standards. Exemplifying an instance of governmental standardization, the Alberta Provincial Government has shown excellent leadership specific to this concern. Prior to the last Alberta provincial election, the Grow-Op Free Alberta Final Recommendations Report was adopted in 2014, and contained 37 recommendations that encompass health, safety and remediation challenges residential grow operations pose to current inhabitants, potential buyers and the community and province as a whole. The Federal Government could certainly use these recommendations as a firm starting point.

Recently this policy received unanimous support, and was passed at the BC Chamber AGM in May 2016. Interest from other provinces & territories has come forward including NWT, Ontario and Alberta.

**Recommendation**
That the federal government develop a comprehensive remediation standard to secure the conventionally available housing stock affected by legal and illegal manufacture and/or cultivation of substances, which will satisfy the needs of the industries affected including the real estate, financial, insurance and construction related industries and the clients they serve.

# Natural Resources and Environment

## 26. Domestic and Industrial Reclaimed Water Use

### Issue

Health Canada has guidelines[1] for domestic reclaimed water use in toilet and urinal flushing, but not currently for irrigation and industry uses, including for storm waters, hence treatment needs and subsequent water quality guidelines are 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.

As the 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 Australian guidelines[2,3] provide a useful framework that the Province of Alberta may consider in upcoming regulatory changes, as have the Canadian Standards Association[4].

### Background

Currently the guideline values for domestic reclaimed water for toilet and urinal flushing are not risk-based, but rather formulated on what treated water systems are able to deliver, *viz*:

- $BOD_5$ ≤ 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 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 per cent of the world's supply, much less than Brazil and Russia and about the same as the U.S. 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, 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.[5] 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. 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. 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.

[1] http://www.hc-sc.gc.ca/ewh-semt/pubs/water-eau/reclaimed_water-eaux_recyclees/index-eng.php
[2] NRMMC; EPHC; NHMRC, *Guidelines for Water Recycling: Managing health and Environmental Risks (Phase 1) – November 2006*, Natural Resource Management Ministerial Council, Environment Protection and Heritage Council, Australian Health Ministers' Conference; Canberra, 2006; Vol. 21.
[3] NRMMC; EPHC; NHMRC *Australian Guidelines for Water Recycling: Managing Health and Environmental Risks (phase 2). Stormwater Harvesting and Reuse;* Document 23; Natural Resource Management Ministerial Council, Environment Protection and Heritage Council, National Health and Medical Research Council; Canberra, 2009.
[4] CSA/ICC, Rainwater Harvesting Systems, Draft Standard BSR/CSA/ICC B805-201x. http://publicreview.csa.ca/Home/Details/1773 **2015.**
[5] 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

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. 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.

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. However, recently developed, risk-based standards were developed for decentralized systems, primarily driven by a need in California.[6] Such a risk-based approach is consistent with drinking water safety plans in Alberta that are being developed for recreational and reuse waters (Ashbolt pers. comm.).

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 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.

**Recommendations**

That the federal government:

1. Consider adapting wastewater reuse and storm-water/rainwater use guidelines so that they are consistent with a risk assessment/risk management framework, as successfully used in Australia and about to be rolled out in California, if not other U.S. states.
2. Work with Industry to develop risk-based guidelines that permit reuse of industrial reclaimed water with the understanding that this water when treated, meets the Canadian guideline values for acceptable risk.

[6] Sharvelle, S.; Ashbolt, N.; Clerico, E.; Hultquist, R.; Leverenz, H.L.; Olivieri, A. *Risk Based Framework for the Development of Public Health Performance Standards for Decentralized Nonpotable Water Systems. WERF Project Number SIWM10C15*; Water Environment Research Foundation Alexandria, VA, 2016.

## 27. Electricity in Canada – Power for Future Competitiveness

### Issue

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'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 and a high-skills employer.

According to Canadian Chamber of Commerce, demand for energy is likely to at least double between now and 2050—less than 40 years away.[1] From the history of energy systems, this is not a lot of time in which to change energy production practices. A 2012 report by the Conference Board of Canada estimated that $347.5 billion will need to be invested in Canadian electricity infrastructure (including electricity generation, transmission and distribution) from 2011 to 2030.

To keep up with this demand Provinces and Territories must work closely with the Federal Government to continue to invest 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.

### Background

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.

An efficient electricity system is a significant direct contributor to the Canadian economy and can impact Canadian competitiveness. 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.[2]

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.

National and global discussions on smart investments in the energy sector have become prevalent over the last few years. In July 2015 the Council of Federation released their Canadian Energy Strategy[3] identifying the delivery of energy to people as a strategic goal. And in April 2016 Prime Minister Trudeau signed the Paris Agreement on climate change[4], a robust agreement that sets out a global action plan to put the world on track to avoid dangerous climate change. Canada's focus will be on harnessing renewable energy as a way of reducing greenhouse gas emissions.

[1] Canadian Chamber of Commerce. 2013. Electricity in Canada: Smart Investment to Power Future Competitiveness. http://www.chamber.ca/media/news-releases/130123-electricity-as-a-main-contributor-to-canadas-competitiveness/

[2] Conference Board of Canada, 2012. Shedding Light on the Economic Impact of Investing in Electricity Infrastructure. http://www.conferenceboard.ca/press/newsrelease/12-02-13/investment_in_electricity_infrastructure_generates_employment_and_economic_growth.aspx

[3] Council of the Federation. July 2015. Canadian Energy Strategy. http://www.canadaspremiers.ca/phocadownload/publications/canadian_energy_strategy_eng_fnl.pdf

[4] Paris Agreement. December 2015. http://ec.europa.eu/clima/policies/international/negotiations/paris/index_en.htm

**Recommendations**

That the federal government:

1. Pursue discussions in partnership with provincial, territorial and indigenous governments on energy trade and national carbon regulation, and re-engage on negotiations to complete an energy chapter under the AIT.
2. 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.

## 28. Ensuring the Future of Canadian Oil and Gas

**Issue**
Canada has an abundance of natural resources that generate direct wealth for Canadians through production and export. Increasingly, these commodities represent a large contribution to Canada's economic growth; however, Canada still spends $26 billion on oil imports annually. Access to markets for commodities, specifically oil and gas, represents a significant obstacle in Canada's ability to secure a competitive position in the global economy. Further, failure to develop these projects leads to negative impacts on Canadian businesses and ultimately their families.

**Background**
The Canadian oil and gas industry directly employs 550,000[1] workers across the country. This production generates approximately $18 billion in annual taxes and royalties, in turn directly funding many public services[2]. This highlights the importance of the oil and gas industry for the wellbeing of Canadians. For every one job created in the oil sands, one indirect and 1.5 induced jobs are created throughout Canada[3]. The severe drop in oil prices since 2013 has left Canada in a vulnerable position.

Traditionally, the United States has been Canada's largest buyer, but their recent supply surplus has positioned them to energy independence and exportation. What this means is that Canada is finding itself in an increasingly competitive relationship with its biggest trade partner. In fact, in 2010 Canada imported only 6% of its oil from the United States, but that number jumped to over 60% of the share in 2015[4]. With oil production located in the prairies, and no cost effective means to transport it east, Canada needs to develop pipeline infrastructure to gain leverage in supplying our own citizens and new customers. This will prevent us from exporting at a discounted price and purchasing at world prices.

Regardless of the current price of oil, Canada still has to sell its oil and gas at a discount due to the lack of market access. This equates to $18 to $19 billion that could otherwise be gained by selling directly to the Asia-Pacific market. Loss of this revenue puts severe pressure on all Canadians, as evidenced by job losses and the strain on social services currently being experienced across the nation.

A key piece of critical infrastructure that is "shovel-ready" is the Trans Mountain Expansion Project (TMEP). This pipeline runs from Edmonton to the West Coast, and is a key component in getting Canadian oil to tidewater – and ultimately international markets. The development phase of this expansion will boost Canada's GDP by $13.3 billion in the first 20 years of its operation[5]. Total tax payments from the construction and operation of TMEP will total $18.5 billion to Canada, with $2.1 billion to B.C., $9.6 billion to Alberta and $6.8 billion to the other provinces and territories[6]. This will bring 58,000 person-years of employment, with the majority of these being well-paid, family supporting jobs.

A 4,600 kilometer pipeline that will transport 1.1 million barrels of oil per day to Eastern Canadian refineries is the Energy East Project. Moving product east will generate an estimated $11.5 billion in GDP for the Canadian economy during the construction and development phase[7]. The Energy East Project is suspected to take 7 years to complete with 14,000 well-paid direct and indirect jobs across the nation[8]. This pipeline would reduce the current reliance and intensity on rail shipping to the east, therefore reducing the overall cost of getting this resource to market.

[1] Petroleum Services Association of Canada "Facts about Canada's Oil and Natural Gas Industry," accessed May 4, 2016, www.oilandgasinfo.ca/jobs .
[2] Ibid.
[3] Jeff Gaulin, "The State and Future of Canada's Oil and Gas Industry" *Canadian Association of Petroleum Producers* Presentation to Lethbridge Chamber of Commerce, April 28, 2016.
[4] Peter Tertzakian, "Like a rocky romance, the oil relationship between Canada and the U.S. is complicated", accessed May 4, 2016, http://business.financialpost.com/news/energy/peter-tertzakian-column?_lsa=36f5-69c9 .
[5] Kinder Morgan "Trans Mountain", accessed May 6, 2016, https://www.transmountain.com
[6] Ibid.
[7] TransCanada "Energy East Pipeline", accessed May 6, 2016, http://www.energyeastpipeline.com/
[8] Ibid.

Additionally, this would decrease Canadian dependence on American pipeline infrastructure, leading to greater control for Canadian producers and citizens.

Enbridge is currently pursuing the approval and construction of the Norther Gateway pipeline from Bruderheim, Alberta to Kitimat, B.C. This pipeline is necessary to connect to the Asia-Pacific market, while simultaneously bringing significant economic benefits to Canadians. Estimated at $6.5 billion, this project will provide thousands of well-paid jobs with an anticipated impact of $300 billion to Canada's GDP over the next 30 years[9]. From a competitive standpoint, the ability for Canadian oil producers to have direct acce3ss to tidewater through cost effective infrastructure would positively benefit all Canadians.

Canadian oil is predominantly transported by railcar, which, under current infrastructure circumstances, is expected to increase by 44% in 8 years[10]. Looking at the costs of transport, rail is twice as expensive as compared to pipeline transport, and 4.5 times more susceptible to a spill[11]. Taken alone, this lack of pipelines acts as a barrier for Canadian oil and gas companies trying to get their product to both the West and East coasts, thus impacting the overall feasibility of supplying Canadians and having tidewater access to additional markets.

Currently, multiple companies are prepared to develop the above pipeline projects and have the private capital ready to provide thousands of jobs, taxes, and economic growth across Canada. Our nation must take action to position our oil as competitive and accessible to foreign buyers and Canadian consumers coast to coast. Failing to do this will remove the leverage Canada has as a seller, and will severely hurt the long term stability and relevance of the Canadian economy.

Ultimately, in an increasingly competitive global oil and gas market, Canada needs to take action. The United States has moved from being a reliable customer to seeking energy independence through exportation of oil to international markets, particularly Canada. This is why Canada needs to develop its own reliable infrastructure to make sure all Canadian have access to a stable supply of oil.

**Recommendations**

That the federal government:

1. Eliminate barriers to, and facilitate the use of, Canada's natural resources in Canada's oil and gas supply chain by developing infrastructure that will ensure Canadian input may be used in all regions of the country.
2. Ensure regulatory certainty and expedite the environmental assessment of pipeline projects as is currently in front of the National Energy Board.
3. Facilitate the development of pipeline infrastructure to ensure Canadian oil can be delivered to tidewater and sold on global markets.
4. Allow the export of oil to overseas markets through any tanker transport that meets the safety and environmental standards applied to moving oil through Canada's established East and West Coast ports.

[9] Enbridge "Gateway Facts", accessed May 6, 2016, http://www.gatewayfacts.ca/
[10] Susan Noakes, "Oil-by-rail shipments set to boom, study find" *CBC News*, June 11, 2015, accessed May 4, 2016, http://www.cbc.ca/news/business/oil-by-rail-shipments-set-to-boom-study-finds-1.3110022 .
[11] James Conca, "Pick Your Poison For Crude – Pipeline, Rail, Truck Or Boat" *Forbes*, April 26, 2014, accessed May 4, 2016, http://www.forbes.com/sites/jamesconca/2014/04/26/pick-you-poison-for-crude-pipeline-rail-truck-or-boat/#3048e5245777 .

## 30. Infrastructure Investment Essential to Mining Sector Growth

### Issue

The lack of adequate infrastructure is the most significant obstacle to mining development in Canada.

Inadequate infrastructure has been the primary barrier to developing some of Canada's most promising mineral discoveries. Greater investments in the necessary infrastructure is needed to help relieve the current financial burden of construction costs placed on mining companies and to unlock the vast potential of Canadian communities and mineral deposits.

### Background

Mining is one of Canada's most important economic sectors and is a major driver of the country's prosperity. Mining contributed $57 billion to Canada's Gross Domestic Product (GDP) in 2014 and employed 375,000 workers in the sectors of mineral extraction, processing and manufacturing[1]. 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 Indigenous Canadians. As outlined in the 2015 report *Levelling the Playing Field,* 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."[2] 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 that will generate over $25 billion in GDP in the first 32 years of development.[3] 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 Nations 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, and an all-seasons road into the NWT's diamond-rich Slave Geologic Region.

The enhancement of electrical transmission in northwestern British Columbia also stands as a strong example of federal support for resource development infrastructure, as the Canadian government invested $130 million into a 344-km line in northwestern B.C., which was completed in 2014 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.[4] This kind of strategic investment must be part of the federal government's approach to enabling crucial mining initiatives throughout Canada.

In addition to greater investment in key mining projects across the nation, the mining community and Indigenous communities believe better coordination of infrastructure spending is needed to make these investments effective. Presently, opportunities to maximize the benefits of infrastructure development go unrealized due to a lack of coordination in the planning process. Infrastructure planning should be coordinated with mining and community

[1] Mining Association of Canada www.mining.ca
[2] Levelling the Playing Field, Supporting Mineral Exploration and Mining in Remote and Northern Canada, 2015 www.mining.ca
[3] Beneath the surface: uncovering the economic potential of Ontario's Ring of Fire, 2014, Hjartarson, McGuinty, Boutilier, www.occ.ca
[4] http://investnorthwestbc.ca/major-projects-and-investment-opportunities/map-view/terrace/northwest-transmission-line

interests as well as other economic development projects to ensure synergies and the opportunity to multiply benefits amongst all groups.

This type of infrastructure for critical mining initiatives and community growth 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.

**Recommendations**

That the federal government:

1. Immediately establish enhanced funding partnerships and innovative funding models to invest in the information infrastructure, including the Geologic Survey of Canada, and the transportation and energy infrastructure necessary to work with the private sector, all levels of government and Indigenous peoples to promote mining sector growth and stimulate regional economic development.
2. Work with provincial/territorial and Indigenous governments to better coordinate infrastructure spending by aligning infrastructure planning with community and industry needs as well as other economic development projects.

## 31. Integrated Water Management for Canada's Water Resources

### Issue

Canada needs a more integrated approach to governing crucial water resources.

### Background

Water is greatly undervalued as a strategic asset in Canada. Approximately 12% of Canada's surface is covered in water, which accounts for an estimated 7% of the world's renewable freshwater (CCME, 2006). Studies suggest that water contributes $7.5 – $23 billion annually to the economy (PPEG, 2009) and that approximately 60% of Canada's GDP is directly dependent on water (EC, 2016), including key sectors such as agriculture, resource extraction, manufacturing, and agriculture and agri-foods. Water and energy production are also fundamentally connected (e.g., thermal electrical, hydroelectric power generation, oil and gas extraction, etc.) Canadian water resources need to be used wisely, for both economical and ecological reasons.

Canada is one of the highest per capita water consumers in the world (ECCC, 2015) and is facing increasing pressure to improve water management resulting from competing interests for available supply (CBoC, 2016). Pressure on water resources will increase given that Canada's population is expected to grow by 25% by 2050 and the Canadian economy is predicted to expand by 55% by 2030 (G3, 2009). Climate change will exacerbate these challenges to water management by altering rainfall, increasing evapotranspiration, changing stream flow, and degrading water quality (Kundzewicz et al., 2007). This will have significant implications for businesses dependent on water resources for production, cooling and other operations.

Land and water use planning is highly fragmented in Canada with little coordination (Simms and de Loë, 2010). To date, no overarching authority exists to monitor ecological indicators and manage watershed as holistic systems. Given that water use allocation is subject to the methods of different jurisdictions, there is variability and fragmentation in rules governing individual operations and sectors. Furthermore, the methods and rules used to determine and control water consumption and allocation differs significantly between jurisdictions. As a result of this lack of coordination, the ever-increasing and competing demands for the finite supply of water has resulted in the degradation of ecosystems, contamination of water bodies and overconsumption of water in many regions.

Governments in Canada are beginning to acknowledge the need to integrate ecosystem and watershed management approaches that employ sustainable development principles (EC, 2013). Integrated Watershed Management (IWM) is a multidisciplinary and iterative process that optimizes aquatic resources in response to the social, environmental and economic issues facing Canadians by acknowledging the intrinsic and integral roles of aquatic ecosystems. The application of IWM ensures that decision-making integrates business and economic considerations with other crucial elements, such as sustainable water, water protection, ecosystem protection and human and environmental health. Canadian jurisdictions must actively continue progressing toward adopting integrated water resources management to create the policies and legislation to support those changes.

Although integral to Canadians and the Canadian economy, water issues are not often associated with broader issues of energy, food security, health, climate, globalization, poverty or sovereignty (EC, 2010). Accordingly, businesses and the public must be educated to change the existing attitudes about water, shifting it from a free, dispensable commodity to a strategic natural asset and public trust. Greater efforts must be made toward conservation, stewardship and understanding the cumulative impacts of continued poor management.

### Recommendations

That the federal government:

1. Enhance the type and availability of information needed for sustainable water use, including better understanding of water use, conflict and national economic and ecological repercussions;

2. Encourage innovation and collaborative approaches across provinces and territories to address concerns associated with water use.

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## 32. Make the Ring of Fire a Nationally Significant Initiative

### Issue

The Ring of Fire is a transformative project for Canada. Federal action is required to expedite the development of the Ring of Fire and ensure the economic and social potential of this nationally-significant, multigenerational project is realized.

### Background

The Ring of Fire is a mineral resource rich area of approximately 5,120 km$^2$ located in the James Bay Lowlands region of Northern Ontario. There are a number of First Nations communities in close proximity to the Ring of Fire. Since the early 2000s, significant deposits of copper, zinc, nickel, platinum, palladium, vanadium, and gold along with the first and largest deposit of chromite in North America have been discovered. Based on current projections, the Ring of Fire is estimated to hold more than $60 billion in geological riches[1] with deposits being significant enough to sustain activity for a century.[2]

The Ring of Fire is not a Northern Ontario or Ontario project but will have far reaching impacts across the nation. In the first ten years, the GDP impact outside Ontario will range from $2.1 to $6.3 billion; in the first 32 years, the GDP impact outside of Ontario will range from $5.8 to $16.8 billion throughout the country. In terms of tax revenues, it is projected that in the short term, $870 to $940 million will accrue to federal reserves. In the long-term, the federal government is expected to receive $2.89 to $3.25 billion in taxes.[3] It is predicted that the development of the Ring of Fire will sustain over 5,500 jobs annually. Benefits will not only impact the mining and mining supply sectors but will also generate economic opportunities within the manufacturing, construction, utilities, wholesale/retail trade and financial services sectors among others.

The Ring of Fire's polymetallic deposits are of global significance and have the potential to enable the diversification of Canadian exports; a current goal of both the federal government and business community. Demand for chromite is expected to increase in the years to come. Given that the world's chromite is found in just a handful of countries and the fact that the deposits in the Ring of Fire are of the highest-grade in the world makes Canada an attractive trade destination for this mineral. China, the largest importer of chromite, accounting for 85 percent of global demand, has already demonstrated significant interest in the Ring of Fire. In addition to chromite, gold and silver are making a strong resurgence on the international stage and palladium is expected to experience increased demand in the coming years. The federal government should promote the Ring of Fire's polymetallic deposits internationally as a significant investment and trade opportunity.

Further, the Ring of Fire has the potential to result in significant innovation gains in Canada, a top priority for the Government of Canada. Private sector actors for example are already developing innovative energy saving methods such as refining ferrochrome using green and low-cost natural gas rather than electricity. The federal government should work with First Nations and private sector actors to spur environmental innovation and explore technologies that can reduce energy costs and help make exploration in the Ring of Fire more efficient.

The Ring of Fire has endless economic opportunities but will only be successful if community needs are addressed. The First Nations communities closest to the Ring of Fire are among the most socially and economically challenged in Canada. The Federal Economic Development Agency for Northern Ontario (FedNor) is the lead federal organization dedicated to the development of the Ring of Fire. To date the federal government has invested $35 million in 85 projects over the last four years to support initiatives that have the potential to lead to greater access, including transportation, hydro, broadband, and skills training. Some of these training programs have since ended, however. These communities will require continuous skills and educational programs to build capacity in management, finance and regional/community based infrastructure planning in

[1] James Franklin, chief geoscientist at the Geological Survey of Canada from 1993 to 1997. He is one of the country's top experts on the Canadian Shield geology underlying northwestern Ontario, including the Ring of Fire and Stan Studol, Glob and Mail, April 2016.
[2] "Beneath the Surface," Ontario Chamber of Commerce, 2014.
[3] Ibid.

order to participate in decision-making and resource development and to prepare community members for potential job opportunities.

There is also a severe lack of infrastructure in the region to connect communities to each other and to resource development. The Government of Ontario has earmarked $1 billion dollars for transportation infrastructure in the Ring of Fire and has made a formal application to the Government of Canada in 2014 to match this funding though the Building Canada Plan. The federal government has declined to match funds until being presented with a detailed infrastructure plan. On March 2015, a joint federal and provincial announcement of $785,000 was made for a study to examine the potential of a transportation corridor that would connect Ring of Fire mineral deposits and four remote First Nations. Although the chamber commends these investments, this is only one piece of the puzzle. A region that lacks roads, rail, power lines, potable water and access to grid power requires a more significant, sustained and long-term investment and vision to meet these infrastructure needs.

With the current provincial/territorial-federal alignment, this is an opportune time for the federal government to work in conjunction with provinces/territories, First Nations and industry to develop the best course of action and plan to modernize infrastructure in remote and rural regions of the country.

