

BKL & Associates
160 Essex Avenue, #515
Richmond Hill, Ontario L4C 2B7
905 883-4274

Rowan & Associates Inc.
Consultants in Public policy
361 Lytton Boulevard
Toronto, Ontario M5N 1R9
416-482-6612

Submission

To the

Competition Policy Review Panel

In Connection with

Sharpening Canada's Competitive Edge

Toronto, Ontario
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1.0 Introduction

This submission is written from the perspective of a manufacturer / exporter / service company / potential investor. From this perspective, we:

1. Comment on the focus of the consultation paper as the basis for guiding public discussion and the subsequent work of the Panel.
2. Respond to the Competition Policy Review Panel's invitation to comment on the policy issues and questions presented in its paper: "Sharpening Canada's Competitive Edge", specifically, "how to maximize Canada's competitive position."¹
3. Make some summary recommendations.

2.0 Consultation Paper

Our first step is a review of the Panel's mandate, task and objectives. This forms the basis of our comments.

2.1. *Mandate / Issues / Objectives*

Below is a summary of the various descriptions of the Panel's mandate, issues and objectives:

1. "The Panel's **core mandate** is to focus on investment and competition broadly, including the *Investment Canada Act* and the *Competition Act*, including the treatment of state-owned enterprises and the possibility of a national security review clause."²
2. "The Panel is **mandated** to review key elements of Canada's competition and investment policies to ensure that they are working effectively."³
3. "Our **Mandate**: Productivity and Competitiveness"⁴
4. "The **fundamental task** ... is to provide recommendations to the government on how to enhance Canadian productivity and competitiveness."⁵
5. "The Panel's **principal focus** will be whether Canada's competition policies enhance our ability to serve the interests of domestic consumers and enable our most successful enterprises to grow beyond Canada."⁶
6. The Panel's **mandate** is therefore to make recommendations to the government on ways to establish the domestic conditions that both encourage Canadian firms:
 - a. To be active and aggressive investors at home and abroad, and
 - b. Maximize Canada's attractiveness as a destination for new investment and talent.⁷

¹ Competition Policy Review Panel, News release, October 30, 2007

² Canada's New Government Creates Competition Policy Review Panel, July 12, 2007, News release.

³ Sharpening Canada's Competitive Edge, October 30, 2007, page 1

⁴ Sharpening Canada's Competitive Edge, October 30, 2007, page v

⁵ Sharpening Canada's Competitive Edge, October 30, 2007, page 1

⁶ Sharpening Canada's Competitive Edge, October 30, 2007, page 3

⁷ Sharpening Canada's Competitive Edge, October 30, 2007, page 2

7. The Panel has been **mandated** to investigate how best to encourage outward investment by Canadian firms.”⁸
8. “The Panel will **also** examine Canada’s sectoral restrictions on foreign direct investment and the competition and investment regimes of other jurisdictions to assess reciprocity between their rules and Canada’s.”⁹
9. “Our Panel has been asked to **provide** recommendations on how Canada should adapt and move forward in a new environment and global competition.”¹⁰
10. “The Panel will **look** to international best practices and see how they may be adapted to fit the Canadian context.”¹¹
11. “The Panel will **examine** a range of issues to ensure that Canada’s policies are modern and effective and that they reflect the global, competitive environment typified by competition between national jurisdictions seeking to attract investment, people and economic opportunities.”¹²

Issues

12. The two **principal** issues for Canada’s economic performance (are):
 - a. How best to create the domestic conditions to foster the development of Canadian-based global businesses; and,
 - b. (How) best to position Canada to be a world-leading destination for talent, capital and innovation.¹³
13. “A **key** question the Panel is seeking to answer is whether Canadians should be concerned about foreign takeovers of Canadian firms.”¹⁴
14. “The Panel is **also** seeking to understand the importance of company headquarters, divisional head offices or research and development centres to Canada’s economic prospects.”¹⁵

Objectives / Goals

15. “Two **goals** of Canada’s economic performance (are):
 - a. To promote Canadian direct investment abroad, and create the domestic conditions to foster the development of Canadian businesses.
 - b. To maximize Canada’s attractiveness as a destination for talent, capital and innovation.”¹⁶
16. “We must **ensure** our policies are modern and effective, to enable Canadian firms maximize their productivity and competitiveness.”¹⁷
17. “The Panel is **interested** in the impact of relevant matters under provincial and territorial jurisdiction.”¹⁸
18. “The Panel’s **objective** it to make public policy recommendations for improving the competitive environment in Canada.”¹⁹

⁸ Sharpening Canada’s Competitive Edge, October 30, 2007, page 3.

⁹ Canada’s New Government Creates Competition Policy Review Panel, July 12, 2007, News release.

