THE CANADIAN CHAMBER OF COMMERCE
LA CHAMBRE DE COMMERCE DU CANADA

TOP 10

Barriers to Competitiveness

Tackling the Top 10 Barriers to Competitiveness

2013

The Voice of Canadian Business™

connect!

TOP 10

Barriers to Competitiveness

Canada's competitiveness continues to be severely challenged as traditional and emerging economies aggressively strive to occupy the global economic landscape. In fact, our country's ability to remain a leader among nations continues to decline. A 2012 World Economic Forum report ranked Canada 14th in global economic competitiveness—down two places from 2011 and sliding five places since 2009. Improving Canada's competitiveness requires an ambitious, aggressive and innovative private sector. Strategic thinking and smart public policies are also needed to address long-standing structural impediments that hinder businesses at a time when they need much greater flexibility to compete.

Last year, in consultation with our members, we launched the *Top 10 Barriers to Competitiveness*. This ongoing initiative aims to direct attention to the key impediments holding back Canada's progress and to urge all levels of governments to act more swiftly in increasing our country's ability to compete globally.

In 2012, in cooperation with our network of chambers of commerce, we made great progress in furthering our competiveness agenda, particularly in addressing the barrier our members identified as being the greatest impediment to the success of Canadian business: the growing skills crisis. Thanks to our common efforts, the skills shortage is now on the minds of everyone, including Prime Minister Harper, who declared that overcoming this crisis is now the biggest challenge our country faces.

In this regard, I am pleased to provide our *Top 10* list for 2013, which was determined in consultation with members. I thank our members for their help in identifying the 10 critical policy and regulatory barriers that will be the focus of our advocacy efforts this year. As you will see, the skills issue remains our main priority in 2013.

The need for action is urgent. The standard of living of every Canadian depends on how well we as a people respond to the challenge. We must identify and implement real, tangible solutions for breaking down the barriers to our competitiveness and for creating more opportunities and greater prosperity for Canadian businesses and families.

I urge all to endorse and actively support this important initiative and look forward to sharing our successes with you.

Sincerely,

Perrin Beatty

Perrin Beatty
President and CEO

Table of Contents

In Summary

Skills shortages

Governments and businesses across regions and sectors will need to work cooperatively and aggressively to address this ubiquitous issue, particularly in four key areas: upskilling, immigration policies, education-employment alignment and Aboriginal education and workforce development.

Barriers to world markets for Canadian energy products

The overseas market will be of critical economic importance to Canada in the 21st century. Federal and provincial governments must act now to support the development of the infrastructure and relationships needed to realize the full potential of Canada's energy endowment, or risk missing out on a historic opportunity.

Inadequate workforce productivity

Improved trends in business investment in productivity-enhancing technologies and equipment are encouraging but still leave Canada underperforming relative to its competitors. To improve its productivity, Canada must leverage advanced technologies and efficient infrastructure, support efforts to raise literacy and numeracy levels among workers and ensure its EI program is not a disincentive to work.

Inadequate public infrastructure planning

Government commitments to infrastructure have been intermittent and the criteria changeable, making private sector investment difficult and expensive. Mobilizing private investment to finance public goals is essential for infrastructure development.

Tax complexity and structure

Canada's tax system over-relies on income and profit taxes, the most economically-damaging forms of taxation. Canada's tax system is also overly complex and, as a result, imposes unnecessary and significant compliance and administration costs on businesses and consumers. Canada must create a simple, fair and growth-oriented tax system.

Poor innovation performance

Canada lacks a definitive innovation strategy that brings coherence to the many government policies and programs affecting private research, academic research and commercialization. Poor innovation leaves Canadian business vulnerable to competitors and to changing economic conditions. A clear approach that leads to action is urgently needed.

Deficient strategies for trade success in new markets

Canada's competitiveness is constrained by a focus on slow-growing, traditional markets. Canada must reduce its dependency upon its usual trading partners and expand its access to new markets in Asia, Africa and South America. Legal access to these markets is but the first step. Canada needs to construct trade strategies that will turn access into success.

Internal barriers to trade

Canada is still far from being a barrier-free internal market. Internal trade barriers cost Canada's economy up to $14 billion each year. Canadian business still has to petition governments for the "right" to sell goods and services in Canada. Canadian business needs a new agreement that will deliver a single, unimpeded marketplace for internal trade, labour mobility and investment.

