



Can Canada Compete?

**Speaking Notes for the Honourable Perrin Beatty
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On Sunday, I returned from a week in Hong Kong where I had been meeting with educators, government officials and businesspeople. As always when I visit Asia, I was struck by the speed and the breadth of the changes taking place.

Not long ago, we used to consider Asia and the Middle East as rich in human resources, but poor in technology, infrastructure, management and education. Every visit I make to that part of the world is a stern wake-up call...and the alarm is getting louder and louder: to hold that false view is to invite economic disaster.

The once “emerging” economies have more than emerged: they need to be viewed both as partners and as competitors. Their infrastructure is brand new – better than ours in many cases. Their technology is often as good or better – we buy from them now. China, for example, is now the world leader in solar panel technology. And, for a growing middle class, the education they receive is closing the gap with North America.

Most importantly, they are in a hurry, anxious and prepared to compete.

I often quote a remark Stephen Harper made in Davos last year, when he said, “the wealth of western economies is no more inevitable than the poverty of emerging ones.”

If we want to maintain our privileged life styles, we have to fight to for them. We have to compete. And I see precious little evidence that we Canadians realize this reality.

That’s why the Canadian Chamber of Commerce has focused its policy and advocacy initiatives to better address Canada’s competitiveness issues and has created an initiative called the *Top 10 Barriers to Canadian Competitiveness*.

L’an dernier nous avons lancé la première édition de cette initiative : les 10 barrières à la compétitivité du Canada. Un effort sans précédent par la chambre et son réseau de mettre le doigt sur les véritables barrières à la compétitivité de notre pays. Il s’agit de l’exercice le plus complet que nous avons mis de l’avant depuis mon arrivée à la chambre. Un an plus tard, aujourd’hui, nous dévoilons la deuxième version de cette liste et la question de la place du Canada dans le monde demeure toujours aussi importante. Perdons-nous du terrain? Pouvons-nous mieux faire? La réponse est OUI.

The theme of competitiveness is not new, but it remains top of mind with many Canadian business leaders. We have a competitiveness challenge and exceedingly poor productivity growth that is impeding Canada’s prosperity. Our share of global trade is shrinking and our businesses are facing greater direct competition both on home turf and abroad.

As we considered how to help focus public attention on this reality and how to organize the policy work of the Canadian Chamber, we undertook to present every year our list of the most serious barriers to Canadian competitiveness and provide a status report on each item.

The 2012 core areas of focus included some familiar subjects: innovation, human capital, tax policy, regulation, infrastructure, trade and access to capital. Guided by the input we received from our network of chambers of commerce and boards of trade across the country, we identified Canada’s human resource crisis as our top priority.

I can tell you that when we met with political leaders to discuss the Top 10, they reacted positively to its clarity and focus for making Canada more competitive.

How have we done over the last year? I am happy to report progress on several fronts, with the government acting on many of the key elements of our Top 10 agenda.

Let me describe some of the issues and what we have accomplished.

One of the Top 10 barriers to competitiveness is access to capital. Capital is a key component of competitiveness, enabling innovation, efficiency and speed to market. Time-and-time again, entrepreneurs have told us that access to capital is the first and most frustrating barrier to their own growth. Many young technology companies with new or unproved products, and start-ups in general, have difficulty accessing debt financing from traditional sources because they have few tangible assets and little or no financial track record.

We called on the federal government to engage all key stakeholders to develop an aggressive national strategy to build a stronger venture capital industry in Canada. We are pleased that the government responded by not only launching consultations but also making available \$400 million to help increase private sector investments in early-stage enterprises.

In many sectors of our economy, foreign direct investment provides much needed capital that would otherwise not be available domestically. Canada's oil and gas industry, for example, will require hundreds of billions of dollars in outside investment to complete production growth plans and fully develop the resources.

It's important that we increase Canada's appeal to foreign investors so we can attract the capital needed to continue to expand our economy. We urged the government to clarify Canada's foreign direct investment review process and to raise the review threshold for takeover deals to \$1 billion, something Ottawa had promised to do in 2008. The government finally acted on the review threshold, announcing in December that it will progressively increase it to \$1 billion for private sector investments.