¹⁰ Competition Policy Review Panel, News release, October 30, 2007

¹¹ Sharpening Canada’s Competitive Edge, October 30, 2007, page 3

¹² Sharpening Canada’s Competitive Edge, October 30, 2007, page 1

¹³ Competition Policy Review Panel, News release, October 30, 2007

¹⁴ Summary – Sharpening Canada’s Competitive Edge, page 2

¹⁵ Summary – Sharpening Canada’s Competitive Edge, page 2

¹⁶ Summary – Sharpening Canada’s Competitive Edge, page 1

¹⁷ Competition Policy Review Panel, News release, October 30, 2007

¹⁸ Sharpening Canada’s Competitive Edge, page 35

2.2 *Comments on the Consultation Paper's Focus*

We find the consultation paper lacks focus, particularly the way the Panel's mandate is variously described.

The Panel's interpretation of its mandate lacks balance in at least two respects.

1. While the paper speaks in terms of "competition" and "productivity", with the goal to foster the development of Canadian businesses and to maximize the opportunity for Canadians to capitalize on global trade, investment and competition, its focus is primarily on the legal framework – the *Investment Canada Act* and the *Competition Act* - surrounding investment, foreign and domestic.

There is no discussion of the factors that enhance or inhibit domestic investment, which should be a key area given the Panel's interest in "productivity" and "competitiveness".

2. The paper's focus relates mainly to large companies. Small to medium sized enterprises (SMEs) are given short shrift, yet SMEs are an important source of investment, employment and innovation.²⁰

A dimension of "competition" that is equally, if not more important than the legal – *Investment Canada Act* and the *Competition Act* - framework, is the "market forces" that enable a manufacturer or service company to compete, or not compete, on price, quality and innovation.

Without an appropriate domestic economic environment, the incentive to invest domestically is hampered; never mind the incentive to invest abroad.

The Panel seems to be aware of this dimension of "competition", when it says:

1. "We must ensure our policies are modern and effective, to enable Canadian firms maximize their productivity and competitiveness."²¹, and,

¹⁹ Sharpening Canada's Competitive Edge, page 34

²⁰ The four references to SME's are:

1. Are there policies or approaches that would be useful in addressing the particular challenges faced by small and medium-sized enterprises as they seek to become global competitors and participants in global value chains? (Page 29)
2. Of importance in the Canadian economic context is facilitating the participation of small and medium-sized enterprises (SMEs) in global commerce. (Page 3)
3. Small and medium-sized enterprises (SMEs) play a significant role in the Canadian economy. (Page 14)
4. For small and medium-sized enterprises as well, once they achieve a certain size, the most attractive option, both for owners to realize value and for employees to expand their career opportunities, is often to become part of a larger corporate structure with global reach. (Page 30)

²¹ Competition Policy Review Panel, News release, October 30, 2007

2. “The Panel’s mandate is ... to make recommendations ... on ways to establish domestic conditions that both encourage Canadian firms to be active and aggressive investors at home and abroad, and maximize Canada’s attractiveness as a destination for new investment and talent.”²²
3. “How best to create the domestic conditions to foster the development of Canadian-based global businesses.”²³

Moreover, while the Panel references the Government’s long-term economic plan, *Advantage Canada*,²⁴ it does not relate its work to that plan. Indeed, the Panel’s paper does not deal in a substantive or meaningful way with productivity and domestic “market forces” competitiveness.²⁵

Indeed, the consultation paper gives “market force” factors only passing mention and does so only in the context of being important to Canada’s attractiveness as a destination for investment, presumably foreign investment.²⁶

The overall structure of the paper and most of its broad themes seem oriented to the “hollowing out” of corporate Canada, which would appear to be the original intention of the government when it created the Competition Policy Review Panel.²⁷ Since then, the Panel’s mandate appears to have been expanded without a commensurate change in focus.

In general, when we review the Panel’s mandate / task and objectives, a number of different and unrelated issues are raised which are not reflected in the questions upon which the panel seeks input.

In our view, the Panel fails to ask four key questions:

- 1 What strategic challenges do Canadian companies face as they make the necessary changes to compete both at home and abroad?
- 2 What policy changes are needed to bring this about?
- 3 What is the urgency for change?
- 4 What are the priorities?

²² Sharpening Canada’s Competitive Edge, page 2.

²³ Competition Policy Review Panel, News release, October 30, 2007

²⁴ Sharpening Canada’s Competitive Edge, page 1

²⁵ The exceptions are such questions as:

1. Do Canada’s economic policies appropriately reflect our increased integration with the North American and global economy?
2. How might these policies be changed to better reflect this new competitive environment?

²⁶ Sharpening Canada’s Competitive Edge, page 32

²⁷ Canada’s New Government Creates Competition Policy Review Panel, News release, July 12, 2007

The consultation paper lacks a clear statement of the “*problem(s)*” it was created to address.

Because there is no clear statement of the “*problem*” and the lack of balance in its consultation paper, we are concerned that the Panel believes that the answers to questions in the Paper will result in recommendations that will help “maximize Canada’s competitive position”.²⁸ We have serious doubts that will be the case.