Uncompetitive travel and tourism strategies

Through a combination of high transportation costs and steadily reduced marketing efforts, Canada has slipped from seventh place among the world's tourism destinations to 18th place in just a decade. A huge industry, critical in every region, is struggling with its competitiveness and needs public policies that are forward looking and supportive.

Lack of access to capital

A critical element of business competitiveness in any industry is access to capital—be it through venture capital or through foreign direct investment. Canada must support a sustainable private-sector led venture capital market and increase its appeal to foreign investors.

Skills shortages

The issue

Canadian business has reached the tipping point in its skills shortages. A crisis that had been hidden by the recession has become fully apparent. The labour market is affected by a demographic shift resulting in retirements and a growing mismatch between the skills needed and those available. By one estimate, the skills shortfall by 2016 will be exacerbated by almost 550,000 unskilled workers who will not qualify for skilled vacancies that will exist.[1] That number could double to over one million by 2021.

The barriers

During 2012, the Canadian Chamber consulted its membership on the impact of the skills crisis on Canadian business and issued a report. Based on what it heard from members across the country, Canada is falling short in addressing the current and future skills needs of the workplace. The issues identified range from training and labour mobility challenges to a lack of literacy and essential skills necessary for a 21st century workforce.

Another key emerging issue is the decline of the labour market outcomes of immigrants. Many newcomers have difficulty finding employment, and their earnings have gone down significantly, with immigrants earning about 60 to 70 per cent of the wages of Canadian-born workers, compared to 85 to 90 per cent in the late 1970s.[2]

The way forward

The Canadian Chamber heard from hundreds of participants during its consultations on a wide range of important issues. Four priority areas emerged for action by the Canadian Chamber in the coming year.

Upskilling

Business and government must work together to upgrade the skills of the existing labour force and better employ under-utilized segments of the population, such as youth, older workers and immigrants. The Canadian Chamber will report to the federal government on the optimal ways to encourage skills upgrading in small business and will urge the government to implement the recommendations of the Canadian Chamber's skills and small business symposium, held in November 2012.

---

1 Miner, Rick. *Jobs of the Future.* Toronto: Miner Management Consultants. March 2012. This number is in addition to the unemployment rate.

2 Picot, Garnett and Arthur Sweetman. *Making It in Canada; Immigration Outcomes and Policies.* Montreal: Institute for Research on Public Policy. April 2012.

Immigration
The government must ensure its immigration policy is aligned with local labour markets and employers' needs. The Canadian Chamber will press Citizenship and Immigration Canada for a strong employer role in the immigrant selection process, especially in the new "expression of interest" system. In concert with organizations representing universities, colleges and polytechnics, the Canadian Chamber will push the government for stronger branding of Canadian education and recruitment of students from abroad.

Education
Business and academia must work together to improve the connections between educators and employers to balance supply with demand for skilled trades and highly skilled occupations. The Canadian Chamber will call on local chambers of commerce and will work in cooperation with them to expand the numbers of connections with local post-secondary institutions—a challenge from the Canadian Chamber's president at its 2012 annual general meeting.

Aboriginal peoples
Business and government must ensure Aboriginal peoples better realize their employment potential. The Canadian Chamber will engage with leaders of organizations representing Canada's officially-recognized Aboriginal peoples. It will work to develop objectives, support advocacy and move forward collectively vis-à-vis the federal government on the key issues affecting opportunities for Aboriginal peoples in the workforce.

The test of the Canadian Chamber's success in these four priority areas will be the measurable progress that results from its advocacy and actions throughout 2013.

Barriers to world markets for Canadian energy products

The issue

Diversified markets are critical for the efficient function of a national economy. Canada is the G8 nation whose economy is tied most tightly to trade with other nations, yet Canada sends virtually all of its petroleum energy resources to a single market where demand is falling sharply. Canada's future economic prosperity depends on its ability to provide reliable infrastructure to allow Canadian energy resources to fuel Asian economic growth at world market prices.

The barriers

Global demand for Canadian energy resources is increasing, particularly in the Asia Pacific region, yet Canadian energy products have limited access to markets abroad and are exported nearly exclusively to the United States. Overseas markets will be of critical economic importance to Canada in the 21st century. Not only do they represent the major source of growth in this sector, but they represent also the key Canadian asset sought by trade partners in Asia and other developing markets.

Canada's energy strategies are therefore a key diplomatic tool as it enters trade negotiations like the Trans Pacific Partnership and bilateral negotiations with Japan, India and China. While the U.S. will remain an important export market, diversified export options would secure higher prices for Canada's resources.