The Ring of Fire has its challenges. After more than a decade since its discovery, there remains no infrastructure plan in place for the communities surrounding the Ring of Fire, development timelines are uncertain, private sector investors are increasingly frustrated, and the region's peoples face significant social and economic hurdles. However, there are opportunities to capitalize on. The Ring of Fire is in direct alignment with a number of federal government objectives such as raising living standards of Indigenous peoples and involving them more genuinely in resource development. Further, the government has committed to an unprecedented infrastructure expenditure on strategic projects to kick start the economy. It has expressed an intent to forge new relationships with nations such as China. The Ring of Fire meets these criteria.

Now is the time for the federal government to scale-up efforts and work jointly with Ontario, First Nations, industry and community partners to capitalize on the window of opportunity and advance this project forward. The Ring of Fire has been referred as "Canada's next oil sands", a "game changer" and "the most promising mining opportunity Canada has seen in a century." The Ring of Fire also offers a unique opportunity to be a template for the development of natural resources in remote and isolated locations alongside indigenous communities. This type of framework can serve to help inform resource development across the nation.

The Ring of Fire should be treated as a national priority and communicated to all federal government departments as such.

**Recommendations**

That the federal government:

1. Recognize the development of the Ring of Fire as a project of national significance.
2. Work with government, industry and community partners to build capacity and community readiness of Indigenous communities and people so that they may take full advantage of resource development in the Ring of Fire.
3. Actively promote the Ring of Fire, along with other mining projects, in the global arena as a trade and investment opportunity through Global Affairs Canada.
4. Work with governments, Indigenous communities and industry to develop a plan to address infrastructure needs in the Ring of Fire.
5. Partner with governments, the private sector and Indigenous communities to explore innovative technologies and R & D opportunities to reduce energy costs and create efficiencies in the Ring of Fire.

## 33. National Marine Conservation Area Reserve – Strait of Georgia

### Issue

The Chamber is supportive of developing and implementing the proposed National Marine Conservation Area (NCMA) Reserve in the Strait of Georgia, provided its unique environment and its importance to the health and prosperity of the regional economy is clearly recognized. To that end, The Chamber expects a specific piece of legislation be enacted to address unique nature of the Strait of Georgia NMCA Reserve, such as was done with Saguenay-St. Lawrence Marine Park. Such legislation would mitigate confusion or uncertainly, allowing businesses, residents and visitors a stable and transparent decision-making platform.

### Background

The beauty of British Columbia is intrinsically tied to tourism, external investment, and the health of our communities.

The Chamber believes the proposed establishment of a NMCA Reserve in the Southern Strait of Georgia can contribute to the economy, attract investment, create household-sustaining jobs, and support local business.

The Chamber believes the biggest risk to commercial and recreational activities is stakeholder confusion or uncertainty leading up to and after the Strait of Georgia NMCA Reserve is established.

*A "Reserve" is established when there are First Nations land claims in an area. Given the number of unresolved First Nations claims in the Southern Strait of Georgia area, an NMCA Reserve would be established pending resolution of the claims. Once all claims are resolved, the area would become a NMCA.*

### *Impact*

Once the Southern Strait of Georgia NMCA Reserve is established[1], ownership of provincial lands - including the seabed - would be transferred to the federal government. For waterfront residential and commercial properties, that means the submerged lands below the high-tide watermark would be transferred from the Province of B.C. to the Government of Canada.

Beyond the transfer of submerged lands ownership, there is a complex jurisdictional maze that includes First Nations, regional districts, municipalities, transportation authorities, and island trusts. This area also has more than 100,000 residents and countless visitors who have relied on easy and free access to waters for decades. Such a delicate operating environment has a direct impact on residents' quality of life as well as on local businesses.

One of the frequently discussed business impacts surrounding the navigable waters within the 2011 proposed boundaries is marine transportation; it is BC Ferries "backyard" and a transit route for thousands of cargo shipments per year.

There are many practical questions that still need to be answered, such as how will the NMCA Reserve operations - including enforcement - be funded? Who makes the decision to halt or alter commercial vessel traffic patterns if zones need to be established or amended? How will the success of the NMCA Reserve be measured? Who will manage affected land use, e.g. issue permits for private infrastructure

[1] See Annex for 2011 Proposed Boundaries

that extends below the high-tide watermark? These are questions that need to be answered before the NMCA Reserve is implemented to ensure a welcoming business environment and public support.

***Decision-Making Environment***

The Government of Canada will have numerous challenges facing the proposed Strait of Georgia NMCA Reserve, including:

- continuing to allow high concentration of commercial and recreational marine traffic in the area,
- the potential for a variety of inter-departmental jurisdictional issues, e.g. fishing and marine transportation falling under both Fisheries and Oceans and Transport Canada and in collaboration with Parks Canada, and
- the proposed NMCA Reserve is expected to fall under the *Canada National Marine Conservation Areas Act,* and as such, would not address specific conditions relating to the Southern Strait of Georgia's unique environment.

***Progress to date***

Parks Canada has reportedly hired a full-time employee to manage the specific file, and is working on a number of studies to develop a comprehensive understanding of the region and to reach a determination of the feasibility of the proposed NMCA Reserve. The Chamber expects this research to include a thorough analysis of current and forecasted commercial and recreational activity, as well as how such activity may be affected by the establishment of an NMCA Reserve - before the reserve is created.

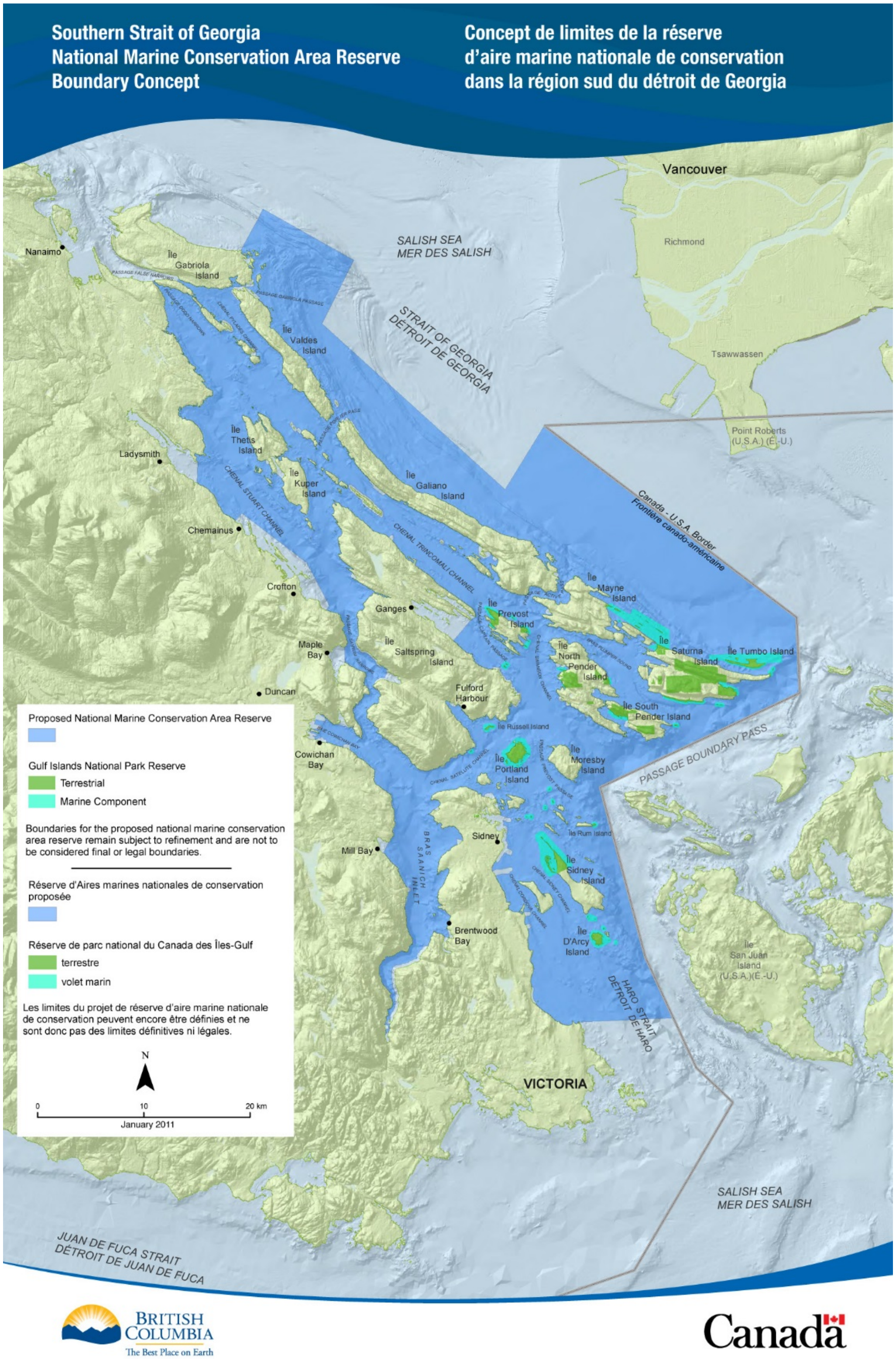
The proposed Southern Strait of Georgia NMCA Reserve should balance the needs of the economy with the environment. Issues should be anticipated and questions answered prior to implementation. Critical points need to be incorporated into separate legislation to ensure a stable and transparent decision-making environment for all stakeholders.

**Recommendations**

In recognition of the Strait of Georgia as one of North America's busiest shipping corridors, moving billions of dollars in trade goods, the Chamber recommends that the federal government:

1. Establish a stable and transparent decision-making process for the proposed Strait of Georgia National Marine Conservation Area Reserve, and
2. Ensure continued access to the existing and future marine trade corridors in the Strait of Georgia.

Annex – 2011 Proposed Boundaries



## 34. Support for Enbridge's Line 3 Replacement Program

### Issue

A call for the Federal Government to approve the Canadian portion of Enbridge's Line 3 Replacement Program

### Background

Representing $7.5 billion in investment, Enbridge's Line 3 Replacement Program is one of North America's largest pipeline infrastructure projects. Line 3 currently runs between Hardisty, Alberta, through Saskatchewan and Manitoba, and ending in Superior, Wisconsin. The project will fully replace the fifty-year-old, 1,600 km line with state-of-the-art pipe made with high-strength steel and coating technology and installed using modern construction techniques. Enbridge is voluntarily operating Line 3 at half capacity due to concerns about the reliability. When the new pipeline comes in service in 2019, it will return to the line's original capacity of 760,000 barrels of oil per day, equivalent to about 10,000 rail cars.

The replacement of the aging pipeline will improve safety and reduce disruptions from maintenance activities. It will also stimulate the communities in Alberta and Saskatchewan, provinces that have been several impacted by the global downturn in commodity prices and wildfires. Additional benefits will flow to goods and service suppliers in other provinces. Enbridge estimates that the project will generate $2.8 billion in GDP though out Canada during the construction period and $500 million in tax revenue for federal and provincial governments, and will continue to generate millions more on an annual basis.

This April, the National Energy Board (NEB) ruled that the Line 3 Replacement project was in the Canadian public interest and recommended it for approval to the federal Governor in Council subject to the fulfillment of 89 conditions. The project will now be subject to additional review process implemented by the federal government in January 2016, with the final decision resting with cabinet. The portion of the pipeline in the United States is undergoing a separate regulatory process.

Canada's oil industry is a major driver of Canada's economy, providing jobs, tax revenues and a market for goods and services for businesses across the country. A lack of pipeline infrastructure has been one of the most significant constraints on the competitiveness of the industry. Approval of a project designed to improve the safety of existing infrastructure, that will stimulate provincial economies suffering from a global downturn and improve the competitiveness of a key economic sector would normally be self-evident. However, the current politics around energy infrastructure development means that no project can be taken for granted. This policy resolution calls on governments to support energy infrastructure projects that have passed a rigorous regulatory review and which have been deemed in the best interest of all Canadians.

### Recommendation

That the federal government follow the National Energy Board's recommendation to approve the Line 3 Replacement Project.

## 35. Supporting Canada’s Responsible Resource Development

Canada’s resource development projects, and associated infrastructure, are an economic enabler for its economy, allowing value added sectors to develop, create jobs, and compete.

Canada’s natural resource prosperity is the foundation of our economic success. Our Gateways play a vital role as the nation’s transportation link to global markets. Canadian producers of oil, gas, coal, lumber, minerals, grains and other agricultural products rely on our Gateway ports to get their products to market.

Safe, well-regulated and responsible natural resource development is one of the defining features of the Canadian economy. The wealth created by natural resources enables provinces/territories to serve as a net contributor to Canada’s national economy in support of vital services, such as health care and education.

If Canadians are to prosper in the decades ahead, however, the federal government and the provinces/territories should also take steps to support private sector investments in responsible resource development and transportation.

**Pipeline Infrastructure**
An example of the risk to our ability to efficiently prosper from our natural resource sector is the controversy around the Northern Gateway Pipeline and the Trans Mountain Expansion Project. The Trans Mountain project is a timely, shovel-ready opportunity to show international investors that Canada is open to multi-billion-dollar business investments that satisfy Canadians’ high expectations for environmental sensitivity, regulatory compliance and safe, responsible operation.

Despite this, the public debate threatens to overtake the regulatory process. Criticism of any project should be part of a healthy review process. But much of the criticism of both Northern Gateway and Trans Mountain Expansion Project, and now Energy East, is driven by a conviction that projects should not proceed regardless of the proponent’s ability to meet regulatory requirements for responsible development.

The original Trans Mountain Pipeline has been in operation for more than 60 years. Trans Mountain proposes to nearly triple the capacity of its existing 1,150-kilometre oil transmission pipeline between Edmonton and Burnaby and expanded shipping capacity at its Westridge Marine Terminal in Burrard Inlet.

A $6.8 billion private sector investment, the expansion project it creates thousands of jobs for both the short and long term, and provides billions of dollars in new revenue for all levels of government. Small business operators, individuals and communities are among those who will gain from this project.

The Canadian economy would gain the equivalent of 9,500 jobs per year for 20 years. In communities along the proposed pipeline corridor, annual property tax payments to at least 20 local governments and 24 Indigenous communities would more than double to $52.4 million from $25.9 million per year. There would be 1,100 jobs created through expanded Westridge operations alone.

The Trans Mountain Expansion Project is one of many resource-related infrastructure projects that create tremendous opportunity, prosperity and job opportunities for Canadians in both the short and long terms.

In addition to an estimated $81 billion in tax revenues and a $270 billion in national GDP uplift over 30 years, construction of the Northern Gateway Pipeline will benefit communities throughout the country. In total, the project will generate 558,000 person years of employment yielding $48 billion in labour income and will provide $28 billion of value to industry in the first 10 years alone.

At the same time, the Energy East Pipeline continues to progress through the regulatory process it started with its NEB application in October 2014. Connecting Alberta and Saskatchewan oil with refineries in Eastern Canada and a marine terminal in New Brunswick, the Energy East project will create 17,000 FTE jobs per year across Canada during development, construction and the 20-year operation of the pipeline. This project will add $55 billion in GDP and over $10 billion in addition tax revenue with every province benefiting.

**Mining**

Mining and mineral processing supported approximately 375,000 jobs across Canada and contributed $57 billion in national GDP. This economic activity resulted in $71 billion on federal and provincial/territorial revenue over the past 10 years.

The value of mining can be seen throughout the Ontario Ring of Fire, which supports 5,500 FTE jobs annually, $9.4 billion in GDP and nearly $2 billion in government revenue between all three levels during the first 10 years of development. Over the next 30 years, mining projects in the part of the country will generate a further $6.7 billion.

In B.C., the $1.3 billion KGHM Ajax Mining copper-gold project could alone provide 1,800 jobs in a 2.5-year construction phase, 500 full-time positions, $500 million in estimated tax revenue and $60 million in annual payroll.

**LNG**

Though a final investment decision has been delayed, a positive decision by LNG Canada will lead to a $40 billion investment. The first phase of Pacific NorthWest LNG, an $11 billion commitment, could come as early as the end of 2016, but both projects face a potentially shifting regulatory landscape.

**Forestry**

Meanwhile, the forest industry remains a significant contributor to many provincial/territorial economies. Across Canada, forestry is the principal economic driver for more than 200 communities in which it operates. It annually contributes over $20 billion in GDP, supports over 288,000 direct and indirect jobs and each year sends billions of dollars in revenue to all three levels of government.

**Conclusion**

Canadian resource producers, in particular oil producers, will not thrive without greater access to global markets. For oil producers, their only export customers at present are in the United States Midwest, where a supply glut has pushed the market price for Canadian oil below its potential value to refiners in other markets.

For Canada, there is no better time to allow the private sector to take the initiative as a long-term creator of jobs and government revenue. Each additional dollar earned on the sale of a barrel of

Canadian oil keeps people working and brings more tax dollars for government with no additional investment of public money.

Regulatory review of resource and infrastructure projects addresses a broad range of environmental, health and safety, socio-economic, community, and Indigenous issues to ensure that the concerns of all interested stakeholders are taken into account. Potential environmental effects of a proposed project are identified and evaluated, providing the opportunity for the proposed project to be modified, if appropriate, before detailed design and construction starts.

Through the regulatory review process, potential projects are endorsed, modified or rejected depending upon whether significant adverse effects, following planned mitigation measures, are predicted.

The Canadian Chamber believes that it is critical that Canada maintains its reputation as a jurisdiction open to investment and take actions that sustain and expand the ability of our Gateways, in particular the Pacific Gateway, to generate prosperity for Canada.

With additional layers of NEB and CEAA criteria and review processes being proposed, inefficient and unpredictable processes are turning away potential investors and prevent businesses from being able to make informed location and logistic decisions. For example, the World Economic Forum has cited "inefficient government bureaucracy" as one of the biggest impediments to improving Canada's economic competitiveness.

The Canadian Chamber welcomes changes to improve the efficiency of the regulatory review process for major infrastructure projects — whether it's a pipeline expansion, an LNG export facility or a new mine.

We encourage all levels of government to continue to build on these improvements to ensure that Canada develops a world-class regulatory system that effectively supports economic competitiveness while protecting Canadians and the environment. This system must remain stable and consistent.

**Recommendations**

That the federal government:

1. Improve the efficiency and consistency throughout the regulatory review process for major natural resource projects, providing clarity regarding the associated timelines from introduction to final decision, to provide the needed certainty, predictability, and stability that encourages capital investment.
2. Recognize the national significance and jurisdiction of federally regulated projects, working to ensure clarity and specificity and a reasonable approach from provincial/territorial governments regarding any conditions they put in place on federally regulated projects.
3. Continue to support establishment of a world-class marine tanker safety regime with enhanced marine spill response capability, and a world-class terrestrial safety system.

## 36. Supporting Canada's Steelmaking Coal Industry

**Issue**

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, industry opponents have made misleading and false claims about coal transportation, and have lobbied municipal governments to take action. This has resulted in some municipalities considering or taking policy positions against coal transportation in their communities and opposing expansion and infrastructure improvement projects. In fact, the industry contributes to Canada's export growth strategies and ensures critical upgrades are made to terminal facilities to improve and mitigate environmental and residential impacts. It is essential that Canada's steelmaking coal industry have access to international markets.

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 competiveness.

It is important that the government 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 69 million tonnes of coal in 2014, including 44 million tonnes of steelmaking coal[1]. Canada is the world's third-largest exporter of steelmaking coal, after Australia and the United States. In 2014, Canada exported 31 million tonnes of steelmaking coal. Canada's production of the world's coal industry is less than 1%, yet our steelmaking coal resources are in high demand due to its superior quality.

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 coal, 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.

Steelmaking 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.

[1] Statistics Canada; Natural Resources Canada5

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 and economic policies that fosters Canada's steelmaking coal mining industry; and
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.

# Transportation and Infrastructure

## 37. A Pan-Territorial Transportation Strategy

**Issue**
Port and transportation corridors in Canada's territories are:

- Unfolding haphazardly, typically tied to a politically popular project of the moment;
- Often multi-jurisdictional, but lacking a coordinating entity, or comprehensive funding facility; and
- Key to an actionable Territorial/Northern Development Strategy, that does not yet exist.

**Background**
Surface transport for territorial community re-supply and resource development depends upon:

- Summer sealift in Nunavut and coastal Northwest Territories (NWT) communities;
- A combination of Mackenzie River barging (which is challenged by decreasing water levels) and winter road trucking in the Mackenzie Valley; and
- Trucking on paved and gravel highways in the rest of NWT and most of Yukon.

Rudimentary territorial resupply over 40% of Canada's landmass has relied upon essentially the same skinny infrastructure for the last 40 years. The only new infrastructure investment is Mackenzie Corridor construction, currently underway on the Inuvik-Tuktoyaktuk all-weather road, and the Mary River Mine Milne Inlet Port on Baffin Island in Nunavut.

Canadian Arctic ports are few:

- One shallow draft port at Tuktoyaktuk, NWT, with barge terminals and marine supply bases from an earlier era of oil and gas exploration; and
- Two deep water ports, both on the north tip of Baffin Island, Nunavut, with Nanisivik Mine dock repurposed as a naval facility and newly constructed Mary River Mine Milne Inlet Port.

Inland connections are also limited:

- Two marine/rail transfer facilities: Hudson Bay Port of Churchill, Manitoba with inland access by rail only, and Hay River, NWT Barge Terminal, also with a highway connection;
- Three road/railheads: CN railheads connect to the Mackenzie Highway at Hay River, NWT and to the Alaska Highway at Fort Nelson, BC; and White Pass & Yukon Route railheads connect to the Alaska and Klondike Highways at Whitehorse (inactive) and Carcross, Yukon;
- Three highway gateways: Mackenzie Highway Gateway to Mackenzie Valley and Yellowknife, NWT; Alaska Highway Gateway to Yukon and Alaska; and Klondike/Dempster Highway Gateway to the Mackenzie Delta and Beaufort Sea; and
- Three winter road extensions: Tibbett to Contwoyto Winter Road (TCWR) extension of Yellowknife Highway; Mackenzie Valley Winter Road extension of Mackenzie Highway; and Mackenzie Delta Winter Road extension of Dempster Highway (new road being built).

