



# Scaling Up to New Heights in Business

**Speaking Notes for Hon. Perrin Beatty  
President & Chief Executive Officer  
Canadian Chamber of Commerce**

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Thank you for that kind introduction Jeff. And thank you Gerry for inviting me to join you this morning.

London has a special place in my heart as it book-ended my life in politics. It's where I went to university before being elected to Parliament and where I returned in one of my first jobs after leaving, as a Visiting Professor in Western University's Political Science Department.

It's always a delight to be here.

This morning is one of my first engagements since the Canadian Chamber hosted the Summit of B7 members – the leading business associations of the G7 countries – in Quebec City earlier this month. It was the first time that scaling up small business has been singled out as a priority issue by the B7 members.

So it's clear that creating the conditions for smaller firms to grow at home and internationally is a priority not just in Canada but for any of the world's largest economies.

While we might take comfort in not being alone with this challenge, my B7 colleagues and I take it as a serious issue that needs to be tackled by those who speak for business and governments globally. To have so much of our private sector capacity – in Canada SMEs represent 98% of our companies and 71% of private sector jobs – contributing so relatively little to the GDPs of the world's largest economies is not a path to long-term economic prosperity.

All B7 members agree that our countries need to put wind in the sails of our SMEs to harness their potential to grow all of our economies. At the Summit, representatives of the UK's Confederation of British Industry told us that their SMEs' post-recession growth surpassing that of larger firms by 1% meant their economy recovered more quickly than it would have otherwise.

In 2014, we undertook a discussion with entrepreneurs throughout the country regarding what policy tools they needed to help their businesses succeed. Since then, the Canadian Chamber has focused on the need for SMEs to have the tools they need to grow at home and abroad as one of the ways to build a more competitive Canada in our annual *10 Ways to Build a Canada that Wins*.

*10 Ways* outlines policy improvements the federal government can make to support business growth and build a more prosperous economy for all Canadians.

It is up to businesses to find the best ways to compete and grow in domestic and international markets. But, as Small Business & Tourism Minister Bardish Chagger said at the B7 Summit, it is government's role to create the environment for businesses to succeed.

In Canada, SMEs account for 99.7% of all businesses, but they contribute only 25% of our goods and services exports and less than a third of our GDP. At a G7 level, SMEs account for 50% of GDP and 56% of employment.

Just think about how much more competitive we would be if we could do a better job of sustaining and scaling up small businesses into larger, globally competitive enterprises.

Canada has an enviable record when it comes to entrepreneurship and business start-ups. It is easier to create a business here than in most other places in the world. But many small companies struggle to grow and Canada has few truly global enterprises. Our record in scaling up start-ups into sustainable firms and in growing our small- and medium-sized businesses into larger global players has to improve.

The panelists who follow me this morning prove that entrepreneurship is alive and well. They also demonstrate that we have innovative, successful small companies. Our challenge is to ensure that anyone with the ideas, drive and willingness to take on the risk of starting and running a business has the tools in place to help them succeed – not keep them from doing so.

So what's to be done?

I'll start with taxation. That's an issue you may recall the Canadian Chamber, the London Chamber and others throughout the country had a major difference of opinion – to put it mildly - with the government on when it decided to make changes to the tax treatment of Canadian Controlled Private Corporations, or CPCCs.

We need tax policies that reward entrepreneurship, business investment and growth, and not penalize success. The changes the government proposed last summer would have done just that.

To its credit, the government listened to us and others, and backed down completely on one of its proposals - tougher capital gains rules for family members taking over businesses that could result in them being double-taxed. It

also clarified the process by which family members must demonstrate they are “meaningfully” contributing to the business and paid for doing so. It also put in place a \$50 thousand annual passive investment threshold before higher tax rates kick in.

It also reduced the SME tax rate to 10% this year and will take it down to 9% in 2019.

While we were glad the government modified their original proposals, these changes should have never been put forward in the first place. These changes - even as modified - not only penalize many small businesses but further complicate our already complex and anti-competitive tax system. This is particularly troubling in light of the tax reforms introduced in the U.S.

