



Government
of Canada

Gouvernement
du Canada

MANUFACTURING:

Moving Forward - Rising to the Challenge

The Government Response to the Fifth Report of the House of Commons
Standing Committee on Industry, Science and Technology

Canada

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Réponse du gouvernement au cinquième rapport du Comité
permanent de l'industrie, des sciences et de la technologie.



Mr. James Rajotte, M.P.
Chair
Standing Committee on Industry, Science and Technology
Room 406, Justice Building
House of Commons
Ottawa, Ontario K1A 0A6

Dear Mr. Rajotte:

Pursuant to *Standing Order 109 of the House of Commons*, I am pleased to respond on behalf of the Government to the recommendations made by the House of Commons Standing Committee on Industry, Science and Technology in its Report entitled *Manufacturing: Moving Forward – Rising to the Challenge*, tabled in the House on February 6, 2007.

The Government of Canada commends and thanks the members of the Standing Committee for their invaluable work in identifying key challenges facing Canada's important manufacturing sector, and in making recommendations on how the government can support manufacturing success in this country.

The Government also commends and thanks the many witnesses, including manufacturers, associations, and labour organizations, who appeared before the committee and made written submissions. Their thoughtful insights shed light on the significant struggles facing the sector, and their ideas helped the Government develop the measures in *Advantage Canada* (its long-term, strategic economic plan), Budget 2007 and other initiatives that deliver for them.

The Government of Canada shares the objectives of the 22 recommendations in the Standing Committee's report. Through its two budgets, *Advantage Canada* and recent announcements, the Government is actively responding to the recommendations of the Standing Committee, and is working to build a stronger economy even stronger for manufacturers and all Canadians.

The Government Response illustrates the Government's significant progress in addressing all of the major themes of the report, including taxation, energy, labour, trade, intellectual property rights protection, regulatory reform, infrastructure investment, and research, development and commercialization policies. Our response demonstrates our commitment to manufacturers, to all Canadian businesses, and to all Canadians.

I look forward to working closely with the members of your committee, and with Canadian manufacturers, to help ensure that the Government continues to create a positive climate for manufacturers, so they can show the rest of the world how successful and prosperous they can be.

Yours very truly,



Maxime Bernier
Minister of Industry

**RESPONDING TO MANUFACTURING: MOVING FORWARD
– RISING TO THE CHALLENGE**

Canada's New Government understands how important the manufacturing sector is to our economy and our country. Manufacturing output makes up one sixth of Canada's Gross Domestic Product and employs over two million people across Canada.

The manufacturing sector's economic spin-offs reverberate throughout the entire economy as countless communities depend on manufacturing for their livelihoods. There is no doubt that a strong manufacturing sector is crucial to a vibrant national economy. When Canadian manufacturers succeed, Canada succeeds.

Over the past several years, this vital sector has faced significant challenges, including a higher Canadian dollar, competition from emerging economies, fluctuating energy and commodity prices, and a slowdown in the United States. While manufacturers have responded and performed admirably, some companies have struggled, jobs have been lost and communities have suffered.

The House of Commons Standing Committee on Industry, Science and Technology (INDU) studied the challenges facing Canadian manufacturing and considered how the Government of Canada could best respond to them. INDU traveled across the country and heard directly from manufacturers to learn firsthand about their challenges.

In February 2007, INDU released its final report, making twenty-two recommendations on how the Government of Canada can support a strong manufacturing sector. The recommendations covered areas such as taxation, energy, labour, trade, intellectual property rights protection, regulations, infrastructure, research, development and commercialization policies.

GOVERNMENT DELIVERS FOR MANUFACTURERS

A key role for the Government of Canada is to set the overall conditions for a strong and successful manufacturing sector. Our goal is to create a supportive environment that promotes

innovation, investment and success — a business environment that secures manufacturing jobs for Canadians.

We greatly improved the climate for success with Budget 2006, which introduced 29 separate tax cuts for individuals and businesses. The Canadian Manufacturers and Exporters called it "the best budget for manufacturers in the last five years." We followed up on Budget 2006 with *Advantage Canada* — our strategic long-term economic plan.

Advantage Canada is centered on achieving the following five key advantages for Canada to succeed in a very competitive international environment:

- a tax advantage that will reduce taxes for all Canadians and establish the lowest tax rate on new business investment in the G7;
- a fiscal advantage that will eliminate Canada's total government net debt in less than a generation;
- an entrepreneurial advantage that will stimulate business investment by reducing taxes, unnecessary regulation and red tape;
- a knowledge advantage designed to give Canada the best-educated, most skilled and most flexible workforce on the international stage; and
- an infrastructure advantage that will build modern infrastructure to ensure the seamless flow of people, goods and services.

