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REPORT OF THE STANDING SENATE COMMITTEE ON BANKING, TRADE AND COMMERCE

The Honourable Doug Black, Q.C., Chair
The Honourable Carolyn Stewart Olsen, Deputy Chair

OCTOBER 2018

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For more information please contact us:
by email: *BANC@sen.parl.gc.ca*
by mail: The Standing Senate Committee on Banking, Trade and Commerce
Senate, Ottawa, Ontario, Canada, K1A 0A4
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COMMITTEE MEMBERSHIP

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The Honourable Senator Carolyn Stewart Olsen, *Deputy Chair*

The Honourable Senators

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Joseph A. Day
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Pierrette Ringuette
Scott Tannas
David Tkachuk
Pamela Wallin
Howard Wetston

Ex-officio members of the committee:

The Honourable Senators Peter Harder, P.C., Diane Bellemare, Grant Mitchell, Larry W. Smith, Yonah Martin, Joseph A. Day, Terry M. Mercer, Yuen Pau Woo and Raymonde Saint-Germain

Other Senators who have participated in the study:

The Honourable Senators Pierre J. Dalphond, Linda Frum, Ghislain Maltais, Sabi Marwah, Richard Neufeld and Betty Unger

Parliamentary Information and Research Services, Library of Parliament:

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Adriane Yong, Analyst

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Lynn Gordon, Clerk of the Committee
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Senate Communications Directorate:

Stav Nitka, Communications Officer
Marcy Galipeau, Communications Officer

ORDER OF REFERENCE

Extract from the *Journals of the Senate*, Tuesday, January 30, 2018:

The Honourable Senator Black moved, seconded by the Honourable Senator Mitchell:

That the Standing Senate Committee on Banking, Trade and Commerce be authorized to examine and report on new and emerging issues for Canadian importers and exporters with respect to the competitiveness of Canadian businesses in North American and global markets; and

That the committee submit its final report no later than Friday, September 28, 2018, and that the committee retain all powers necessary to publicize its findings until 180 days after the tabling of the final report.

After debate,
The question being put on the motion, it was adopted.

Clerk of the Senate

Nicole Proulx

Extract from the *Journals of the Senate*, Thursday, September 20, 2018:

The Honourable Senator Black *(Alberta)* moved, seconded by the Honourable Senator Mitchell:

That, notwithstanding the order of the Senate adopted on January 30, 2018, the date for the final report of the Standing Senate Committee on Banking, Trade and Commerce in relation to its study on new and emerging issues for Canadian importers and exporters with respect to the competitiveness of Canadian businesses in North American and global markets be extended from September 28, 2018 to November 30, 2018.

The question being put on the motion, it was adopted.

Clerk of the Senate

Richard Denis

LIST OF RECOMMENDATIONS

The committee recommends that:

1. The federal government establish a Royal Commission on Taxation to examine Canada's tax system with the goal of improving the efficiency, simplicity and international competitiveness of the system and that the commission complete its study within the next three years.

2. The federal government act immediately to implement measures that would encourage companies to continue to invest in Canada, such as reducing the corporate income tax rate and temporarily allowing the full and immediate deduction of capital expenditures.

3. The federal government take action to improve Canada's regulatory regime, aiming to balance competing interests and ensure project completion.

4. The federal government assist companies in commercializing their intellectual property through better protections in international trade agreements, increased funding for research and development and expanding the Scientific Research and Experimental Development investment tax credit program.

5. The federal government should, on an urgent basis, improve Canada's trade infrastructure, with particular focus on bottlenecks within Canada's gateway transportation networks including rail, pipelines, roads and port infrastructure.

   It should also re-examine the Beyond the Border Initiative and encourage the implementation of those measures in Canada and the United States that would expedite the transportation of goods across the Canada-United States border.

6. The federal government focus on expediting trade in emerging, fast-growing economies, such as China and India. It should continue to negotiate and implement free trade agreements and provide other support programs for businesses exporting beyond North America.

INTRODUCTION

In order for the Canadian economy to continue to grow, it must not only attract new businesses and capital to invest and grow here but must also retain Canadian businesses and their capital. Canada's tax system, regulatory framework and business environment must be competitive and accessible.

> ***[…] if I were a young entrepreneur and I were looking at being in the United States and trying to service the American market with my output, or try to operate from Canada and export to the United States, it is much better to be in the U.S., from a tax point of view.***
>
> *Jack Mintz, President's Fellow, The School of Public Policy, University of Calgary, 20 September 2018*

In terms of the competitivity of Canada's tax system, in December 2017, the Tax Cuts and Jobs Act, was signed into law in the United States.[1] The Act made changes to both personal and corporate taxation. For businesses, corporate income tax rates were reduced below Canada's, essentially reversing one of the main competitive advantages Canada had in relation to the United States with respect to corporate investment decisions. The Act also allowed full and immediate expensing for most types of equipment until 2022 with a gradual decreasing for the five following years. Since Canada does not have full and immediate expensing, this change is thought to have made the United States more attractive for capital-intensive business investment when compared to Canada. Other modifications included measures that would motivate multinationals to bring both income and operations into the United States. Changes for individuals were mostly temporary and included modifications to income tax rates and the elimination or modification of some deductions, credits, and exemptions.