Supplying these growing markets will require new infrastructure to get the resources to market.

Since the end of 2010, new shale oil developments in the United States and oversupply in the U.S. Midwest have exerted downward pressure on prices for North American crude and have created a gap between the prices Canadian oil earns in the United States and the world price that buyers (including eastern Canadians) pay to import oil from other sources. CIBC estimates that not securing a world price for these exports cost the Canadian economy approximately $19 billion—more than *$50 million per day*—in 2012. With world oil prices rising in response to concerns about the political situation in the Middle East and U.S. prices declining as a result of huge new supplies of domestic energy, the gap between what Canada earns and what it pays is—at least for now—enormous.

Canada's provinces hold constitutional authority over natural resources that lie within their jurisdiction. This reality complicates the national discussion surrounding our country's energy export strategies.

The Canadian Chamber strongly believes governments should cooperate on how to make Canada a world leader in energy production and energy transportation, rather than arguing over the division of the jobs and revenues created by the existing situation.

Industry, for its part, will need to demonstrate to the Canadian public how these giant resource developments can be undertaken in an environmentally responsible manner. Energy companies operating in Canada are held to higher environmental standards than those in much of the rest of the world and are prepared to adopt world-leading controls on their operations and to account for their environmental impacts. This is a fact, but one that is not generally understood across Canada or the world.

Environmental concerns are legitimate, understandable and increasingly urgent. Industry and government must continue to address them, and expand their efforts to do so. Without progress on this issue of "social license," it is unlikely Canada will transition effectively from a continental supplier to a world supplier.

The way forward

The federal, provincial and territorial governments need to consider options to diversify the distribution of Canada's energy assets, and should work together to develop and sign an energy strategy to secure Canada's status as a world leader in energy production and transportation.

The federal government needs to better educate the Canadian public about energy flows within the country and the broader economic implications of exporting Canadian energy resources to only one customer. Moreover, it should seek partnerships to establish a common fact base surrounding the options for market diversification so project risk can be properly and transparently evaluated.

In 2013, the Canadian Chamber will advocate:

1. Increased federal government engagement with the Canadian public to address the economic opportunities associated with energy market diversification

2. Enhanced outreach to communicate the technological advancements and safety improvements in the pipeline and maritime sectors

3. Key energy infrastructure investment and development, including the exploration of all responsible options to enable tidewater access for Canadian energy resources

4. Use of appropriate levers available to the federal government to facilitate west-east oil trade flows within Canada

Inadequate workforce productivity

The issue

Although many factors contribute to competitiveness, the central one is always the same: how much value can a workforce in Canada create in a period of time, at a given price?

Often measured as "productivity," this factor has been trending downward for Canada in recent years, according to the World Economic Forum.

As developing countries raise their educational standards and employ technologies and infrastructures equal to, or superior to Canada's, their higher rates of production and lower costs present a formidable challenge. Canada is not a low-cost producer; its regulated working conditions, high environmental standards, wage and benefit levels all drive up the costs. To retain these desirable characteristics of Canadian life but still deliver products or services at competitive rates requires us to work more efficiently.

The barriers

The key driver of productivity is, overwhelmingly, business investment in technologies, plant and equipment, and human resources.

Technology gives people leverage over work. They do more at less cost. And this has traditionally been an area of weakness for Canadian business. According to the Bank of Canada, Canadian workers have only about half as much machinery, equipment and information technology to work with as their American counterparts.

In 2012, business investment rose. In the early 2000s, Canadian business invested six per cent less per worker than the OECD average, but in 2012 the level rose to five per cent more than the average. If this trend continues, it will signal a genuine thrust towards greater competitiveness.

Another great drag on Canada's economy is the low level of essential skills in the Canadian workforce. According to the Canadian Literacy and Learning Network, workers in mature industries need a minimum of Level 3 literacy skills. Approximately 48 per cent of adults in Canada don't currently have this education level, meaning their ability to utilize new technologies, adapt to new workplace responsibilities and absorb training is constrained.

Meanwhile, smaller external factors can collectively impact productivity. Some of these are the "quality of life" issues we all appreciate—hours of work, statutory holidays and workplace health and safety regulations. Regulation is not the enemy of business competitiveness. On the contrary, efficient regulation adds value. Worker accidents, for example, damage the business as well as the worker; their avoidance is an important productivity benefit.