3.0 Sense of Urgency

Manufacturing, Canada’s largest business sector is a vital component of our economy, accounting for 17% of Canada’s economic activity and providing employment for 2.1 million people. Additionally, every dollar of manufacturing output is estimated to generate over three dollars of total economic activity.

But manufacturing is in serious decline. Since 2003 manufacturing employment has fallen by about 12% - or 250,000 net job losses. More job losses, unfortunately, are on the horizon.²⁹

In part this decline is compounded in the short term by the Canadian dollar’s 21% appreciation in 2007, which has cut into export sales. This, coupled with escalating energy and commodity costs, has significantly eroded profit performance for most companies.³⁰ Cash flow is under tremendous pressure and weakening demand in the US market only compounds the difficulties now being faced by many Canadian companies.

The decline of Canadian manufacturing is not a new phenomenon and many of the strategic challenges facing Canadian companies have been identified. In our view, a clear statement of these challenges is an essential starting point for determining what policy changes are needed. Unfortunately, the consultation paper is deficient in this area.

4.0 Strategic Challenges

This section reviews some of the strategic challenges facing Canadian manufacturers.

There are many sources of these strategic issues. For example, the Standing Committee on Industry, Science and Technology and the 2007-2008 Management Issues Survey of the Canadian Manufacturers & Exporters (CME), 2007-2008 Management Issues Survey, among others.

4.1 *Standing Committee on Industry, Science and Technology*

The Standing Committee on Industry, Science and Technology studied the challenges facing the Canadian manufacturing sector issued its report in February 2007 and made 22 specific recommendations.³¹

²⁸ Competition Policy Review Panel, News release, October 30, 2007

²⁹ Plant, Canadian Manufacturers & Exporters, 2007-2008 Management Issues Survey, page 7, (Hereafter called CME Survey)

³⁰ Plant, “Surging dollar puts manufacturing at risk”. December 17, 2007, page 34.

³¹ See Appendix A

The Panel should recommend to the government that action be taken on those Standing Committee recommendations that have not already been adopted.

4.2 CME 2007-2008 Management Issues Survey

The top 10 strategic challenges facing Canadian manufacturers, which they believe will reshape their businesses over the next three to five years, are set out in Canadian Manufacturing & Exporters (CME)'s 2007-2008 Management Issues Survey as follows.³²

Strategic Challenges	% Of Companies
Economic conditions in Canada	52%
Rising business costs	52%
Stronger Canadian dollar	48%
Availability of skilled & experienced personnel	48%
Changing patterns of customer demand	34%
Competition from China	34%
Economic conditions in the US	30%
Tax competitiveness	30%
Bringing new products/services to market	28%
Regulatory requirements	24%

Canadian public policy has the potential to positively impact 6 of these 10 strategic challenges, as shown in yellow. These are the areas on which the government should focus. Indeed, there is a close correlation between these six challenges and *Advantage Canada*.³³

The federal government has already taken action in some of these areas, for example, reducing corporate tax rates, or has pledged action. But in most cases the “market forces” environment necessary for business to be more competitive and productive has yet to be established.

Canadian manufacturers recommended specific public policy initiatives in such areas as fiscal priorities, regulatory management, skills, infrastructure, trade and innovation as follows.³⁴

³² CME Survey. A total of 1,014 companies across Canada took part and the results are accurate within 3.5 percentage points, 19 times out of 20, page 12.

³³ *Advantage Canada: Building a Strong Economy for Canadians*, Department of Finance, 2006
Advantage Canada is an economic plan designed to make Canada a world leader for today and future generations. It will build a strong Canadian economy and make our quality of life second to none through five competitive economic advantages.

- Tax—Reducing taxes for all Canadians and establishing the lowest tax rate on new business investment in the G7.
- Fiscal—Eliminating Canada’s total government net debt in less than a generation.
- Entrepreneurial—Reducing unnecessary regulation and red tape and increasing competition in the Canadian marketplace.
- Knowledge—Creating the best-educated, most-skilled and most flexible workforce in the world.
- Infrastructure—Building the modern infrastructure we need.

³⁴ CME Survey, pages 15 and 16

4.2.1 Fiscal Priorities

Specifically, manufacturing's top 5 fiscal priorities are as follows.

Fiscal Priorities	% Of Companies
Reduce Federal corporate tax rate	61%
Reduce Provincial Corporate tax rate	59%
Eliminate Provincial capital taxes	55%
Reduce personal income taxes	55%
Tax credit for investment in new technology	54%

4.2.2 Regulatory Management

Manufacturing's top five recommendations to improve regulatory management systems are as follows.

Regulatory Management	% Of Companies
Simplify compliance requirements	54%
Reduce reporting requirements	42%
Uniform interpretation of requirements	34%
Reduce duplication of compliance requirements	32%
Greater harmonization with US	30%

4.2.3 Skills and Workforce Development

Manufacturing's top five recommendations to improve skills and workplace development are as follows.