> ***We need to spend less time competing against each other and more time competing against the world. In a more globalized world, we're a small market and fragmenting it only makes it smaller.***
>
> *Tiff Macklem, Dean of Rotman School of Management, University of Toronto, 20 September 2018*

Furthermore, recent difficulties involving major development projects have shown Canada to have inconsistent and burdensome regulatory processes at both the federal and provincial levels of government.

On 26 November 2016, the federal government approved the Trans Mountain Expansion project. Owned by

[1] The official title of the statute is *An Act to provide for the reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018*. The statute has no official short title.

Kinder Morgan Inc., the project would expand an existing pipeline from Alberta to the coast of British Columbia to allow for the transmission of heavier oils and light crude. Following the approval, several legal challenges were put forth relating mostly to the Crown's duty to consult Indigenous peoples and the assessment of the potential environmental impacts of the pipeline. The delays created a heightened level of uncertainty around the project and in April 2018, Kinder Morgan suspended it. A few weeks later, the federal government announced that it would purchase the pipeline. Then, on 30 August 2018, the Federal Court of Appeal overturned the initial approval of the project, essentially halting construction on the project. These events occur just two years after the Northern Gateway project was cancelled after having been previously approved and just a year after Energy East was cancelled; both major pipeline infrastructure projects that would have assisted in transporting Canada's energy resources to domestic and export markets.

In terms of accessibility, uncertainty surrounding Canadian importers and exporters' ability to trade within North America was created with the August 2017 launch of the renegotiation of the North American Free Trade Agreement. After 13 months of negotiations, during which time the United States imposed steel and aluminum tariffs on Canada, Mexico and many of its other trading partners under a "national security" rationale, the United States, Canada and Mexico agreed – in principle – to a new United States-Mexico-Canada Agreement (USMCA) on 30 September 2018.

There's plenty of dry powder in the capital markets today, but in order for Canada to secure its fair share and benefit thereby, we need to stand tall, be bold, and act nationally, decisively, and in a bipartisan manner. Anything short of that, in my view, puts this country's future prosperity into jeopardy.

John Mercury, Partner and Vice Chair, Bennett Jones LLP, 20 September 2018

In the midst of all of these events, the Standing Senate Committee on Banking, Trade and Commerce (the committee) launched a study in February 2018 to carefully consider the impacts of these ongoing events on Canada's importers and exporters and what actions the federal government might take in order to mitigate some of the negative outcomes.

Over the course of eight meetings, the committee heard testimony from representatives from government departments and agencies, think tanks, the energy sector, lawyers, accountants, the Canadian Chamber of Commerce and other business groups to learn about new and emerging issues for Canadian importers and exporters in North American and global markets. The committee heard about Canada's challenges with respect to increasing productivity. Witnesses focused on the concerns of importers and exporters in Canada in relation to the tax system, regulatory framework, protection of intellectual property rights, transporting goods and entering non-traditional markets, such as China and India.

FIXING CANADA'S TAX SYSTEM

The World Economic Forum publishes a Global Competitive Index annually that ranks national economies based on measures that "assess the ability of countries to provide high levels of prosperity to their citizens." The 2017-2018 report ranked Canada's economy 14th out of 137, as it was ranked five years ago. Meanwhile, in those five years, the United States has gone from the 7th most competitive economy in the world to the second. The committee is concerned that Canada is falling behind.

Witnesses stated that the changes in the United States have caused business investment to decrease in Canada and existing capital to relocate, relative to the United States since businesses are choosing to take advantage of the new, more competitive rates and deductions there.

One witness noted that, for young entrepreneurs and highly skilled professionals, personal income tax rates are important to consider when choosing where to live and invest. According to him, both corporate and personal income tax rates are lower in the United States compared to Canada. A witness observed that a "brain drain" in which professionals are moving to the United States in favour of Canada is already occurring. This may be attributed to a low Canadian dollar, resulting in professionals in the United States earning income in a currency with a higher value, combined with higher personal income tax rates in Canada.

Witnesses also spoke about the small business tax rate, stating that because this corporate tax rate deduction only applies to businesses below a certain income threshold, it creates a disincentive for businesses to grow and earn more. Witnesses urged the federal government to consider ways in which small businesses can be supported in their growth.