But bad regulation and carelessness among political circles can produce significant productivity impacts, often realizing little real benefit. It's essential this be understood in the public debate.

With skills shortages developing in many sectors, employers and governments are eager to fully utilize the available workforce. For this reason, the federal government, in 2012, began long-overdue reforms to the Employment Insurance system. The Canadian Chamber anticipates this process will be a very long one, as Canada struggles to retain the EI program's essential role of protecting workers from economic disaster when they lose their jobs, while trying to ensure it is not a disincentive to work and to worker mobility.

Economics professor Serge Coulombe, writing for the CD Howe Institute in 2011, commented, "Just as an individual's income is in the long-run dependent on how productive he or she is, so too is that of the nation as a whole. If Canada fails to improve its productivity, the incomes of both individual Canadians and the nation as a whole will fall behind those of other developed countries."

The way forward

In 2013, the Canadian Chamber will advocate:

1. Support for employer efforts to raise literacy and numeracy levels among existing workforces
2. Maintaining the current design of the Canada Labour Code, while ensuring that changes deemed essential are targeted at sectors, regions or types of workers based on credible data
3. Implementation of the EI reforms initiated in 2012 and a continued examination of the program to eradicate disincentives to work

Inadequate public infrastructure planning

The issue

To remain competitive, Canada needs a long-term, national infrastructure investment strategy that includes workable funding models and increased private sector involvement and takes into account the wide range of challenges and opportunities within regions and communities across Canada.

The barriers

State of the art, effective and reliable infrastructure is a key component of economic competitiveness. Unfortunately, Canada has not maintained a steady investment in infrastructure, and it continues to lack a good picture of its existing assets. As infrastructure ages, its efficiency falls and maintenance costs rise. The recently released infrastructure report card indicated that approximately 30 per cent of municipal infrastructure is a risk.

Although maintenance spending is easily deferred as other priorities attract public and political attention, the cost of infrastructure breakdown is enormous. Every item of infrastructure has a service life, and governments at all levels must respect these physical limitations with appropriate budget decisions. These are not small amounts of money; municipal roads alone need an estimated $9.1 billion worth of investment.

But Canada's infrastructure challenges extend beyond the maintenance of existing facilities. Competitive economies grow physically and technologically. Governments at all levels are faced with choices about how to enhance public infrastructure—choices that represent important battles in the fight for competitiveness.

Public money will always be in short supply for growth-oriented infrastructure funding. That is why Canada must continue to examine alternate funding models. While improving Canada's public/private/partnership performance is a priority, so, too, is the identification of other fiscal tools.

The way forward

In recent years, the Canadian government has increased its infrastructure investments. While helpful, these programs are not enough to meet Canada's infrastructure challenge. Canada needs a long-term plan for infrastructure financing that goes beyond the budget-to-budget approach adopted by successive Canadian governments.

In 2013, the Canadian Chamber will advocate:

1. Greater cooperation between all levels of government in planning and implementing infrastructure investment

2. Long-term commitments to funding public infrastructure

3. Significant improvement to the P3 programs at different levels of government, with a goal of ensuring private money finances the majority of public infrastructure under the supervision of the public sector

Tax complexity and structure

The issue

The World Economic Forum's *Global Competitiveness Report 2012–2013* cites tax rates and tax regulations among the top 10 most problematic factors for doing business in Canada.

Canada can significantly boost its international competitiveness by simplifying its tax system to facilitate administration and reduce compliance costs and by rethinking the structure of its system.

The barriers

According to the Fraser Institute, it costs Canadians an estimated $2.9 billion to $5.5 billion annually to comply with their personal income tax obligations. It costs businesses $13.0 billion to $19.3 billion to comply with theirs. On top of these costs, governments spend $2.7 billion to $5.8 billion each year to collect taxes and enforce tax regulations. This means a nation of about 35 million people incurs $18.6 billion to $30.6 billion in costs each year to comply with, administer and enforce personal and business taxes.

Ad hoc changes to tax legislation by successive governments and the enactment of temporary provisions have complicated the tax system and increased compliance costs. There are some 260 tax-preference measures (exemptions, deductions, credits or rebates) that are part of the federal tax code. A comprehensive review of these measures is required to determine if they are cost effective and are achieving their intended purpose. A rational tax system would favour a broad tax base, allowing tax rates to be as low as possible so that everyone benefits.

