



Initial Submission of CGA-Canada to the  
Competition Policy Review Panel  
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## 1 INTRODUCTION

The Certified General Accountants of Canada (CGA-Canada) recently produced a paper titled *Fading Productivity: Making Sense of Canada's Productivity Challenge* (2007). Through the conduct of this study, it was revealed that productivity growth has waned considerably in recent years, threatening Canada's competitive position in the global marketplace. The objective of this study was to ascertain if the overall standard of living in Canada is indeed at risk, and to make broad-based policy recommendations to counteract declining global competitiveness.

Given CGA-Canada's recent study of this issue, we are pleased to have the opportunity to submit these comments to the Competition Policy Review Panel in response to its October 30 2007 consultation paper. CGA-Canada is a strong advocate of the need for public and private sectors to work together in forming relevant and long-term solutions to Canada's policy issues. Without question, the current competitiveness challenge facing the nation is one area where collaborative work between both sectors is essential for sustainable improvement.

With a goal to adding meaningful content to the Panel's current discussion on competition policies, CGA-Canada puts forward this submission which may add insight into areas which may or may not yet have been considered by the Panel. In the following pages, we focus primarily on the ways in which Canada can reposition itself as a destination for talent, innovation and investment. In particular, we will urge that the public and private sectors work together to invest in human capital, encourage innovation in small and medium-sized enterprises (SMEs), and improve institutional efficiency in government and business. In each case, the relevant questions from the Consultation Paper are listed along with our respective position on the issue(s).

## 2 SECTORAL INVESTMENT REGIMES

- **What changes, if any, are required to Canada's sectoral investment regimes to minimize or eliminate negative impacts on Canada's competitiveness?**
- **What have been the impacts of these investment regimes on productivity and competitiveness in the specific sectors?**

### *2.1 Relax Restrictions on Foreign and Domestic Ownership in Industry*

CGA-Canada has been a proponent of regulatory reduction for a number of years, specifically as it relates to the competitiveness of SMEs in the Canadian economy. One major area of government regulation that has significantly impeded the competitiveness of the Canadian economy is regarding excessive barriers to foreign ownership. While business may not be taking full advantage of foreign opportunity, the federal government

maintains heavy restrictions in a number of industries, with the most damaging effects in the Telecommunications Industry.

According to the Canadian Standing Committee on Industry, Science and Technology, the regulatory regime is far too restrictive for this industry when compared to that of other OECD member countries. Oftentimes the restrictions are so great that many telecommunication firms are challenged to realize their current investment plans, particularly in terms of raising capital. Because many of these corporations have limited capital, they are often forced to substitute debt capital for equity capital, oftentimes subjecting them to greater vulnerability. In fact, there have been a number of bankruptcy filings and capital restructurings in this industry over the last decade.

Given these consequences, CGA-Canada fully supports the Standing Committee's 2003 suggestions for the federal government to begin substantially reducing the ownership restrictions, with the ultimate goal of eliminating them completely over the next 5-10 years. While concerns regarding the protection of sovereignty in this industry have been raised, the Committee has expressed their confidence that the current *Investment Canada Act* provides the federal government with the necessary tools to ensure that the increase in foreign investment will be carried out in a manner which is consistent with the public interest.

It should be noted also that, while the Telecommunications Industry is particularly affected by government regulations, these restrictions manifest themselves in other industries where foreign investment is likewise affected by federal or provincial regulation. Meriting more extensive review, these industries include:

- Aviation;
- Banking and collection agencies;
- Broadcasting;
- Book publishing and selling;
- Engineering;
- Farming;
- Fisheries;
- Liquor sales;
- Mining;
- Oil and gas;
- Optometry;
- Pharmacies; and,
- Securities dealers

### 3 INVESTMENT POLICIES

- **What changes to the Investment Canada Act (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?**

#### *3.1 Make the Reduction of Foreign Ownership Restrictions a Priority over ICA Amendments*

CGA-Canada believes that there is more pressing urgency to relax foreign ownership restrictions in the various industries noted above than to immediately modify the ICA. To date, there has been little evidence to substantiate or discredit the concern that the ICA discourages investment in Canada; however the damaging effects of foreign ownership restrictions have been widely documented. It is our recommendation therefore that government begin to eliminate restrictions wherever reasonably possible while relying on the ICA as a peripheral tool to manage the increase in inbound investment. That said, government can introduce measures in relatively short order to ensure that the ICA is simple, transparent, comprehensive and responsive to legitimate investment in the Canadian economy.