Budget 2007 delivers on the commitments of *Advantage Canada*, and directly responds to many of the recommendations of the INDU report. It lays the foundation to build a more prosperous manufacturing sector by demonstrating a deep commitment to a safer, stronger and better Canada — a Canada we can all aspire to.

AN OVERVIEW OF THE GOVERNMENT RESPONSE

The Government of Canada is moving ahead, on a wide range of policies, by introducing measures that will assist

the sector in meeting current and emerging challenges as well as opportunities. Many of these directly address recommendations made by INDU in its report:

Taxation Policies (Recommendations 1 to 3)

The economic challenges facing Canada's manufacturing and processing (M&P) sector prompted Canada's New Government to introduce a new investment incentive for manufacturing and processing (M&P) businesses. Budget 2007 proposed to introduce an accelerated capital cost allowance (CCA) at a rate of 50 percent on a straight-line basis for eligible machinery and equipment acquired on or after March 19, 2007 and before 2009. This measure would generally apply also to machinery and equipment acquired by suppliers of rail rolling stock for use in manufacturing and processing activities.

Budget 2007 also proposed to increase the CCA rate for buildings used in manufacturing or processing, computer equipment, natural gas distribution pipelines, and for liquefied natural gas facilities. Together with the new investment incentive for machinery and equipment used in M&P businesses, these measures will improve the investment environment for the manufacturing sector and for equipment associated with information, energy and environmental technologies.

Over the coming year the Government of Canada will also identify opportunities to improve the Scientific Research and Experimental Development program, including its administration, to further encourage research and development within the business sector in Canada.

Energy Policies (Recommendation 4)

Energy is critical to Canada's economy. The Government of Canada agrees on the need to ensure that its policies, regulatory frameworks and fiscal measures make a greater contribution to the development of clean and renewable energy sources. The Government of Canada supports the need to foster enhanced research and development in this area among all stakeholders.

Canada's New Government has already moved ahead to secure Canada's place as a leader in the production and use of clean and renewable energy sources through strategic investments. These investments will:

- boost renewable energy supplies;
- support renewable fuel production;
- reduce greenhouse gas emissions and pollutants;
- support research and development in developing clean, renewable sources of energy; and
- promote commercialization of technologies.

The Government of Canada will also extend and expand the scope of its tax incentives for clean energy production, as announced in Budget 2007. As well, the Government of Canada will continue to review its policies and programs to ensure that they effectively contribute to the development of clean and renewable energy sources as appropriate.

Labour Policies (Recommendations 5 to 8)

The Government of Canada is committed to ensure that Canadian manufacturers have access to the skills and talent required to compete in today's global economy. It is also working with its partners to ensure that the right programs and initiatives are in place so that Canada's future workforce is the best educated, most skilled, and most flexible labour force in the world.

The Government of Canada agrees with the Committee's recommendations. The Government of Canada is introducing a number of new initiatives and improvements to existing programs. This includes programs and initiatives such as:

- introducing a new \$500 million per year labour market program to address gaps in support for those who do not qualify for training under the Employment Insurance program and to encourage employers to provide more training to their workers;

- creating a Foreign Credentials Referral Office, enhancing the Foreign Credential Recognition Program, and improving the Temporary Foreign Worker Program;
- encouraging employers to hire apprentices and providing incentives for people to enter the skills trade;
- providing opportunities to youth through internship programs under the Youth Employment Strategy and through grants from Canada's Granting Councils; and
- increasing Canada Social Transfer payments to strengthen the quality and competitiveness of Canada's post-secondary education system.

With these policies and initiatives in place Canadian manufacturers benefit from one of the most highly skilled and well-educated workforce in the world – a workforce capable of adjusting to the changing conditions of a modern industrial economy.

Trade Policies (Recommendations 9 and 10)

Global commerce provides unlimited opportunities for Canadian manufacturers. Canadian firms are establishing their niches and integrating into global value chains and Canada's New Government is creating the right environment to help firms succeed.

The Government of Canada can create opportunities in foreign markets by reducing the costs of doing business abroad and leveling the playing field for Canadians. Free Trade Agreements (FTAs) are effective tools to achieve these goals.

Prior to launching negotiations, the Government undertakes public consultations and detailed analyses of the benefits and costs. As well, the Government continues to consult with stakeholders during negotiations.

In the case of potential FTAs with South Korea and the European Free Trade Association, the Government of Canada consulted extensively with industry and is addressing the concerns of Canada's automotive and shipbuilding industries.