As climate change extends the arctic navigation season, ship owners are poised to take advantage of new trading opportunities with more ocean tankers, resource and resupply ships, and cargo and cruise transits:

- Montreal-based Eastern Sealift ship owners are extending resupply operations into the Western Arctic, formerly served exclusively by Hay River based Western Sealift barges; and Western Sealift now includes west coast originating ocean tankers transiting around Alaska;
- Northwest Passage future viability as a shortcut for cargo ships has been demonstrated with Nordic Bulk Carriers *Nordic Orion* eastbound transit from British Columbia to Finland (2013) and Fednav *Nunavik* westbound transit from Deception Bay, Quebec to China (2014);

- Increasing viability of Northwest Passage transits also improves feasibility for resource development projects on the Arctic coast – with iron ore shipments starting in 2015 from Mary River Mine Milne Inlet Port on Baffin Island as the precursor;
- An "Arctic Bridge" between the Hudson Bay Port of Churchill and the Russian Port of Murmansk offers an expanded gateway to central North America. In addition to grain exports, fertilizer imports (one shipment in 2007 and two shipments in 2008) have demonstrated its viability; and
- A burgeoning cruise market is moving from small "expedition" vessels (10 transits in 2014) to large luxury cruise ships with some 1,000 passengers booked on a Crystal Serenity Northwest Passage sailing between Anchorage and New York in 2016.

International arctic activity is also driving a national shipbuilding program. The Canadian Coast Guard plans a new heavy icebreaker, *CCGS John G Diefenbaker,* and the Royal Canadian Navy is building five ice-capable Arctic Offshore Patrol Ships. These ships will provide increased arctic surveillance, research support, and search-and-rescue capability alongside growing international activity in the Arctic.

International activity includes China, currently completing a second ice breaker, and Russia with the world's largest ice breaking fleet - four nuclear ice breakers, three more under construction and a large number of conventional ice breakers.

Within this context, a multiplicity of port and road, pipeline and rail, fibre optic and electrical transmission infrastructure investment proposals are competing for funding across overlapping jurisdictions without any overall strategy or comprehensive coordination.

Such a strategy is needed to make the best use of limited resources for nation-building multi-user transportation infrastructure in Canada's territories that would otherwise be unaffordable.

**Recommendations**

That the federal government:

1. Adopt a Pan-Territorial Transportation Strategy to identify common requirements for:
    a. Bi-National security (NORAD maritime mission, Arctic/Offshore Patrol Ships and ice breakers) research ship navigation (ice breaking, search & rescue, salvage support)
    b. Environmental protection (tanker monitoring, ship spill response, blow-out containment)
    c. Resource development (on/offshore oil & gas, mine supply and mineral exports)
    d. Community resupply (fuel and cargo)
    e. Energy transmission (oil, gas and electricity)
    f. Communications (data, voice and satellite)
2. Meet those common requirements through a Territorial Corridors Coordinating Agency that will vet infrastructure investment options to:
    a. Seek strategic solutions melding multi-modal regional and cross-jurisdictional requirements for territorial ports, roads, railways, pipelines and transmission systems;
    b. Address Indigenous rights and community concerns through public engagement that promotes the economic opportunities that can be retained for all territorial residents;
    c. Spread, share and reduce financial burden/risk by screening for project synergies, eliminating duplication, building scale economies and pre-permitting common use corridors; and
    d. Monitor and adjust for changing risks and opportunities, while updating best practices for public and private investment in northern infrastructure.

## 38. Addressing the Impact of Climate Change on Indigenous Communities' Transportation and Infrastructure

### Issue

Climate change is threatening the seasonal transportation infrastructure relied upon by many remote Indigenous communities, leading to socioeconomic challenges that will only worsen as warmer temperatures further reduce winter road access.

### Background

For remote northern Indigenous communities across Canada who are otherwise inaccessible by permanent conventional roads or railways, networks of seasonal "winter roads" made of ice or snow provide temporary access to a permanent provincial highway or railway system. These seasonal roads are used by individuals and businesses from freeze-up until spring thaw. They are of significant socioeconomic importance, allowing for goods to be moved at a cost two to three times lower than air transport, which is frequently the sole alternative. As well, the winter roads are often the only option for the transportation of heavier items such as vehicles, equipment, and building materials into these remote communities. For instance, in Northern Ontario, 30 First Nations communities depend on thousands of kilometers of winter roads as a lifeline for transportation and shipment of goods[1]; these are also a key avenue for resource development projects, such as De Beers' diamond mining and exploration efforts, which depend on the use of the winter roads for the majority of its annual re-supply.[2] This is similarly seen throughout Canada: in northern Manitoba, 30,000 people live in 28 remote communities otherwise inaccessible by conventional roads.[3]

There has long been a push to develop a permanent road system in many of these regions, in light of the obvious economic and social benefits. This call has become more pressing as climate change continuously shortens the duration of the winter roads, which in turn threatens the economic viability of nearby resource projects as well as the communities themselves; access to goods and services is reduced, and the window for specific project activities is shortened considerably. For many such communities, winter roads have traditionally been functional for upwards of 80 days per year, a figure that has in some cases shrunk to as low as 20 days in recent years.[4] In northern Saskatchewan, warmer temperatures through early 2016 rendered winter road access unsafe for three northern communities, preventing the transportation of crucial supplies.[5] This problem is only expected to worsen in the coming years: various climate studies, such as one undertaken by the Province of Manitoba, the Prairie Adaptation Research Collaborative, and the University of Winnipeg, which projected the winter road season would further shrink by another five days in the 2020s, 10 days in the 2050s, and 14 days in the 2080s.[6]

As indicated by Ontario Regional Chief Isadore Day at the 2016 Prospectors and Developers Association of Canada conference, "shorter seasons have resulted in drastic downturns in local economies"[7] – a sentiment of concern also expressed by countless other Indigenous leaders across the country. This has

[1] http://www.republicofmining.com/2016/03/08/invest-north-ontario-and-canada-needs-full-inclusion-of-first-nations-to-kick-start-the-economy-by-ontario-regional-chief-isadore-day-metro-toronto-convention-centre-march-7-2016/
[2] http://aptn.ca/news/2013/02/15/attawapiskat-councillor-accuses-de-beers-of-trickery-as-showdown-looms-on-diamond-mine-ice-road/
[3] *Enhancing the Resilience of Manitoba's Winter Roads System*: International Institute for Sustainable Development, 2014.
[4] https://news.vice.com/article/canadas-ice-roads-are-melting-and-that-is-terrible-news-for-aboriginal-communities
[5] http://www.cbc.ca/news/canada/saskatoon/fsin-climate-change-first-minsters-meeting-1.3472278
[6] *Enhancing the Resilience of Manitoba's Winter Roads System*: International Institute for Sustainable Development, 2014.
[7] http://www.republicofmining.com/2016/03/08/invest-north-ontario-and-canada-needs-full-inclusion-of-first-nations-to-kick-start-the-economy-by-ontario-regional-chief-isadore-day-metro-toronto-convention-centre-march-7-2016/

been echoed by Indigenous Affairs Minister Hon. Carolyn Bennett, who has highlighted the increasingly pressing need to address this issue with "long-term solutions."[8]

**Recommendations**

That the federal government work with indigenous and northern communities to determine the impact of climate change on transportation and infrastructure, and then work with local, provincial and territorial governments to subsequently develop a strategy to implement all-season road networks within a reasonable economic framework.

[8] http://www.cbc.ca/news/canada/saskatoon/ice-roads-access-for-first-nations-debated-in-house-of-commons-1.3463233

## 39. Advancing Canadian Competitiveness Using Shortline Rail

### Issue

The timely movement of goods and economic competitiveness of Canada is being challenged by the under utilization of an important infrastructure asset – shortline rail. Creating programs that encourage development and investment in this infrastructure asset will improve Canadian competitiveness and further regional economic development across the country.

### Background

For many communities, the arrival of rail infrastructure in the late 1800's and early 1900's opened up economic potential where there were previously limited opportunities. Strategic investment in the shortline railways of today could have the same impact. Canada currently has 53 short line railways. These railways are critical links in the country's transportation system with one in five car loads originating on Canadian railways originating on a short line[1]. Operators of short line rail contribute 7 percent of the rail sector revenue and support 3,000 direct jobs[2].

According to Transport Canada, shortline railways are a fundamental component of the country's rail network, feeding and delivering traffic to and from mainline railways, originating more than 20% of all CN and CPR's freight carload traffic, and moving billions of tonne-kilometres back and forth from Class I railways[3].

The Railway Association of Canada (RAC) in its submission to the Canada Transportation Act Review goes on to identify supply chain connectivity, employment, regional economic competitiveness, and reduction of negative externalities associated with road transport, including emissions, road wear and congestion as further reasons for shortline investment. The document also puts forward recommendations for access to capital funding and a tax credit program.

The main challenge for short line rail companies is access to capital funding. On average about 12 percent of revenue generated by these companies is reinvested in capital expenditure projects. Companies running Class 1 railways, by comparison, invest approximately 20 percent of their revenues in capital projects[4]. Programs that encourage and allow for more capital investment in short line rail will improve the infrastructure needed to get Canadian goods to regional and international markets.

One example from Ontario is a 100-mile section of track where the classification is short line Class 1 Slow 10 mph. For a freight train to travel that length of track it takes 12 hours and this is happening 3 times a week. The freight consumers on this track have indicated that they would be willing to take advantage of an upgraded railway.

[1] Roy and Ludlow. (2015). CPCS for Railway Association of Canada. *Review of Canadian Short Line Funding Needs and Opportunities*. Retrieved April 11, 2016 from http://www.railcan.ca/assets/images/CTA_Review/Submission_2/Appendix_E_-_Canadian_Shortline_Rail_Funding_Needs_and_Opportunties.pdf
[2] Ibid.
[3] Transport Canada. (2012). Transportation in Canada 2011: Rail Transportation. Retrieved April 11, 2016 from https://www.tc.gc.ca/eng/policy/anre-menu-3020.htm
[4] Roy and Ludlow. (2015). CPCS for Railway Association of Canada. *Review of Canadian Short Line Funding Needs and Opportunities*. Retrieved April 11, 2016 from http://www.railcan.ca/assets/images/CTA_Review/Submission_2/Appendix_E_-_Canadian_Shortline_Rail_Funding_Needs_and_Opportunties.pdf

Canada's response to the needs of shortline railways also falls behind the number of national and state programs that are available in the US. The US government has extended the Railroad Track Maintenance Credit through to the end of 2016 based on the importance of the shortline railways to the overall railway system. The credit provides a 50-percent business tax credit for qualified railroad track maintenance expenditures paid or incurred by an eligible taxpayer[5].

Increased capital investments in shortline rail infrastructure also have the potential to increase safety and lessen environmental impact.

In the RAC submission to the Canada Transportation Act, a short line representative says "The lack of investment opportunity translates into lost revenues for short lines and the customers they serve. If the resources were there, they could grow their business."

The Canadian Chamber of Commerce Top 10 Barriers to Competitiveness in 2016 calls on the government to support infrastructure that will allow Canadians to trade with the world. This infrastructure support needs to include short line rail, which Transport Canada also views as a key component to regional economic development[6].

**Recommendations**
That the federal government:

1. Create a dedicated shortline capital funding program that is accessible to all shortline companies.
2. Establish a tax credit program to assist shortline rail companies in making capital investments.

[5] Senate Report 114-118 – Tax Relief Extension Act of 2015 Retrieved April 11, 2016 http://thomas.loc.gov/cgi-bin/cpquery/?&dbname=cp114&sid=cp114FvIxq&refer=&r_n=sr118.114&item=&&&sel=TOC_107084&
[6] Retrieved April 11, 2016 http://www.railcan.ca/rac/about

## 40. Canada's Small Airports and Access to ACAP Funding

In 1994, the Canadian government created ACAP, Airport Capital Assistance Program, as part of the National Airports Policy, NAP, to provide essential funding to Canada's 200 regional/local airports for safety improvements. The program is a valuable tool to the nation's eligible airports however ACAPs program and funding structures have not been kept up to date to meet the demands of the industry as well as inflation rates over the past 20 years.

The ACAP program is administered by Transport Canada and there are three categories of priority for funding. They are[1]:

> *1st Priority*: Safety related airside projects such as rehabilitating runways, taxiways and aprons, the associated lighting, visual aids, sand storage sheds, utilities to service eligible items, site preparation costs, including direct environmental costs, aircraft firefighting equipment required by regulation and the equipment shelters required by regulation.
>
> *2nd Priority*: Heavy airside mobile equipment and safety-related items such as runway snowblowers, runway plows, runway sweepers, spreaders, winter friction testing devices and heavy airside mobile equipment shelters.
>
> *3rd Priority*: Air terminal building/groundside safety related items such as sprinkler systems, asbestos removal and barrier free access.

To be eligible for ACAP funding, airports must be within the following guidelines:

- Not owned or operated by the federal government
- Meet certification requirements as outlined in Aerodrome Standards and Recommended Practices (TP 312); Part III, Subpart 2, Airports
- Offer year-round regularly scheduled commercial passenger service, meaning that in each of the three most recent calendar years the airport handled at least 1,000 year-round regularly scheduled commercial passengers as reflected in Statistics Canada's official passenger statistics. If the airport is not part of these statistics, it must complete a statutory declaration.

ACAP provides approximately $38 million per year towards airport essential safety projects[2]. The program was reviewed and it was announced in 2011 that it is expected to hold the funding to $38 million. This amount has held steady since 1995 but the cost of doing business has increased considerably over that period, with increases in such things as inflation and the security requirements imposed after 2001. Transport Canada has stated that the program has not been utilized to the fullest by the airports that are eligible to receive funding while airports state that the application can be onerous, with the consultation portion taking so long that many projects, some Priority 2 but most Priority 3, are pushed off into the future. This consultation program between airport operators and ACAP administrators also vets many projects before they are submitted meaning that Transport Canada is not receiving a full list of the capital funding needs of small airports. The process of decision making within ACAP also remains a closed governmental procedure. There is little to no transparency to this process, which would provide valuable information to airports on deadlines, timelines, and notification of application receipt.

[1] The Types of Projects ACAP Funds. (2010). Retrieved March 4, 2016, from https://www.tc.gc.ca/eng/programs/airports-acap-types-projects-funds-325.htm

[2] Evaluation of the Airports Capital Assistance Program (ACAP). (March 2015) Retrieved March 5, 2016, from https://www.tc.gc.ca/eng/corporate-services/des-reports-1267.html#toc2

The NAS, National Airports System, is a sustainable system for the airports in the program. There are six that do not qualify for funding as they are located on federal land even though they fall under the ACAP requirement of less than 525,000 passengers annually. These six airports, Prince George, London, Saint John, Charlottetown, Fredericton and Gander, as NAS airports must also pay rent to the government. In addition, since they are located on Crown land, the expectation is that Crown assets should not be in competition for funding. These six airports have been deemed essential by the NAP but are experiencing difficulties paying for all of the capital requirements necessary for airports in Canada, for property, buildings and infrastructure that the Crown maintains ownership of. These capital requirements also include emergency vehicles and proper aprons for aircrafts, safety requirements as per Transport Canada. If an airport is not able to supply the proper level of safety equipment that is mandatory, they must notify Transport Canada of their inability to do so and this limits the airports ability to respond to emergency situations. As of March 2016, the six smaller airports require just over $9 million dollars in safety and emergency equipment upgrades alone.[3]

Transport Canada also acknowledges the situation that the six airports are facing and has also concluded that the financial burdens that they are facing are not going away, with some of them reaching the critical point on runway and equipment replacement. Requests for funding for capital improvements to the six airports have been submitted in 2012, 2013 and 2014, totaling approximately $7 million dollars per airport, per year, and have been denied by Transport Canada on the basis that funding is not available for them as they are on Crown land, however, Transport Canada staff have also completed a number of assessments on the six and have come to the conclusion that they are in need of some form of capital funding assistance as they are not financially sustainable without it[4]. The combined total upgrade costs required for all six of the unfunded airports as of March 2016 is approximately $146.1 million[5]. While the airports believe that the expectation that Crown assets should not receive federal funds is reasonable, they are not, as proven, able to sustain themselves as required by their NAS status and will have even greater challenges maintaining and improving their infrastructure and security requirements in the coming years.

The Airport Capital Assistance program is vital to all small airports across Canada. Airport associations across the country, including the Canadian Airports Council, Conseil des aéroports du Québec, Regional Community Airports of Canada, Atlantic Airports Council and the Airport Management Council of Ontario are also joining together to advocate for changes to the ACAP program. After over 20 years the program is in need of revision and improvement to reflect the changes in inflation and regulation so that it can remain a viable source for the nation's small airports.

**Recommendations**

That the federal government:

1. Increase ACAP funding for all regional and local eligible airports to account for inflation and increased project costs.
2. Streamline communications and make the application process more transparent so that airports can complete the process in a reasonable timeframe and be able to follow the progress of the application.
3. Revise the ACAP requirements to include the six small NAS airports that are currently excluded due to their status so that they may fulfill their obligations as NAS airports without financial hardship and remain as large supporters of economic growth within their communities and regions.

[3] Canadian Airports Council
[4] Evaluation of the Airports Capital Assistance Program (ACAP). (March 2015) Retrieved March 5, 2016, from https://www.tc.gc.ca/eng/corporate-services/des-reports-1267.html#toc2
[5] Canadian Airports Council

## 41. Enhancing Canada's Air Travel Competitiveness

### Issue

Air travel is a crucial economic enabler connecting businesses with opportunities around the globe and across the country. It links visitors with tourism operators and helps international students pursue educational opportunities. It is a major job creator with strong spin offs. It facilitates the movement of people and capital, and ensures that Canadian products, especially high-value and/or time sensitive (i.e. perishable) exports, get to market. However, a lack of competition, barriers to facilitation and a need for greater value from government imposed fees/surcharges have driven up prices for customers - deterring leisure travelers looking to visit Canada, and increasing the cost of conducting both international and inter-provincial business.

### Background

In a country like Canada, with low population density, and regional economic diversity, air travel serves as a vital link within a broader national transportation network that includes highways, rail, and sea ways. Canada's economy is very dependent on trade making the facilitation of trade an important issue.

However, the high cost of air travel to, from, and within Canada is significantly hampering our global competitiveness, and stunting aviation as a key economic enabler. A lack of competition, barriers to facilitation, and high structural costs have driven up prices for customers, whom data shows, are increasingly sensitive to price. Canada's poor price performance in these areas is apparent and not only deters leisure travelers looking to visit Canada, but increases the cost of conducting both international and inter-provincial business, which directly impacts job growth.

Furthermore, as agreements such as Comprehensive Economic and Trade Agreement with the European Union (CETA) and the Trans Pacific Partnership (TPP) advance Canada's integration into world markets, it is essential that a country spanning three oceans positions its transportation sectors to take fully take advantage of new opportunities. Without access to affordable and reliable air travel, relationships are not made, business is not conducted, and the economy does not grow.

The 2016 Canada Transportation Act review report, *Pathways: Connecting Canada's Transportation System to the World* (the CTA Review),[1] underscores the importance of transportation, and the long-term significance of developing a competitive air travel industry. Canada has slipped from 8th to 17th in global rankings for International Tourist Arrivals over the past 15 years, underlining the urgency to this issue.

In order to build the confidence of industry stakeholders it is important to have an open and transparent Air Bilateral priority setting process to guide our single air negotiator. The process needs to be more inclusive of key industry stakeholders so that the limited resources get directed in an efficient way according to industry participants.

There are a number of factors influencing the current condition of Canada's air sector. Therefore, strategies aimed at enhancing the competitiveness of Canadian air travel and strengthening its economic enabling capabilities, must be multifaceted. Primarily, three key areas must be addressed in tandem: competition, facilitation, and value.

<u>Competition</u>

Greater competition, particularly for international travel, comes from liberalized bilateral air access agreements. In order for an aircraft to fly between two countries both governments must negotiate bilateral air transport agreements, regulating frequency, capacity, ownership, tariffs and other commercial aspects. Currently, there is an international trend toward more liberal aviation regimes known as 'Open Skies', where bilateral—or in some cases multilateral—

[1] http://www.tc.gc.ca/eng/ctareview2014/canada-transportation-act-review.html

agreements generally include unlimited capacity between, and beyond the countries involved, and market driven pricing regimes.[2]

The Canadian government has adopted a Blue Sky policy[3] committed to liberalizing air access. Since 2006, of the country's 85 Air Transportation Agreements, about half include more open international air policies. However, many current air access agreements still contain restrictions that significantly limit competition. Mutually beneficial agreements and the liberalization of air access provide an opportunity for increased competition for international travel to-and-from airports around the country. This offers consumers the benefit of greater choice and potentially lower prices.

The benefits of liberalizing Canada's air policy would significantly improve economic opportunities throughout Canada by increasing connectivity of global business. Further liberalized air access agreements would open new international markets, allow more carriers to operate in Canada, and improve price competitiveness of Canada as a destination. It would provide foreign carriers with greater access to the Canadian market, creating jobs on the ground, and provide domestic carriers more opportunities abroad.

However, liberalized air access policies must be perused in conjunction with domestic reforms which allow Canadian carriers and airports to compete in a more-open market. While greater competition will lead to more efficient, market-based outcomes. The process of liberalization should also be mindful of the strategic importance of the domestic industry. Therefore, Canada must also address barriers to facilitation and ensure value for costs placed on travelers and industry.

### Facilitation

Facilitation refers to the movement of people, cargo, and planes through an airport. It encompasses physical, legal, and technological procedures and systems. Enhancing facilitation at Canadian airports improves outcomes for airports, airlines, and customers alike.

Today, significant facilitation barriers are preventing Canadian airports from acting as more viable international hubs. Under-resourced and underequipped security procedures delay passengers and their belongings from entering and leaving airports. Strict visa screening requirements for transiting passengers, who have generally already been vetted by their destination country, prevents first-class airports such as YVR and Pearson from attracting more business. Much like road congestion, these delays and inefficiencies hinder the effectiveness of industry, and slow down the economy.

A robust facilitation strategy can push Canada toward becoming a global hub of passenger aviation traffic—growing volume, lowering costs and providing new opportunities for industry. The CTA review estimates transit facilitation benefits from easing transit visa requirements alone can increase airline volume by 25-50%.

### Value

Finally, reviewing and ensuring value for already imposed government fees and surcharges on passengers and the industry would further improve Canada's ability to develop a more competitive air travel sector. Canadian air travelers face significantly higher fees and prices compared to their U.S. counterparts. This has historically driven some traveling in-and-out of Canada to use nearby U.S. airports such as Sea-Tac and Buffalo-Niagara International Airport; however, the trend has been tempered with the depreciation of the Canadian Dollar relative to the USD. Therefore, it is important to ensure that the industry and consumers are receiving greater direct value for these costs.