> ***The problem with the small business tax as it is currently designed is it actually creates an incentive to stay small. We have done some work at C.D. Howe Institute to see how you can change that tax benefit and move it away from being small, per se, to being young; so young companies get these tax benefits, but there is at least an incentive for those companies to grow.***
>
> *C.D. Howe Institute, 14 February 2018*

One way in which the committee feels that Canada can be more competitive is by simplifying its tax system. Canada needs to reassess the way that it taxes people, businesses and capital in order to make our economy more competitive and to increase productivity. A re-examination has been needed for some time in Canada as piecemeal changes to our system have resulted in an *Income Tax Act* that has become overly cumbersome. This assessment is all the more urgent as our competitive position relative to the United States has changed in the last year partly due to the introduction of the Tax Cuts and Jobs Act in the United States.

The committee thinks that the time for tax reform is now. Canada needs to create a tax environment that encourages businesses and people to stay, innovate and contribute to Canada. A tax system that is simple, consistent and has incentives for growth and investment is required.

A. Royal Commission on Taxation

Complexity breeds unfairness. If people don't understand what the law is, it creates unfairness. There's something fundamentally wrong when a company, instead of hiring engineers, is hiring accountants and lawyers to fit the company in somewhere between a comma and a semicolon in the **Income Tax Act*.***

We need to have a full, comprehensive review. It is critical for us to do that. The Americans had the most massive tax reform in over a generation. We need to look back at our system instead of cutting and pasting the way we've done for the last 40 years.

Canadian Chamber of Commerce, 15 February 2018

The last Royal Commission on taxation occurred in 1962 – the Carter Commission – and its report led to a new *Income Tax Act,* with partial taxation of capital gains and changes to tax administration.

Witnesses spoke about the complexity of Canada's tax system and the fact that it has been decades since Canada last had a major overhaul of the system. Furthermore, the recent tax changes in the United States have reduced the competitiveness of our corporate and personal income tax systems. Witnesses urged the committee to recommend a comprehensive review of our tax system to ensure that it does not impose undue compliance burdens on businesses and individuals and is competitive internationally. Witnesses also highlighted the importance of having an external committee for the review of the tax system in order to maintain independence and objectivity.

The committee holds the view that Canada's system requires a complete examination to ensure that changes to one area, do not have unintended consequences elsewhere. This examination should be done carefully and with due diligence but should be launched immediately.

> ***In particular, our view is the U.S. tax reform merits an appropriate policy rethink and response by tax authorities in Canada. Rather than making ad hoc changes in a piecemeal fashion, the government should undertake a broad-based and comprehensive tax-policy review.***
>
> *Ernst & Young LLP, 18 April 2018*

Therefore, the committee recommends that:

> **The federal government establish a Royal Commission on Taxation to examine Canada's tax system with the goal of improving the efficiency, simplicity and international competitiveness of the system and that the commission complete its study within the next three years.**

B. Immediate Measures to Improve Canada's Tax Competitiveness

When accounting for subnational rates, the Tax Cuts and Jobs Act reduced the U.S. statutory corporate income tax rate from approximately 38.9% to 25.8%, slightly below the Canadian rate of 26.8%.[2] Another significant change was the temporary allowance of full and immediate expensing for most types of equipment, which is not available in Canada. According to witnesses, the changes in the Tax Cuts and Jobs Act have already caused some companies to choose to invest in the United States rather than Canada.

> ***[T]he U.S. changes around capital cost allowance will make large capital investments a challenge in Canada, and the corporate tax rates dropping below Canada's is one we would ask all elected officials to look at in great detail. This is a big concern for our members and industry.***
>
> *Canadian Association of Petroleum Producers, 19 April 2018*