The Government also periodically reviews Canada's overall trade remedy policies, laws and practices to ensure that they continue to reflect the changing needs of all Canadian stakeholders, while reflecting our international rights and obligations.

Intellectual Property Rights Protection Policy (Recommendation 11)

The Government of Canada recognizes the importance to Canada's economic well-being of strong intellectual property (IP) laws and their effective enforcement.

The Government of Canada is improving IP rights by:

- working with law enforcement agencies who are working closely together and with their international counterparts to improve the effectiveness of IP enforcement regimes, notably at the border, and to study best practices; and
- updating the enforcement provisions in its IP laws.

The Government notes that both the House of Commons Standing Committee on Public Safety and National Security and the Standing Committee on Industry, Science and Technology are further investigating the issue of counterfeit goods, from both a public safety perspective as well as its impact on the Canadian economy.

Regulatory Policy (Recommendations 12 to 14)

Canada's New Government understands that regulation is an important tool for protecting the health and safety of Canadians, preserving the environment and securing the conditions for an innovative and prosperous economy.

The Government of Canada is transforming the regulatory system to achieve better regulation from design and implementation, to review and improvement by:

- introducing a new performance-based regulatory system committed to efficient and effective regulations, clear service standards and public accountability for results;

- delivering on reducing the administrative and paper burden on businesses by 20 percent;
- introducing measures to reduce the number of tax remittances and filings of more than 350,000 businesses;
- streamlining the review of large natural resource projects;
- continuing to comply with the provisions of the *User Fee Act*.

Infrastructure (Recommendations 15 to 17)

As the world's second largest nation, one that benefits from trade, Canada must have a modern, accessible and world-class infrastructure to compete in a new global environment of interdependent supply chains. Canadian manufacturers and exporters depend on the quality of our national infrastructure to succeed and to maintain a competitive advantage. Budget 2007 announced \$2.1 billion for a new national fund for gateways and border crossings to improve the flow of both goods and people between Canada and the rest of the world.

Sharing the world's longest border with the United States requires that we have in place the proper infrastructure to minimize border delays and accommodate the movement of goods and people, while ensuring our security. The Government of Canada agrees on the need to maintain sufficient, dedicated FAST lanes at key border crossings and relieving border crossing congestion. It has done this by:

- taking action to ensure that sufficient FAST lanes are available at major border crossings;
- working closely with stakeholders to coordinate the next generation of border infrastructure investments, including the FAST program; and
- delivering on its commitment to relieve congestion at the Windsor-Detroit crossing by announcing a financing strategy for the new crossing at Windsor-Detroit.

Research, Development and Commercialization Policies (Recommendations 18 to 22)

Creating a Knowledge Advantage is essential for Canada to continue to compete in a modern, global economy. The Canadian manufacturing sector competes on the strength of its skilled workforce and innovation, and accounts for nearly half of private industrial research and development, and for half of research personnel employed in the private sector.

Through its science-based departments, National Research Council and Granting Councils, the Government of Canada maintains a vast array of research and industrial support programs and science and technology infrastructure. These programs and infrastructures are important to Canada's manufacturing sector.

Canada's New Government seeks to create an environment where Canadian firms can harness knowledge, commercialize research, and produce innovative products and services. Building on the recommendations of the Expert Panel on Commercialization, the Government of Canada has already moved ahead.

As part of the Government of Canada's commitment to establishing a strong foundation in science and technology, Budget 2007 seeks to provide funding to:

- promote collaborative research with the private sector and post-secondary institutions;
- establish a new Industrial Research and Development Internship program; and
- boost research, development and commercialization relevant to the private sector.

The Government of Canada also announced that it would establish a private sector advisory board to the National Centres of Excellence (NCE) Program to ensure that its new networks meet the needs of businesses. The Government of Canada will review the NCE program in 2007.

More recently, Canada's New Government unveiled its Strategic Aerospace and Defence Initiative to promote excellence and innovation in this key area.

Building on these initiatives, the Minister of Industry will shortly release a comprehensive and forward-looking science and technology strategy. The strategy will outline a multi-year framework for action detailing the Government of Canada's new approach to supporting and funding science and technology in Canada.

A STRONG FUTURE

The above highlights only some of the progress the Government of Canada has made in responding to manufacturers needs and to key INDU recommendations. The Detailed Government Response, which follows, addresses specifically the recommendations of the House of Commons Standing Committee on Industry, Science and Technology.