The current regime of fees and surcharges has created an environment of "user-pay plus," where users are charged more than the services they are provided. For example, fees such as the Air Travelers Security Charge are taken into

[2] *While the term Open Skies is sometimes used interchangeably with more Liberalized Bilateral Agreements, it is important to note that in many cases incremental steps may be taken to prove benefits to Canada. For example, Open Skies agreements may be 'sun-setted' after a period of trial, or they may transition to full Open Skies over a period of time. These steps would serve to protect the parties to the negotiated agreement from unintended consequences.*
[3] https://www.tc.gc.ca/eng/policy/air-bluesky-menu-2989.htm

general government revenue, rather than directly funding airport security procedures. In other jurisdictions, services such as security are seen as a public good and funded by the broad tax base. Just as highway policing is funded by the general public—as it serves a significant economic and social purpose—so should essential air travel services.

| Government revenues from the air sector 2013-14 (M) | | | |
|---|---|---|---|
| Airport Rent | Air Travellers Security Charge | Fuel Tax | **Total** |
| $294.4 | $661.9 | $97.2 | **$1,053.5** |
| Government investment in the air sector 2013-14 (M) | | | |
| Airport Capital Assistance Program | Canadian Air Transport Security Authority Budget | Subsidy for 18 TC-owned and operated airports | **Total** |
| $29.8 | $559.1 | $38.2 | **$627.1** |
| Difference (M) | | | **$426.4** |

CTA Review (Appendix K, p. 142)

Furthermore, airports pay significant fees to by the governments in the form of Ground Rent. These costs inevitably trickle down to travelers, and raises prices. This is in stark contrast to the United States where the government subsidizes air terminals. While a subsidy may lead to a different sort of market distortion, Canadian air travel still requires more-level a playfield which allows it to compete. High-cost structures lead to higher prices, and risk pushing travelers and revenue to other modes of transport, or to not travel at all.

There must be a more direct linkage between the use-fees paid by travelers and the services they are provided by the public sector. Providing greater value for these fees and surcharges is necessary to build a competitive industry, capable of enabling greater economic activity.

Lastly, in addition to current restrictive bilateral agreements, facilitation, and cost structures, 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.

**Recommendations**

That the federal government:

1. Pursue mutually beneficial liberalized air access agreements in all bilateral air passenger transport negotiations, and further liberalize existing bilateral air agreements, especially with Free Trade Partners
    a. Conduct periodic reviews of Blue Skies policies to ensure that bilateral access matches demand
    b. Implement 2016 CTA review recommendation of required initial flight frequency with safe and secure partners with progression toward more liberalized air access agreements to provide market certainty
    c. Adopt an open and transparent priority-setting process, inclusive of key industry stakeholders, to determine top priorities as they relate to expanding Canadian bi-lateral air access agreements.
2. Facilitate the movement of passengers in, out, and through Canadian airports in order to position the Canadian air sector to better compete internationally by implementing the measures set out in Recommendation 6 of the CTA Review, notably:

a. Allowing transit without visa for citizens of all but those from a limited list of high-risk countries at all Canadian airports;

b. Harmonizing immigration and trusted traveller programs with the U.S. and other trusted jurisdictions; and

c. Streamlining visa processing for all visitors to Canada, including expanding the use of the Electronic Travel Authorization instead of visas for low risk travelers.

3. Develop a high level and overarching national aviation strategy, to improve airports' cost competitiveness, and thereby enhance Canada's competitiveness, by:

    a. Examining already imposed government fees and surcharges to ensure value for travelers and industry;

    b. Allowing airports to operate Arrivals Duty Free to enhance non-aeronautical revenues; and

    c. Increasing funding, and expanding eligibility, for the Airports Capital Assistance Program in order to support safe and efficient local and regional airports and a healthy and connected national air system.

4. Overhaul the regulatory, financing and delivery models for airport security, as set out in CTA Review Recommendation 8, including:

    a. Establishing a customer service mandate and performance standards comparable to competing jurisdictions; and

    b. Ensuring the provision of stable and predictable funding that meets the needs of both increasing passenger volumes and evolving security risks.

5. Increase the foreign ownership investment limit for Canadian passenger carriers to 49 per cent on a bilateral basis, with an initial emphasis on the European Union and the United States.

## 42. Improve the Financial Viability of VIA Rail to Increase Passenger Rail Service in Canada

### Issue

VIA Rail is losing money and has consistently done so since it became a Crown corporation in 1977. This decline in the areas of infrastructure, equipment renewal and dedicated passenger rail rights-of-way must be addressed. By improving service in the most used corridor (Quebec City – Windsor), the profitability of the VIA Rail corporation would improve, enabling it to better serve all Canadians while generating economic growth.

### Background

VIA Rail provides intercity transportation across the nation, from Prince Rupert to Halifax. Since 1977, it has experienced repeated funding cuts resulting in budgetary deficits, reduced service, declining on-time performance and cuts to services across Canada, particularly in lesser populated and less central regions. The average ridership in the 1980s was 6.8 million passengers annually. After the federally-mandated cutbacks to service, staff and spending in 1989, ridership dropped by 45%[1] by the following year and remained low since then. In 2015, VIA Rail carried only 3.8 million passengers and had an operating loss of $280 million[2].

The movement of goods and people, whether they are workers, students, tourists or seniors, is essential to a growing economy, but each year traffic congestion costs our economy an estimated 8 billion[3]. By increasing public and private investments in dedicated passenger rail lines and high frequency service, VIA would reduce commuter gridlock in the busiest corridors.

Investments in VIA Rail and its infrastructure would also create more options to connect to other transportation modes like light and shortline rail. It would increase connectivity to other, smaller and more remote communities and enable trains to run faster and more frequently. Ridership and tourism would increase, and manufacturing, engineering and construction jobs would be created.

Dedicating lines for passenger rail would also ease the movement of freight traffic. The current model of sharing track is no longer practical for either party, due to significant increases in freight being moved across Canada over the past decades. If freight traffic continues to increase as expected, VIA service will become less efficient and less profitable. However, dedicate passenger lines would allow VIA to control the frequency and reliability of its trains and attract more customers.

Increasing intercity passenger rail would also be a marked reduction in the transportation sector's share of greenhouse gas emissions as there would be fewer cars on the road and modern fleets would generate fewer emissions. In the Montreal-Toronto corridor alone, high frequency rail would increase ridership 3.5

[1] "VIA Rail Canada Inc. and the Future of Passenger Rail in Canada", Jean Dupuis, Industry, Infrastructure and Resources Division, Parliamentary Information and Resources Division, 2011

[2] 2015 VIA Rail annual report

[3] "Modernizing Passenger Rail: A Generational Imperative", Yves Desjardins-Siciliano, Canadian Politics and Public Policy, Policy Magazine, May/June 2016

times, significantly reducing the current 87% of trips made by car[4]. The National Association of Railroad Passengers reports that rail is the most energy efficient means of transportation over distances more than 100 km. It is 22.7% more energy efficient than travel by car and saves 4.2 billion gallons of gasoline.

The 2016 federal budget addressed some of these concerns by committing $3.4 billion towards public transit systems across Canada. This includes $44 million towards VIA Rail fleet renewal "pre-procurement", safety improvements, improving station and maintenance centres and assessing the need for high frequency rail. Given the government's commitment to the movement of people and goods, and its decision in 2015 to decrease operational funding for VIA Rail by $37.1 million, even more funding is needed for passenger rail.

By focusing its initial investments in the most travelled and profitable corridor (Quebec City to Windsor) the company could boost its profits, become economically viable and better positioned to serve other regions in Canada. By accessing public and private funding, VIA would be capable of expanding its service across Canada, while contributing to (not hindering) economic growth and minimizing the use of taxpayer funds.

**Recommendations**

That the federal government:

1. Enable VIA Rail to raise the necessary financial capital to improve and expand its services to more communities across Canada by:
    a. Supporting VIA Rail's plan to acquire dedicated rights of way and invest in high frequency rail corridors.
    b. Enabling VIA Rail to seek private sector investment in dedicated lines and enter into private-public partnerships for the operation of stations.

[4] "VIA Rail looks to private investment for $3-billion dedicated track plan", The Globe and Mail, June 4, 2015

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

**Issue**
As Governments face the reality of shrinking budgets and rising debt, they need to consider more efficient ways to deliver public services to taxpayers. P3s are one tool to have in the tool box. However, governments must have the capacity to manage and deliver P3s effectively and efficiently.

Recently the federal government has removed P3 screening for municipal projects making it incumbent on municipalities to have the knowledge and expertise to know when to use and when not to use the P3 model. Now more than ever municipalities need to have the ability and technical expertise to manage P3 projects effectively.

According to the Federation of Canadian Municipalities, costly business cases, excessive program application processes, and up-front legal fees can discourage municipalities from pursuing the P3 option.[1] 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 and other levels of government to make the best choices for future infrastructure requirements.

**Background**
When chosen for the right projects, P3s can improve the delivery of public infrastructure and provide better value for money. The advantages of a P3 model include:

- Achieving value for money
- On-time and on-budget delivery
- Allocating risks to the partner best able to manage them
- Supporting innovation through performance-based contracts and competitive bidding.

Canada is a P3 global leader. In fact, according to research the world comes to Canada to learn how to develop P3 projects.[2] To date there have been 236 P3 projects in Canada, 49 at the municipal level. In 2015 a record of 22 projects reached financial close. [3]

Through organizations such as the Canadian Council for Public Private Partnerships and PPP Canada Inc.[4] , all levels of government and the private sector can avail of supports to become better at delivering P3s.

**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 municipalities and provinces/territories 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.

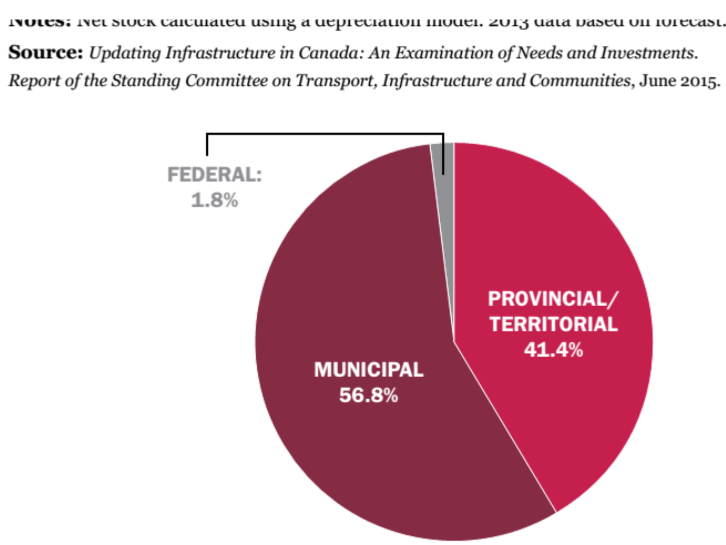
[1] http://www.fcm.ca/home.htm
[2] http://www.pppcouncil.ca/web/pdf/canada_p3_white_paper_swg.pdf
[3] http://www.ccppp.ca/
[4] http://www.p3canada.ca/en/about-p3s/

## 44. Protecting Our Infrastructure (Asset Management)

**Issue**
Canadian businesses need the federal government to ensure funding continues in a sustainable consistent manner that accrues to communities for infrastructure improvements and upgrades.

**Background**
According to a 2016 survey completed by the Canadian Federation of Municipalities (FCM), municipal governments own nearly 60 percent of Canada's core public infrastructure[1]. The value of these core municipal infrastructure assets is estimated at $1.1 trillion[2].

***Net Stock of Core Public Infrastructure by Level of Government, (2013)[3]***




Municipally owned infrastructure assets include but are not limited to[4]:

- water systems,
- roads and bridges,
- buildings,
- sport and recreation facilities, and
- public transit.

FCM estimates that the backlog of upgrade and expenditure of the existing municipally owned infrastructure in Canada to exceed $123 billon[5].

In 2007, the Government of Canada launched the Building Canada Plan (BCP) which included a $33 billion investment plan for federal, provincial/territorial and municipal infrastructure before 2014[6].

[1] Federation of Canadian Municipalities (2016) Informing the Future: Canadian Infrastructure Report Card, page 5
[2] Federation of Canadian Municipalities (2016) Informing the Future: Key Messages, page 2
[3] *Figure 1* - Federation of Canadian Municipalities (2015) Policy Statement Municipal Infrastructure and Transportation Policy, page 6
[4] Federation of Canadian Municipalities (2016) Informing the Future: Canadian Infrastructure Report Card, page 5
[5] Federation of Canadian Municipalities (2015) Policy Statement Municipal Infrastructure and Transportation Policy, page 2
[6] Federation of Canadian Municipalities (2015) Policy Statement Municipal Infrastructure and Transportation Policy, page 1

Spending was accelerated under the Government of Canada's stimulus program in 2009 and 2010. In the 2011 budget, the federal government announced a process to develop a new long-term infrastructure plan to replace the BCP, which resulted in the New Building Canada Plan (NBCP), a 10 year plan for federal investments in building and maintaining Canada[7].

The NBCP was a federal government commitment to invest over $53 billion in infrastructure across the country over the next 10 years (2014-2024)[8].

Two key components of the NBCP included[9]:

1. the New Building Canada Fund (NBCF) – a $14 billion-dollar fund to support projects of national, regional and local significance that promote economic growth, job creation and productivity and;

2. the Federal Gas Tax Fund (GTF) – to date $13 billion funding for local infrastructure projects, with close to $22 billion anticipated to flow over the next 10 years.

The permanent and indexed federal GTF was a step toward that goal, laying the groundwork for a national plan to eliminate the municipal infrastructure deficit[10].

The federal government's Economic Action Plan 2013, renewed the federal GTF, indexing it at two percent per year, to be applied in $100 million dollar increments, which means that it will grow by $1.8 billion over the next decade[11].

For the provinces the NBCP contribute is significant. For example, for British Columbia, the NBCP represents almost $3.9 billion in dedicated federal funding, including almost $1.1 billion under the NBCF and an estimated $2.76 billion under the GTF[12].

In the 2016 Federal Budget, the new federal government updated the NBCP numbers, increasing their commitment to asset management by an additional $50 million. There will now be an additional $60 billion over 10 years, split evenly between public transit, green infrastructure, and social infrastructure. This is in addition to the $65 billion promised by the previous government for traditional infrastructure such as roads, bridges, and transportation.

Federal funding is provided up front, twice-a-year, to provinces and territories, who in turn flow this funding to their municipalities to support local infrastructure priorities. Municipalities can pool, bank and borrow against this funding which provides financial flexibility[13].

With aging infrastructure and limited resources, communities face huge challenges in financing the necessary repair, replacement and upgrade of public infrastructure. Communities, industry and businesses rely on utilities, transportation and power system to sustain business. Business interruptions due to broken water mains, poor roads, inadequate transit and other disruption causes economic loss to businesses and limits our ability to attract new businesses to communities.

Communities also face financial challenges from increasing standards and regulations without adequate financial mechanisms to pay for them. The primary resources at the municipal level are property tax.

[7] Federation of Canadian Municipalities (2015) Policy Statement Municipal Infrastructure and Transportation Policy, page 1
[8] www.infrastructure.gc.ca/regions/bc/bc-nbcp-npcc-eng.html
[9] www.infrastructure.gc.ca/regions/bc/bc-nbcp-npcc-eng.html
[10] Federation of Canadian Municipalities (2015) Policy Statement Municipal Infrastructure and Transportation Policy, page 1
[11] www.infrastructure.gc.ca/regions/bc/bc-nbcp-npcc-eng.html
[12] www.infrastructure.gc.ca/regions/bc/bc-nbcp-npcc-eng.html
[13] www.infrastructure.gc.ca/regions/bc/bc-nbcp-npcc-eng.html

Canadian businesses pay a much higher tax rate than residential taxpayers. Significant increases in property taxes are not affordable either for Canadian businesses or for residents. Senior levels of government need to be more involved in renewing the basic fabric of 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.

Our built environment or infrastructure is critical to the economic capacity and livability of communities and the viability of Canadian businesses within them. Many communities are struggling with competing financial pressures and aging, failing infrastructure. Municipal budgeting processes currently fail to require accounting for future demands for infrastructure upgrades and replacement. Government support at all levels is required to renew public infrastructure as well as assist with paying for new and increased regulations and standards[14].

While funding infrastructure remains a priority of the current federal government, the emphasis continues to be on new infrastructure when communities cannot reasonably cope with existing infrastructure. A core direction of current and new funding programs needs to be directed to upgrade and replacement of existing infrastructure especially in medium and smaller communities with very limited tax bases.

A new report by the Canadian Centre for Economic Analysis (CANCEA) shows that the economic importance of public infrastructure investment is vastly greater than previously found using traditional economic models. Using unique agent-based modelling, CANCEA found that public infrastructure investments generate an economic return on real GDP that is almost eight times as large as the impact predicted by traditional economic models[15].

A recent report entitled 'Investing in Ontario's Public Infrastructure: A Prosperity at Risk Perspective' uses Ontario big data/big analytics approach to assess infrastructure impacts. The CANCEA team examined the long-term economic impact of Ontario's 10-year, $130 billion infrastructure plan using its unique research platform called Prosperity at Risk. The research found that for every $1 billion invested in infrastructure as part of the Ontario $130 billion 10 year plan, $1.7 billion in provincial tax revenue will be generated relative to not making the infrastructure investment[16].

The power industry estimates their backlog is in excess of $300 billion for the renewal of the power grid plus unknown generation renewal costs[17]. There is also demand by school boards, health care facilities and universities and colleges for public funds for upgrades and replacement along with billions of dollars of assets owed directly by provincial, territorial and federal 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[18]. There are benefits to investing in infrastructure for all levels of government.

Municipal governments are essential to identifying and implementing projects that respond to local needs, while contributing to regional, provincial and federal prosperity. However, municipal governments often lack the resources and expertise to deliver productive and sustainable infrastructure in a cost-effective and timely fashion. The cost and complexity of maintaining public infrastructure introduces significant risk to the effective use of taxpayer dollars. To alleviate this risk, funding programs

[14] Federation of Canadian Municipalities (2016) Informing the Future: Canadian Infrastructure Report Card, page 6
[15] www.cancea.ca
[16] www.cancea.ca
[17] Federation of Canadian Municipalities (2016) Informing the Future: Canadian Infrastructure Report Card
[18] Canada 2020 – "Setting the New Progressive Agenda" June 2015
http://canada2020.ca/crisis-opportunity-time-national-infrastructure-plan-canada/

should require criteria for project selection that will ensure value for money and continuity of high paying jobs in communities.

All levels of government need to work together to prioritize investments to support trade-enabling infrastructure investment while building capacity of cities and communities to plan, build, and maintain their infrastructure over the long term.

**Recommendations**

That the federal government:

1. Execute as quickly as possible upon notice of Federal funding, the necessary Provincial-Federal agreements to ensure funding continues in a sustainable consistent manner.
2. Provide increased support for communities to report on the condition and replacement needs of infrastructure.
3. Establish criteria for project selection that considers infrastructure funding requests based on criteria such as national economic interest, return-on investment, and job creation.

## 45. Supporting Canada's Air Travel Industry Through Lower Fees

**Issue**

Domestic air travel within Canada is significantly more expensive than domestic air travel across the United States. The high cost of Canadian domestic air travel makes it inaccessible to some Canadians and limits Canada's ability to grow the tourism industry and to operate multi-city Canadian businesses. Due to the competiveness of air travel prices in the US, many Canadians head south of the border to depart for flights meaning that Canadian airlines, airports and businesses lose possible revenue streams that could be otherwise redirected into the Canadian economy.

**Background**

Domestic air travel in Canada is excessively expensive as a result of high federal fees and airport fees.

The taxes and fees for domestic air travel in Canada include:

- 5% - 15% GST / HST
- $7.12 Air Travellers Security Charge (ATSC) each way up to $14.25
- $5-$30 in Airport Improvement fees (no limits)

A $600 round trip flight within Canada could be subject to $165 in taxes and fees (over 27% increase from base fare)

For comparison, domestic air travel taxes and fees in the United States include:

- 7.5% US domestic transportation tax
- $3 domestic passenger federal flight segment tax
- Up to $4.50 passenger facilities charges for airport improvements (up to 4 per journey and max 2 per one-way trip)

A $600 round trip flight within the US would be subject to up to $69 in taxes and fees (11.5% increase from base fare).

Lower fees for US domestic travel appeals to Canadians and as such they head south of the border for departures to international locations. An estimated 5 million Canadians crossed the border to fly out of the US and avoid high Canadian airline fees. Many of the large airports in small US towns bordering Canada have a significant number of Canadian customers such as Bellingham, WA, Grand Forks, ND, Buffalo, NY, Plattsburgh, NY, and various eastern seaboard airports. Canadian travellers re-routing through the US causes Canada to lose both revenue and jobs that could be retained or created if domestic air travel within Canada were more accessible and affordable.

A March 2015 report by CTC Research "Canada Millennial Domestic Travel Summary Report" states that millennial travel accounted for 20% of total global travel in 2010 and is forecasted to reach about 300 million trips per year by 2020. Millennial Canadians are generally keen on travelling within Canada. Nine out of ten young Canadians are very or somewhat interested in visiting a Canadian destination beyond their home province in the next few years. British Columbia holds the greatest appeal to young Canadians, followed by Ontario, Quebec and Alberta. However, millennial travellers are cost-conscious as a large share of the millennial segment is composed of full-time students or recent graduates, and budget constraints appear to be a significant factor in the choice of the travel destination. As this is a growing segment of the population and one that values travel as part of their life experience, reducing costs for domestic air travel within Canada could increase tourism revenue for this population segment.

The Canadian economy is shifting away from reliance on the oil and gas industry and moving towards technology. While, the oil and gas industries required more travel to remote destinations, technology companies in Canada require travel to other Canadian cities. Technology entrepreneurs should be encouraged to grow businesses within Canada to penetrate and stimulate the Canadian economy. This means opening offices in various cities across the country. The current cost of domestic air travel discourages growth of companies within Canada as it is too expensive to frequently travel between Canadian destinations. This drives Canadian businesses to open offices within the US as the cost to travel to these offices is reduced. Although Canadian business penetrating the US market can be a positive thing, many Canadian businesses are acquired by US companies once parts of their operations move south of the border. Reducing the cost of air travel within Canada could help to stimulate small business growth across the country and allow successful acquisitions within Canada.