Many developed countries have a formal system to consolidate the tax reporting of corporate groups or to otherwise transfer corporate profits and losses among related companies. Canada does not. As a result, businesses use various tax-planning strategies to transfer tax attributes between related entities that are time consuming and entail significant internal reorganization. Businesses competitiveness would be significantly enhanced if Canada created a formal loss-transfer system to address corporate group taxation.

In addition to reducing the legislative and administrative complexity of its tax system, Canada needs to rethink the structure of its system. Canada over-relies on income and profit taxes, the most economically damaging forms of taxation. Switching the tax mix toward consumption-based taxes like the GST or HST would encourage work and capital formation and would stimulate productivity and economic growth.

Service providers (e.g., the retail trade, wholesale trade and communications sectors) face a higher marginal effective tax rate on capital than other sectors of the economy. Governments should strive to achieve a neutral business tax system—one that does not distort business decisions by favouring particular industries, investments or activities.

Canada's average marginal tax rate on labour has hardly budged in recent years. Many low- and middle-income earners face punishingly high effective marginal personal income tax rates that discourage them from working, saving and undertaking further education and training.

The way forward

In 2013, the Canadian Chamber will advocate:

1. Comprehensive review of Canada's tax system to reduce its complexity and reform its structure

2. Creating a simple, fair and growth-oriented tax system

Poor innovation performance

The issue

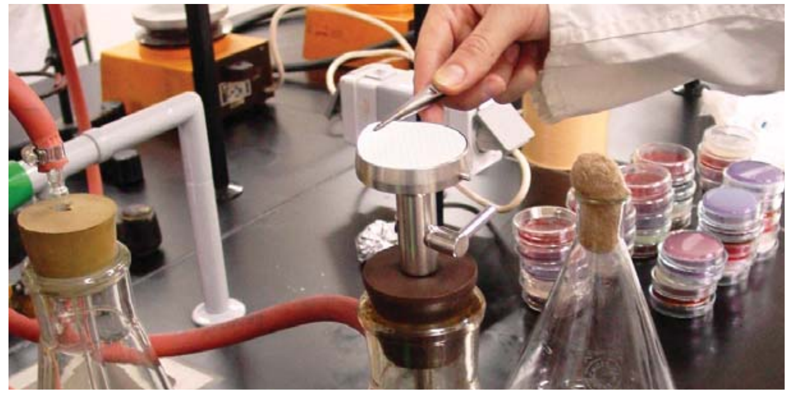
Maintaining a competitive edge demands innovation. Successful businesses recognize that innovation and productivity are intrinsically tied. Fostering a business environment in Canada that rewards innovation will generate tremendous economic benefits by increasing productivity, wages, return on investment, profitability and employment. Rewarding innovation will enhance Canada's position internationally as an economic leader and will make Canada a more attractive destination for foreign investment. The government of Canada has many programs and incentives that are intended to promote innovation. However, there is no coherent strategy connecting these programs to promote Canada's knowledge-based economy.

According to a Conference Board of Canada report card on innovation, "Canada receives a D grade and ranks 14th out of 17 countries." The report card also notes that "countries with the highest overall scores not only spend more on science and technology but also have policies that drive innovation supply and demand."

An innovation strategy is a critical next step for Canada in restoring its competitive edge. Without investment and success in stimulating innovation, Canada's productivity will lag and its competitiveness will continue to decline.

The barriers

The saying "knowledge is power" has never been more appropriate, yet Canada has not developed a strategy that incorporates the many elements of innovation success, including the development of human capital and a strong financial commitment to innovation either by direct government investment or through policies that stimulate private finance. Unfortunately, the only major development in this area has been the 2012 reduction of support through the 25 per cent cut to the Scientific Research and Experimental Development (SR&ED) tax credit.



Under this new structure, only small Canadian-controlled private corporations and unincorporated businesses qualify for the refundable SR&ED investment tax credits. Other companies are unable to take advantage of this tax incentive, and it is ill-suited to support the experimental development and technology-based innovation that it was once intended to sustain. A new model that addresses the needs of all companies that undertake research, development and commercialization of new products in Canada is an urgent priority because businesses are planning to withdraw R&D from Canada in the wake of the 2012 cuts. Once lost, those projects will be impossible to attract back to Canada.