### 4 PROMOTING CANADIAN DIRECT INVESTMENT ABROAD

- **How should the government adapt its policies to promote increased Canadian direct investment and acquisitions abroad? What measures have been adopted by other countries that are relevant to Canada?**
- **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?**

#### *4.1 Facilitate access to capital for SMEs*

One of the greatest barriers to investing abroad is that the Canadian economy is largely composed of small and medium-sized firms lacking the resources necessary to extend operations beyond Canadian borders. We must appreciate that these SMEs require more capital if they are to take meaningful advantage of investment opportunity; domestically or internationally. The advantage(s) of investing abroad may indeed be apparent, and the venture feasible, but if the capital is unavailable SMEs will be unable to exploit the opportunities at hand. To be successful in expanding operational activities abroad, Canadian companies, SMEs in particular, require this access to capital. As such government, lenders and firms respectively must:

- introduce mechanisms which facilitate access to capital and reward firms for pursuing efficiency;
- embrace early-stage financing that accommodate inbound foreign direct investment (FDI) and export capacity; and,
- look to maximize organizational efficiency, consider outsourcing low productivity activities to alternate or foreign suppliers and make direct foreign investments.

#### ***4.2 Aggressively Pursue Free Trade Agreements (FTAs)***

Canadian companies will also benefit from the establishment of a greater number of FTAs between Canada and foreign nations. Currently Canada maintains only 3 small bilateral agreements, in addition to NAFTA and EFTA. In comparison, The Americas, China and Europe are negotiating agreements at a rapid pace to expand their access to foreign markets. As these countries succeed in introducing an FTA, Canada loses competitive ground as the scales tip in favour of the competing nation(s). In order to reaffirm Canada's competitive position in the global market and to increase the likelihood that Canadian firms can take advantage of foreign investment opportunities, the time is ripe for Canada to become increasingly aggressive in its pursuit of beneficial FTAs; particularly in countries where Canadian firms have active trade interests.

## **5 BECOMING A DESTINATION FOR TALENT, CAPITAL AND INNOVATION**

- **How can Canada better promote inward FDI? What policy changes could contribute to the achievement of the objective?**
- **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 high-value activities of non-North American business entities?**

### ***5.1 Invest in Human Capital***

#### **5.1.1 Make Excellence in Math and Science a Priority**

Instilling a strong foundation of math and science skills in students at a young age is particularly important to the ultimate goal of creating a highly skilled labour force. Not only do many of today's jobs in the Canadian labour market demand these skills, but the ability to pursue post-secondary education, particularly in highly technical disciplines such as science and engineering, is also dependent on a strong foundation of numeric skills.

Our analyses have indicated that students who lack these foundational skills will be deterred from enrolling in the programs that demand them, such as science and engineering. Unfortunately, a growing number of Canadian students exhibit declining

abilities in these areas, as an international student assessment of secondary student skills has revealed<sup>1</sup>. Therefore improving the quality of math and science education at an early age is critical for ensuring a continuous highly skilled labour force in Canada.

One of the most efficient ways to improve the quality of education that secondary students are receiving is to ensure that the teachers are offered a pattern of continuing professional development. Given the rapid changes of our technologically advanced, knowledge-based economy, educators need to be assured that their respective instructional methods are compatible with the changing requirements of the practical world. These teachers should therefore be afforded regular compulsory annual training programs supported through the provincial education departments towards that end.

The profession should also be more proactively celebrated, through incentives, rewards and recognition so as to promote the status and stature of the profession and to recognize the critical role these individuals play in preparing the future labour force.

### **5.1.2 Increase Government Investment in Higher Education**

Without sufficient investment on the part of provincial and federal governments in Canada, post-secondary educational institutions are left with funding gaps in terms of meeting their operating expenses. The resulting consequences for Canadian universities and colleges have been deteriorating campus infrastructure, insufficient faculty hiring, poor student experiences, higher tuition costs and weaker relative compensation for the post-secondary professors. All of these factors inhibit Canada's ability to excel or to accelerate the labour supply. Moreover, these factors can be expected to act as deterrents to foreign student recruitment if they persist.