Conclusion

Canadian air passengers pay some of the highest government taxes, fees and charges in the world[1]. In exchange, they expect to receive value for their investment and support. The reality is, these fees and taxes have continued to increase over the last few years, contributing to the general revenue fund for the federal government rather than being specifically reinvested back into Canada's airport authorities, airline industry and its related infrastructure as it was in previous years (see Appendix A for Canadian Air Transportation Security Authority statistics). A secondary reference can be found at the Canadian Airports Council submission to the Canada Transportation Act Review January 2015: http://www.cacairports.ca/sites/default/files/CAC_CTA_Review_Submission.pdf

An efficient, cost-effective transportation network is a key part of a prosperous nation. Canada's reliance on the US transportation network diverts revenue and jobs that could stay within Canada. The high cost of Canadian domestic air travel deters Millennials (a large and interested group of travellers) from travelling within Canada and generating further domestic tourism revenue. The lack of affordable domestic air travel in Canada harms the growth of Canadian small business, particularly in the technology sector by expanding growth into the US instead of across Canada.

**Recommendation**

It is recommended that the federal government reduce the current fees for domestic air travel. It is believed that the taxes generated by additional economic activity, the creation/retention of Canadian jobs in the airline and tourism industries, and the increase in success of Canadian small business would make up for losses in collection of the current federal fee structure. Reduction of fees to make domestic travel in Canada more accessible and affordable would benefit the Canadian economy.

**APPENDIX A**

**ATSC = Air Travellers Security Charge**

**CATSA = Canadian Air Transportation Security Authority**

[1] http://www.parl.gc.ca/Content/SEN/Committee/411/trcm/rep/rep05jun12-e.pdf and https://www.fraserinstitute.org/article/europe%E2%80%99s-airfares-bargain-compared-canada

| Year | ATSC[i] | Total Gov't Funding for CATSA[ii] | Difference |
|---|---|---|---|
| **2007-2008** | $385,713,000 | $482,634,000 | ($96,921,000) |
| **2008-2009** | $386,461,000 | $476,472,000 | ($90,011,000) |
| **2009-2010** | $374,468,000 | $580,000,000 | ($205,532) |
| **2010-2011** | $600,078,000 | $598,400,000 | $1,678,000 |
| **2011-2012** | $631,003,000 | $584,400,000 | $46,603,000 |
| **2012-2013** | $635,600,000 | $549,940,000 | $85,660,000 |
| **2013-2014** | $661,948,000 | $538,892,000 | $123,056,000 |
| **2014-2015** | $695,702,000 | $597,971,000 | $97,731,000 |

[i] Public Accounts of Canada
[ii] CATSA Annual Reports

# Industry

## 46. Reduce Barriers to Foreign Direct Investment

**Issue**
An increasingly restrictive and burdensome regulatory and tax environment is making Canada a less competitive destination for foreign direct investment (FDI), which is critical to the country's innovation and diversification efforts.

**Background**
Deteriorating competitiveness**:**
The effects of globalization – such as reducing transportation and shipping costs and eliminating barriers to markets through trade agreements – have reduced the need for foreign investment into Canada to access the Canadian market. At the same time, recent policy shifts at the federal level have layered-on costs that cumulatively further threaten Canada's attractiveness as an investment destination.

According to Walid Hejazi of the Rotman School of Management, "The pace at which Canadian multinationals have expanded globally has far exceeded the pace at which foreign multinationals have expanded in Canada. Since 1997, Canada has had more Canadian direct investment abroad (CDIA) than there was foreign direct investment (FDI) in Canada."[1] According to various measures of openness to foreign investments, Canada does not rank favourably against many of its peers.[2]

The critical role of Foreign Direct Investment
Studies have repeatedly documented that business innovation in Canada lags behind other developed countries.[3] If Canada aims to increase its lagging productivity levels, significant new foreign capital will be required. Positive outcomes of FDI include a higher standard of living, higher levels of employment, higher paying jobs, more innovation, access to larger and more diverse markets, and increased levels of trade. Indeed, strong trading relationships provide exposure to the Canadian market for foreign investors and provide a critical entry point for FDI. Federal, provincial and territorial governments must carefully consider the policy decisions required to position Canada as the preferred destination to locate economic activity, and benchmark our attractiveness in this regard across sectors.

Putting our citizens first
In the current era of globalization, Canada needs to move past its existing economic structure, centred on the supply of raw product, into higher value added industrial and service sectors. This will require significant investment. It matters less where the money comes from than what is done with it. The critical metric is the country's ability to ensure that the operations of both foreign and domestic firms equally obey our laws and meet our standards and policy goals.

In negotiations relating to the Canada – EU trade agreement (CETA) and the Trans Pacific Partnership (TPP) agreement wording relating to foreign investments is along these lines; "Each Party shall accord to investors of the other Party and to covered investments, treatment no less favourable than the treatment it accords, in like situations to its own investors and to their investments with respect to the establishment, acquisition, expansion, conduct, operation, management, maintenance, use, enjoyment and sale or disposal of their investments in its territory."

Canada's foreign investment review framework:
Under the *Investment Canada Act*, before any foreign investment over a certain threshold is approved Canada imposes a test of its 'net benefit' to Canada. For private sector investments, the threshold is $600 million (based

[1] https://www.ic.gc.ca/eic/site/cprp-gepmc.nsf/vwapj/Hejazi.pdf/$FILE/Hejazi.pdf
[2] https://www.cdhowe.org/pdf/commentary_337.pdf
[3] http://www.ceocouncil.ca/wp-content/uploads/2015/02/Boothe-paper-March-2015-FINAL.pdf

on enterprise value[4]), while for state-owned enterprise investments the number is $375 million (based on asset value). The public position of the previous conservative government also limited approval of majority ownership of oil sands businesses by state owned enterprises – a large and growing source of global investment capital – to an "exceptional" basis only.[5]

To determine an investment's 'net benefit', the government looks to potential effects on employment, exports and productivity. The onus is on prospective investors to demonstrate how their investment would be of net benefit to Canada, but there is a lack of transparency in how government makes its determination. This arbitrary discrimination between foreign and Canadian investors discourages the development of foreign investment proposals, and creates extra costs and uncertainty if an investor does submit such a proposal for approval.

In 2007, in response to a growing national debate over foreign takeovers, the federal government established the Competition Policy Review Panel. Its mandate included a review of Canadian foreign investment policies with the goal of making Canada more competitive in an increasingly global marketplace. Some of its key recommendations included:

- Amending the *Investment Canada Act* to reduce barriers to foreign investment by increasing review thresholds; reversing the onus to require the government to demonstrate that an investment would be contrary to the national interest before disallowing a transaction; increasing transparency and predictability; and preserving a distinct approach for the cultural sector while also initiating a broad review of Canada's cultural policies;
- Liberalizing investment restrictions in the Canadian air transport, uranium mining, and telecommunications and broadcasting sectors, and removing the *de facto* ban on mergers in the financial services sector;
- Updating and modernizing the *Competition Act* in line with best practices internationally;
- Creating a Canadian Competitiveness Council to give voice to and advocate for competition in Canada, and ensure sustained attention by governments on national competitiveness.

Accelerated Capital Cost Allowance:
The Accelerated Capital Cost Allowance (ACCA) has been a successful feature of mining sector taxation in Canada for decades and more recently has encouraged investments in the manufacturing sector. Now more than ever, ACCA needs to be broadened and applied to all sectors as a key component of a strategy to attract new foreign investment in any capital intensive project regardless of industry. 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.

**Recommendations**
That the federal government:
1. Implement the recommendation of the 2008 federal Competition Policy Review Panel to improve Canada's competitiveness by reversing the onus to require the government to demonstrate that an investment would be contrary to the national interest before disallowing a transaction, as opposed to subjecting the foreign investor to the sometimes onerous task of having to demonstrate that the investment represents a net benefit to Canada as a condition of approval.[6]

[4] Enterprise value is calculated as the market capitalization plus debt, minority interest and preferred shares, minus total cash and cash equivalents.
[5] https://www.osler.com/en/resources/cross-border/2012/new-rules-for-foreign-investment-by-state-owned-en
[6] http://www.ic.gc.ca/eic/site/cprp-gepmc.nsf/eng/home

2. Amend the *Income Tax Regulations* to provide generalized accelerated capital cost allowance (ACCA) treatment rather than targeting specific industries.
3. Work with provincial and territorial governments to:
   a. Pursue a more targeted and aggressive global trade policy and market development strategy, developed in partnership with the business community, to secure access for Canada’s goods and services and secure a greater share of global foreign direct investment, which would stimulate economic growth, create jobs, and increase revenues for government.
   b. Identify the barriers to foreign direct investment in Canada and work to address them; and,
   c. Promote Canada as a destination for foreign investment by highlighting our competitive advantages, including an educated workforce, reliable legal system, and strong international transportation networks;
   d. Inform the Canadian public on the critical importance and value of foreign direct investment to Canada’s economy, including investment by State-Owned Enterprises.

## 47. All-of-Government Metrics Needed to Measure Federal Procurements Supporting Canadian Innovation Across All Business Sizes

**Issue**

The federal government has emphasized the importance of Canadian innovation and our small- and medium-sized enterprises (SMEs) as economic drivers. When Hon. Scott Brison was appointed President of the Treasury Board in November 2015, he stated that he was committed to using the federal government's purchasing power to allow Canadian businesses to commercialize their innovations. In the Prime Minister's mandate letter to the Hon. Bardish Chagger, the Minister of Small Business and Tourism, it states that the minister will "ensure that our programs are supportive of small businesses that are seeking to become more productive, more innovative and more export-oriented".

**Background**

In a world where we can no longer count on competing by being the lowest-cost producers of goods, Canada's competitiveness and economic prosperity depends upon our ability to innovate with - and add value to - the goods we make and the services we provide at home and internationally.

Today, Canada is losing the innovation race. One of the ways we can move closer to the head of the pack is through the federal government investing in R&D and taking the lead in deploying Canadian innovation in the products and services it purchases on Canadians' behalf. This is particularly true for SMEs, for which having a marquee client like the federal government can make the difference between an innovation moving to market or being shelved. Other countries, such as the United States, have initiatives such as the Small Business Innovation Research (SBIR) program, which requires that US federal agencies with R&D budgets greater than $100M allocate at least 3.2% of those budgets to U.S. small businesses for fiscal year 2017 onward. In fiscal year 2015, the SBIR program provided more than $2 billion USD of research funding to U.S. small businesses[1].

While innovation exists in firms of all sizes, Canada's SMEs (firms with fewer than 500 employees) punch above their weight in their contribution to our economy. Less than five per cent of Canada's SMEs (which provide nearly 90% of private sector jobs) are "high-growth" [2] yet Industry Canada found they created 45 per cent of new jobs in 2012[3]. Another misconception is that high-growth SMEs are restricted to the tech sector. High-growth SMEs are located across all sectors of the economy.[4]

The federal government's Build in Canada Innovation Program (BCIP) – which is open to firms of all sizes – was created to assist companies to bridge the pre-commercialization gap by procuring and testing late-stage innovative goods and services within the federal government before they are taken to market. This is an important initiative and a positive step towards supporting Canadian innovation and exports.

According to one Canadian Chamber SME member, "When it comes to new products, it's hard to over-emphasize the importance of making a first sale. That first sale is always the hardest, because many customers don't want to risk being the proverbial guinea pig. Particularly in our industry, where law enforcement and defence customers are looking for proven solutions, not science experiments, every potential customer asks, 'Who else is using this?' For us, to be able to say that our own national police service is using the equipment, makes it significantly easier to sell the product to customers in the U.S. and abroad".

At present, there appears to be no all-of-government data regarding federal procurement by business size, sector, Canadian content, and use of innovation/R&D content available. This makes it is impossible to measure how much of

[1] *https://www.sbir.gov/sites/default/files/SBA_SBIR-STTR_Overview_October_2015.pptx*

[2] The Organisation for Economic Co-operation and Development (OECD) defined high-growth firms as those with average annualized growth rates greater than 20 percent per year, over a three-year period, and with 10 or more employees at the beginning of the period.( *Key Small Business Statistics*, August 2013, Industry Canada)

[3] *Key Small Business Statistics*, July 2012, Industry Canada

[4] Ibid.

total Canadian federal government procurement is directed to Canadian companies by size, nor is it possible to determine how much procurement spending goes towards R&D, innovation, or commercialization across all business sizes. (Limited procurement information is available in the annual Main Estimates on a department-by-department basis.)

Comprehensive, accurate data and performance metrics - that are easily-accessible to Canadians - are essential to measuring the effectiveness of federal procurement policies developed by the Treasury Board and implemented by federal departments. This ensures fact-based policy development and aligns with the Prime Minister's mandate letter to Minister Brison, which states that that the minister will "Take a leadership role to review policies to improve the use of evidence and data in program innovation and evaluation, more open data, and a more modern approach to comptrollership."

Data from Public Services and Procurement Canada (PSPC), which acts as the federal government's central (but not exclusive) purchasing agent[5], indicates that from fiscal years 2012-13 to 2014-15, on average, SMEs won 33.2% (or $5.45 billion annually) of the total value of procurements awarded by PSPC to suppliers (total of $16.4 billion)[6]. In the same period, SMEs' share rose to almost 80% (78.33%) when looking at procurement awards under $1 million[7].
While this data paints a positive picture of general federal procurement relating to SMEs, PSPC's data also shows that for fiscal years 2012-13 to 2014-15, on average, only 2.1% (or $113.8 million annually) of federal procurements from SMEs were related to R&D spending[8].

This fragmented approach begs the question: How will the government, Canadian businesses, and the public measure the degree to which the government has/has not fulfilled its commitment to use the federal government's purchasing power to bring Canadian innovation to market and to support businesses, and support "small businesses that are seeking to become more productive, more innovative and more export-oriented"?

**Recommendations**

That the federal government – beginning in fiscal year 2016-17:

1. Provide data (percentage and absolute numbers) that are easily-accessible on the Treasury Board Secretariat website, encompassing the following information on an all-of-government basis, as well as by department/agency:
    a. Canadian vs. foreign suppliers;
    b. suppliers' company size (micro (1-10); small (11-99); medium-sized (100-499); large >500 employees);
    c. suppliers by sector; and
    d. procurements supporting R&D, innovation, and commercialization (through research contracts, adoption of innovative technologies, etc.)
2. Using the above data, establish metrics to track the effectiveness of federal procurement policies in supporting Canadian R&D, innovation, and commercialization across all business sizes.

[5] Public Services and Procurement Canada oversees 80% of the federal government's procurement spending, but only 20% of its volume of contracts (smaller contracts are awarded by individual departments).
[6] Public Services and Procurement Canada, AIS: Acquisition Information Services, 07 March 2016
[7] Public Services and Procurement Canada, AIS: Acquisition Information Services and PAR: Purchasing Activity Report, February 2016
[8] PSPC-APAwarded Documents to SMEs by Top R&D GSINs – 3 Year Average (FY 2012-13/FY 2014-15), March 7/16

## 48. Bridge the Broadband Gap

**Issue**

Inadequate access to ultra-high-speed internet is compromising the ability of communities across the country to attract and retain businesses. The federal government has an important role to play in bridging the "broadband gap" by supporting federal working groups and working collaboratively with the provincial and territorial governments.

**Background**

According to the Government of Canada, broadband is internet service that is always on (as opposed to dial-up, where a connection must be made each time) and offers higher speeds than dial-up service.

Over the last several decades, ultra-high-speed internet has become a crucial success factor for cities to attract and retain business investment. Many Canadians consider broadband internet a utility rather than a luxury. Canada ranks 33rd in the world when it comes to available speed as outlined in the 2012 York Region Economic Development Action Plan report. Some examples of speeds today in Canadian cities that have invested are Stratford, Ontario (Business 1 Gbps, Residential 50 Mbps) and Toronto (Business 10 Gbps, Residential 250 Mbps).

Communities across the country, even those adjacent to large urban centres like Toronto, have limited access to speeds that are primarily available elsewhere. Allowing this disparity to continue heightens the risk that Canada's economic base could eventually be concentrated in a handful of heavily populated urban centres, rather than having economic competitiveness stretch across the country.

In 2014, the federal government launched its Connecting Canadians program to address gaps in the delivery of high-speed Internet. It is estimated that by 2017, the federal government will have invested up to $305 million to address gaps in the delivery of high-speed Internet at speeds of at least 5 megabits per second (Mbps) in rural and remote communities across the country.

While Connecting Canadians was a good start, its funding was insufficient to create the incentives necessary to facilitate cable operators' investments in broadband infrastructure.

The federal government has pledged $125 billion for infrastructure investment, but has not yet signaled what percentage of those funds will be dedicated to digital infrastructure. Upcoming federal investments present an opportunity to help bridge this critical infrastructure gap.

There is a disincentive for private companies to invest in less populated areas. The private sector invests where it is likely to achieve the best return on investment. This creates an externality which the Government of Canada is uniquely suited to address.

In 2016, high speed, reliable internet service is a utility to which all Canadians must have access. The lack of access to high speed internet contributes to urban gridlock as working remotely is not an option for many.

The world is becoming more digital and, with the internet of things, this trend is only going to continue. Not addressing this will stifle entrepreneurship in many areas of Canada and inhibit the development and success of the companies of the 21st century.

There is sound reasoning behind the CRTC decision to promote competitive access to next generation fiber broadband networks that are integral to the success of Canadian businesses in the 21st century.

**Recommendations**

That the federal government:

1. After conducting its due diligence, support the funding requests of provincial and territorial bodies (Premiers, Mayors, Wardens groups, etc.) through infrastructure investments for better access to broadband infrastructure without detrimental impact on existing service providers;

2. Prioritize strategic investment for the expansion and extension of broadband infrastructure for underserved businesses and communities throughout the allocation of the federal infrastructure investment program;

3. Benchmark Canada's internet speeds and access versus competitor jurisdictions and consider a minimum of 5-year targets of Business 1Gbps and Residential 50Mbps and 10-year targets of Business 10Gbps and Residential 250Mbps.

## 49. Development of R&D and Commercializing Innovation

### Issue

Giving renewed momentum to innovation is a matter of priority to increase investment and productivity. Beyond the need to encourage higher R&D spending, it is mostly the capacity to translate R&D into innovation projects supported by aggressive marketing strategies that will ultimately determine the capacity of Canadian companies to develop high technology products and increase their competitiveness in the domestic and global marketplace.

### Background

In its 2012-13 Budget, the Canadian government introduced a reduction of R&D tax credits. The investment tax credit (ITC) rate was reduced for large corporations from 20% to 15%. The rate for SMEs stayed at 35%, but the measure also includes the elimination of capital spending from allowable expenses. Moreover, the government reduced allowable expenses of arm's-length subcontractors to 80% of total expenses. Finally, the proxy amount allowing overhead expenditures to be claimed without justifying each expense was reduced from 65% to 55% between 2012 and 2014. The reduction in R&D tax incentives, however, was accompanied by an increase in direct assistance, particularly in industrial research (increase in the Industrial Research Assistance, or IRAP, program budget), at the level of venture capital and by making the Build in Canada Innovation Program (BCIP) permanent (recurrent funding of $40 million a year).

OECD data reveal, however, that Canada is losing ground in terms of R&D. Since 2004, the R&D spending-to-GDP ratio has decreased. The decrease accelerated since 2012 to reach 1.6% of GDP. The decrease in Canada is in contrast to the increases observed in recent years in the United States (2.7% in 2012), for the OECD average (2.3% in 2012) or in China (2% in 2012). OECD data also reveal that Canada, perhaps because its economic structure is heavily oriented towards natural resource exploitation, has a technology balance of payments[1] as a percentage of Gross domestic expenditure on R&D that is particularly low[2] (as a comparison, 4% in Canada in 2013 vs. 30% in Australia).

Positioning Canada as one of the leading economies in innovation is extremely important. In a context of globalization, the new economic and technological paradigm means that industrial and commercial excellence is the norm. Canada must reinforce its innovation system and its international commercialization strategy.

### Recommendations

That the federal government:

1. Increase the importance of innovation in the public procurement evaluation criteria to assist the commercialization of new innovative products as defined by the OECD and by business. Where possible, the federal government should act as first user and showcase in support of commercialization in domestic markets and export marketing.
2. Complete its economic policy with associated measures favouring the commercialization of innovation, by making high calibre strategic information available to companies with in-depth market studies and updated economic and industrial data.
3. Place at the heart of Canada's innovation strategy an approach based on training and attracting the best scientific, technical and strategic talents.

[1] The technology balance of payments is an indicator of international transfers of technology: licensing fees, purchases of patents and payment of royalties, know-how, research and technical assistance. Contrary to research and development (R&D) expenditures, these payments concern technologies that can be used in production.
[2] Technology balance of payments: payments as a percentage of GERD (Gross domestic expenditure on R&D). DOI:10.1787/msti-v2015-2-table68-en

4. Recognize the importance of investing in modern equipment to drive innovation in the long-term, by way of fiscal incentives which will ease corporate financing.
5. Coordinate with all government levels to provide clear information and efficient access to various business support programs, particularly with regard to R&D, innovation and commercialization.
6. Implement measures supporting investments in innovative start-ups, particularly by way of incentives for the formation of equity capital and the development of models of support which enable the commercialization of technologically advanced products and services.
7. Modernize the regulatory framework to support the commercialization of Canadian innovation.

## 51. Enabling More Canadian Firms to Scale Up

### Issue

Canada's continued growth and prosperity depends on our capacity to innovate and translate these new ideas into real economic gains. To do so, we need to create an environment that lets our most promising firms thrive. To spur the creation of new and innovative companies, governments, institutions, and the business community have done much to build up and tap into the entrepreneurial spirit of Canadians. However, key barriers are preventing entrepreneurs from continuing to build their business and achieve high-growth, or "scale up", in the country. As such, Canada is foregoing many of the economic benefits that could be provided by this untapped growth potential. A concerted effort is required by the federal government, provincial/territorial governments, and local governments to create the conditions that would allow more of our firms to grow into large, global-leading organizations.

### Background

According to the Global Entrepreneurship Monitor, Canada is a leader in early stage entrepreneurial activity, scoring above many G7 nations and almost equal to U.S. Unfortunately, this entrepreneurial activity has not resulted in expected economic outcomes, namely the growth and proliferation of new and innovative firms. As stated recently by the Centre for Digital Entrepreneurship and Economic Performance, "Canada continues to struggle to produce the type of sustainable, high-growth firms in knowledge-intensive sectors that policy-makers have identified as crucial to the country's economic future."

A recent report by the UK's National Endowment for Science, Technology and the Arts (NESTA) revealed a clear "scale up gap" between the Canada and the U.S.: American firms are more likely to experience periods of rapid growth, while Canadian firms are more likely to experience little growth or rapid decline. As a result, Canada's small firms contribute relatively more to total economic output compared to the U.S. In addition, Canada's billion-dollar firms contribute a much lower share of total revenues compared to other economies. Despite the proliferation of start-up accelerator organizations (SAOs) in Canada, there has been limited success in creating large firms relative to our American counterparts.