The way forward

In 2013, the Canadian Chamber will advocate:

1. Speedy government action to put a new, balanced system of direct and indirect contributions in place that will incent a broader cross-section of companies toward successful research commercialization

2. A federal procurement strategy that encourages innovation by recognizing it as a key quality in government purchasing of goods and services

3. A strong intellectual property regime in Canada

4. Improved protection of patent and trademark holders from the importation and sale of counterfeit goods through education and granting border services the authority of seizure

Deficient strategies for trade success in new markets

The issue

Canada's competitiveness is constrained by the continuing dominance of traditional markets over its trading relationships. Of its four largest trading partners, three—the U.S., the EU and Japan—are experiencing very low, if any, growth or are on the brink of falling back into recession. In 2011, more than 82 per cent of Canada's exports in goods and services were to these countries (nearly 74 per cent to the U.S. alone). Canada's fourth trading partner, China (which represented 3.8 per cent of Canada's exports in 2011), is growing rapidly, albeit at a slower rate than in recent years.

The barriers

For a trade-dependent country like Canada, failure to expand its access to new markets and reduce its dependency upon its traditional trading partners will significantly impact its economic success. "A rising tide raises all boats," as the expression goes. Canadians can enjoy larger business opportunities and greater earnings for the same expenditure of time and money in markets that are growing quickly. For that reason, many larger Canadian exporters are heavily focused on Asia, Africa and South America.

For its part, the Canadian government has launched trade liberalization discussions with many countries or regional blocs, including Europe, Japan, the Trans Pacific Partnership and India. The Canadian Chamber supports these efforts. However, most Canadians have little cultural familiarity with the fastest-growing international markets, unlike our traditional customers in Europe and the United States.

The way forward

Access to markets is the first element of trade success. Canada must continue to diversify its trade relationships to ensure its long-term competitiveness and prosperity. But legal access is only the first step in a process with myriad aspects. Canada also needs to construct trade strategies that will turn access into success.

In 2013, the Canadian Chamber will advocate:

1. Renewed commitment to Canada's trade commissioner service to ensure its presence and utility in supporting Canadian businesses in new markets
2. Continued and expanded support for export financing services, with particular attention to the challenge faced by small and medium-sized firms
3. Human capital strategies through collaboration between government training programs, education institutions, business trade associations and immigration agencies to ensure Canadian businesses have access to workers with the trade skills, cultural familiarity, business networks and language competence to succeed in new markets
4. Reliable legal arrangements and regulatory cooperation between Canada and its trading partners to facilitate the acceptance of Canadian goods and services in markets opened by trade liberalization
5. Continued and expanded collaboration with Canadian businesses on the planning of official trade missions and the development of trade negotiation priorities
6. Continued efforts to ensure efficient and secure borders

Internal barriers to trade

The issue

As Canada continues to expand its trading relationships, it must ensure the creation of a truly national market. To succeed globally, Canada needs a favourable business environment that fosters productivity and increases its ability to compete against burgeoning foreign competition. A competitive national economy requires the free flow of people, goods and services across the country. Interprovincial trade and mobility stimulates a strong, more resilient business environment. It also provides important employment opportunities for Canadians and helps address skills shortages.

The barriers

Unfortunately, the patchwork system of regulations within Canada significantly hinders our country's productivity and competitiveness. According to the government of Alberta, such barriers cost the Canadian economy up to $14 billion each year. Canada is already a small market, and imposing unnecessary barriers only limits growth and innovation. To address these concerns, the federal government worked with the provinces and territories to create the Agreement on Internal Trade (AIT), which entered into force in 1995. The AIT was designed to reduce and eliminate internal barriers to trade, investment and labour mobility in Canada and to create an open and efficient domestic market.

Since the Agreement on Internal Trade came into force, there has been progress to eliminate domestic barriers to trade and mobility, albeit at a pace that remains far too slow. Under the direction of the Council of the Federation, progress has been made. In 2004, the Council agreed on a work plan to fully implement the AIT, yet more than eight years later outstanding issues remain. There is a continued need to improve the accessibility and efficiency of the dispute resolution mechanism in the AIT. While 2012 saw some progress in this area, the process remains long and cost prohibitive. Furthermore, there are areas where the existing AIT could be expanded upon, such as the implementation of a chapter on technical barriers to trade. Movement in this area would not only help to improve Canada's international trade but would also reduce a significant amount of red tape.

Another area calling for attention is energy. In 1995, the Agreement on Internal Trade committed the provinces and territories to a chapter on energy that would facilitate investment in the infrastructure required to distribute Canada's natural resources. Sources estimate that Canada needs approximately $15 billion per year in required investment in its electricity infrastructure over the next two decades to maintain current levels of service and to bring the next wave of generation capacity online. A reinvigorated AIT process would spur investment and job creation and enable Canada's electricity sector to continue to provide a competitive edge for our industries.