Skills and Workforce Development	% Of Companies
More students in trades & technical courses in colleges	64%
More students in trades & technical courses in public secondary schools	58%
Expand apprenticeship programs	57%
Ensure apprenticeship programs meet business needs	52%
Increase government support for general workplace training	49%

4.2.4 Infrastructure

Manufacturing's top five recommendations to improve Canada's infrastructure are as follows.

Infrastructure	% Of Companies
Ensure reliable and cost effective energy	65%
Improve efficiency of Canada-US border	59%
Reduce regulatory impediments at US border	57%
Improve trucking capacity	46%
Reduce regulatory impediments to shipping across Canada	34%

4.2.5 Trade

Manufacturing's top five recommendations to improve Canada's international trade are as follows.

Trade	% Of Companies
Increase support for companies preparing to enter new markets	33%
Connecting to international procurement opportunities	33%
Bilateral reduction of trade barriers	32%
Increased support for assessing partner capabilities	32%
Increased support for market assessment	31%

4.2.6 Innovation

Manufacturing's top five recommendations to improve Canada's innovation are as follows.

Innovation	% Of Companies
Strengthen role of Industrial Technology Advisors	38%
Ensure publicly funded research meets business needs	37%
Increase government support for collaborative research	35%
Improve contacts/communication between researchers & industry	35%
Improve/simplify rules governing intellectual property protection	33%

4.3 Other Challenges

In addition to the views of manufacturers, the Panel also has noted some “commonly mentioned challenges to investment ... Canada's small investment market, and a perception of high business costs, including high taxes and high costs of lower-skilled labour.”³⁵

Other specific issues that inhibit Canadian competitiveness, productivity and innovation the Panel should examine are as follows.

4.3.1 Inter-provincial Trade Barriers

Inter-provincial trade barriers discourage economic efficiency and add to the cost of doing business. As part of the process of the federal government negotiating new equalization agreements with the provinces, it is recommended that they be tied in to the dismantling of the current barriers to commerce within Canada.

4.3.2 Business Subsidies

Business subsidies should be terminated. From 1995 to 2004, federal, provincial and municipal governments spent \$144 billion on subsidies to business or \$11,030 per tax filer.

³⁵ Sharpening Canada's Competitive Edge, October 30, 2007, page 8

Business subsidies “encourage a transfer of wealth from one set of taxpayers to another, often from small businesses to large businesses and from taxpayers in general to special interests”.³⁶

Rather providing subsidies to some companies or sectors, it would better to lower the corporate rate for all companies, thus making the whole economy more competitive.

4.3.3 Employment Insurance

Employment insurance premiums bears no relationship to the yearly liability facing the fund, resulting in the creation of a surplus of more than \$50 billion, which has been taken into government coffers as general revenue.

As recommended by the Canadian Institute of Actuaries, the federal Government should turn over administration of the employment insurance fund to an arms length body. The current premium-setting process is confusing, lacks transparency and credibility, and grants little or no independence to either the EI Commission or its actuary.³⁷ As currently, administered employment insurance is an additional tax on business.

4.3.4 Investment in Manufacturing

To encourage innovation and productivity, the Capital Cost Allowance incentive enabling companies to write-off investments in machinery and equipment should be extended by at least five years.

4.3.5 Companies Operating at a Loss

It is strongly recommended that companies in a loss position be allowed to claim a tax refund against taxes paid in previous years. This would effectively allow for a cash flow guarantee that could be used to secure business credit.

With these challenges in mind, we now turn to the Panel’s approach to “how to enhance Canadian productivity and competitiveness”.³⁸

5.0 Canada in a Global Context – Panel Questions³⁹

The consultation paper properly places “*Canada in a Global Context*”. As now written, we believe this is the most important section of the consultation paper. Nine questions are posed.

The answers to five of these questions are, in our view, similar in the sense that they require Canada to establish the “*right*” economic environment for a company to be successful in today’s global economy.

These five questions are⁴⁰:

³⁶ Mark Milke, Corporate Welfare: A \$144-billion Addiction, Fraser Institute, 2007.

www.fraserinstitute.org

³⁷ Canadian Institute of Actuaries, News release, December 3, 2007

<http://www.newswire.ca/en/releases/archive/December2007/03/c6659.html>

³⁸ Sharpening Canada’s Competitive Edge, October 30, 2007, page 1

³⁹ Sharpening Canada’s Competitive Edge, page 15

1. Given the developing economies of China and India, how can we update our public policy framework to enable more Canadian companies to export their goods and services to the world?
2. Do Canada's economic policies appropriately reflect our increased integration with the North American and global economy?
3. How might these policies be changed to better reflect this new competitive environment?
4. What policies would make Canada more attractive as a destination for human and economic capital while at the same time enhancing the potential for home grown firms of all sizes to become global champions with head offices in Canada?
5. How do Canada's policies impacting direct investment, both inward and outward, affect Canada's competitiveness as a destination for FDI and as a platform for global growth?