Canada's failure to scale its companies is a critical gap in our nation's business growth strategy. In Canada, high-growth firms are responsible for a large proportion of job creation: from 2000 to 2009, high-growth firms made up only 18 percent of Canada's growing firms but created nearly 47 percent of new jobs.[1] With fewer firms scaling, we are also reducing our potential to increase Canada's population of large firms, which contribute disproportionately to the nation's economic activity, R&D, and exporting. A focus on entrepreneurship to inject new and innovative ideas into the economy is important, but Canada foregoes the long-term economic benefits of this activity if its most promising businesses are unable to grow.

In a recent report, the Ontario Chamber of Commerce identified six key barriers preventing businesses from scaling up in Ontario:

- Professionals with the right skill set to help businesses scale up are too scarce
- Businesses may not have sufficient access to some forms of financing
- Public business supports and incentives are not aligned with scaling up objectives
- Businesses are not sufficiently engaged in international trade
- Anchor companies are not sufficiently engaged in the Canadian marketplace
- There is insufficient data to monitor the effectiveness of policy responses

[1] Dixon, J., and A-M. Rollin. 2014. The distribution of employment growth rates in Canada: the role of high-growth and rapidly shrinking firms. http://www.statcan.gc.ca/pub/11f0027m/11f0027m2014091-eng.pdf

While the report was situated in the Ontario context, many of the barriers are equally relevant to businesses' experiences in other provinces/territories.

Encouragingly, the federal government has recently signalled its intent to support help more companies scale in Canada. In its 2016 budget, the government announced a new initiative to help 1,000 high-impact firms access a coordinated suite of services specific to their growth needs. This is in addition to other initiatives that increase support for growth-oriented small and medium-sized firms.

This is also true in Ontario, where the provincial government has included scaling up as one of three pillars of its newly-announced Business Growth Initiative. The government is implementing a voucher program to provide growth-oriented firms access to specific services that align with their growth needs. The province is also piloting a project to boost government's role as an adopter of Ontario-based innovation.

With alignment across governments and with the business community, we have a critical window of opportunity to address the barriers that are preventing Canadian entrepreneurs from scaling their companies.

**Recommendations**

That the federal government:

1. Create a distinct "scale up visa" or special immigration designation that accelerates the immigration process for international talent that has been recruited by Canadian companies in the process of scaling up.
2. Work with provincial governments and the private sector to identify where current gaps in access to financing exist in the Canadian financing landscape.
3. Ensure public programs are aligned to facilitate scaling up by focusing greater support on high-growth firms and those with high-growth potential, as defined by the Organization for Economic Co-operation and Development.
4. Increase support for businesses seeking to engage in international trade, a key determinant of business growth in Canada.
5. Include consideration for high-growth business within the evaluation criteria of all public procurement budgets.
6. Work with provincial governments, sector associations, and other relevant organizations to collect and publicize data that would enable the accurate measurement of the scale up challenge.

## 52. Pharmaceuticals – Life Sciences as an Economic and Competitive Driver

### Issue

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 and to encourage life sciences innovation in Canada. This resolution replaces a similar resolution that is falling off the books for 2017.

### Background

IP is the economic engine of progressive countries. IP rights can drive job creation, economic growth and innovation. 45,000 people in Canada are directly and indirectly employed by innovative 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 manufacturers have the right to appeal an adverse court ruling on a patent challenge, whereas the innovative companies do not have the equivalent right. Allowing innovative companies an effective right of appeal, as Canada committed to do under the Comprehensive Economic and Trade Agreement (CETA) with the European Union, would help to 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.

Similarly, a 5-year patent term restoration (PTR) system would put Canada on the same competitive level with other developed countries. PTR is required to offset the overall regulatory approval process, including lengthy and costly clinical trials, in the approval of a medicine. 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. The proposed 2-year PTR period set out in the CETA is a step forward, but even if implemented, Canada remains uncompetitive when compared to other developed nations.

Canada is also one of the few developed countries which provides no incentives to facilitate the development and approval of orphan drugs. A regime that provides effective incentives would benefit both companies and patients.

Finally, 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 jobs.

The federal government must ensure that Canada's pharmaceutical intellectual property protection regime is 'best in class' in all material prospects 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 similar in duration to those of our major trading partners;

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.

## 53. Refining and Remaking the Copyright Board of Canada

The Copyright Board plays an important role for both rights holders and users of copyright-protected works. In its role, the Board attempts to set tariff rates that are reflective of the value of the protected use(s) under its mandate, and create marketplace certainty for all stakeholders.

The 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.

Many Canadian businesses are impacted by the work of the Board, and those businesses need consistent, timely, transparent and market-driven rates to operate successfully and sustainably in Canada. As active participants in the digital economy, these businesses can't suffer from a process that is unpredictable, unstable and slow. The Board must create an environment that supports the development of new and existing businesses.

The Board has attempted to address some of its strategic priorities in recent years, such as ensuring timely and fair processes and decisions. For instance, in 2012, the Board established a Working Committee on the operations, procedures and processes of the Board. The goal of this Committee was to make the tariff-setting process more efficient and productive. However, apart from collecting stakeholder feedback on a limited number of specific procedural issues, little has been done to effectively or meaningfully improve the regime. While a more thorough review of the Board's processes in general and of its Model Directive on Procedure has been promised, no real efficiencies have been achieved, and none appear forthcoming.

As a result, those dependent on the rulings of the Board continue to face significant challenges that are caused, in large part, by the Board's own practices and procedures. For example, long delays in publishing tariff rates have caused disruptions for business users, and Board decisions have been perceived as being inconsistent and unpredictable – adding costs and uncertainty to users and rights holders. In addition, vacancies and delays in Board and staff appointments have delayed hearings, while the legal and economic complexities of matters coming before the Board have increased, and little has been done by the Board or government to respond effectively to the increasing demands on the Board.

**Recommendations**

That the federal government:

1. Undertake a structural review of the Copyright Board as part of the upcoming five-year review of the Copyright Act (in 2017), examine the current Copyright Board model (in comparison to other similar tribunals in Canada and abroad) and, in particular, the role of the Board in the context of the collective administration of copyright and how it should respond to (and keep pace with) the needs of the many industries that rely on its tariff-setting function.
2. Encourage the Board to consider and implement regulatory measures (including amendments to the Model Directive on Procedure) and other non-legislative tools that could streamline the tariff-setting process.
3. Promote efficiency by
    - **a.** Ensuring that a full complement of qualified Board members is in place.
    - **b.** Ensuring that the Board member vacancies are filled in a timely fashion.
    - **c.** Promulgating procedures which encourage collective societies and users or their representatives to negotiate licenses.

4. Encourage the Board to 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.

5. To promote transparency, encourage the Board to:

    a. Encourage and foster means of enhancing stakeholder review of the Board's procedures and practices and other Board related information, including the recommendations of any stakeholder review working groups and stakeholder surveys.

    b. Ensure that rules governing dispute resolution processes and tribunal hearings, and, if those rules are departed from, the grounds for such departure, are fully disclosed.

    c. Establish and publish a database of the Board's rulings.

    d. Create a clear and easily-accessible list of guidelines and principles that are used to influence Board decisions, and build upon them regularly to take into account how businesses are operating in the fast-changing digital economy. For instance, the Board should consider adopting guidelines that require the Board to consider and adhere closely to negotiated market-based rates (using willing buyer-willing seller principle) when deciding tariff rates.

## 54. Restoring Canada's Innovation Competitiveness

### Issue

In a global economy where technology and innovation are increasingly important, Canada trails most of its peer countries in innovation and research. The Government of Canada needs to act quickly to address this, particularly by restoring faith in and simplifying a tax credit regime that nurtures private sector investment across all industries in R & D and technology.

### Background

In the 2016 edition of the Top 10 Barriers to Competitiveness, the Canadian Chamber of Commerce identifies the need for an aggressive and effective innovation strategy that capitalizes on the innovation in both the public and private sectors. The report suggests more effective tax or grant strategies and calls on research and development parameters to include intellectual property and technology-based Canadian start-ups to scale. These recommendations speak to a holistic approach to innovation that will be required to ensure Canada remains competitive in the innovation space. For the purposes of this resolution the focus is on the taxation side.

The Canadian Chamber of Commerce has proposed an "innovation box" regime in Canada that would see any sales/revenues earned on a patent or a new technology developed here in Canada taxed at a much lower rate.[1]

As part of its 2016 federal budget, the federal government recently released an outline of its direction for an inclusive innovation agenda. Along with a call for national collaboration, six areas of action were identified including entrepreneurial and creative society, global science excellence, world-leading clusters and partnerships, grow companies and accelerate clean growth, compete in a digital world, and ease of doing business. [2]

Firms in Canada find it difficult to compete with those in the rest of the world on price, but they can compete on the basis of innovation. To do this, we need to be technologically advanced and devote ourselves to research and development, but Canada is far from a leader in these fields.

The World Economic Forum ranks Canada as 22nd in capacity for innovation, 22nd in technological readiness, and 27th in company spending on R&D.[3] Canada's R&D spending as a percentage of GDP has been declining for over a decade and is now 1.69%, compared to the OECD average of 2.4%.[4] Business spending on R&D is near the bottom of all OECD countries.[5]

Canada is the only developed country in the world with an intellectual property deficit – we spend more importing technology from other countries than we earn selling technology abroad. This gap costs $4.5 billion a year.[6]

The innovation shortfall is also not being made up at the provincial level. In Ontario, the Ontario Research and Development Tax Credit was cut from 4.5% to 3.5% in the 2016 budget, and the Ontario

[1] Canadian Chamber of Commerce (2015). A Canada That Wins Retrieved July 5, 2016 from file:///Users/PtboChamber/Downloads/150526_A_Canada_that_Wins.pdf
[2] Government of Canada. (2016). *Canada: A Nation of Innovators* Retrieved July 4, 2016 from https://www.ic.gc.ca/eic/site/062.nsf/vwapj/InnovationNation_Report-EN.pdf/$file/InnovationNation_Report-EN.pdf
[3] KPMG, *Canadian Manufacturing Outlook 2014: Leveraging Opportunities, Embracing Growth*, 2014.
[4] OECD, *Science, Technology and Industry Scoreboard 2015*.
[5] Ibid.
[6] Standing Committee on Industry, Science and Technology, *The Canadian Intellectual Property Regime – Dissenting Opinion of the New Democratic Party*

Innovation Tax Credit from 10% to 8%.[7] Quebec's R&D tax credit rates have been reduced from 37.5% to 30%, effective as of June 4, 2014.[8] Alberta recently implemented a suite of programs directed to the innovation space, but these programs have not had the benefit of time to measure success.

The SR&ED program is currently the federal government's main R&D investment vehicle. Canada Revenue Agency has reported that based on 2011 projections, the total value of federal SR&ED tax credit expenditure is approximately $3.6 billion.[9] 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.[10] 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.

What this tells us is that while the SR&ED program has had a positive impact more needs to be done. Restoring the tax credit limit for innovation to 20% would be a start. To regain the effectiveness of a tax program, it must be made easier to use and access for employers of all sizes and industries, allow for inclusion of capital expenditures, and reduce the eligible labour, overhead, and contract payments cost. Chamber members also report that the audit component of the SR&ED program has become onerous and time-consuming, and that the uptake and efficiency of the program are hampered by overly frequent changes. A tax regime, perhaps using SR&ED as the backbone, must be sustainable with a simple reporting mechanism and changes that are inline and timely with respect to the issues businesses are facing.

**Recommendations**

The federal government:

1. Develop an innovation stream tax credit to complement the SR&ED program and start the innovation program at 20% of eligible expenses;
2. Simplify the process of the Innovation Tax Credit (former SR&ED) application, using the following as a base: improving the pre-claim project review service, simplifying the base on which the credits are calculated, and introducing incentives that encourage SME growth – so that Canadian companies of all sizes and across all industries can move forward with confidence to bring their innovations to market;
3. Create an innovation environment that encourages private sector investment in R&D and technology across all industries focussing on the following factors for success: ease of use for businesses, consultation with the business community to ensure programs are in line with the real time needs of business, achieved and sustainable growth of participating businesses, export readiness and enables operational scale-up.

[7] Government of Ontario, *2016 Ontario Budget – Chapter V* (http://www.fin.gov.on.ca/en/budget/ontariobudgets/2016/ch5a.html)
[8] SR&ED Education and Resources, *SR&ED Gets Cut in the 2014-2015 Quebec Budget* (http://www.sreducation.ca/sred-funding-in-2014-quebec-budget/)
[9] 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

[10] 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

## 55. The Risks of Cyber Crime — Electronic and Digital Issues

From the individual consumer to large corporations, cyber crime has cost the Canadian economy up to $3.12 billion dollars annually. The cost of protecting oneself and one's business from being detrimentally affected is escalating; as precious resources are used for security, it is a barrier to economic growth.

Cyber crime is not a new phenomenon, but there is still a lot to learn in order to effectively respond to the threat. The nature of cyber crime continues to change faster than public institutions can fully understand them, regulate them and mobilize against them. For example, one of the most prolific and damaging cyber scams seen is the Business E-mail Compromise (BEC) scam which primarily targets businesses of various sizes and affects countries all over the world. Although the BEC scam is primarily a sophisticated social engineering scam, the BEC scam has cost victims over $1 billion to date.

According to the National Cyber Security Alliance, one in five small businesses are hit by cyber crime annually. In 2013, cyber attacks on small businesses rose 300% comprising 31% of all targeted attacks. Small businesses are particularly vulnerable without the resources to combat such attacks such as Remote Access Trojans used by criminals who were able to alter their online or payment terminals. On a larger scale, cyber criminals often target smaller business that have partnerships with larger organizations for the purpose of back door access to the larger partner's stores of more valuable personal data, critical infrastructure and intellectual property. 71% of cyber crime attacks happen to small businesses, which do not have the same security levels as larger organizations. Almost half of small businesses have been victim of a cyber attack with the hackers seeking credit card credentials, intellectual property, and personally identifiable information.[1]

Even governments are not safe. Since 2010, Public Safety Canada has spent $245 million on defending government computer networks, safeguarding critical infrastructure and educating the public.

Currently, there are no federal laws to require companies to disclose hacks, security breaches, thefts of data or money, so the general public has incomplete knowledge of which companies have been compromised. There are several models used elsewhere which can be adapted for Canada. For example, Australia's ACORN program (Australian Cyber crime Online Reporting Network) collects citizen complaints so that police and industry can monitor trends, thwart organized criminal groups and arrange incidents for further investigation. Canada does have a Spam Reporting Centre and a government operated Canadian Anti-Fraud Centre, but neither is equipped to handle the exploding array of cyber-scams and malware that are targeting home and business computers.[2]

The Surrey Board of Trade has been leading awareness of, and action against, cyber crime for several years, recent recommendations requested that the federal government:

- Establish a centralized mechanism for the mandatory reporting of designated cyber security incidents to enable quantification of the potential damage to the Canadian economy.
- Establish a national educational program to increase awareness, among children, of cyber crime and prevention programs for introduction into school curricula.
- Establish a website to act as a clearinghouse for the most current information on cyber crime in Canada, for public information and education, with monitored links to similar central information points around the globe.

Cyber crime is occurring exponentially in keeping with the growth of the digital marketplace. The federal strategy is focused primarily on national security threats and does little to combat the dramatic growth in email scams, online extortion and breaches at corporate computer networks. It will require all levels of government, RCMP and business to play a part in reducing and eliminating cyber crime in a coordinated strategy.

[1] Canadian Chamber of Commerce
[2] Canadian Advanced Technology Alliance

**Recommendations**

That the federal and provincial governments work in a coordinated way with stakeholders and business to:

1. Increase integration amongst governments and policing agencies on cyber crime to effectively punish cyber criminals
2. Promote digital literacy by establishing best practices for cyber resilience, including education on more sophisticated and specialized crime
3. Invest additional financial and skilled human resources to the national cyber-security centre set up by government, industry and policing agencies to help investigate and warn the public about new and emerging cyber-threats

# International Affairs

## 56. Canada-India Free Trade: Time to Re-Engage

Free trade agreements are meant to decrease or remove costly and time-consuming trade barriers in order to accelerate the trading of goods and services thereby generating more profits for those engaged in the agreement. In other words, by opening up to new foreign markets, you allow for increases to sales and profits for domestic companies. It has been argued that this, in turn, creates a domestic middle class with higher wage jobs over the longer term. Developing countries on the other hand gain access to cheaper goods and services, which provides for a wider market for Canada's own domestically produced goods and services. The Canadian government has increased its focus on expanding Canada's trade agenda. In the past number of years FTAs have been launched with key markets such as India, the European Union and the Trans-Pacific-Partnership.

Canada India – Comprehensive Economic Partnership Agreement

In 2010 Canada undertook formal negotiations with India to achieve a Free Trade Agreement (FTA). In 2016, with nine rounds of negotiations completed, the process appears to have stalled. Round nine occurred in March 2015 and no new negotiations have been scheduled despite both governments' public statements of support for the FTA.1

Officially called the Comprehensive Economic Partnership Agreement (CEPA), Canada appears to have refocused energy and resources towards the Foreign Investment Promotion and Protection Agreement (FIPA) seeking to ensure it is ratified and brought into force, before proceeding with the FTA talks. The FIPA talks were reported to be successfully concluded in 2007 but neither country has ratified or made the agreement operational without public explanation.

The large Indian diaspora in Canada and our Commonwealth heritage make the Indian trade relationship one of the more logical targets for Canada. Unfortunately, despite current and former governments supporting an FTA, the target remains elusive.

Current Trade

In 2014-15 India-Canada trade was $6 billion, India's exports totaled $2.2 billion and imports from Canada, $3.8 billion, an amount with significant potential for growth. Foreign Direct Investment (FDI) from Canada to India from April 2000 to September 2015 was $586 million, a mere 0.22 per cent of the $265 billion in total FDI India received in those 15 years. 2

Significant Areas of Growth – Energy, Education and Professional Services

Over the next 25 years India will make up 25 percent of the Global energy demand growth as it seeks to ensure electrical energy for all of its citizens. Currently 240 million Indians have no access to electrical energy.3

Along with pressure to increase renewable energy resources India will require increases in domestic oil and gas production to fuel growth and Canadian companies are well positioned to provide the expertise that India requires to become self sufficient in various forms of energy.

Canada is also well placed to provide professional and educational services to India in a variety of other industries and areas.

[1] Global Affairs Canada, Canada India Free Trade Agreement Negotiations, March 2015
[2] Arun S, The Hindu, January 13, 2016
[3] International Energy Agency, World Energy Outlook 2015 India

Emphasis on the Trans Pacific Partnership

While both governments state they are committed to achieving a successful bilateral FTA, there is public speculation that Canada is more committed to achieving a successful Trans Pacific Partnership and that India is hesitant to move forward on areas where they want to retain policy space, such as environmental and labour issues that Canada would like added into the CEPA.

**Recommendation**

That the federal government apply political direction and resources to reinvigorate the stalled negotiations between Canada and India to achieve a Free Trade Agreement. It is understood that negotiations will not be compromised on concerns regarding fair and tripartide dispute settlement mechanisms.

## 57. Counter Diafiltered Milk Imports

### Issue

Diafiltered milk imports jeopardize Canadian milk producers and disrupt the supply management system supported by the Canadian government.

### Background

Diafiltered milk is a liquid milk protein concentrate used to manufacture certain products, including cheese. This product is not used in cheese production in the United States; it was developed essentially to avoid customs tariffs. It is imported into Canada from the United States.

Diafiltered milk is not considered a milk ingredient at the border, so it is exempt from customs tariffs levied on milk, eggs and chicken under the Canadian supply management system. However, it is considered as milk by the Canadian Food Inspection Agency (CFIA) in the application of cheese standards. It is worth noting that these cheese standards were accepted by the trading partners during Trans-Pacific Partnership negotiations.

In 2015, milk protein imports reached more than 32,000 tons, compared to 21,000 tons the preceding year. The exponential growth of diafiltered milk distorts supply management and has a very negative impact on producers' incomes. Losses related to these imports are estimated to be between $15,000 and $18,000 a year per family farm, i.e. $220 million across Canada.

These last few years, the Canadian government made great efforts to protect Canada's supply management systems for certain agricultural products, particularly during Trans-Pacific Partnership negotiations. Accordingly, it must take measures to ensure that this regime's application rules help to stabilize this industry.

According to experts consulted by the FCCQ, the best solution would be to uphold the spirit and the letter of existing cheese standards in order to treat diafiltered milk as a milk ingredient.

This is an important economic issue for several regions of Canada. According to the Canadian Dairy Information Centre (of the federal government), in 2014 Canada had nearly 12,000 dairy farms generating over $6 billion in revenues. The country's 444 milk processing plants deliver manufacturing shipments worth $17.3 billion.

It is critically important to avoid destabilizing this industry. There is an urgent need to act because imports are increasing rapidly and will have an increasingly negative impact on Canadian agricultural producers' incomes.

### Recommendation

That the federal government apply Canadian cheese standards established in 2007 by the federal government on cheese production in Canada and, consequently, treat diafiltered milk as a milk ingredient in the application of cheese standards.

## 58. Expanding Canada's Export Capacity through Harmonizing Agri-Food Cross-Border Trade Regulations

The ability for Canada's agri-food industry to swiftly and efficiently deliver their product to cross-border markets is hampered by cross-border trade inefficiencies. In 2012, Canada-U.S. agri-food trade exceeded $44 billion.

Canada-U.S. agri-food trade involves a wide range of fresh, processed and frozen foods, meat, beverages, floral and nursery products, pre-packaged consumer foods/beverages and bulk shipments of grains, oilseeds, food oils among other products. There are differences in legislation, regulatory authority, coverage, standards, measurements and in the handling of real and perceived risks of agri-food product trade to the other nation's domestic food safety, environmental security and responsiveness to its own public. It is clear that some of these different regulatory challenges can and do limit smooth cross border movement however, the Canada-U.S. agri-food trade is Canada's largest bilateral relationship.

For Canada-U.S. cross border trade, it is critical that the scarce public and private resources focus increasingly on those product shipments not in line with border measures. This should, in turn, result in allowing greater amounts of trade – including agri-food trade – to flow more easily. These day-to-day operational challenges tend not to be reflected in trade policy analyses, but they do affect overall product movements between the two countries, and ultimately the competitiveness of those traded products.