We are determined not to let this issue lie. At our 2017 AGM last September, delegates from chambers of commerce throughout Canada adopted a resolution calling upon the federal government to establish a Royal Commission to undertake a comprehensive review of taxing statutes guided by the principles of simplification, modernization and reducing compliance costs. It's been forty years of cutting and pasting since the last comprehensive review of Canada's tax system and there's something fundamentally wrong about forcing businesspeople to spend their time looking for ways to fit their companies in between a comma and a semicolon in the Income Tax Act instead of developing new products and services and attracting new customers. And reforming our tax system has become particularly urgent as a result of the massive tax and regulatory reforms underway just to the south of us.

This year and next – leading up to the 2019 federal election – we will engage our members throughout the country to build the case for a comprehensive review of the tax system and to make recommendations on areas of focus and reform.

Regulatory compliance can be daunting for entrepreneurs. While streamlined regulatory processes are important for businesses of all sizes, for SMEs they can be overwhelming. SMEs should have a single point of contact with governments at all levels to guide them through regulatory processes and achieving compliance. We believe that regulations must be sufficiently flexible to take into account the realities of small businesses and to avoid placing disproportionate burdens on them. This is one of the recommendations we and our B7 partners made to our governments at the end of our Summit.

The increasing costs of regulatory compliance and uncertainty affects Canadian businesses of all sizes in all sectors and is a significant barrier to Canada's competitiveness. They hit small businesses even harder.

In a few weeks we will release a major report on Canada's regulatory competitiveness. Spoiler alert: the system needs some serious work.

Canada's complex network of overlapping and duplicative government regulations has created a costly and frustrating environment in which to operate a business. Onerous administrative costs and inefficient regulatory processes divert business resources away from more productive activities. This is especially true for small companies which lack the specialized dedicated compliance resources of larger firms.

Our report will lay out the ways in which Canada's past advantages as a safe, reliable investment destination are evaporating and that Canada's regulatory systems must be more efficient to better serve business, regulators and the public good. It will call on the government to undertake a serious assessment of Canada's regulatory shortcomings and work with the business community to fix them. If we ever had any doubts that the system has become dysfunctional, we need only look at the Trans Mountain Pipeline expansion, where Kinder Morgan may abandon its \$7.4 billion project because, even after playing by the rules and receiving all the needed regulatory approvals from Ottawa, it is still uncertain whether it will actually be able to build the expansion.

We're going to follow our report by doing a number of case studies on specific sectors during the rest of 2018 and into next year's federal election campaign to demonstrate to all political leaders where our regulatory systems are failing and its economic consequences.

One of the most absurd examples of entrepreneurship-destroying federal rules is the National Capital Commission's Traffic and Property Regulations.

Most of you have not heard of these regulations, but you may recall that in 2016 they were the basis upon which the Crown Corporation shut down a lemonade stand on its property in Ottawa.

The operators were 5- and 7- year-old sisters. Their transgression? The girls had failed to acquire a \$1,500 per day permit.

The incident garnered Canada-wide media coverage and the NCC quickly apologized and allowed the girls to set their stand back up. To prevent this from happening again the NCC came up with a classic bureaucratic solution: a pilot program!

So last summer, children in Ottawa could acquire a permit to sell lemonade or other goods for 9 Sundays during the summer. The new permits had 15 requirements, which included stand size restrictions, a requirement for bilingual signage, adherence to municipal and provincial health and safety regulations, an indemnification clause and, of course, the reporting of all revenues to the NCC.

The lesson from a bizarre story like this should be about the intrusion and absurd overreach of government rules and regulations when it comes to starting a business. But unfortunately it's not. The lesson is that in Canada one of the first, and most important, skills for any entrepreneur is navigating government rules and bureaucracy.

Going beyond the burdens imposed by government, there are also other issues we need to tackle to make our small businesses more competitive, including the how to survive and thrive in the digital economy. Canadian SMEs are not alone in their relatively slow adoption of digital technologies that could improve their efficiency, value propositions and expand their operations. Our B7 partners have also identified this as a significant constraint on SMEs' abilities to survive, let alone to grow.