5.1.1 Comments

The challenge from China and India is not going to be won by competing head to head on cost, given China's average labour costs, which are about 1/40th of those in Canada.⁴¹

A consequence of this labour cost disparity is that labour intensive manufacturing is a thing of the past in Canada. Canadians should recognize this and move on, rather than trying to shore up failing businesses.

Only 22% of Canada's manufacturing companies say that they have developed a formal China strategy whether that means: defending market share against competition from China; exporting to or investing in China; sourcing products or capital from China; managing global logistics and supply chains that now include China; or coping with the impact that China is having on commodity, currency and other financial markets around the world.⁴²

Canada's success must be based on developing competitive advantage.

Section 4 above identified the strategic challenges facing Canadian manufacturers and some key public policy initiatives manufacturers believe are important to improving Canada's manufacturing investment climate.

Given these strategic challenges, it is clear that many of Canada's current economic policies are in need of urgent change.

⁴⁰ Sharpening Canada's Competitive Edge, page 4

⁴¹ CME Survey, pages 8

⁴² CME Survey, pages 8 and 15

5.2 Other Global Context Questions

The four remaining “*Global Context*” questions are, in our view, more appropriately dealt with under the “Investment Policies” section. These questions are:

1. Should Canadians be concerned about foreign takeovers of Canadian firms?
2. How important is domestic control and ownership of Canadian business activities to Canada’s economic prospects and ability to create jobs and opportunity for Canadians?
3. How important are company headquarters to Canada’s economic prospects and ability to create jobs and opportunity for Canadians?
4. How important are global divisional head offices? What factors influence their location?

5.2.1 Comments

Our answer to each of these questions is that Canada does not need more legislation dealing with private sector foreign takeovers.

Of the nearly 1.3 million corporations doing business in Canada in 2004, all but about 8,000 were Canadian-controlled. In other words, less than 1% were foreign-controlled, a proportion that has changed little over time.

Statistics Canada’s recent report “*Multinationals in Canada: An Overview of Research at Statistics Canada*” states that contrary to the concerns whipped-up over the hallowing out of corporate Canada, the benefits which foreign multinationals make to the Canadian economy far outweigh any disadvantages which may have been thought to exist.⁴³

According to Statistics Canada, foreign companies operating in Canada generated two-thirds of our productivity growth over the past three decades; paid higher wages and hired more white-collar workers in the key manufacturing sector; are more capital intensive and contributed more to research and development than their domestic counterparts;

As well, since the July 12, 2007 establishment of the Competition Policy Review Panel, the significant increase in the value of the Canadian dollar makes foreign direct investment into Canada less attractive, while at the same time it makes Canadian direct investment in foreign markets more attractive.

The recent announcement by the federal Minister of Industry that new guidelines will be introduced to the Canada Investment Act to ensue takeovers of Canadian firms are done for commercial reasons and not by foreign governments pursuing political objectives is a positive move.

⁴³ Statistics Canada, The Daily, June 2, 2007, <http://www.statcan.ca/Daily/English/060602/d060602a.htm>

6.0 The Panel's Four Themes – Panel's Questions

The consultation paper states the Panel will orient its work under four broad themes:

- a. Investment Policies
- b. Competition Policies
- c. Outward Investment by Canadians
- d. Canada as a Destination for Investment and Opportunity

6.1 Comments

We have no specific comments in response to the Panel's questions with respect to "Investment Policies", "Competition Law", and "Becoming a Destination for Talent, Capital and Innovation".

We do have an overall recommendation, however, namely that:

The Panel reject bureaucratic (technocratic / legalistic) "solutions" to investment, productivity and competitiveness. Rather, we recommend that it favour public policies that establish a *market forces* economic environment, which encourages investment, innovation, productivity and risk taking.

In other words, we recommend the Panel's focus should be less on the legal framework and more on the economic forces that would make Canada an attractive place in which to invest, live and work.

With respect to the Panel's "*Sectoral Investment Policies*", we recommend that:

The Panel recommend no changes be made in the current sectoral investment regimes.

With respect to the Panel's "*Promoting Canadian Direct Investment Abroad*" questions", we have no comments.

7.0 Relative Cost of Doing Business – A Public Policy Example

Investment decisions involve, among other things, an assessment of the absolute and relative risks, relative profitability and the relative costs of doing business in one jurisdiction versus another.

Government's public policy decisions can increase investment risk and add to the relative cost of doing business. A case in point is the way Canada's greenhouse gas (GHG) emission policy could add to the cost of doing business in Canada, relative to competitors in other countries.

Since 1975, Canadian industry through CIPEC (Canadian Industry Program for Energy Conservation) has reduced energy consumption per unit of production dramatically.⁴⁴

⁴⁴ CIPEC involves more than 5,000 companies.

As illustrated in Figure 1 below, Canadian manufacturers have led the way in reducing GHG emissions.