The way forward

2013 presents a valuable opportunity to further improve the efficiency of Canada's domestic market. In December 2012, the federal government assumed the chair of the Committee on Internal Trade and, as a result, has the opportunity to provide leadership and advance the removal of the remaining barriers to internal trade.

In 2013, the Canadian Chamber will advocate:

1. Full implementation of the Premier's Council of the Federation's work plan on internal trade

2. Ongoing improvement of the efficiency and accessibility of the dispute resolution process of the AIT

3. Development and implementation of a chapter on technical barriers to trade in the AIT

Uncompetitive travel and tourism strategies

The issue

The travel and tourism sector is one of Canada's largest generators of GDP, contributing close to $80 billion to its economy annually, and accounting for more than 600,000 jobs. Visitors to Canada spend more than $15 billion annually. So important is the sector that most municipalities and provinces have tourism marketing organizations, including many of the chambers of commerce across Canada.

The impact of the sector is very widespread. The various businesses that benefit, directly or indirectly, when tourism volumes are strong include:

- Transportation: air, rail and boat passenger services, charter and inter-city bus, tour services and car rentals
- Real estate and realty finance: tourism-related realty investment in Canada represents billions annually
- Accommodations: including hotels, inns, hostels, camping and rental properties
- Food and beverage: restaurants, bars and food services
- Meetings and events: conventions and business meetings, major sporting events and art festivals
- Attractions: recreation and entertainment activities, as well as cultural, natural and historical attractions

However, Canada is experiencing a serious and abrupt decline in the sector. In 2002, Canada welcomed 20 million foreign visitors and was the seventh largest destination in the world. In 2010, only 16.1 million visitors came to Canada and last year the number dropped again to 15.9 million. Canada now ranks 18th in the world as a destination.

The barriers

Of course the rapid rise of the Canadian dollar, combined with a serious recession in the United States, Canada's largest market, accounts for much of this decline. But Canada has failed to respond to these shifts with the obvious business strategies a supplier should use to confront deteriorating market conditions.

High costs

Only U.S. visitors drive to Canada, and they have been hardest hit by the recession. Visitors from all other countries depend on the air mode. But Canada has a very high-cost air transport market that results from a long list of government policies. User fees and levies on aviation add hundreds of millions to passenger costs. These non-carrier charges typically account for 40 to 70 per cent of passenger costs. Governments then tax those user fees, extracting nearly 100 million additional dollars from passengers.

As a result of these imposed costs, departures from Canadian airports are roughly 30 per cent more expensive than U.S. departures. Canadians themselves are avoiding the higher costs by driving across the border to start their travel—as many as five million per year, removing their money from this user-financed sector.

Because the air mode enables all the other sectors of the tourism community, policies affecting this one sector damage all the others that rely on it, including accommodations, restaurants, sports and arts events.

In March 2012, *EuroMonitor International's* country report for Canada stated, "The principal concern in the Canadian transportation market is the increasing lack of price-competitiveness of Canadian air travel compared with its U.S. counterpart. Flights in and out of Canadian airports are significantly more expensive than those to and from U.S. airports."

Tax

Only one export sector in Canada is not zero-rated for GST—tourism. Canada is the only G8 nation that does not rebate its value-added tax. The Crown collects nearly half a billion dollars of GST which would be rebated in other countries.

Marketing

To overcome the decline in U.S. tourism and our high costs, Canada should be redoubling its marketing efforts. Instead, the budget for the Canadian Tourism Commission (which conducts our tourism marketing) has been repeatedly cut. Today the Commission spends $58 million promoting Canada in 11 markets. Meanwhile our rivals are outspending us—Ireland, Australia, Mexico, even tiny New Zealand outspends us. Not surprisingly, each of those countries has seen steady increases in its volume of foreign visitors (Ireland up 14 per cent in 15 years, Australia up 30 per cent, New Zealand up 83 per cent). Canada lost 10 per cent of arrivals from key markets in those years.