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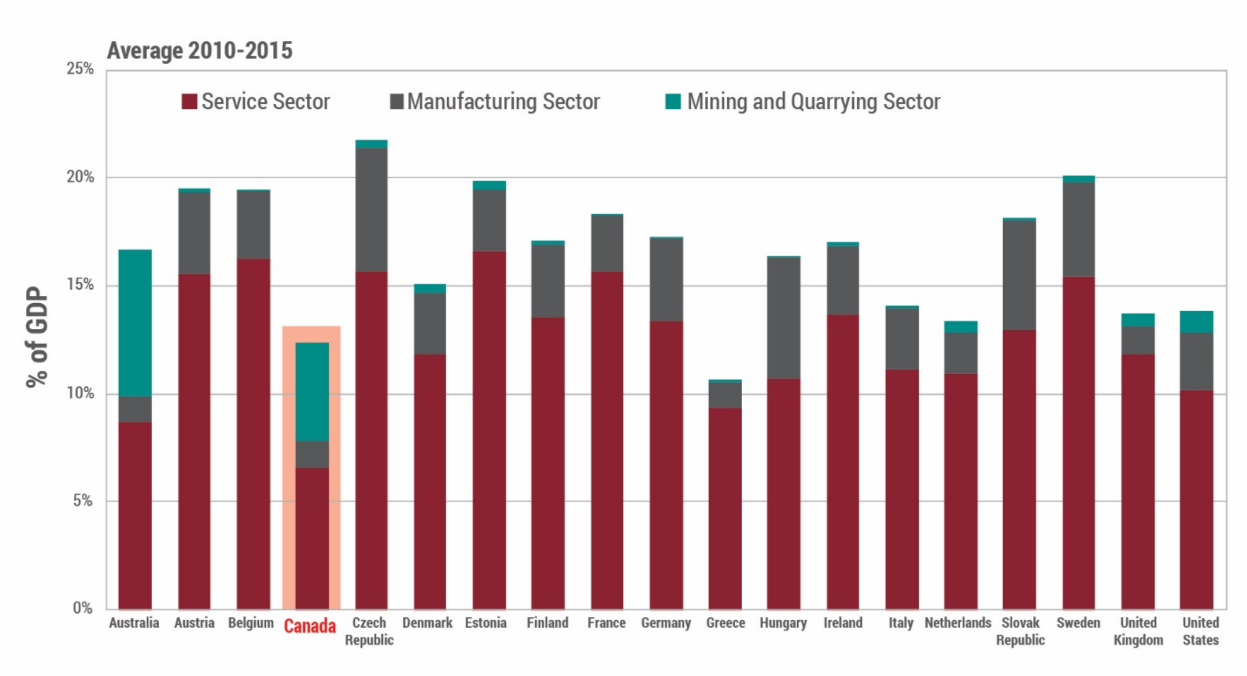
2 Statutory rates account for both national and subnational jurisdictions. For more information, see P. Bazel and J. Mintz, *Whether it is the U.S. House or Senate Tax Cut Plan – It's Trouble for Canadian Competitiveness*, University of Calgary School of Public Policy, Calgary, November 2017.

Witnesses spoke about Canada's need for investment to improve economic growth in Canada. One witness pointed out that private investment in Canada has been low in recent years, relative to other Organisation for Economic Co-operation and Development (OECD) countries. His analysis is shown in Figure 1.

Figure 1: Investment in Canada from the Service, Manufacturing and Mining and Quarrying Sectors



Source: Table prepared using calculations performed by Dr. Jack Mintz, University of Calgary and data from OECD.Stat, Table 8A. Capital formation by activity ISIC rev4.

Some witnesses spoke about the need for Canada to make immediate adjustments in response to the changes that have occurred in the United States in order to remain competitive. According to them, Canada has lost its significant advantage that it had relative to the United States and other OECD countries in terms of its corporate income tax rate. Other witnesses warned that simply reducing the corporate income tax rate or implementing similar capital deductions to those in the United States in isolation may adversely affect other areas of the tax system.

A few witnesses also mentioned that new changes in the United States that temporarily provide companies with full deductibility for certain capital expenditures are especially pertinent to capital-intensive businesses that would require more of these types of investments.

The committee recognizes that any changes to the tax system may have unintended consequences and that tax changes must be considered in a holistic manner. However, the committee is of the view that a Royal Commission on taxation may take several years to complete and that the situation in Canada is such that urgent action is needed. The committee urges the Department of Finance Canada to consider a staged approach that would provide immediate relief for Canadian businesses as well as a road map for comprehensive reform.

I think the reality is we have an immediate tax competitiveness problem in Canada, particularly on personal income tax and now we've lost our business tax advantage vis-à-vis the U.S. Those are immediate concerns, coupled with the fact we've got declining investment.

As much as I would like to say we should look to a Carter commission Part II now, before enacting any reforms ourselves, I just don't think that's realistic. I don't think we have the luxury to do so. I think immediate response measures are certainly in order, and they can be done concurrently with engaging in a broader review of the tax code which, by the way, I think is long overdue.

Charles Lammam, Director, Fiscal Studies, Fraser Institute, 18 April 2018

Consequently, the committee recommends that:

The federal government act immediately to implement measures that would encourage companies to continue to invest in Canada, such as reducing the corporate income tax rate and temporarily allowing the full and immediate deduction of capital expenditures.

CREATING REGULATORY CERTAINTY FOR INVESTORS

The removal of interprovincial trade barriers is an issue that the committee has previously studied and in which it continues to have concerns. Following its 2016 report *Tear Down These Walls: Dismantling Canada's Internal Trade Barriers*, the federal, provincial and territorial governments agreed to a new internal trade agreement, the *Canadian Free Trade Agreement.* While the committee commends the federal, provincial and territorial governments on concluding the agreement as a good initial step, there continues to be several problems with respect to internal trade in Canada such as those related to the interprovincial sale of alcoholic beverages, transportation regulations and health and safety regulations with respect to food products. Many of these barriers are not only costly and unnecessary but they also act as a deterrent for business investment. The committee feels that the federal government must do more in reducing these trade barriers.