Canadian manufacturers — and INDU — have spoken. Canada's New Government has listened, and delivered by addressing the short-term priorities and longer-term competitive requirements of the manufacturing sector.

This is just the beginning. We will continue to work closely with INDU, and with industry, to ensure that the Government of Canada continues to create a climate where Canadian manufacturers can compete with the best in the world.

THE DETAILED GOVERNMENT RESPONSE

RECOMMENDATION 1

That the Government of Canada modify its capital cost allowance for machinery and equipment used in manufacturing and processing and equipment associated with information, energy and environmental technologies to a two-year write-off (i.e., 50% using the straight-line depreciation method) for a period of five years. This measure would be renewable for further five-year periods upon due diligence review by a parliamentary committee.

Response

1. The Government of Canada agrees with the Committee that it would be appropriate to introduce a new investment incentive for manufacturing and processing (M&P) businesses, on a temporary basis. Budget 2007 proposed a new measure, allowing M&P businesses to claim accelerated capital cost allowance at a rate of 50 percent on a straight-line basis for eligible machinery and equipment. The proposed rate will allow these investments to be written off over a two-year period, on average, after taking into account the half-year rule, which treats assets as if they have been purchased in the middle of the year. This measure will apply to investment in eligible machinery and equipment acquired on or after March 19, 2007, and before 2009 by businesses engaged in M&P in Canada of goods for sale or lease.
2. Businesses in the M&P sector can also benefit from an increase in the capital cost allowance (CCA) rate for buildings used in manufacturing or processing to 10 percent from 4 percent. This rate better reflects the useful life of these assets.
3. These measures will provide a more favourable climate for M&P businesses to accelerate or increase their investment in buildings, and machinery and equipment, and will assist the sector in restructuring to meet the challenges that it is currently facing.

4. As part of the Government of Canada's continuing review of CCA rates, Budget 2007 proposes the following to better reflect the useful life of these assets:
 - to increase the CCA rate for computer equipment to 55 percent from 45 percent,
 - to increase the CCA rate for natural gas distribution pipelines to 6 percent from 4 percent, and
 - to increase the CCA rate for liquefied natural gas facilities to 8 percent from 4 percent.
5. In addition, Budget 2007 proposes to extend and expand the existing accelerated CCA that encourages businesses to invest in equipment that generates energy more efficiently or by using renewable energy sources (refer to the Government of Canada's response to Recommendation 4).

RECOMMENDATION 2

That the Government of Canada raise the capital cost allowance rate for rolling stock, locomotives and inter-modal equipment to 30 percent using the declining-balance depreciation method.

Response

6. The Government of Canada notes the Committee's recommendation to raise capital cost allowance rates for railway equipment.
7. Capital cost allowance rates are generally intended to reflect the useful life of capital property. This ensures the accurate measurement of income for tax purposes and promotes neutrality for investment decisions. The Government of Canada reviews these rates on an on-going basis. Available evidence suggests that the current 15 percent rate for rail rolling stock, including locomotives, railcars, and inter-modal equipment, is currently sufficient to reflect useful life.

8. The Budget 2007 proposal to introduce a temporary 50 percent straight-line write-off for machinery and equipment in the manufacturing and processing sector may assist suppliers of rail rolling stock. Where such suppliers are engaged in manufacturing and processing, such as a manufacturer of rail equipment, their new investments in machinery and equipment will generally be eligible for this accelerated capital cost allowance rate.

RECOMMENDATION 3

That the Government of Canada improve the Scientific Research and Experimental Development (SR&ED) Tax Incentive Program to make it more accessible and relevant to Canadian businesses. The government should consider making the following changes:

1. make the investment tax credits fully refundable;
2. exclude investment tax credits from the calculation of the tax base;
3. provide an allowance for international collaborative research and development; and
4. expand the investment tax credits to cover the costs of patenting, prototyping, product testing, and other pre-commercialization activities.

Response

9. The Government of Canada acknowledges the importance of innovation to the manufacturing sector. The most important role for government in this regard is to ensure a competitive marketplace and create an investment climate that promotes private sector innovation. In line with the long-term economic plan laid out in *Advantage Canada*, the Government of Canada has acted in the last two budgets to build an economic climate that encourages investment and innovation. Other important instruments, including intellectual property policies and tax policies, also encourage private-sector investment in R&D. Most notably, the SR&ED tax incentive program is one of the most

advantageous systems in the industrialized world for promoting business investment in research and development (R&D), providing over \$3 billion in tax assistance to innovative Canadian businesses in 2006. It is the single largest federal program supporting business R&D in Canada, and it will continue to play a leading role in fostering a competitive and dynamic business environment.