The way forward

In 2013, the Canadian Chamber will advocate:

1. A rigorous examination by the federal government of the cost competitiveness of the tourism sector and development of a federal strategy for reducing government-imposed costs to the sector

2. A tourism competition strategy crafted under the direction of the Canadian Tourism Commission, incorporating the private sector and other levels of government to create a priority list of enhancements required to the quality of the Canadian travel offering and reduce disincentives

3. Increased Canadian tourism marketing to levels competitive with our travel rivals

Lack of access to capital

The issue

A critical element of business competitiveness in any industry is access to capital. From initial start up, through proof of concept, into initial sales and further growth, entrepreneurs of all sizes need adequate financing. Although Canada has a stable banking sector and is home to very large institutional investors, two areas of business finance have attracted attention: the lack of access to capital for start-up companies and young technology companies and the uncertainty around Canada's openness to foreign direct investment.

Venture capital plays a critical role in helping young technology companies with new or unproven products and start-ups that lack cash flow and tangible assets to secure a loan. While venture capital market activity expanded in 2011, the Canadian venture capital market faces a broad range of challenges hindering innovation and competitiveness.

The barriers

According to Thomson Reuters, $1.5 billion was invested in 444 ventures in 2011, well shy of the $5.9 billion invested in 1,007 Canadian start-ups in 2000. Of the $1.5 billion invested, 71 per cent went to late-stage companies. Access to seed capital (early-stage financing) remained the most restricted.

The average Canadian firm secured only 37 per cent of the venture capital dollars going to U.S. firms in 2011.

Other challenges include poor long-term returns and an inability to consistently attract large, well-funded domestic and international institutional investors.

The Department of Finance sought advice from stakeholders in June and July of 2012 on the financing needs of high-growth firms in Canada, the factors that influence private sector participation in venture capital and the role that governments can play in supporting a sustainable private-sector led venture capital market. The government's special advisor on venture capital, Samuel Duboc, issued his report in January 2013.

The federal government directly supports the venture capital industry mainly through financial Crown corporations, including BDC, EDC and Farm Credit Canada, and through the Labour-Sponsored Venture Capital Corporations tax credit program.

The way forward

The special advisor's report will provide a potential workplan for the Canadian Chamber going forward.

In 2013, the Canadian Chamber will advocate:

1. An angel investment tax credit to support the early stages of innovation

The issue

Foreign direct investment (FDI) provides much-needed capital that is not available domestically. It also brings fresh management, knowledge, technology and access to global supply chains that contribute to a dynamic and competitive economy.

The Canadian Chamber called on the government to raise the review threshold for takeover deals to $1 billion, something the government had promised to do in 2008. The government finally acted on the latter, announcing in December 2012 that it will progressively increase the review threshold to $1 billion for private sector investments.

The Canadian Chamber also called on the government to provide greater clarity with respect to Canada's foreign direct investment review process, including how the rules pertain to the growing role played by sovereign wealth funds and state-owned enterprises (SOEs). On December 7, 2012, the government announced tougher guidelines for foreign, state-owned enterprises to acquire Canadian companies in the future. It will be particularly restrictive in the cases involving companies operating in the oil sands. The government relies on "flexibility" in the rules by using the "net benefit" test to determine which SOE takeovers will be approved or not. The main issue, however, remains the opacity of the net-benefit test.

The Canadian Chamber agrees that takeover bids by some state-owned companies raise important questions that need to be addressed, particularly in key sectors. It believes the government should examine such proposals on a case-by-case basis and it will be seeking greater clarity about how the new rules will apply.

The barriers

Canada ranks 57th among 119 countries in terms of inbound FDI as a share of GDP. The OECD's index of openness to foreign investment ranks Canada well below the OECD average because of its restrictions and approval requirements. A lack of clarity around the net benefit test could be dampening investments that are needed to grow the economy.

The way forward

Canada must increase its appeal to foreign investors so it is able to draw the capital needed for its ever-expanding economy.

In 2013, the Canadian Chamber will advocate:

1. Clarification of the opaque net benefit test

TOP 10

Barriers to Competitiveness

Ottawa
420 - 360 Albert Street
Ottawa, ON
K1R 7X7
613.238.4000
613.238.7643

Toronto
901 - 55 University Avenue
Toronto, ON
M5J 2H7
416.868.6415
416.868.0189

Montreal
709 - 1155 University Street
Montreal, QC
H3B 3A7
514.866.4334
514.866.7296

Calgary
PO Box 38057
Calgary, AB
T3K 5G9
403.271.0595
403.226.6930

THE CANADIAN CHAMBER OF COMMERCE
LA CHAMBRE DE COMMERCE DU CANADA

Chamber.ca