> ***It's critical the federal government continue to send very strong signals both to investors and to international capital that our federation works the way it was designed to work. By that I mean that when major energy infrastructure projects go through a rigorous environmental process and receive federal approval, the international community can have confidence these projects will proceed on predictable timelines and under well-understood process.***
>
> *Canadian Association of Petroleum Producers, 19 April 2018*

Witnesses pointed out that having multiple layers of regulatory requirements that are different between provinces and territories is burdensome in terms of compliance. This complexity is magnified when importers and exporters wish to operate within the United States, where each state may also have their own set of regulations. In addition to the administrative burdens, companies must also comply with regulations that directly affect their business operations such as labelling, packaging and inspection. One witness suggested that governments could reduce these burdens by ensuring that if a new regulation is implemented that is costly to a particular industry, that those costs be offset by other regulatory changes that would decrease costs by an equal amount.

According to witnesses, there is currently confusion among global and Canadian investors about whether Canada is a secure place to invest, resulting mainly from the cancellations and delays observed in the Trans Mountain project and other major infrastructure projects recently. Witnesses emphasized the over-politicization of regulatory processes, specifically

> ***The more Canada can harmonize requirements both across its provinces and territories and also between Canada's laws and those of other countries, the more efficiently and effectively companies can operate.***
>
> *Garvey Schubert Barer, P.C., 14 June 2018*

with infrastructure projects that cross provincial boundaries, and suggested that this is impairing Canada's ability to be competitive.

Witnesses also discussed the implementation of carbon taxes in Canada as a potential competitive disadvantage for Canadian importers and exporters. One witness described the carbon tax as a subsidy to any country that is exporting goods to Canada and does not have a similar tax. In addition, witnesses pointed out that having different provincial carbon tax regimes is an additional layer of complexity for companies wishing to do business in Canada.

Other witnesses discussed the impacts of carbon taxes on the oil and gas industry in Canada, arguing that if the purpose of the tax is to reduce global carbon emissions, high-emission companies should have protection and carbon targets should be realistic. According to them, foreign importers of oil and gas products may stop purchasing from Canadian energy exporters due to higher prices as a result of carbon taxes, and purchase instead from lower cost jurisdictions that may not have carbon taxes. The result will be that Canadian exporters lose their market share and global carbon emissions may actually increase, rather than decrease, since foreign jurisdictions may have less stringent environmental regulations.

> ***Essentially Canada's carbon taxes become a subsidy to the United States. In fact, they become a subsidy to anybody who is sending products into Canada that does not have similar carbon taxes. You have to find some way at the border to equalize those costs. We will have to have a system of green tariffs. You have another thing that businesses are going to have to contend with at the border in order to adjust for this perceived subsidy in the other place.***
>
> ***[…] the more you create cost differences between jurisdictions, the more you are making it harder to do business in Canada.***
>
> *Wilson Centre, 26 April 2018*

Other suggestions from witnesses that would improve regulatory consistency and certainty would be the harmonization among provincial sales tax regimes, establishing a national securities regulator and the creation of a national electricity grid.
The committee stresses the importance for the future of the Canadian economy that provincial, territorial and federal governments work together to create a regulatory environment in Canada that works, providing investors the confidence they need to choose Canada as a home for their capital. The circumstances that led to the recent Trans Mountain Expansion decision are unacceptable. It damages the global perception of Canada's ability to provide regulatory certainty to investors looking to take on projects. In particular, the committee believes that the federal government must carefully consider what the duty to consult with Indigenous peoples entails and provide clarity on this matter.

> ***We urgently need to revamp our project approval processes, proceeding from a different premise, that attracting capital and creating jobs are national imperatives. Barring decisive change now, our recent track record will likely continue to discourage investment, particularly in our resource-extractive industries.***
>
> *John Mercury, Partner and Vice Chair, Bennett Jones LLP, 20 September 2018*

It is now more important than ever that Canada take decisive action to undo the damage that has been done. We call on political leaders at all levels of government to act *nationally* by ensuring policies and regulations, new and old, do not pose unnecessary uncertainty or burdens on the businesses that are trying to succeed in Canada.