10. The Government of Canada acknowledges that the Committee's recommendation is in response to concerns that the Committee heard from industry and other stakeholders regarding the SR&ED program. As indicated in Budget 2007, over the coming year, the Government of Canada will identify opportunities to improve the SR&ED program, including its administration, to further encourage R&D within the business sector in Canada.
11. Government of Canada agencies and entities, such as the National Research Council (NRC) and the Business Development Bank (BDC), provide complementary activities to the SR&ED program.
12. For example, funding provided by NRC-Industrial Research Assistance Program (IRAP) is used by small and medium-sized enterprises (SMEs) to fund their innovation activities. NRC-IRAP's financial, technical and business assistance is one government instrument that is designed to better position Canadian SMEs to manage cash-flow challenges associated with the performance of R&D.
13. As well, the BDC helps SMEs identify which projects are eligible for SR&ED, prepare the technical report and work in conjunction with the company's accountants for financial information.

RECOMMENDATION 4

That the Government of Canada review its policies and regulatory and fiscal measures to ensure that they make a greater contribution to the development of clean and renewable energy sources, foster research and development in this area and provide greater support to companies and provinces engaged in these activities.

Response

14. The Government of Canada agrees that the development of clean and renewable energy sources as well as the need to reduce emissions from non-renewable sources are important policy objectives.
15. Canada is already a world leader in the production and use of clean and renewable energy sources, mostly from the development of its hydro resources. There are significant opportunities to further develop its abundant renewable energy resources by making use of innovative technologies and the full range of Canada's renewable resources (i.e. hydro, wind, solar, biomass, geothermal and ocean resources).
16. Recently, the Government of Canada made the following announcements:
 - An investment of \$1.5 billion through the ecoENERGY Renewable Initiative to boost Canada's supply of clean electricity and heat from renewable energy sources.
 - An intent to regulate the use of renewable fuels in Canada to an annual average renewable content of:
 - 5 percent in gasoline by 2010, and
 - 2 percent in diesel fuel and heating oil by 2012.
 - An investment of \$200 million through the Capital Formation Assistance Program for renewable fuels production to provide farmers with incentives for participation in new renewable fuels production capacity.

- An investment of \$2 billion to support renewable fuels production in Canada — \$1.5 billion over seven years towards an operating incentive to producers of renewable fuels; and \$500 million to Sustainable Development Technology Canada to invest in the commercialization of next-generation renewable fuels technology.
 - An investment of \$1.5 billion through the Canada Climate Change Trust Fund to support provincial and territorial initiatives aimed at reducing greenhouse gas emissions and air pollution, which may provide funding to renewable energy projects.
 - An investment of \$230 million through the ecoENERGY Technology Initiative to support the research, development and demonstration of clean-energy technologies. Many of the recommendations from the National Advisory Panel on Sustainable Energy Science and Technology are being implemented in the ecoENERGY Technology Initiative and other technology programs of Natural Resources Canada.
 - An investment of \$15 million in the Canada School of Sustainable Energy at University of Alberta, University of Calgary and Lethbridge University through the Government of Canada's Initiative in Centres of Excellence in Commercialization and Research.
 - The formation of a Canada-Alberta ecoENERGY Carbon Capture and Storage Task Force, to recommend the best ways for Canada to implement their technology on a large scale.
17. The Government of Canada will extend and expand the scope of tax incentives for clean energy production. Specifically, the accelerated capital cost allowance (CCA) for Class 43.2 equipment (50 percent per year on a declining balance basis) will be extended to assets acquired before 2020 (from 2012). Eligibility for this incentive and the related deduction for intangible project start-up expenses will also be expanded to an emerging source of renewable energy — wave and tidal energy. It will also apply to a broader range of applications involving active solar heating, photovoltaics, stationary

fuel cells, production of biogas from organic waste, and pulp and paper waste fuels. Going forward, the Government of Canada commits to identify additional areas where accelerated CCA and other measures can be used to help industries invest in promising new clean energy technologies like carbon capture and storage.

18. The Government of Canada's National Research Council (NRC) and its Natural Sciences and Engineering Research Council (NSERC) are both targeting major investments toward strategic opportunities. This will rapidly expand research, training and innovation in emerging strategic areas, including the clean and renewable energy sector. The strategies include:
 - NRC's new five-year strategy, *Science at Work for Canada*, articulates NRC's commitment to increase R&D for developing clean, renewable sources of energy, including research in fuel cells and hydrogen, energy efficient industrial processes and materials, and energy efficiency in buildings.
 - Under NSERC's Strategic Partnership Programs, Sustainable Energy Systems (Production, Distribution and Utilization) has been selected as one of seven areas for further focused research. Budget 2007 is providing \$37 million per year in new resources for NSERC to support research in targeted areas such as energy and the environment.
19. The Government of Canada will continue to review its policies and programs to ensure that they effectively contribute to the development of clean and renewable energy sources as appropriate.