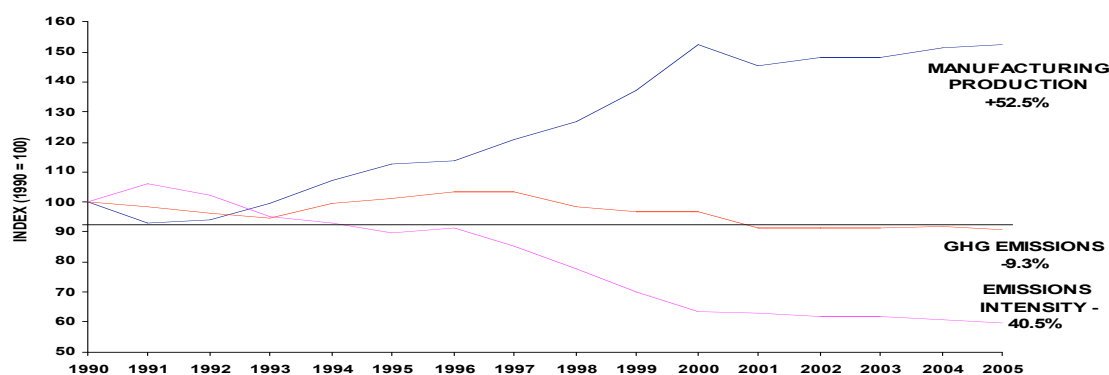
Between 1990 and 2005, while Canadian industry increased manufacturing production by 52%, it reduced GHG emissions 9.3% below 1990 levels. This exceeds Canada's Kyoto commitment of 6% below 1990 levels. Industry's energy intensity increased by 40.5% relative to 1990 levels.⁴⁵

Energy efficiency improvements accounted for 50% of manufacturers' total emission reductions between 1990 and 2005. Fuel switching accounted for 20% and changes in industrial processes for 30% of total reductions. These are significant accomplishments.

However, the public's perception is that manufacturers are the GHG emitting villain. This perception is contrary to the facts. But it is a perception that left unchanged could result in poor public policy, which could make Canada less productive and less competitive.

Figure 1

Manufacturing Production, GHG Emissions and Energy Intensity – 1990 to 2005



This is particularly true when the driving public (the average Canadian) believes he/she is not part of the problem. Again, the facts suggest otherwise. Between 2001 and 2006, on average, Canadians consumed 5.3% more gasoline in 2006 than they consumed in 2001.⁴⁶

Figure 2 below shows the change in Canada's population and the change in gasoline consumption between 2001 and 2006. This obviously requires attention if the government's GHG emissions plan is to be equitable.

⁴⁵ Canadian Manufacturers & Exporters, *Energy Efficiency in Canadian Manufacturing: Improving Competitiveness & Environmental Performance*, presentation to the Council of Energy Ministers, September 27, 2007

⁴⁶ http://www.cppi.ca/Gasoline_Sales_Data_by_Province.html
<http://www40.statcan.ca/101/cst01/trade37a.htm>

However, the government's current plan is to "reduce Canada's total GHG emissions, relative to 2006 levels, 20 percent by 2020 and 60-70 percent by 2050"⁴⁷

Figure 2

Increase in Consumption of Gasoline in Canada: 2001 through 2006

	2001	2006	% Change 2001 to '06
Canada			
Net sales of gasoline	34,636,245	38,416,021	10.9%
Population	30,007,094	31,612,897	5.4%
Litres/person	1,154.27	1,215.20	5.3%

By setting the benchmark year at 2006, government policy could effectively penalize Canadian manufacturing, making it less competitive and contrary to the Review Panel's stated objectives and mandate.

8.0 Summary Recommendations

We recommend that the Panel:

1. Clarify and focus its mandate. The mandate is currently unwieldy and not in line with the Panel's stated intention as to how it intends to conduct its review.
2. Clarify what it means by competition and competition policies.
3. State clearly the "problem(s)" as it sees them with respect to Canada's lack of productivity, competitiveness, investment by foreigners in Canada, and investment by Canadian abroad.
4. Ensure its analysis is in balance with its stated mandate and the "problems" the Panel perceives, including a balance between large companies and SMEs.
5. Focus on the strategic issues identified by Canadian manufacturers, *Advantage Canada*, and the Standing Committee on Industry, Science and Technology, among others, which relate to getting Canada's economic house in order relative to its competitors.
6. Reject bureaucratic (technocratic / legalistic) "solutions" to investment, productivity and competitiveness. Rather, that it favours public policies that establish a *market forces* economic environment, which encourages investment, innovation, productivity and risk taking.
7. Ensure that the government is aware of the uncompetitive consequences on the manufacturers of establishing a 2006 benchmark for GHG emission reductions.

⁴⁷ Notes for an Address by The Right Honourable Stephen Harper, Prime Minister of Canada To the APEC Business Summit 7 September 2007, Sydney, Australia

8. Communicate a sense of urgency in its recommendations to the government, that significant change is needed, and that *“more of the same is not the answer”* to establishing a sound productive and competitive Canada.