Consequently, the committee recommends that:

> **The federal government take action to improve Canada's regulatory regime, aiming to balance competing interests and ensure project completion.**

REMOVING BARRIERS TO SUCCESS FOR CANADIAN IMPORTERS AND EXPORTERS

A. Protecting Intellectual Property Rights and Promoting Innovation

It is a well-known phenomenon that Canada does well in creating new companies, but before these companies grow and become competitive, the founding entrepreneurs either leave Canada or sell out to foreign firms. It was suggested that both the private sector and government are responsible for companies not being innovative, not commercializing their intellectual property (IP) and not growing their businesses in Canada.

> ***When the Canadian dollar appreciated from 62 cents U.S. to parity between 2002 and 2007, it was the least differentiated, least innovative products that Canada exported that took the biggest hit. The most innovative products served as a more robust source of Canadian prosperity.***
>
> *Walid Hejazi, Associate Professor, International Business, Rotman School of Management, University of Toronto, 14 February 2018*

Several witnesses pointed out that Canadian companies need to change how they view their business and move towards commercializing innovative products. Producing state-of-the-art products would make them more competitive in global markets, with artificial intelligence and clean technologies being examples of sectors in which Canada is successful. A similar problem was also pointed out with Canadian universities, with one witness saying that they do little to commercialize their intellectual property, even though they spend billions each year on research and development.

Some federal measures that were highlighted by witnesses as ways to assist Canadian companies in creating and producing more innovative products include:

- increasing innovation-related funding for small- and medium- sized companies and Canadian start-ups;
- making the Scientific Research and Experimental Development Program investment tax credit program more "generous;" and
- providing incentives to Canadian businesses to expand beyond the United States so as to be exposed to international competition.

IP rights were stressed as a particular concern for high tech firms. One witness mentioned that Canadian high-tech firms may be focused on selling to a U.S. company rather than expanding because of the difficulties in commercializing technology and the challenges of protecting IP rights internationally. According to another witness, businesses feel that the government does not have "a sense of urgency" to assist businesses that want help in protecting their intellectual property rights when accessing global markets. It was noted that while strong IP rights were proposed by the United States when it was considering being part of the Trans-Pacific Partnership (TPP), once the United States pulled out of negotiations, those IP protections were no longer supported by Canada and were not included in the agreement.

The federal government must signal to the world that it takes IP rights seriously, and its stance towards IP in the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) does not meet the needs of some Canadian exporters. To improve the competitiveness of Canadian businesses, the committee believes that the federal government must assist companies in conducting research and development in Canada, commercializing innovative products and expanding to new markets. As well, to alleviate some of the risks associated with expanding internationally, more must be done to help these businesses protect their IP rights in these markets. The federal government needs to address Canada's innovation and commercialization problem both domestically and at the international level, so as to give Canada's high-tech entrepreneurs the confidence to grow in Canada and expand beyond the United States.

Consequently, the committee recommends that:

> **The federal government assist companies in commercializing their intellectual property through better protections in international trade agreements, increased funding for research and development and expanding the Scientific Research and Experimental Development investment tax credit program.**

B. Improving the Movement of Canadian Products to Market

In June 2017, the committee released a report entitled *National Corridor: Enhancing and Facilitating Commerce and Internal Trade*, which examined the concept of national corridors for transporting goods and services throughout Canada, whether it be by pipeline, rail, road or port, with the aim of facilitating exports to international markets. We heard about the benefits and challenges of the Asia–Pacific Gateway and Corridor Initiative, the Ontario–Quebec Continental Gateway and Trade Corridor, the Atlantic Gateway and Trade Corridor and the Northern Corridor proposal. Our report identified several weaknesses in Canada's trade infrastructure and gateway transportation networks, many of which were echoed by witnesses in this study on competitiveness.

We have been spending infrastructure over the last generation as opposed to investing in infrastructure. We've seen, particularly in many of our urban areas and in key choke points for our trading system, deterioration of infrastructure and serious clogging up of the system and bottlenecks developing. At this point, we're really in the position of doing triage. We simply can't afford to spread money around evenly everywhere and to treat every project as if it were of equal value. Instead, we need to apply a test, in my view, of what the economic return is that we're getting from this so it's genuinely an investment as opposed to simply government spending. […]I believe that the Government of Canada needs to be abundantly clear that our commitment in Canada should be that we will take our resources to the world, to global markets, and we will do so in a way that is responsible from an environmental point of view and that respects community rights.

Canadian Chamber of Commerce, 15 February 2018

In particular, witnesses mentioned that blockages and bottlenecks in the transportation of goods within Canada could be addressed by establishing efficient trade transportation corridors that could run through or around urban centres and link to ports, border crossings and airports in order to access international markets. One witness indicated that the federal government should allocate more infrastructure funds, which could include support from the Canadian Infrastructure Bank, to modernize Canada's trade infrastructure. He also noted that when the government decides which infrastructure projects to fund, it should be strategic and base the decision on the merit of the project and the role it would play in integrated supply chains within Canada, North America or the world. This witness also highlighted that Canada requires additional export capacity on each of its coasts and that the federal government should commit to exporting all of Canada's goods, including its national resources, to international markets.