Along with the opportunities of digital technologies come its threats. A cyberattack can wipe out an SME, yet the high cost of adopting cyber security measures diminishes the value proposition for SMEs adopting advanced technologies.

SMEs need incentives to adopt digital technologies that help them grow and they also need help to protect themselves – and their customers – from harm.

The Canadian Chamber and our B7 partners have recommended to our governments that SMEs be permitted to write off 100% of their business investments in the adoption of advanced technologies -including cyber security-related software - and other costs in the year those investments are made.

During our 2014 conversation with entrepreneurs throughout Canada – and since – those with international ambitions have told us that government is often the “vital first customer” that provides the credibility for SMEs to go global.

Our B7 partners share this view and we've asked our respective governments – where they don't do so already – to allocate a percentage of their total procurement budgets to the purchase of goods and services from SMEs that demonstrate innovation in meeting governments' needs or solving their problems.

The Canadian Chamber wants to see us use the heft of federal government procurement to give our small, innovative firms that first anchor client often needed to expand at home and internationally.

We were pleased last December when the federal government announced the Innovative Solutions Canada Program. Twenty federal departments and agencies are mandated to allocate a minimum of 1% of their spending to companies participating in this program.

Up to \$150 thousand is available to entrepreneurs for conceptualization and \$1 million for prototype or proof of concept development.

The program is very much in the “walk before running” category. A recent check of the program's website showed only two challenges. On a positive note, the website shows 4 closed challenges, indicating innovative firms have been successful in moving forward at the concept stage.

Our B7 partners also agree that our governments' programs to assist SMEs in pursuing international opportunities need to be improved and better communicated. An example is the Can Export Program.

Introduced in 2016, this program will reimburse up to 50% of the expenses SMEs incur in marketing their firms internationally.

However, the program's criterion of “one new market only per project”; that “applicants can only have one active Can Export project and at any given time”; and that the program cannot be used for any market – or country - into which the company has exported in the previous two years; limit the program's usefulness for firms operating in different sectors in the same country.

We have one SME member that offers anti-terrorism and nuclear medicine solutions in the same countries. The Can Export Program is of limited help to them

and others like them. We're advocating that the program be modified to acknowledge that several Canadian SMEs are not only global but operate in more than one sector in the same country.

Entrepreneurs have also told us that they know government programs are available to help them. However, they've also told us that it's often just too much for them to try to seek out the dozens of programs offered by dozens of federal departments and agencies.

Since 2014, we have pressed for a single portal for federal – and ideally provincial, territorial and municipal – support programs for SMEs.

In January, Innovation, Science and Economic Development launched the Innovation Canada Portal. The portal asks SMEs a variety of questions about their location, types of business, etc. as a way of triaging the types of support programs available to them and from where.

It's not perfect, but it's an improvement. We – and our members – were given the opportunity to test drive the site before it was launched, albeit only a few days in advance. However, the government said it took to heart members' suggestions on ways to make the portal more relevant and easier to use.

Too often government support programs are designed by politicians and officials without any input from those they are intended to assist or – in the case of last year's tax changes for private corporations – those they would affect. This needs to change.

At our 2017 AGM, chambers of commerce throughout Canada adopted a resolution calling upon the federal government to involve SMEs in the development of programs designed to assist them. We saw a glimpse of that with the last-minute consultation on the Innovation Canada portal. Clearly government can do better. We will continue to press them to do so.

Many have characterized globalization as a race to the bottom for production costs, employment opportunities, product quality and the environment. Entrepreneurs like you demonstrate that this need not be the case.

You represent the best of Canada and I believe all Canadians will increasingly depend upon your success at home and abroad for our long-term prosperity and all that brings.

The Canadian Chamber, the London Chamber and our network throughout the country are here to help create the legislative, regulatory and policy environment to help you succeed. We welcome your ideas on how – like government – we can do better.

Thank you again for inviting me here this morning. I'm really looking forward to hearing from the panelists.