Appendix A - Manufacturing: Moving Forward – Rising to the Challenge

Report of the Standing Committee on Industry, Science and Technology FEBRUARY 2007 39th PARLIAMENT, 1st SESSION

LIST OF RECOMMENDATIONS

RECOMMENDATION 1:

That the Government of Canada modify its capital cost allowance for machinery and equipment used in manufacturing and processing and equipment associated with information, energy and environmental technologies to a two-year write-off (i.e., 50% using the straight-line depreciation method) for a period of five years. This measure would be renewable for further five-year periods upon due diligence review by a parliamentary committee.

RECOMMENDATION 2:

That the Government of Canada raise the capital cost allowance rate for rolling stock, locomotives and inter-modal equipment to 30% using the declining-balance depreciation method.

RECOMMENDATION 3:

That the Government of Canada improve the Scientific Research and Experimental Development (SR&ED) Tax Incentive Program to make it more accessible and relevant to Canadian businesses. The government should consider making the following changes:

1. Make the investment tax credits fully refundable;
2. Exclude investment tax credits from the calculation of the tax base;
3. Provide an allowance for international collaborative research and development
4. Expand the investment tax credits to cover the costs of patenting, prototyping, product testing, and other pre-commercialization activities.

RECOMMENDATION 4:

That the Government of Canada review its policies and regulatory and fiscal measures to ensure that they make a greater contribution to the development of clean and renewable energy sources, foster research and development in this area and provide greater support to companies and provinces engaged in these activities.

RECOMMENDATION 5:

That the Government of Canada, with the consent of the Council of Ministers of Education, place a high priority on establishing the agency responsible for the assessment and recognition of foreign credentials.

RECOMMENDATION 6:

That the Government of Canada immediately expand improvements to the Temporary Foreign Worker Program to make it easier for employers across Canada to hire foreign workers when there are no Canadian citizens or permanent residents available to fill the

position. The Government of Canada should require that employers taking advantage of this program provide working conditions that are consistent with federal and/or provincial standards for the occupation and workplace.

RECOMMENDATION 7:

That the Government of Canada provide tax credits and/or other measures to companies providing employer-financed training to their employees.

RECOMMENDATION 8:

That the Government of Canada, complying with the constitutional division of powers, provide increased funding to programs that support postsecondary students and postdoctoral fellows conducting research in industry.

RECOMMENDATION 9:

That the Government of Canada, through the Department of Foreign Affairs and International Trade, complete and disclose to the public, in a timely manner, all important impact analyses of any free trade agreements with South Korea and the European Free Trade Association on specifically vulnerable industries and on employment.

RECOMMENDATION 10:

That the Government of Canada conduct an internal review of Canadian anti-dumping, countervail and safeguard policies, practices and their application to ensure that Canada's trade remedy laws and practices remain current and effective. This review would also include comparisons with other World Trade Organization members such as the European Union and the United States.

RECOMMENDATION 11:

That the Government of Canada immediately bring forth legislation to amend the *Copyright Act*; ratify the World Intellectual Property Organization (WIPO) Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPPT); amend related acts; and ensure appropriate enforcement resources are allocated to combat the scourge and considerable economic and competitive damage to Canada's manufacturing and services sectors, and to Canada's international reputation by the proliferation of counterfeiting and piracy of intellectual property.

RECOMMENDATION 12:

That the Government of Canada, in collaboration with provincial, territorial and foreign governments and the private sector, make implementation of a "smart regulation" initiative a priority. In the interests of efficiency, the government should build on the work of previous and current advisory groups in setting its goals for regulatory reform (e.g., the 2004 report of the External Advisory Committee on Smart Regulation, and the recommendations of the ongoing Advisory Committee on Paperwork Burden Reduction).

RECOMMENDATION 13:

That the Government of Canada conclude negotiations related to the implementation of any regulations on the reduction of greenhouse gas emissions and air pollution, and that the process be expedited.

RECOMMENDATION 14:

That the Government of Canada review the requirements of the *User Fees Act* and ensure that all federal departments are setting and meeting the performance standards and reporting to Parliament as required under the provisions of the Act.

RECOMMENDATION 15:

That the Government of Canada announce its national gateway and trade corridor policy, and that it respond specifically to the concerns about infrastructure expressed by the Coalition for Secure and Trade-Efficient Borders in its policy.

RECOMMENDATION 16:

That the Government of Canada ensure that sufficient, dedicated Free and Secure Trade (FAST) lanes be available for commercial traffic at important crossings, and be staffed to meet traffic demands during peak periods. Where infrastructure limits prohibit such an undertaking, the government should expand or alter the infrastructure to accommodate additional FAST lanes, and other border programs that facilitate trade.

RECOMMENDATION 17:

That the Government of Canada define its financing strategy for the Windsor-Detroit crossing, including any potential tolls and toll roads associated with the crossing.

RECOMMENDATION 18:

That the Government of Canada seriously consider the recommendations of the Expert Panel on Commercialization and report back to Parliament on its intentions with respect to implementing any or all of them, and/or on other policies it intends to implement to improve Canada's commercialization performance.