Because the United States is Canada's biggest export market and because of Canada's role in North American integrated supply chains, the federal government must continuously look for ways to improve border crossings for both individuals and goods. One witness stated that programs contained within the Beyond the Border Initiative should be re-examined by both Canada and the United States. The purpose of this initiative, which was introduced through a joint declaration by the governments of Canada and the United States in December 2011, was to enhance security and accelerate the legitimate flow of people, goods and services across the border.

Another witness pointed out that one of the programs within the Beyond the Border Initiative, the Free and Secure Trade (FAST) program, plays an important role in providing trusted importers and exporters with efficient border clearance. She said that the FAST program was difficult to qualify for, onerous and expensive, and so the federal government should do more to make it more accessible for Canadian businesses.

Witnesses emphasized that the federal government can do more on the Canadian side to streamline the processes of crossing the border, and that it should encourage the United States to consider similar measures.

Due to its earlier work on trade corridors, the committee is well aware of the challenges of moving goods to international markets. Measures should be taken to improve border crossings with the United States, as this relationship is important. It is also significant that Canadian exporters that want to expand to other markets or require large infrastructure investments to transport goods are frustrated with the lack of access to tidewater and the challenges recently faced by the federal government related to the approval of infrastructure projects. We encourage the federal government to continue to invest in and build large trade infrastructure projects because, as recent events in the energy sector have shown, without this investment, Canadian businesses will not be able to compete in global markets and foreign direct investment into Canada will continue to decline.

As such, the committee recommends that:

> **The federal government should, on an urgent basis, improve Canada's trade infrastructure, with particular focus on bottlenecks within Canada's gateway transportation networks including rail, pipelines, roads and port infrastructure.**
>
> **It should also re-examine the Beyond the Border Initiative and encourage the implementation of those measures in Canada and the United States that would expedite the transportation of goods across the Canada-United States border.**

C. Diversifying Canada's Trading Partners

Canada's greatest trading partner is the United States, and this relationship will always be a priority. However, when this relationship becomes strained – which occurred with the recent USMCA negotiations and the imposition of steel and aluminium tariffs – having 76% of our exports and 52% of our imports tied up in one country puts our importers and exporters in a precarious position. In order to mitigate that risk, the federal government needs to build closer trading relationships with other countries.

One witness indicated that Canada needs to develop closer relationships with fast-growth emerging market economies, which includes China, India, Mexico and Brazil, as currently only 9% of Canada's trade is with these countries. He pointed that the opportunities in these markets are accelerating, as household incomes in those counties are rising and therefore demand for high-value goods and services from countries such as Canada is also rising. This witness highlighted that although growth has been observed in emerging market economies, particularly in Asia, for approximately 15 years, Canada's proximity to the United States averted its trading interests.

Entering into free trade agreements was mentioned as one way to diversify Canada's trading partners. One witness noted that trade agreements are about more than the flow of exports and imports, but are also about cross-border investment and Canadian businesses establishing foreign affiliates and generating revenue in these countries.

> ***The message is that in the last 15 years, the U.S. share of global GDP has fallen from about a third to a quarter and Canada is losing share in that market. So we're losing share in a market that's losing share. We've been slow to recognize the problem. Our proximity to the United States has been a huge advantage for much of the last 60 years, but in the last 15 years growth has pivoted and we have not.***
>
> ***Rather than losing share in a market that was losing share, we should be focused on gaining share in a market that's gaining share, and that means diversifying our trade to rapidly growing emerging economies, particularly Asia.***
>
> *Tiff Macklem,* Dean *of Rotman School of Management, University of Toronto*, *20 September 2018*

Several witnesses shared the view that the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) was a good start for Canada in terms of accessing non-traditional markets, with one suggesting that it was more important than the Canada-European Union Comprehensive Economic and Trade Agreement (CETA). It was also highlighted that the signatories to the CPTPP are geographically close to China, and thus may serve as a gateway to enter the Chinese market. Witnesses asked that the federal government progress with its trade negotiations with China and that it should sign a free trade agreement in the near future. One witness noted that Canada should have looked to Asia for trade about a decade ago.

The challenges that businesses face when contemplating expanding beyond the United States was also discussed. A few witnesses indicated that it is much costlier to operate in these overseas markets; as well, some businesses may consider them less familiar and risky, and have concerns that relationships within the country may be difficult to cultivate. To address these concerns, witnesses suggested that the federal government implement other types of support for businesses that want to import to and export from emerging markets, including:

- Using the Invest in Canada Hub to attract foreign direct investment from these markets;
- Having the Innovation Superclusters Initiative help businesses scale up to export beyond North America;
- Providing support for Canadian skilled workers that move overseas;
- Promoting the Trade Commissioner Service and delivering awareness of existing trade programs to businesses; and
- Providing tax incentives for successful Canadian exporters.