RECOMMENDATION 5

That the Government of Canada, with the consent of the Council of Ministers of Education, place a high priority on establishing the agency responsible for the assessment and recognition of foreign credentials.

Response

20. The Government of Canada supports the recommendations for foreign credential assessment and recognition.
21. Budget 2007 confirms *Advantage Canada's* commitment to facilitate the assessment and recognition of foreign credentials through the creation of the Foreign Credential Referral Office. The new Office is expected to be fully operational by late spring 2007.
22. The new Office will provide prospective immigrants and internationally trained individuals already in Canada with information about the Canadian labour market. This will include information on credential assessment and recognition, and pathfinding and referral services to identify and connect them with the appropriate assessment bodies.
23. The services provided by the Office will complement the programs and services currently provided by provincial and territorial governments and by provincial credential assessment agencies.
24. These activities will build upon other existing initiatives, including:
 - Human Resources and Social Development Canada's Foreign Credential Recognition (FCR) program, which works with partners to improve the consistency, fairness and transparency of the assessment and recognition of foreign qualifications for both regulated and non-regulated occupations. The FCR program will receive an additional \$5 million to continue the work to strengthen FCR capacity in Canada. This will top-up the FCR program's budget to \$73 million.

- The Internationally Educated Health Professionals Initiative, led by Health Canada, which supports provincial and territorial initiatives to support the assessment, training and integration of internationally educated health professionals into the health care system.
 - The Going To Canada Immigration Portal, which is being improved in cooperation with the provinces and territories, and whose website is being transformed into a more comprehensive Internet portal including improved information on the Canadian labour market.
 - Citizenship and Immigration Canada's Enhanced Language Training initiative, which helps immigrants acquire the language skills necessary to obtain and retain jobs commensurate with their level of skill and experience.
25. The Government of Canada consulted with all provincial and territorial governments on the design and role of the FCR Office. Consultations were coordinated through the lead provincial and territorial (PT) ministries responsible for FCR. In most cases the meetings included other PT ministries with an interest in FCR (i.e. immigration, labour market, education and health). In particular, education ministries, which play a key role in the assessment and recognition of academic credentials, participated in most of the consultations. Also, officials from the Canadian Information Centre for International Credentials (CICIC), which is under the auspices of the Council of Ministers of Education Canada, met with Government of Canada officials on several occasions.
26. Provincial and territorial governments have jurisdiction over the regulation of skilled trades and most professions. In most cases, these governments have delegated the authority to regulate, license and certify regulated professions to provincial regulatory bodies and self-regulating professional bodies. Therefore, partnerships with provinces and territories and other stakeholders are critical. During consultations, on the establishment of an agency for foreign credential recognition, provincial / territorial governments have recognized a legitimate federal role in supporting information-sharing,

path-finding and referral services, but reinforced the importance of complementing existing provincial and territorial programs, while avoiding duplication and respecting their jurisdiction.

RECOMMENDATION 6

That the Government of Canada immediately expand improvements to the Temporary Foreign Worker Program to make it easier for employers across Canada to hire foreign workers when there are no Canadian citizens or permanent residents available to fill the position. The Government of Canada should require that employers taking advantage of this program provide working conditions that are consistent with federal and/or provincial standards for the occupation and workplace.

Response

27. The Government of Canada supports recommendations proposed for the Temporary Foreign Worker (TFW) Program.
28. Budget 2007 proposes a series of improvements to the TFW Program designed to reduce processing delays and more effectively respond to regional labour and skill shortages. New measures, such as expanding the online application system, maintaining lists of occupations where there are known shortages of workers, and processing work permits more rapidly, will ensure that the process of hiring skilled foreign workers is easier, faster and less costly for employers. As part of TFW Program improvements, the Government of Canada is exploring the introduction of monitoring and compliance measures to strengthen program integrity and support the interests of foreign workers.
29. At the same time, the Government of Canada will ensure that these improvements do not result in reduced employment opportunities for Canadians. Budget 2007 provides \$50.5 million over the next two years to support these improvements.