On February 4, 2011, the Canada-United States Regulatory Cooperation Council (RCC) was created to facilitate closer cooperation between Canada and the U.S.A. with the objective to develop more effective approaches to regulation in order to enhance economic strength and competitiveness of both countries. As an exporting nation, Canadian businesses are dependent on smooth, fast and free trade. The RCC is an essential program for identifying impediments to trade across numerous sectors. Canadian businesses are sure to see tremendous benefit when RCC recommendations are implemented. Both Prime Minister Justin Trudeau and President Barack Obama have committed to a strong U.S.-Canada working relationship.

Currently, there are 10 inspection centers conducting food product re-inspection at the U.S. border. These privately owned businesses charge exporters large fees to conduct a second inspection of the food product, rendering one of the inspections redundant. This lengthy process costs exporters both time and money, increasing compliance costs for Ontario's agri-food industry. By harmonizing inspection protocol with the U.S., these redundant border inspections can be eliminated.

**Recommendation**

That the federal government:

1. Support the efforts of the Canada-United States Regulatory Cooperation Council (RCC) in its initiative to harmonize regulatory requirements and practices on meat trade between Canada and the United States of America.
2. Ensure that all re-inspections of Canadian meats and agri-food products exported to the United States of America only be conducted at United States Department of Agriculture sanctioned processing facilities.
3. Eliminate current border re-inspection fees on Canadian meats and agri-food products exported into the United States of America.

## 59. Investing in Canada’s Trade Infrastructure and Corridors

### Issue

Canada’s trade corridors connect centres of production to markets and help Canadian businesses get their products and services to and from global markets. These corridors are commonly identified as the Asia-Pacific corridor linking Canada to the growing economies of Asia, the continental corridor into the heartland of the U.S., Canada’s largest trading partner and the Atlantic corridor that links Canada to Europe.

At a time when the international trade landscape is shifting and competitors are making improvements in their trade infrastructure, Canada should commit to investing more in trade infrastructure and re-establishing a strategic focus on upgrading strategic trade corridors.

### Background

Exports and imports account for 60% of Canada’s GDP. Our prosperity and quality of life rely on the capacity and fluidity of our trade infrastructure: the roads, ports, waterways, railways, airports and pipelines that move Canadian products, services and people through trade corridors to trading partner markets.

The Canadian Chamber of Commerce and others in industry, government, and policy have all weighed in on the economic imperative to invest in Canada’s trade infrastructure. While calls for more investment are not new, there are short, medium and long-term pressures that are creating an increased urgency for action to improve Canada’s trade infrastructure.

*Competitive Environment*

Canada’s competitors are upgrading their trade infrastructure, facilitating the ability of their exporters to compete on speed to market and end-to-end costs, among other factors. The World Economic Forum’s Competitiveness Index shows that, over the last decade, Canada’s infrastructure ranking has fallen from a rank in the top 10 to its current position as the 23rd-ranked country in the world. Real and perceived views of Canada’s trade infrastructure impact our competitiveness as a supplier within global supply chains.

*New Trade Agreements*

Agreements such as the Comprehensive Economic and Trade Agreement (CETA) and the Trans-Pacific Partnership (TPP) present a significant opportunity for Canadian businesses. TPP also means that Canadian firms that currently enjoy access to the U.S. and Mexico through the North American Free Trade Agreement (NAFTA) must now anticipate nine new players with the same access to those markets. Our trade corridors will need to move goods and services quickly, reliably and at lower costs if Canada is to remain competitive in the U.S. market and take advantage of new opportunities in overseas markets.

*Future Demands*

Urgency also stems from the opportunities that will result from expansion of the global middle class. The number of these consumers is projected to grow from 1.8 billion today to 5 billion by 2030 – representing an unprecedented, long-term growth in demand and changes in consumption patterns. Through the next several decades, demand for domestic freight transportation is projected to increase significantly based on this new global demand for Canadian products and services. A 2015 CPCS Transcom study prepared for the Canadian Transportation Act Review Secretariat forecasts an overall growth in commodity flows of six key Canadian bulk commodities by approximately four times 2013 volumes by 2045. Because of the long-lead times for major infrastructure projects, investment and policy decisions that Canada makes today will impact our ability to capitalize on these opportunities in the future.

The urgency for upgrading our trade infrastructure is a theme of the report of the 2015 Canadian Transportation Act (CTA) Review which found that, "Expanding existing trade and transport corridors and enhancing the efficiency and reliability of the current system should be a top priority in the short to medium term. In the longer term, the focus should be on creating new trade and transport corridors that feature high-speed, high-volume systems to support international trade activities."

*Moving Forward*

The federal government has promised to make significant new infrastructure investments of $60 billion over the next 10 years focused on green, social and transit infrastructure ($20 billion each). Some of these investments will improve trade competitiveness; for example, transit infrastructure will help reduce urban congestion which impacts the time it takes for goods to travel through Canadian cities. However, because trade infrastructure is tied so directly to our standard of living, funding for trade infrastructure – both physical and technological – should be a prominent feature of the government's long-term plan.

The government has a template to build off of from previous federal efforts to improve the efficiency of our trade corridors. The Asia-Pacific Gateway and Corridor Initiative (APGCI) was a set of investment and policy measures focused on facilitating global supply chains between Canada and Asia through strategic transportation infrastructure projects to reduce bottlenecks and improving trade flows in and out of Canada's west coast. The federal investment of $1.4B in the APCGI leveraged with provincial, municipal, and private sector to fund $3.5B worth of projects. According to Transport Canada these investments had a spinoff effect in private investments exceeding $14B dollars. The report of the Canadian Transportation Act Review found that, "the gateway approach of linking trade and transportation together in an integrated, multi-modal and public-private strategy was widely recognized as a Canadian best practice."

Another key feature of the APGCI was the role of collaborative federal-provincial-private sector research in determining what problems existed where in supply chains to facilitate evidence-based investment decisions. Industry owns much of the critical intelligence on emerging trends, market demands and business impacts that can inform how and where to locate key infrastructure assets and government must find ways to institutionalize collaboration with industry and take better advantage of this information.

All modes of transportation will require continuous transformation and integration to support the reliable movement of Canada's trade. Improvements in the capacity and efficiency of Canada's ports, waterways, railways, roadways and airports will remain central to our ability to meet global market demands and generate economic growth. The private sector is making investments and decisions to improve the velocity of Canadian supply chains every day. There is a need for the federal government to use its role as a 'convener' to better harness and help coordinate its own efforts with other levels of government and the private sector to make targeted, evidence-based improvements in Canada's trade corridors.

**Recommendations**

That the federal government:

1. Make trade-enabling infrastructure a national priority in the long-term federal plan by reallocating existing infrastructure funding from the existing $60B Building Canada Plan so that trade-enabling infrastructure is funded at a level commensurate with the other new federal priorities of green, social and transit infrastructure. Investments should target projects with the greatest long-term economic benefit through merit based criteria and be accompanied by regular progress reporting.

2. Establish a trade corridor investment strategy based on lessons learned from the Gateways and Corridors Initiatives that will coordinate investments from all levels of government and the private sector. The strategy should be supported by permanent, dedicated multi-departmental project teams.

3. Establish a mechanism to work with other levels of government and the private sector to share critical data and analysis to inform, using an evidence-based approach, trade corridor and infrastructure priorities.

4. As recommended by the Canadian Transportation Act review, in partnership with industry, develop a new transportation policy framework that includes inter-modal and sector specific strategies, investment plans and infrastructure project pipelines that will provide federal leadership on the evolution of our transportation system over the next 20-30 years.

## 60. Prepare Business for the Trans-Pacific Partnership

### Issue

Prepare Canadian businesses to take advantage of opportunities provided by the trans-Pacific partnership (TPP) and better compete with foreign firms that will have increased access to their traditional markets.

### Background

Canada is an exporting country. In October 2015, it ratified the TPP with eleven (11) other countries with 800 million people and 40% of the world's GDP. The agreement should abolish 18,000 customs duties. These removals affect 98% of customs duties between signatory countries. The final text of the agreement must be ratified by each member country, a complex process which will take at least two years.

The Canadian Chamber of Commerce has long recognized the importance of agreements which eliminate tariff barriers and other obstacles hindering access to international markets for Canadian products and services.

Free trade agreements benefit the Canadian economy to the extent that businesses can market innovation-driven world-class products and services. Therefore, government support for innovation is an essential tool for exporting firms. The federal government will announce its innovation policies over the next few months.

Until now, few studies have evaluated the TPP's impact on various sectors of the Canadian economy. There is an important lack of information and business awareness of the challenges of new trade agreements. Because they are ill informed, SMEs do not prepare to take advantage of new markets or deal with new competitors in their traditional markets.

Until the TPP is ratified, the Canadian government must allocate resources to inform businesses of the short and medium term opportunities and challenges resulting from the implementation of the TPP.

Under the proposed agreement, agricultural markets subject to the supply management system will be partially open to foreign countries over five years. Going forward, foreign producers can capture up to 3.25% of the dairy market. The percentage will be 2.3% for eggs, 2.1% for chicken, 2% for turkey, and 1.5% for broiler hatching eggs. The federal government is committed to compensating affected producers after the agreement is signed.

### Recommendations

That the federal government:

1. Actively participate with all Provinces and Territories in the ratification process of the trans-Pacific partnership.
2. Undertake studies of the impact of the TPP on various sectors of the Canadian economy.
3. Disclose in the near future an innovation support strategy.
4. Prepare an information plan for businesses on the challenges of the TPP and include its partners from the business world in the implementation of this information and awareness plan.
5. Work with chambers of commerce and industry associations to build knowledge within Canadian businesses relating to acceptable business practices, cultural etiquette and relationship building in the Trans Pacific partner countries
6. Announce any compensation measures to be offered to agricultural producers affected by the increase in imports resulting from the implementation of the TPP.

## 61. Support the Canadian Steel Industry and its Supply Chain Clusters

### Issue

The Canadian steel industry is a cornerstone of our national economy. It constitutes not only steel producers, but also the role it plays as a supplier and innovator for numerous manufacturing industries across the country. Recently, a combination of increased regulation, the instability of the global market economy and unfair market behaviour by foreign competitors has led to a sharp decline in their ability of our steel industry to compete globally.

The Canadian government needs to focus public policy and investment efforts towards supporting this important industry, its natural clusters and the innovation it creates.

### Background

Steel is a versatile material where local production is essential to supporting local industries, consumer products as well as building and maintenance of our transportation and physical infrastructure. It is also a major component of the evolution towards sustainable energy planning through its utilization in the construction of traditional and renewable energy systems.

The rise of the steel industry was an integral part of Canada's development as a world-class manufacturing economy in the 20th century. Firms across Canada like Algoma, Dofasco and Stelco(Ontario) to AltaSteel (Alberta) and IPSCO (Saskatchewan) distinguished themselves as centers of excellence and advancement in new varieties of steel. Their growth also supported numerous manufacturing industries (that utilized steel as an input) within geographic vicinity of producers.

Given their successes (by the 1980's, Canada was seen as having the second most successful steel industry after Japan), most Canadian firms were inevitably bought out by foreign firms looking to capitalize on their knowledge, operational assets and geographic proximity to American manufacturing hubs.

As of 2016, Canadian Steel producers create over 22,000 direct and more than 100,000 indirect jobs through nineteen facilities across five provinces, with over $14 billion in annual sales[1]. The economic impact grows exponentially with steel's role in supplying industries like automotive, aerospace and oil and gas manufacturing across Canada. According to a study by Informetrica[2], the steel industry has a multiplier of approximately 3.3:1; that is, every direct job within the industry supports 3.3 jobs in other sectors. Other research approaches suggest that the multiplier may be larger within such industries; In the auto industry, a recent projection for the Ontario Manufacturing Council by Spatial Economics has estimated a multiplier of seven or more[3].

The geographic proximity of steel suppliers within industrial clusters also allows them to work on product improvements directly with customers and collaborate on R&D with Post-Secondary Institutions and other organizations. Additionally, local steel production has comparatively lower impact on national and global carbon emissions footprint compared to imported products.

Foreign mergers and other market challenges have led to the once prosperous Canadian steelmakers experiencing serious crisis. Essar Steel Algoma is currently operating under the Companies' Creditors Arrangement Act putting 2700 direct jobs at risk. Stelco, after its sale in 2007 to US Steel, entered creditor protection in 2014, with over 7000 local of pensioners left owed pension funds and millions in creditor backlog[4]. Many related small and medium enterprises

[1] Canadian Steel Producers Assocation: Infographic. 2016. http://www.canadiansteel.ca/wp-content/uploads/2016/05/CSPA_Stats_Infographic_2016_v5.pdf
[2] Informetrica. Economic Effects of Structural Changes in Manufacturing: Retrospective View. 2007. http://www.informetrica.com/archives/IL_ManReport1_Final.pdf
[3] The Economic Impact of the Detroit Three Auto Manufacturers in Canada, Centre for Spatial Economics, December 2008,
[4] City of Hamilton. U.S. STEEL CANADA Economic Impact Study. 2015. http://www.thespec.com/newsstory/5278638-hamilton-would-take-50-million-annual-hit-if-u-s-steel-canada-fails-report/

and suppliers have downsized or gone out of businesses across Canada due to the challenges experienced by this industry.

In addition to high regulatory burdens stemming from electricity pricing, carbon pricing and Canada's adherence to world-class labour and environmental standards[5], Canada has the most open steel market in the world, placing domestic producers in fierce competition with export markets. Steel producers by principle agree to compete against imports on a fair commercial basis but are in global competition against foreign government subsidies[6], state-owned enterprises operating at poor margins[7], and other forms of support that run counter to global trade rules, despite the presence of investigative powers for Canada Border Services agency under the Special Import Measures Act[8].

Market conditions are often jeopardized by ongoing violations of WTO practices, preferential procurement and state support strategies in other jurisdictions, the ineffectiveness of trade remedy laws and lack of full reciprocation within trade treaties. Global steel overcapacity is the structural issue which drives record levels of unfairly traded imports, trade actions and injury to the Canadian steel industry.

While the majority of media coverage has focused on the decline of the industry, foreign competition and oversupply in the existing market, experts remain optimistic that fundamental forces, which if harnessed, will continue to support the prosperity and global demand for Canadian steel.

**Recommendations**

That the federal government:

1. Explore the legislated and voluntary expansion of government and public-private partnership procurement tools to evaluate and consider preferential selection of local suppliers after fairly evaluating:
    a. Global environmental impact and cost assessment versus the imported alternative; (i.e.: greenhouse gas (GHG) emissions during production and transportation),
    b. Presence of comparable health and safety regulations during production and manufacturing;
    c. Where the exporting country does not allow similar (e.g.: Bilateral Exemption), fair and equal access to their markets for the same product.
2. Retain and subsequently implement all current regulatory measures falling under Section 20 of the *Special Imports Measures Act (SIMA)* pertaining to China's Non-Market Economy (NME) status for the purposes of calculating antidumping measures.
3. Through legislative amendments to the Special Imports Measures Act (SIMA), continue to increase the efficiency and effectiveness of the Canadian trade remedy system to bring it in closer alignment with Canada's main trading partners, through the implementation of industry-led recommendations[9], including as regards to transparency of import data, and reducing costs and increasing fair access for local industry to participate in related processes of Canada Border Services Agency (CBSA) and the Canadian International Trade Tribunal (CITT).
4. Taking inspiration from the European Steel Technology Platform and "Framework for American Manufacturing" by the United States, develop a coordinated steel manufacturing strategy that amongst other action items, especially prioritizes investment in trade-enabling infrastructure.

[5] Canadian Manufacturers and Exporters: Management Issues Survey. 2014. http://www.cme-mec.ca/download.php?file=504c5iiu0.pdf
[6] Haley & Haley. Subsidies to Chinese Industry: State Capitalism, Business Strategy, and Trade Policy(2013). Oxford University Press
[7] Cru Group. China's crude steel capacity and utilization development. 2015. http://www.crugroup.com/about cru/cruinsight/Chinas_crude_steel_capacity_and_utilisation_development
[8] Dumping and Subsidy Investigations. http://www.cbsa-asfc.gc.ca/sima-lmsi/i-e/menu-eng.html
[9] Canadian Steel Producers Association, Federal Pre-Budget Submission to the Standing Committee on Finance (2016). http://www.parl.gc.ca/Content/HOC/Committee/421/FINA/Brief/BR8102762/br external/CanadianSteelProducersAssociation-e.pdf

5. Given their role as suppliers of high-performance material in the manufacturing supply chain and in flowing down R&D improvements[10], prioritize allocation of carbon pricing revenue to help incentivize energy-intensive industries like steel to further develop low-carbon processes, technology and innovation and other capital investments.
6. In design of regulatory intervention regimes and in partnership with provinces, recognize the role of steel industry as one of Canada's trade-exposed industrial facilities, and to evaluate expanding the free allowance coverage under carbon pricing programs, to minimize uncertainty, delay and costs.
7. Implement measures that will encourage local suppliers and domestic steel content to be used in all provincially and federally funded projects if the materials can be supplied from domestic sources.

[10] Birnbaum, Cohen, Harris and Warrian (2009) Ontario Manufacturing, Supply Chains and Knowledge Networks: A Report to the Toronto Regional Research Alliance (TRRA), Toronto: TRRA October 2009

## 62. The Need for a Renewed Softwood Lumber Agreement

**Background**
The forest industry is one of Canada's export largest sectors. With over $29 billion in exports in 2014[1] to many global locations, including $20 billion to the U.S. alone, forestry supports the direct employment of 235,000 employees in 200 communities across the country[2].

Back in 2002, the U.S. imposed countervailing and anti-dumping tariffs on imported Canadian softwood lumber based on a belief that Canadian, in particular B.C.'s, forestry industry received illegal government subsidies.

Between 2002 and the initial Softwood Lumber Agreement (SLA) in 2006, the U.S. collected duties of over $4 billion dollars. The SLA of 2006 saw 81 percent of the $4 billion in ADD/CVD duties refunded to the Importers' of Record, with 19 percent withheld from Canadian Importers of Record.

Canada has successfully appealed these allegations at the World Trade Organization and through the North American Free Trade Agreement in the past, but greater certainty was and is still needed.

As mentioned above, the 2006 Softwood Lumber Agreement, which was extended in 2012, provided immediate relief on countervailing tariffs and returned 80 percent of the $4 billion to Canadian lumber producers. Though the SLA allowed for an export tax based on the market price per million board feet (mbf), the recently expired SLA does provide greater certainty for Canadian lumber producers.

Canadian forest companies knew the cost of doing business in the U.S. ranged from a 15% tax when prices were below US$315 per mbf to no tax at prices over US$355 per mbf.

Over the next 4 years, forest prices are expected to climb from the current price of around US$315 per mbf to a high of close to US$500 per mbf. Based on the recently expired SLA, Canadian forest companies could expect to pay no export duties as of January 2018 if current projections hold steady.

As of right now, the export tax has expired with the agreement and there is a one-year freeze on any new countervailing and anti-dumping duties being applied. Effectively, the status quo between Canada and U.S. is in place with respect to softwood lumber until the 1-year freeze is lifted in October 2016.

Given the political nature of the softwood lumber dispute, and the strong lobbyist efforts by U.S. business in past, it is likely that the U.S. Department of Commerce will reinstate duties. For that reason, it is imperative that the federal government continue negotiations with the U.S. government to achieve a similar agreement to the 2006 SLA.

**Recommendations**
That the federal government:

1. Actively defend Canada's rights to free trade in softwood lumber;
2. Ensure that any new Softwood Lumber Agreement entered into with the United States contains no terms with long-term ill effects for the industry or degrades current tariff-free treatment for any region in Canada; and,
3. Support the Canadian forest industry as required by:

[1]Forest Products Association of Canada. 2015. Industry By the Numbers. http://www.fpac.ca/canadian-forestry-industry/forest-products/

[2]Forest Products Association of Canada. 2015. *Human Resources: The Greenest Workforce* http://www.fpac.ca/wp-content/uploads/Human_Resources.pdf

a. Providing financial support to the industry in its legal defense against any U.S. litigation;
b. Offering loan guarantees to help industry maintain credit and to borrow against cash deposits, so that the industry is not crippled by tariffs;
c. Immediately preparing for prosecution of World Trade Organization violations.

# Human Resources

## 64. A Canada Job Grant Program for All Canadian Business

The Canada Job Grant program helps Canadian businesses offset the high cost of training needed to improve employee skills which, in turn, keeps their businesses competitive and growing.
The problems, however, with the Canada Job Grant are numerous. Some examples: few businesses know that the grant exists; the grant is difficult to access and apply for; if a company did apply, it took too long until they heard if they were approved (four months); and the funding dried up too quickly.

**Background**
In Budget 2007, the Government introduced the Labour Market Agreements with an investment of $3 billion over six years to assist Canadians who were low-skilled or not eligible for Employment Insurance (EI) benefits.

Economic Action Plan 2013 announced the Government's intention to renew the Labour Market Agreements with provinces and territories in 2014 with investments of $500 million per year. The Agreements were to be reformed to directly connect skills training with employers and jobs for Canadians with the Canada Job Grant - the centrepiece of the new agreements. The grant will account for $300 million of total annual Labour Market Agreement funding from the federal government on full implementation in 2017-18.

The grant, as delivered through Labour Market Agreements, requires matching from employers as well as provinces and territories. Businesses with a plan to train Canadians for an existing job or a better job will be eligible to apply for a Canada Job Grant. The grant will provide access to a maximum of $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.

Upon full implementation of the grant under the Labour Market Agreements, nearly 130,000 Canadians each year are expected to be able to access the training they need for gainful employment or to improve their skills for in-demand jobs.

The remaining funding of $200 million per year will continue to be transferred to provinces and territories to support delivery of critical employment services, such as counselling, job search assistance, and administration.

The Government will work in cooperation with its provincial and territorial partners to transform the way Canadians get training to help achieve our shared objectives of creating jobs and economic growth[1].

<u>Issues</u>
Each province and territory manages their own Canada Job Grant funding and therefore has developed different criteria and qualifications for the program. This creates inequities from province to province and territory to territory. In other words, some provinces or territories received funding all year (Alberta) and some funding ran out before it even got off the ground (B.C.).

- There is no sustainable funding throughout the year; therefore, there is not always funding available when employers require training or programs offered later in the calendar year.
- The application process is difficult and often takes too long to process.
- There is no cap on the amount of funding a company can apply for. This means that large employers applying for an amount of funding appropriate for their number of staff may secure a

[1] http://www.actionplan.gc.ca/en/initiative/canada-job-grant

large portion of the funding available, leaving less funding available for the many smaller employees needing the grant dollars.