Perhaps the most infuriating and frankly unproductive challenge to our competitiveness comes from our internal trade barriers. We dedicate huge efforts to securing free trade with other countries, but Canada still has dozens of barriers to internal trade. Canadians are not free to sell to other Canadians!

Surely no-one believes that we can make our country stronger by building walls between Canadians. And yet our governments maintain policies that have been negative to investors, negative to consumers, and negative to our workforce, for decades. It's time to stop impeding our own progress and recognize that, somewhere not far from here, a business is *not* paying the additional costs of such protectionism. And they are passing their savings along to their customers.

Those customers don't care a bit *why* Canadian goods are more expensive, or slower to market. They don't go home at night and agonize about their decision to buy from a Korean firm, or a Chinese firm, or a Mexican firm. They sleep fine, knowing they got a good product at a better price.

We regard it as a matter of pressing national urgency that the Agreement on Internal Trade be implemented, renewed, expanded, properly enforced. In short that the governments of this country take it seriously and remove this outdated impediment.

While we have made significant improvements to the *Agreement on Internal Trade*, the work is unfinished. The labour market chapter remains imperfect, particularly as it relates to

occupational standards and certification requirements. Governments also need to flesh out a new chapter on technical barriers to trade. Progress on this issue would help businesses tremendously and would advance the government's agenda on two key fronts: international trade and the reduction of regulatory red tape.

Business can only flourish if the hand of regulation is not too heavy. Canada has more governments, making more rules, than any other place I know. And it's just not the number of regulations that is problematic; it is also the duplication and overlap of different regulatory jurisdictions. For many of our members in the natural resource sector, for example, the efficiency with which we decide to approve or deny a proposed natural resource project, and under what conditions it can proceed, is central to their competitiveness. Indeed, as a nation that earns a large part of its export revenue from natural resources, Canada cannot afford to be slow and inefficient about decisions affecting these industries.

We called on Ottawa to take immediate action to address this situation. It was major victory for the Chamber when the federal government announced that it will move toward "one project, one review" approach for major projects, set timelines for hearings and assessments (for example, a maximum of 24 months for panel reviews) and reduce federal-provincial duplication.

Our tax system is complex and difficult too. It was when I was Minister of national Revenue over twenty-five years ago and it has become more complex since. The system imposes major and unnecessary compliance and administration costs on both business and individuals. It over-relies on income and profit taxes, the most economically damaging forms of taxation. The way taxes are imposed frequently works against the objective of encouraging growth and prosperity. We will continue to press the government to appoint an independent panel to conduct a comprehensive review of Canada's tax system with the goal of simplifying it as much as possible.

One essential element for Canada's long-term economic growth and prosperity is high-quality, modern public infrastructure. Most of our core public infrastructure was built in the 1950s and 60s and is rapidly approaching the end of its useful service life. Much of it will need to be rehabilitated or replaced within the next ten to fifteen years. How Canada renews and invests in its aging infrastructure will help determine our quality of life. But it will also directly serve the competitiveness of our businesses.

When we look ahead at the price tags for water systems, waste water, electricity generation, and electrical transmission...we are talking about hundreds of billions of dollars in the next 20 years. Perhaps only health care rivals it in terms of costs to our society. And the cost of infrastructure failure is enormous. Just consider getting around the congestion in any major urban centre as construction crews repair and patch, or ask Montrealers about the Champlain Bridge. The examples are endless and I'm sure you all have your own to highlight.

Canada does not have a national, cooperative strategy to address this critical issue. Unfortunately, our various levels of governments just don't tend to work together very well. In particular, we continue to underperform in the tough job of using private money to renew public works. This is a very challenging but very necessary area. There isn't enough public money to do everything that needs to be done, and still pay for the health and retirement programs that are so important to us.

Leadership entails pursuing a vision through innovative and forward thinking in order to achieve progress and ultimately success. Making some tough but necessary choices along the way is not easy but it is necessary. Governing requires the same attributes and we cannot focus

exclusively on short term temporary solutions for the sake of pointing to progress and claiming victory at glitzy public announcements.