Having secured market access to the United States through the USMCA, trade diversification must now be seriously addressed. The committee recognizes that Article 32.10 of the USMCA appears to impede the federal government's independence with respect to negotiating a free trade agreement with China. As a result, it is more important than ever for the federal government to do more to bring down the costs of doing business in markets such as China and India. This may be achieved through trade agreements or through other supporting trade programs in Canada.

From this perspective, the committee recommends that:

> **The federal government focus on expediting trade in emerging, fast-growing economies, such as China and India. It should continue to negotiate and implement free trade agreements and provide other support programs for businesses exporting beyond North America.**

CONCLUSION

The federal government must signal to the world that it is willing to encourage innovation in Canada by taking necessary steps that will allow business to be more productive. Businesses, professionals and capital are increasingly mobile and can choose the jurisdiction that best suits their needs. Canada must make sure that it can continue to compete.

The committee recognizes that making major changes to Canada's tax system will not be an easy thing to do. It will require much careful thought and input from all Canadians to determine the appropriate course of action and to make concrete recommendations. In order for these recommendations to be implemented, much political will and leadership will be required. The committee feels that Canada's tax system has become outdated and burdensome for some time now and that the recent changes in the United States have removed our competitive advantage. A revamp of Canada's system is not only long overdue but now urgently needed.

We must, first and foremost, take a step back and reassess our tax system through a Royal Commission on Taxation. In the meantime, we must make immediate changes to our tax system to curb the flight of investment and talent that is heading to the United States following their major tax changes.

Secondly, we must work hard to improve our damaged reputation among global and domestic investors with respect to regulatory certainty. We must signal to the world that Canada is a country that can get things done and see major projects to their completion. This will require the coordinated effort of policy makers at all levels of government but must start with the federal government.

Finally, we must remove the barriers to success that are slowing growth for Canadian importers and exporters by protecting intellectual property rights, improving the movement of Canadian products to existing and potential export markets and we must diversify our trading partners.

Without these important changes, Canada will be left behind, and our economic prosperity will suffer.

APPENDIX A: LIST OF WITNESSES THAT APPEARED BEFORE THE COMMITTEE

February 14, 2018

As individuals

Walid Hejazi, Associate Professor, International Business, Rotman School of Management, University of Toronto

Meredith Lilly, Associate Professor and Simon Reisman Chair in International Affairs, Norman Paterson School of International Affairs, Carleton University

C.D. Howe Institute

Jeremy Kronick, Senior Policy Analyst

Export Development Canada

Peter Hall, Chief Economist

February 15, 2018

Business Council of Canada

Brian Kingston, Vice President, Policy, International and Fiscal

Canadian Association of Importers and Exporters

Joy Nott, President and Chief Executive Officer

Canadian Chamber of Commerce

The Honourable Perrin Beatty, P.C., President and Chief Executive Officer

Canadian Manufacturers and Exporters

Mike Holden, Chief Economist

April 18, 2018

As an individual

Charles Lammam, Director, Fiscal Studies, Fraser Institute

Ernst & Young LLP

Fred R. O'Riordan, National Leader, Tax Policy, Canadian Leader, Economics and Analytical Services

April 19, 2018

Canadian Association of Petroleum Producers

Tim McMillan, President and CEO

Canadian Energy Pipeline Association

Chris Bloomer, Chief Executive Officer

Suncor

Steve Douglas, Vice President, Investor Relations

April 26, 2018
As an individual
Lai-King Hum, Principal/Senior Lawyer, Hum Law Firm

Macdonald-Laurier Institute
Philip Cross, Senior Fellow

Wilson Center
Laura Dawson, Director, Canada Institute

May 31, 2018
Canada's Ecofiscal Commission
Dale Beugin, Executive Director

Canadian Fuels Association
Lisa Stilborn, Vice President, Ontario Division

June 14, 2018
International Inter-Tribal Trade and Investment Organization
Wayne Garnons-Williams, Chair

Garvey Schubert Barer, P.C.
Sara P. Sandford, Principal

September 20, 2018
As individuals
Tiff Macklem, Dean of Rotman School of Management, University of Toronto
John Mercury, Partner and Vice Chair, Bennett Jones LLP
Jack Mintz, President's Fellow, The School of Public Policy, University of Calgary

APPENDIX B: WRITTEN SUBMISSIONS

As an individual
Jack Mintz, President's Fellow, The School of Public Policy, University of Calgary

Chemistry Industry Association of Canada
David Podruzny, Vice President, Business and Economics

eBay Canada