- The process to obtain employees through this program does not fit within normal hiring processes.
- Funding closes off too quickly and, due to the lack of awareness and communication about the program, means that the money runs out before most companies know it exists.
- There are too many constraints on the program as to which personnel and which companies are eligible for funding.
- Approvals are not received in a timely manner.  Applicants do not find out if they have been approved until four months after they applied, in which time it often means that the program they wanted to access, or funding they had set aside, is no longer available.

Conclusion

The Canada Job Grant is ineffective, difficult to apply for and is inequitable from province to province and business to business.  This program needs to be immediately restructured with tighter and clearer guidelines to allow access for all Canadian businesses to receive funding for training.

**Recommendations**

The federal government, in concert with provincial and territorial governments, develop program guidelines to improve the performance of the Canada Job Grant program, particularly its equity to small business training needs and a timelier decision-making framework.

## 65. A Talent Strategy Must Be Part of an Innovation Agenda

Innovation drives productivity growth and prosperity in advanced economies. Without innovative activity, it will be hard to improve Canada's lacklustre productivity record. Productivity growth is necessary to stay competitive with other high-wage economies. In times of stalling economic growth, it is new technologies, products and business process innovations that become critical enablers of growth.

Yet for all the focus on innovation, Canada must not lose sight that it is people, individually and within firms, who innovate, invent and create new products, services and processes. Innovation is a people-centred process that includes all Canadian workers. If we do not have people with the skills for innovation, then no other ingredient alone will make it happen.

"Innovation is the implementation of a new or significantly improved product (good or service) or process, or a new marketing or organizational method in business practices, workplace organization or external relations," according to the OECD. In Statistics Canada's survey of innovation activity in enterprises, it defines four categories of innovation: product innovation, process innovation, marketing innovation and organizational innovation. These categories may reflect the scope of skills and talent required to support innovation beyond the research and development phases. The role of global factors and demand for global skills and competencies may even come into play, for example.

Among the key areas where talent can be fostered to spur innovation are in the post-secondary arena where knowledge and skills are attained and in some cases, retained; in the clusters and networks where various actors collaborate toward innovation; and in businesses where employees translate their skills into innovative activity.

During 2016-17, the government will define and develop its Innovation Agenda. Budget 2016 identified "creative and entrepreneurial citizens" as one of four pillars that will propel Canada as a centre of global innovation. The document says that key federal tools in this area include "support internships and youth work experiences such as apprenticeships, (and) immigration policy."

In 2011, an expert panel released *Innovation Canada: A Call to Action* (the Jenkins report) and called on the government to "lead the development of a federal business innovation talent strategy…focused on increasing business access to, and use of, highly qualified and skilled personnel." To date, no such talent-focused strategy has been developed.

Now the Minister of Innovation, Science and Economic Development, and his colleagues, have the opportunity to incorporate a talent strategy within the Innovation Agenda. It should not be sector-specific, but recognize that innovation can and must happen throughout the economy, as the Budget suggests. It should reflect the fact that technologies are changing the nature of work - and more of us need to learn to work with technology and lever its capacity for business innovation. And it must identify the gaps where public policy could help cultivate talent for innovation.

To fully deploy public policy in support of talent for innovation, a whole-of-government approach would be ideal, coordinating the work of the Ministers of Innovation, Science and Economic Development; Employment, Workforce Development and Labour; and Immigration, Refugees and Citizenship.

Questions for a talent strategy to address could include (but not be limited to):

> What skills do post-secondary graduates need to foster innovation in the workplace and across the economy? How do firms support talent development for innovation? Can firm-level training support productivity gains associated with technology adoption? What policy incentives can government offer to foster skills development in support of innovation? Where are the gaps in our home-grown talent supply? What are the innovative talent needs of firms at the start-up, scaling up or mature stages? Based on what we know about our

entrepreneurship challenges, can we fill specific gaps in management, sales and marketing expertise? How can our immigration system also help companies to fill those gaps on a timely and responsive basis?

By developing a talent strategy to support an Innovation Agenda, Canada will ensure that its citizens and companies are as innovative and competitive as possible.

**Recommendations**
That the federal government develop a talent strategy within its Innovation Agenda which:

1. Builds on the talent-specific recommendations of the Jenkins report;
2. Coordinates the development and delivery of the strategy across the departments of Innovation, Science and Economic Development (including the regional economic development agencies); Employment, Workforce Development and Labour; and Immigration, Refugees and Citizenship; and
3. Ensures that the strategy recognizes that business innovation occurs at the start-up, scaling-up, mature and evolving stages of firms, and talent-focused policies may be needed at each stage.

## 66. Addressing the Labour Shortage of Commercial Truck Drivers

It is essential that the trucking industry work with governments to ensure that the industry can access the skilled professional truck drivers it needs, and improve public safety at the same time.

By 2024, the Canadian Trucking Alliance projects a need for 34,000 new truck drivers. Some of that demand will come from an expanding industry, while a significant percentage will be needed to replace a retiring workforce. The average age of a truck driver in Canada is 47, meaning that within a few years there will be a huge turnover in the men and women who currently drive trucks on Canada's highways. A lack of available drivers is already being felt; according to the *Business Expectations Survey* by Transport Capital Partners (TCP) in 2011, 70 percent of Canadian carriers had to decline loads due lack of available drivers.

As shippers are increasingly reliant on trucks to operate just-in-time supply chains, a shortfall in the workforce will have a significant impact on business. A shortage of drivers may:

- cause limited driver resources to migrate to large, scheduled loads, and the spot market for transportation will increase in price and decrease in availability;
- extend order and delivery times resulting in the need for increased inventories and carrying costs; and
- cause small and rural businesses requiring less than truckload services to experience decreased access to transportation services, increased costs, and decreased competitiveness.

The looming driver supply gap can be attributed to several factors including work conditions and lifestyle balance, but also due to the lack of programming to help address shortages and the varying standards of accreditation for commercial driving programs across the country.

**Background**

Trucks haul 90 percent of all consumer goods and food stuffs across Canada and handle 70 percent of our trade with the United States. Trucking is a $65 billion industry that employs over 260,000 drivers and employs 400,000 people, including dispatchers, office staff and managers. The industry consists of a small percentage of large companies and thousands of small and medium-sized independent owner-operators.

The demands of driving a long haul truck have evolved significantly. With the advent of multiple configurations of trailers, highway and border congestion, electronic documentation, navigation, and logbooks, the skills required to efficiently and safely operate such vehicles has increased considerably. This has increased the knowledge and responsibility demanded of truck operators although the occupation remains classified as low-skilled under the Statistics Canada National Occupational Classification (NOC 7511 transport truck drivers). The classification as low-skilled can hinder recruitment, particularly for the younger generation who are desperately needed.

The skill rating for truckers has two principal impacts. The first issue is the inability of potential drivers to access funding to support training. As the cost of quality driver training can cost up to $20,000 in some provinces, it is challenging for students to pay tuition without support. The current classification restricts applicants' ability to access student loans or apprenticeship funding, leaving only limited support via Employment Insurance and the restrictive conditions of employer-funded Canada Job Grants. There is a clear need to expand the number of funding programs available to young people considering trucking as a career.

Employers are further challenged to recruit experienced immigrant truck drivers to Canada on a costly and usually temporary basis. This challenge could be eased by providing access to additional programs for employers beyond the Temporary Foreign Worker and Provincial Nominee programs. Additional immigration programs such as those provided for skilled workers would increase the size of the immigration stream, facilitate permanent residency and allow open work permits for spouses.

It is also been recommended by the Canadian Trucking Alliance (CTA) and provincial trucking associations that a national minimum standard of accreditation for commercial driving programs be developed. Most provincial authorities require only a pass on a written examination and a 2-hour road test combined with an approved course on airbrake testing. Only a small fraction of new commercial vehicle drivers attend accredited truck driver training schools for preliminary instruction, primarily because limited student financial resources often constrain what the schools teach. The Ontario government has recently recognized the need to address training standards and by July 2017 will require Class A driver test candidates to successfully complete a recognized entry-level training program from an accredited driver school. This first in Canada initiative can act as a model for national training standards to ensure driver competence and public safety.

"If you talk to many trucking companies, a person who has simply passed the road test and has no skills beyond that is not employable." states Andy Roberts, the owner of Mountain Transport Institute in Castlegar, BC. Markel Insurance, one the largest insurers of trucks in Canada, says, "Entry level drivers who do not take a recognized program at a recognized institution are simply not insurable. Very often we are asked if they can be insured with higher premiums – the answer is they are simply not insurable."

Admittedly, the industry can do more to recruit new and/or young drivers. There are certain changes that can help, such as introducing young people to professional truck driving at a much earlier age and providing candidates with better opportunities to train for a professional driving career.

To avoid shrinkage of the workforce, it is important that government act now in partnership with trucking associations to create a renewed regulatory and classification regime that more accurately reflects the skills and responsibilities that professional truck drivers are required to demonstrate.

**Recommendations**

That the federal government, in coordination with the provincial and territorial governments and provincial trucking associations:

1. Work to address the labour shortage of long-haul truck drivers by expanding the number of funding programs available to young people considering trucking as a career and ensuring that pathways to immigration are expanded for individuals entering this industry.
2. Support the recommendations of the Canadian Trucking Alliance (CTA) and provincial trucking associations in the development of a national minimum standard of accreditation for commercial driving programs, including programs delivered through accredited commercial driving schools.

## 67. Expanding Options for Canada's Private Educational Institutions (Renewal)

**Issue**

Current federal government policy, as described in the Federal Government's Post-Graduation Work Permit Program, under Immigration, Refugees and Citizenship Canada, 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 a degree program.

**Background**

Presently, 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 students are able to obtain study permits for private post-secondary institutions, provided those institutions are included on the Designated Learning Institutions List. However, foreign graduates of private educational institutions included on the Designated Learning Institutions List, with the exception of those in 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. In short, these institutions receive provincial and federal approval to train international students, but those students are not allowed to apply for work under the Post-Graduation Work Permit Program.

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 entering the labour market.

By practising 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 marketplace, and help resolve labour shortages. Private post-secondary institutions can be more responsive to short-term labour needs than their public counterparts, as private programs are generally shorter and graduates enter the workforce more quickly.

Extending the Post-Graduate Work Permit Program to private colleges would yield positive employment outcomes for international students. While nation-wide data is not available, provincial figures illustrate these outcomes. A 2014 study found that 82% of Alberta graduates find employment, with 92% of those expressing satisfaction in their employment[1]. These figures are roughly comparable to public post-secondary outcomes, which reported 88% employment and 89% satisfaction[2].

By eliminating the current policy barrier, the federal government will not only level the playing field between public and private institutions, but also ensure that foreign graduates of all skill levels have an equal chance of gaining meaningful employment upon graduating from a Canadian post-secondary institution.

[1] *Graduate Outcomes Survey – Class of 2011/12,* Alberta Innovation and Advanced Education
[2] Ibid.

A 2012 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 $7.7 billion infusion to the Canadian economy[3]. According to the report, expenditures of international education students have now surpassed exports of unwrought aluminum ($6 billion) and helicopters, airplanes and spacecraft ($6.9 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 2012 these international students generated more than $445 million in government revenue and created economic activity that sustained employment for 81,000 Canadians. The federal government understands the positive impact international students have – in 2014 it announced a goal to double the number of international students enrolled in Canadian institutions by 2022. By removing the current policy barrier, the federal government can empower private post-secondary institutions across Canada to attract more international students, helping to achieve their goal of doubling international enrolments.

Furthermore, by expanding all work permit availability to private institution certificate or diploma graduates, the federal government would put more control and responsibly for success in the hands of private small- and medium-sized businesses, which ultimately are what drive the growth of our country's economy. At a time when western Canada is striving for economic diversification, this policy shift would allow an emerging non-resource-based industry to thrive.

**Recommendation**
That the federal government expand the Post-Graduation Work Permit Program to allow foreign graduates from accredited Canadian private post-secondary institutions to obtain a Canadian Work Permit upon completion of their degree, diploma or certificate program.

[3] *Economic Impact of International Education in Canada – An Update*, Global Affairs Canada

## 68. Filling the Gap through Economic Immigration

**Issue**
Chamber members are citing challenges in hiring qualified workers as a barrier to growth. In urban centres with a high cost of living like Vancouver, Toronto, and Victoria, it becomes particularly challenging to fill gaps at the mid- to lower-end of the employment spectrum, particularly for skilled entry-level as well as low-skilled difficult-to-fill positions. Businesses then turn to hiring foreign workers, but are often frustrated by complex bureaucracy and lengthy timelines. The federal government can effectively adjust the system through a demand-driven focus to immigrant selection, such as by awarding points in the Express Entry process for a job offer, without requiring a Labour Market Impact Assessment.

**Background**
The next 20 years will see a continued exit of baby boomers from the workforce. This exit will create a strain on national finances in the form of reduced income tax revenue and an increasing expense in the health care system as the baby boomers age. As our workforce shrinks, demand will rise, and employers will have increasing challenges attracting and retaining the workers they need, when they need them.

<u>Overview</u>
Immigration to Canada can be either on a permanent basis or temporary in nature, such as to visit, study or work. Immigration, Refugees and Citizenship Canada (IRCC) handles large volumes of permanent and temporary resident applications across its extensive global processing network. The process of managing immigration files includes protecting the health, safety and security of Canadians. In collaboration with partners in the Public Safety portfolio as well as the Department of Justice and Health Canada, IRCC works to identify applicants who could pose security or health risks to Canadians. IRCC also works in partnership with other countries to mitigate risks and protect Canada from international threats.

<u>Process</u>
Every foreign worker must obtain a work permit to legally work in Canada. The process by which a work permit is issued involves a complex employment confirmation scheme involving Employment and Social Development Canada (ESDC) and IRCC.

Involvement of ESDC is a convenient way for visa and immigration officers to determine whether the employment of the foreign worker is justified given current labour market conditions. With a confirmation of a valid job offer and a favourable opinion known as the "labour market impact assessment" (LMIA) from ESDC – provided security and medical qualifications have been met - the visa and immigration officer will then issue a work permit to the foreign worker. The process generally requires consultation with the employer and ESDC, national advertising and/or recruitment efforts, substantial documentary support and possible involvement of other government agencies. Without a positive LMIA assessment, a foreign candidate with a job offer often will not qualify for entry.

<u>Timelines</u>
The processing times for entry as a permanent resident can be lengthy, anywhere from 9 to 97 months. The lengthy timelines, coupled with the LMIA requirement, creates a scenario where the employer identifies the required talent and makes a job offer, but the candidate is either not selected to immigrate, or has moved on to other opportunities in the interim. Skilled foreign nationals have personal lives and families to consider, and for them as well as their prospective employers in Canada, the unpredictability in the provision of the talent to meet organizational objectives is highly problematic.

Express Entry

Introduced in 2015, Canada's Express Entry system promised transformative change in economic immigration and the opportunity for employers to be involved in immigrant selection.

Express Entry is an electronic application management system for skilled workers to seek permanent residency. It adds a competitive element by selecting candidates based on their scores in a comprehensive ranking system. Scores are assigned based on factors such as education, Canadian work experience and valid job offers.

Job offers must be accompanied by a positive LMIA from Service Canada to confirm that no Canadian or permanent resident is available to take the job. Without the assessment, a foreign candidate with a job offer will not receive 600 points. Candidate assessments below 600 points face more competition and lower chances of receiving an invitation from IRCC to apply for permanent residency through the Express Entry system.

By inserting the LMIA process into Express Entry, the government has put two competing policy principles in play. On the one hand, the Government of Canada wants to facilitate employers' access to a pool of international talent, and on the other hand, it does not want employers to look at international candidates because the government wants Canadians first in the jobs. In the past, the government had other ways to validate job offers for permanent residency applicants. The LMIA is the wrong policy tool for this purpose.

The federal government can effectively adjust the system through demand-driven focus to immigrant selection, such as by awarding points in the Express Entry process for a job offer, without requiring a Labour Market Impact Assessment.

**Recommendation**

The Chamber recommends that the federal government award points in the Express Entry process for a permanent job offer, without requiring a Labour Market Impact Assessment.

## 69. Fuelling Job Growth through Innovation

### Issue

Technological changes offer diversification opportunities and strengthen existing industries for the long-term growth of the Canadian economy. As innovations happen within industries, those innovations often are a result of new or enhanced forms of technology. As Marc Andreesen of Houston-based venture capital firm Andreessen Horowitz once remarked, “Software is eating the world.” When looking at almost any vibrant industry in today’s economy, it is usually technology that underpins opportunity and growth within the industry.

Having a focus on innovation in all sectors and the Canadian technology sector in particular can better balance and grow the Canadian economy by increasing employment, increasing export revenue, better situate Canada to attract new talented immigrants, and re-engage Canadian talented science and technology workers once lost to more attractive employment opportunities most notably in the U.S.

### Background

In 2015, Science, Technology & Innovation Council (STIC) Chair, Kenneth Knox said, "Proactively pursuing—and achieving—a sustainable competitive advantage in ST&I [Science, Technology & Innovation] is the path to higher living standards and a superior quality of life for Canadians. Success requires that all players in the ST&I ecosystem work more closely together in a "systems" approach. It requires better integrating organizations, activities and funding mechanisms in a more coherent, coordinated whole to help us realize more impact from the investments we make."

It’s important that Canada makes progressive decisions now that can support future success for our companies and economy. In the same STIC report – State of the Nation 2014 - the government-mandated group concluded that Canada “was not globally competitive” and that “it is falling further behind global competitors and facing a widening gap with the world’s top five performing countries.”

There are many hurdles that prohibit technology companies from growing in the Canadian landscape. Some include:

- A lack of funding programs for digital technology incubation and acceleration at a federal level.
- Inadequate programming infrastructure to help established mid-sized – approximately $2-20M – Canadian based innovative companies grow to become global leaders. Many of these companies remain in this mid-sized range or choose to sell their companies to foreign private equity groups. Many of these established companies find it difficult to find the right peers or mentors in their regions. In a 2015 Kauffman Foundation report titled *Guidelines for Local and State Governments to Promote Entrepreneurship,* it reads, “They [entrepreneurs] often find it difficult to find other entrepreneurs or meet investors in their regions, and investors have trouble identifying local entrepreneurs.”
- Cumbersome, redundant and time-intensive application procedures for government-sponsored loans and/or grants.
- Some funding sources are centralized which may not always distribute the money to the companies that have the highest chance of success.
- An ongoing loss of skilled workers and future entrepreneurs to countries like the US limits future opportunities.

### Recommendations

That the federal government:

1. Distribute more funding programs through already established regionalized efforts (e.g., Regional Innovation Centres (RICs), post-secondary, etc.) and establish local panels - with adequate successful entrepreneur

representation - for awarding such funds to better match funding with the best companies capable of growing. Meeting the entrepreneur and understanding the underlying opportunity should be a requirement when issuing grants to ensure the funding is providing maximum impact to the economy.

2. Create new funding programs that are designated for established innovative technology companies that are in growth-mode. Supporting proven companies lowers the risk of funding defaults, lowers the amount that will leave Canada or sell to foreign companies, and maximizes the overall benefits to the Canadian economy.
3. Match funding programs with clear measurement targets built against key metrics that improve the Canadian economy. Efforts should be made to ensure federal funding in this area is results-oriented and -driven to reliably grow the Canadian economy.
4. Lower the burden on Canadian entrepreneurs by creating a harmonized system and eliminate duplication between provincial and federal funding program applications.
5. Create or help enhance a national network(s) that is committed to established Canadian companies – typically in the $2-20M revenue range - in the acceleration stage, connecting them not only with funding sources but programming opportunities which include mentorship, formalized education, peer-to-peer learning, and export opportunities.

## 70. Improving the Express Entry System for International Student Graduates

### Issue

The current Express Entry system discourages employers from hiring international students who graduate from Canadian postsecondary institutions.

### Background

The Federal government is moving to make it easier for international students to become permanent residents once they have graduated from Canadian postsecondary institutions. Reforms are needed to sustain the growth of international students becoming permanent residents, where they can make a significant contribution in meeting the labour market needs of regional economies within Canada, (where an aging population is often most evident).

Minister of Immigration, Refugees and Citizenship, John McCallum, said he intends to launch federal-provincial talks to reform the current Express Entry (EE) system, an electronic application management system for economic immigration programs.

Express Entry was implemented on January 1, 2015, as a new system to manage how international students and/or international workers (in Canada or in their home country) apply to immigrate to Canada under federal economic immigration programs. To be able to apply for permanent residence under Express Entry, applicants have to reach a certain number of points, with levels changing from month to month. Those with the highest points in any given month are more likely to be successful.

How the points for Express Entry work:

<u>Express Entry: Comprehensive Ranking System (CRS)</u> is a points-based system that is used to assess and score a candidate's profile to rank them in the Express Entry Pool.

#1: Under the CRS, the total possible score is 1200 points

#2: A maximum of 600 points can be awarded, dependent on age, level of education, language ability (English and/or French) and work experience.

#3: An additional 600 points are awarded for an offer of employment that has an approved Labour Market Impact Assessment (LMIA) in specific occupational categories.

Under the present criteria for the Express Entry Program, college graduates will rarely accumulate enough points by using the criteria outlined in #2. University graduates generally receive more points than a college graduate due to program length and degree levels.

Further, to be successful in the EE program, and to be able to receive more points, criterion #3 above generally needs to be included in the applicant's profile. To get the additional 600 points, an employer seeking to hire an international student must apply for a Labour Market Impact Assessment (LMIA). It has been rare for an employer to submit an LMIA for entry level positions for a variety of reasons, including:

- Significant costs including the application fee, requirement for national advertisement of the position and proof that a Canadian cannot be found to fill the position;
- The process is very time consuming; and
- There is no obligation for the successful candidate to stay with the employer for a prescribed period.

**Recommendations**

That the federal government:

1. Exempt employers from the LMIA process where they have made a bona fide offer of full time permanent employment (in NOC 0, A or B skill type) to an international student graduate from a Canadian post-secondary Designated Learning Institution;
2. Award 600 additional points for Express Entry purposes to international students who are graduates from a Canadian post-secondary designated learning institution AND who have a bona fide offer of full time permanent employment (in NOC 0, A or B skill type);
3. Recognize, separately and distinctly, the completion of a Canadian post-secondary education credential at a designated learning institution with additional points (exclusive of the assessed foreign education); and
4. Ensure that any federal-provincial-territorial consultations initiated by the federal Minister of Immigration, Refugees and Citizenship to invite input on changes be held across the country and concluded within a 2-3 month period so that subsequent reforms not be delayed.