30. These initiatives build upon other recent improvements announced over the last several months including:
- Regional lists of Occupations Under Pressure designed to reduce the time and expense required by employers to advertise positions domestically before they are eligible to apply to hire a TFW.
 - A national handbook, *How to Hire a Temporary Foreign Worker: A Guidebook for Employers*, to offer employers detailed information on how to use the TFW program.
 - The establishment of Temporary Foreign Worker Units in Vancouver and Calgary. These Citizenship and Immigration Canada (CIC) offices streamline the application process for employers who are exempt from Labour Market Opinions (LMOs) by pre-screening supporting documents and providing advice.
 - Under the Low-Skilled Pilot project, an extension of the maximum duration of LMOs from 12 months to 24 months to respond to employers who have long-term labour needs and reduce the number of LMO and Work Permit applications.
 - Online applications to reduce the length of time required to provide LMOs.

RECOMMENDATION 7

That the Government of Canada provide tax credits and/or other measures to companies providing employer-financed training to their employees.

Response

31. The Government of Canada recognizes that Canada's future competitiveness depends on a highly skilled workforce and on high-performance workplaces that focus on skills development to increase productivity. A number of factors influence employers' investment in training, including the costs of training, the costs of lost working time and a clear return-on-investment of

training. These concerns can lead employers to reduce spending, or even avoid investing, in training altogether.

32. *Advantage Canada* committed to support workplace training for Canadians by reducing taxes and creating a business environment conducive to business investment in training, and by working with provinces, territories and the private sector to make training and skills development more widely available to Canadian workers and better aligned with the needs of the economy.
33. The Government of Canada has significantly improved the business environment through changes to the tax system. Budget 2006 and the Tax Fairness Plan will reduce corporate taxes significantly to enhance the competitiveness of the business tax environment. The changes to capital cost allowance rates to better align them with useful life proposed in Budget 2007 will further reduce Canada's tax rate on new business investment by 2.5 percentage points, moving Canada to the third lowest in the G7 in 2011. Budget 2007 also proposes a temporary financial incentive to encourage provinces to eliminate or accelerate the elimination of their capital taxes by 2011, and indicated that the Government of Canada is ready to work with provinces in moving to a harmonized value-added tax system. If provinces eliminated their capital taxes and harmonized their retail sales taxes with the goods and services tax, Canada would have the lowest tax rate on new business investment in the G7 in 2011.
34. Budget 2007 announced a new program to support labour market training for those who do not currently qualify for training under the Employment Insurance Program and to encourage employers to provide more training to their workers, beginning in 2008-2009. The objectives of this new program include increasing participation by under-represented groups to help meet current and future skill shortages, ensuring that Canadians have the skills to compete in the future, and that employers provide more training to their workers. The Government will invest \$500 million per year in this program, which will be allocated to provinces and territories on an equal per capita basis.

35. The Government of Canada will enter into bilateral arrangements with each province and territory to deliver these new investments. Provinces and territories will have primary responsibility for the design and delivery of programs. This will provide more flexibility to meet specialized needs and address local and regional labour market realities.
36. Working with his provincial and territorial counterparts over the coming year, the Minister of Human Resources and Social Development will determine how governments can best make use of the new investments to achieve these objectives and ensure appropriate reporting and accountability to Canadians.
37. These measures build on steps the Government of Canada has previously undertaken to encourage employers and workers to invest more effectively in training. Current initiatives promoting investments in the development, recognition and utilization of the skills of Canadians already in the labour market include:
- The Apprenticeship Job Creation Tax Credit, introduced in Budget 2006, to encourage employers to hire new apprentices. This measure provides eligible employers with a tax credit equal to 10 percent of the wages paid to qualifying apprentices in the first two years of their contract, to a maximum credit of \$2000 per apprentice per year.
 - The Apprenticeship Incentive Grant, also introduced in Budget 2006, provides eligible apprentices with a \$1000 grant in each of the first two years of an eligible apprenticeship.
 - The Workplace Skills Initiative supports demonstration projects targeted to the development, recognition and utilization of the skills of Canadians.
 - The Sector Council Program brings together key stakeholders from business, labour, education and government to identify and resolve sectoral human resource issues. Sector councils pursue activities

supportive of the development of sectoral and firm specific approaches to training and skills development.

- The Essential Skills and Workplace Literacy Initiative works to enhance the skill levels of Canadians who are entering or are already in the workforce by increasing awareness and understanding of essential skills, supporting the development of tools and applications, building on existing research, and working with other Government of Canada and provincial programs.

RECOMMENDATION 8

That the Government of Canada, complying with the constitutional division of powers, provide increased funding to programs that support postsecondary students and post-doctoral fellows conducting research in industry.