RECOMMENDATION 19:

That the Government of Canada provide increased funding for organizations that bring together business, government and post-secondary education institutions to focus on the development and commercialization of new technologies.

RECOMMENDATION 20:

That the Government of Canada identify, as soon as possible, a replacement program or alternative funding mechanism for Technology Partnerships Canada in order to support strategic R&D and demonstration projects by industry that are intended to produce economic, social and environmental benefits for Canadians.

RECOMMENDATION 21:

That the Government of Canada conduct a review of the funding levels and operation of the Networks of Centres of Excellence program, and eliminate the automatic 14-year sunset clause that restricts the lifespan of an individual network.

RECOMMENDATION 22:

That the Government of Canada continue to fund research infrastructure through the Canada Foundation for Innovation on a cost-sharing basis.

Appendix B – Panel Questions – Four Broad Themes

The following lists the Panel's questions for each of its four broad themes.

1.0 Investment Policies

1. What impact has the ICA had on the Canadian economy and Canadian competitiveness, and specifically on our ability to attract FDI?
2. What changes to the ICA and Canada's investment review regime would help Canada address the challenges and complexities of the modern global economy, within the constraints of Canada's international obligations?
3. What, if any, changes to the investment review process would enhance Canada's competitiveness and improve Canadians' understanding of the benefits of FDI?
4. Should the net benefit test be adapted to reflect the new competitive environment? If so, how?

2.0 Sectoral Investment Regimes

1. What changes, if any, are required to Canada's sectoral investment regimes to minimize or eliminate negative impacts on Canada's competitiveness?
2. What have been the impacts of these investment regimes on productivity and competitiveness in the specific sectors?
3. Are there alternative mechanisms that would achieve the non-economic policy objectives of the sector while also ensuring maximum competitiveness of firms operating in the sector?

3.0 Competition Law

1. How does Canada's competition policy affect Canadian competitiveness in an environment of globalization and free trade?
2. What changes to Canada's competition regime would enhance the competitiveness of Canadian firms in the global economy?
3. What international best practices, if any, would strengthen Canadian competitiveness as a destination for foreign investment if we were to adopt them?
4. Does Canada's approach to mergers strike the right balance between consumers' interest in vigorous competition and the creation of an environment from which Canadian firms can grow to become global competitors?

4.0 Promoting Canadian Direct Investment Abroad

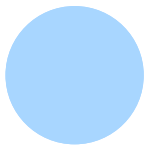
1. What barriers, either formal or informal, do Canadian firms face when seeking to make investments and acquisitions abroad?

2. How should the government adapt its policies to promote increased Canadian direct investment and acquisitions abroad?
3. What measures have been adopted by other countries that are relevant to Canada?
4. Are there policies or approaches that would be useful in addressing the particular challenges faced by small and medium-sized enterprises as they seek to become global competitors and participants in global value chains?
5. What impact does a higher-value Canadian dollar have on CDIA?
6. How can Canada best compete on a broad basis for investment?
7. Should Canada concentrate on investment primarily for the North American market?

5.0 A Destination for Talent, Capital, and Innovation

1. How can Canada better promote inward FDI? What policy change could contribute to the achievement of this objective?
2. In particular, what mix of policy changes would be required to make Canada the preferred point of entry to, and location in, the North American market for the high-value activities of non-North American business entities?
3. Is the modernization of Canada's competition and investment laws sufficient for successfully attracting foreign direct investment in Canada? What other priorities and policy issues should governments address?
4. What impact does a higher-value Canadian dollar have on Canada's competitiveness as a destination for investment?
5. What further could be done in Canada to promote an ongoing review of Canadian competition, investment and productivity performance aimed at Canada's sustained competitiveness?
6. "What policies would make Canada more attractive as a destination for human and economic capital while at the same time enhancing the potential home-grown firms of all sizes to become global champions with head offices in Canada?"⁴⁸

⁴⁸ Sharpening Canada's Competitive Edge, page 15



Curriculum Vitaes

Appendix C – Curriculum Vitaes

Bent Larsen:

- President, BKL Associates

Experience includes:

- Vice President of Canadian Manufacturers' Association (CMA)
- Executive Director of the Canadian Industry Program for Energy Conservation (CIPEC)



Malcolm Rowan:

- President, Rowan & Associates Inc. – a public policy consulting company
- Chairman, Athena Sustainable Materials Institute

Experience includes:

- 15 years - Deputy Minister (Ontario):
 - Ontario's Industrial Restructuring Commissioner
 - Ministry of Energy
 - President, Ontario Energy Corporation
 - Chairman, Task Force on the Investment of Public Sector Pension Funds
 - Ministry of Culture and Recreation
- 2 years - Director of Operations, Premier's Office (Ontario)
- 1 year - Deputy Secretary, Policy, Ontario Cabinet
- 13 years - Canada's Trade Commissioner Service