As our recent study on competitiveness indicated, both the federal and provincial governments in Canada have been devoting a smaller percentage of their overall resources to higher education over the past 10-20 years. Encouragingly, the federal government has recognized the negative impacts of this disinvestment and has responded by committing a \$7.6 billion increase in funding for human capital in the Economic and Fiscal Update 2005. This much needed injection will be used to additionally resource Canadian access grants, students seeking financial assistance, Canadian graduate scholarships, post secondary innovation funds, and workplace skills development.

Given the years of divestment that occurred throughout much of the 1990s however, both the provincial and federal governments will be required to ensure that commitments to higher education are sustained. Currently both levels of government are pursuing investment platforms that result in greater consumption of resources, especially through social programs and health care over investment in future prosperity. Therefore future annual budgets should focus on rebalancing resources towards more

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<sup>1</sup> See the 2003 Programme for International Student Assessment (PISA) report. PISA is a collaborative effort among OECD countries to assess the literacy of 15 year-old students.

future investment, specifically in education, transportation, communication and housing.

### **5.1.3 Advance Awareness through Career Advisors**

The departments of career services within secondary and post-secondary institutions should be adequately informed and trained in relation to advising students on the current conditions of the labour market. Information should be readily available and easily accessible to post-secondary institutions in a comprehensible format. Through such instruments, career advisors would be better tooled to guide the interests of secondary school graduates and of prospective college and university students. Concurrently, negative perceptions that students may have regarding certain fields of study can be confronted and addressed.

The labour market conditions of science and engineering in particular should be monitored to guard against any future labour shortages. Perhaps the greatest opportunity lies in the isolation and deliberate communication of the international, national and jurisdictional vocational priorities along with heightened student sponsorship monies for vulnerable areas of study.

### **5.1.4 Create Aggressive Incentives for Employer-sponsored Training**

According to a recent study by Statistics Canada<sup>2</sup>, more than 25 percent of employees involved in workplace training in Canada indicate that they are not receiving the level of training they require, largely because of reductions in employer-supported training over recent years. This phenomenon has reduced the ability of employees to increase their skills sets and to resultantly fully contribute to improving individual labour productivity.

This situation is even more pressing due to the fact that the labour environment has become more technologically demanding by the day. Aging workers nearing retirement are particularly vulnerable to skills shortages since many of them lack the technological skills possessed by their younger counterparts. Given the rapidly aging population, this age group should be receiving more employer-supported training opportunities so as to promote labour force longevity.

In order to reshape the prevalent attitudes related to employer-sponsored training, self-improvement and retraining, the government can play a significant role by developing innovative policy that more fully supports human resource development and creates powerful incentives for participation. According to the work of the Canadian Chamber of Commerce, the option that has received the most positive reaction from SMEs is the concept of a tax credit for training investments. This type of incentive has been a popular subject of interest over the past several years among all levels of government.

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<sup>2</sup> See Statistics Canada, Adult Education & Training Survey, 2003.

CGA-Canada supports the Chamber on the following recommendations regarding a tax credit for employer-supported training:

- The Canadian Chamber of commerce should work with the federal and provincial governments to create a list of pre-approved accredited national training programs where a trans-Canada systemic shortage of skilled workers exists.
- The federal government should introduce a national human resource investment tax credit program that provides a tax credit for any Canadian firm that trains as part of the federally accredited training program.
- The tax credit should provide a mechanism that provides an increased level of credit for small and medium-sized businesses.

### **5.1.5 Render Self-assumed Study more Enticing**

Given the financial strain that higher learning and professional development can exert on personally financed education, CGA-Canada further suggests that:

- Students entering professional vocations which are at risk, underrepresented or otherwise redress unexploited opportunity such as science and engineering discussed above, should attract more favourable tax treatment such as increasing the tax credit multiplier or rendering the tax credit refundable.
- For mature students and workers, the eligibility of expenses (such as cost of transportation and school provisions) for personal tax credits should be made more generous so as to temper the financial obstruction.