When it comes to innovation and to investment in research and development and in the new technologies that often make those innovations possible, Canadian businesses cannot be lauded as trailblazers: in fact, we lag behind. As an example, Canadian workers have only about half as much machinery and equipment and information and communication technology to work with as their American counterparts.

In addition to those impediments to competitiveness that I have highlighted from our initial list and that the Canadian Chamber will continue to advance, let me point out a few new items that we have added to our 2013 Top 10 list. The need for Canada to augment and diversify its trading partners cannot be ignored: in fact, it should be addressed with a sense of urgency. For years, for decades in fact, we have been comfortable and content to operate mostly within the North American marketplace. But that market, as well as the European Union, has become stagnant and will not grow quickly in the foreseeable future. The Canadian Chamber and its members certainly support a government that endeavors to negotiate trade agreements with new partners so we can expand markets for Canadian companies. We do realize, however, that access to a new market, once an agreement is in place, is no guarantee of trade success. We need to develop and implement – in business at least as much as in government – strategies for trade success.

Some initiatives may be as straightforward as foreign language programming, additional student exchange programs, improved regulatory cooperation, better engagement on business law and IP alignment, better use of the tens of thousands of foreign students studying in Canada, strong and reliable export market financing, or practical assistance to small businesses entering unfamiliar foreign markets.

This area is one that lends itself very well to government-business partnership and cooperation: it should be a positive, productive and exciting issue for business, academia and governments alike. In the end, trade success goes far beyond trade access.

The continued growth of Canada's economy and the prosperity of our citizens and businesses depend on whether we can capture our fair share of emerging market demand. This fact, as it should, is starting to resonate at all levels of the Canadian economy. Of course we should continue to do more business with our best trading partner. But Canadian exporters who have traditionally looked exclusively to the U.S. market now understand that they must expand their vision and turn their sights towards new promising markets as well.

The case for export market diversification is particularly strong as it relates to Canada's energy exports. Ninety-eight per cent of Canada's crude oil exports and 100 per cent of our gas exports go to the U.S. As Jim Prentice said a couple of months ago, "I am not sure you can call yourself an energy superpower when one customer represents 99 per cent of your sales."

This is especially important when we consider the astounding increases in oil and gas production that we are witnessing in the U.S. A few months ago the International Energy Agency created quite a stir when it made the bold statement - predicting that the U.S. will become the world's largest producer of oil by 2017 and a net exporter of oil by 2035.

On the other hand, energy demand in Asia is growing faster than anywhere else in the world. The facts are there and Canada simply must seize the moment: our economic prosperity may well depend on whether we take advantage of this opportunity. Complacency will be our downfall. It

is not complicated: we must gain access to world markets for Canadian energy products and we must do it now.

Whether it's by pipeline or railcar, through the west coast or the east coast, we have to get our energy resources to the people who need them, want them, and will pay top dollar for them.

Another area of concern to Canadian business and one where we will also be focusing our energies is Canada's uncompetitive travel and tourism sectors. This sector is one of our largest, earning more than \$70 billion annually. But over the last decade we have complacently watched our position slide in the world travel economy. Of course the recession of 2008 / 09 hurt our best clients, the Americans. But other countries are recovering in this sector. America and Mexico are seeing stronger travel numbers, as are Ireland, Australia, and others.

What we see is other countries fighting for success, with high levels of training, attention to service levels, efforts to reduce costs, and much more marketing. In Canada we simply shrug and talk about how our dollar is stronger. And then cut our tourism marketing budget some more. We are sacrificing billions to save a few dollars.

Finally, I'd like to turn to the number one issue in our Top 10, Canada's human resource challenge.

When we consulted with our members, skills shortages were at the top of just about everybody's list. Having qualified people is critical to business competitiveness and to their very survival. The Prime Minister has also identified this issue as his government's biggest concern.

Last year, we held our largest-ever consultation with our membership on a single issue. The Canadian Chamber and individual chambers hosted a total of 18 roundtables across the country. We polled our members' opinions through surveys. We conducted webinars on key issues facing the business community.

One message we heard loud and clear is that one size does not fit all. Solutions tailored to meet local needs will make a difference.