## ***5.2 Encourage Efficiency and Innovation in SMEs***

### **5.2.1 Promote Innovation and Technological Growth**

Innovation can play a vital role in improving the efficiency with which goods and services are produced. Businesses can develop a wide range of new products, services and processes by relying on new and improved technologies. Motivated by a desire to accelerate physical production, enhance quality and reduce the frequency of errors or to combat human fatigue, reliance on innovation and technology is a meaningful way of bolstering productivity. In Canadian business, we generally view research and development (R&D) as in-house innovation.

Interestingly, Canada has a very affirmative R&D environment which is supported by some favourable tax incentives. Given this positive environment, one might ask why we are not more successful in creating productivity growth. While other factors may be at work, the real counteraction is that we ourselves represent a relatively small market. As such, new ideas typically do not achieve the necessary economies of scale. Canadian innovators are therefore forced to market their ideas outside of the country to make them lucrative. Not a simple task given the cost and the risk of doing so and the

inventive ingenuity of our neighbour to the south which does not share the same market limitation.

One of the best ways to prevail over this disadvantage is to import innovations from other countries that have been more successful in harnessing a broader commercial participation. While to do so may require foreign direct investment and access to capital, the transfer of technology to Canadian companies raises productivity and enhances export competitiveness.

### **5.2.2 Improve the Quality and Quantity of Technology Transfer Programs**

Many SMEs lack sufficient resources to invest in capital goods and technology at an internationally competitive rate. And because the large majority of the Canadian economy is composed of smaller firms, this results in an overall slower rate of technology diffusion and productivity growth. In order to increase the capital-to-labour ratios in these SMEs and to improve the rate at which new technologies are adopted throughout the country, the federal government can focus on introducing more technology transfers programs or improving the ones already in place.

For instance, the Industrial Research Assistance Program (IRAP) run by the National Research Council is one such program that has shown extreme success and warrants further expansion. IRAP provides technical and business-oriented advice to SMEs on adopting new technologies, extends financial support to firms that demonstrate growth-oriented behaviour, and allows SMEs access to a wide range of networks where they can foster their technology growth. Because of the many connections that IRAP has with organizations at the regional, national and international levels, this is one of the more rational venues for expanding technology transfer programs.

### **5.2.3 Take up Investment Spending**

Insufficient investment in capital goods, particularly in machinery and equipment, has been largely responsible for the widening productivity gap between Canada and the United States over recent years. This area of investment has become particularly important to the Canadian economy in recent years given the tremendous growth in the manufacturing industry, which is largely dependent on machinery and equipment. According to Industry Canada, the manufacturing industry is the second most important sector in the entire economy, with a compounded annual growth rate of 4.1 percent between 1997 and 2003. Unfortunately the manufacturing industry is also dominated by a large number of SMEs, along with the rest of the Canadian economy, which makes it difficult for them to invest regularly in additional M&E given their limited financial resources.

The good news for Canada is that our currency has of late been strong against the US dollar, rendering the price of new foreign machinery and equipment economically attractive. The caveat is that the strength of our currency dampens revenues and

weakens the case for new investment; at least behaviourally. But given that, by boosting productivity, investment spending neutralizes the effect of the high dollar in foreign markets by generating more revenue.

And as mentioned previously, the need for Canadian companies, particularly SMEs, to access capital is necessary in order to take advantage of investment opportunities. As with foreign direct investment, capital is also necessary to invest in new technologies that can enrich productivity growth. Therefore the necessary steps to facilitate access to capital must be made by government, lenders and individual firms alike.

### **5.2.4 Welcome Organizational Productivity**

Firms can capitalize on better arranging their practices and processes. They can systematically break down their sequences of production and correspondingly match worker skills and compensation levels with the demands and inherent value of the underlying tasks. There is relatively little sense in assigning costly input factors to tasks which can be performed more efficiently elsewhere unless there are very good business reasons not to do so. When we manufacture or assemble a product in Canada for example, we would unlikely be inclined to manufacture our own screws which others make very efficiently. Rather, we would simply purchase them.

Good matching of talent and compensation to tasks yields higher productivity and engenders teamwork. This idea has been around for some time but it can now be extended on a global scale to specialize in high-productivity tasks while outsourcing low-productivity tasks which may not be economically optimal in consideration of Canadian compensation costs or the makeup of the staffing complement. Sourcing out lower-cost components internationally makes sense in the current environment when the developing nations have a comparative advantage on low-skilled, labour-intensive operations due to lower wage rates.

The opportunity before us is that globalization can accentuate this thinking of production up the supply chain. Canada, having highly skilled workers, can reserve its expertise to increasingly sophisticated production aspects; their higher-cost labour emphasizes value-added complement to the production process and to specialization. In the end analysis, this means higher domestic productivity and profitability. This is where frictional workforce displacement might occur, but this is when education and training as discussed above become once again so important.

## ***5.3 Improve Institutional Efficiency in Government***

### **5.3.1 Increase Transparency and Accountability in Government**

Insufficient transparency within government can have a detrimental impact on the management of resources within government. The accountability of those in positions

of authority is necessary not only to regulate the allocation of resources, but also to create a strong level of public trust, both domestically and abroad.

CGA-Canada has been supportive of the *Federal Accountability Act*, which results in significant changes to 45 federal statutes and the amendment of more than 100 others. Ultimately the goal of the Act is to eliminate unduly influential donations, protect whistleblowers that uncover scandals or suspect activity, and to sustain Canadians' trust in government and the democratic process.

In addition to these changes, the Auditor General reported in her 2007 report that a number of improvements have been made to reduce inefficiency and waste in government spending wherever possible. CGA-Canada agrees with these important steps and continues to advocate for continued public responsibility, transparency and accountability within all levels of government.

### **5.3.2 Reduce the Burden of Regulatory Requirements**

The topic of regulatory reduction has been reviewed at length by CGA-Canada, most extensively in the 2006 paper titled *Tackling Compliance: Small Business and Regulation in Canada*. In summary, it was found that the cumulative effect of regulation and compliance places a significant burden on business and can, in regretful instances, inflict paralysis onto the entrepreneurial spirit and prosperity.

A number of Canadian enterprises report that they cannot produce the full range of benefits that they would like to due to extensive regulatory burden. Oftentimes, these heavy requirements result in excess business costs for Canadian firms, which are ultimately passed on to the consumers either through higher prices or products/services that simply never make it to the market. Both of these negative outcomes sufficiently damage the competitiveness of businesses.

These regulations are especially detrimental to Canadian competitiveness when they hinder the innovation-driving ventures in the country. One area where this has become of particular concern is in reference to university/industry collaborations, which are a fundamental portal of innovation and learning. More often than not these collaborations are surrounded by a myriad of confusing institutional rules, causing the collaborators to ignore the regulations altogether, or become discouraged from participating altogether.

This is an issue that provincial regulating bodies need to reconcile if optimal synergies between industry and universities are to be struck. These public-private-partnerships (PPPs) in particular serve as fertile environment for the evolution of utility patents in Canada and allow for new inventions to be brought more easily to market. A renewed agenda that renders the following outcomes is therefore highly desirable:

- a complete review of provincial regulations regarding PPPs, eliminating unnecessary requirements wherever possible;
- simplification of terminology to reduce complexity and misunderstanding;

- streamline access to regulations in a format that allows university/industry collaborators to easily locate applicable rules; and
- consolidation of provincial regulations pertinent to PPPs that allow industry leaders to easily collaborate with multiple institutions simultaneously.

## **6 CLOSING REMARKS**

Increasing the competitiveness of Canada is essential to improving real wages, achieving lower relative prices, creating greater purchasing power for consumers, stimulating higher business profits and ultimately creating a superior standard of living.

Unfortunately, Canada has floundered in recent years and is today confronted with a weakened competitive position in the global market compared to 5-10 years ago. Without change to the current policies that govern the public and private sectors, Canadians risk erosion of the standard of living to which they have become accustomed.

In order to remedy this situation, both the public and private sectors need to work cooperatively towards addressing the ailments discussed above. Business, more than ever, must seek out technological and organizational opportunity, and all levels of government need to recognize their influence on competitiveness and work proactively towards improvement. Furthermore, Canadians need to be made aware of our current competitiveness challenge and that investment into improving these ailing areas requires immediate attention, which will reflect positively on the social agenda.