When we took stock of all we had heard, four priorities resonated across the country:

- the urgent need to upskill the existing labour force;
- the need to improve immigration policies;
- the need to better connect educators and employers; and
- the need to make greater use of underutilized pools of labour, especially focusing on Aboriginal education and workforce development.

While other issues also surfaced, we believe these four are critical and doable, right now and going forward.

Our members told us the dismaying story of a workforce which often lacks basic skills—literacy, numeracy and communications skills. This was perhaps the most shocking thing we heard. We had assumed that our education system would take care of this. But, in many cases, education from K-12 is falling short of the standards we would expect. Post-secondary institutions often have to offer remedial programs for new students. And, we realize that business has to step up. We can no longer operate on the assumption that every new employee we hire will be job ready.

I tell our members: "Most of the workers you need to take you to the next level aren't coming from Europe or the Middle East. They aren't pouring out of colleges and universities. They are

already in your shop. Overwhelmingly, the better, faster, more reliable way to get more productive workers is to make them, not go shopping for them.”

We recognize that small businesses face unique challenges. They offer informal, on-the-job training, but often they do not have the financial resources to provide formal training. Additionally, many small businesses generally do not have the flexibility to take workers offline to allow them to develop their skills outside the workplace.

Last November, small business owners and managers from seven provinces attended the Canadian Chamber’s symposium on Skills and Small Business. They had a dialogue with stakeholders, experts and government officials about their challenges and needs in training and upskilling of employees. Human Resources Minister Diane Finley spoke at the symposium. She reminded us it is not the sole responsibility of government to fix the skills gap. I agree entirely.

Many of our members simply cannot find potential employees right here at home that are qualified and available for many positions, and they urged a more ambitious immigration program. To this end, the federal government’s recent immigrant program changes are very encouraging. We applaud the federal government’s commitment to a new system to process applications much faster so businesses can get the permanent employees they need. Pre-arrival credentials assessments are also a good step. Additionally, more international students and temporary workers are now able to transition to permanent residency faster than before. Measures to recognize immigrants’ existing education and credentials are also needed. We must tear down the barriers that keep educated and skilled immigrants already in Canada from contributing to their full potential.

Businesses across the country also told us there is a mismatch between the skills of the unemployed and the requirements of current job openings. In Windsor, for example, one tool and die company is operating at only 30 per cent of capacity because of the shortage of skilled labour. It’s a cruel irony in a city that has Canada’s highest unemployment rate.

An organization like ours can help to connect more colleges and universities with local chambers of commerce and their members. For those who haven’t made connections yet, we have best practices to guide them to establish those links. We know there is a lot of enthusiasm at post-secondary institutions to strengthen linkages and relations with the business community.

In Western Canada and the territories, employers are rightly preoccupied with the progress of Aboriginal peoples, the youngest and fastest growing segment of Canada’s population. Lower levels of education remain a major obstacle to their full participation in the workforce.

To provide greater opportunities for Aboriginal youth, we must start with improved funding for First Nations on-reserve education to bring it on par with the appropriate per-student provincial funding for elementary and secondary education.

The skills issue is a key challenge of our times. Every one of us needs to focus on making a difference in the year ahead. For our part, we will continue to engage the government and other key stakeholders to turn our findings into action.

Donc voici. Les 10 barrières à la compétitivité du Canada. Cette liste est simple et claire. Le plus important est qu’elle reflète les préoccupations de tous les secteurs de notre économie et les défis ressentis par des entreprises de toutes tailles, autant les PME que les multinationales. Le moment est venu de nous serrer les coudes et de travailler ensemble afin nous assurer un avenir meilleur.

Before I conclude, I would like to thank all our partners in this important exercise. The support from our Chambers, our corporate members and the associations in this room today has been tremendous. The Top 10 barriers really represent the challenges and priorities of the business community as a whole.

I'm proud of what, working together, we have been able to achieve in the past year. But if the battle has at last been joined, it is still far from won. How we fare will not be decided by others, but by whether those of us who are privileged to inhabit the most fortunate country on the face of the earth show that we have the vision and the determination to build a better future for our children.