Response

38. The Government of Canada agrees with the Committee and recognises the importance of human capital to Canada's innovation performance and is committed to exposing more students and postdoctoral graduates to private sector research challenges.
39. National Research Council-Industrial Research Assistance Program's Youth Program, funded under the Youth Employment Strategy of Human Resources and Social Development Canada, supports Canadian small and medium-sized enterprises (SMEs) by partially funding internships for postsecondary graduates. In doing so, Canadian SMEs have the financial ability to tap into young talent, which might otherwise not be available to them. These internships provide postsecondary graduates with access to employment and an opportunity to enhance their employability. In turn, these graduates become the future of Canada's skilled workforce.
40. The Natural Sciences and Engineering Research Council (NSERC) administers a range of programs, from the undergraduate to the postdoctoral level, which foster student participation in industrial research and development (R&D). These programs spur higher levels of

private sector R&D investment by reducing the costs of hiring R&D personnel. The programs also benefit students by allowing them to acquire technical and non-technical skills relevant to their future careers in industry, academia, government or other fields. These skills may be in areas such as project management, marketing, teamwork, intellectual property management and financial analysis.

41. In support of the Government of Canada's commitment to post-secondary excellence, Budget 2007 proposes to increase the Canada Social Transfer by \$800 million per year. This increase will take effect in 2008–09, allowing discussions with provinces and territories on how best to make use of this new investment and ensure appropriate reporting and accountability to Canadians. It will grow at 3 percent per year thereafter.
42. The Government of Canada is launching a review of the Canada Student Loans Program (CSLP), in consultation with provinces, territories and stakeholders. The process will result in changes to simplify CSLP instruments, make them more effective, and ensure integrated administration and efficient delivery. These changes will be announced in Budget 2008.
43. Budget 2007 is providing \$4.5 million over two years to the Networks of Centres of Excellence program to establish a new Industrial R&D Internship program. Graduate students and post-doctoral graduates will be partnered with businesses to help in meeting the host firm's innovation needs. By participating in these one-semester internships, businesses will benefit from the knowledge and skills brought by students, while interns will acquire hands-on research experience and greater exposure to research challenges and opportunities in the private sector. Links between industry and academia will be strengthened, fostering the translation of new discoveries from home and from around the world into economic and social benefits for Canadians. When fully in place, the new program will support up to 1000 internships each year.

RECOMMENDATION 9

That the Government of Canada, through the Department of Foreign Affairs and International Trade, complete and disclose to the public, in a timely manner, all important impact analyses of any free trade agreements with South Korea and the European Free Trade Association on specifically vulnerable industries and on employment.

Response

44. The Government of Canada agrees and has taken action to appropriately disclose information to Canadians and stakeholders.
45. To enhance and sustain economic growth, prosperity and employment at home, the Government of Canada needs to create opportunities in foreign markets by reducing the costs of doing business abroad and leveling the playing field for Canadians. Free Trade Agreements (FTAs) are effective tools to achieve these goals. Prior to launching an FTA negotiation, the Government of Canada undertakes detailed analyses of the benefits and costs, as well as public consultations with Canadian stakeholders.
46. South Korea is Canada's 7th largest export market and a gateway to the dynamic Northeast Asian region. The European Free Trade Association (EFTA) (Norway, Switzerland, Iceland and Liechtenstein) taken collectively would be Canada's 8th largest export market. An FTA with EFTA would provide a strategic platform for expanding commercial ties in Europe.
47. The Government of Canada's analysis shows that potential FTAs with these markets will benefit Canadians and a broad spectrum of the Canadian economy. The Department of Foreign Affairs and International Trade's (DFAIT) public website outlines the potential economic impact on Canada of FTAs with EFTA and South Korea, and also offers details outlining the benefits of such FTAs. For example, an FTA with South Korea would be Canada's most significant and comprehensive FTA

since NAFTA. An agreement with EFTA would be Canada's first Transatlantic FTA.

48. Before launching FTA negotiations with both EFTA and South Korea, the Government of Canada undertook extensive consultations to gauge Canadian interests and sensitivities, and to help determine the sectoral economic impacts of FTAs with these partners. A broad cross-section of Canadian stakeholders, including provinces and territories, supported these negotiations.
49. Throughout the negotiations, Canadian negotiators consulted extensively with Canadian industry and provincial and territorial stakeholders to ensure that their concerns and interests were fully understood and taken into consideration during the negotiations. Negotiators consulted with representatives of the automotive and shipbuilding industries about FTA negotiations with South Korea and with the shipbuilding industry regarding EFTA.
50. The Government of Canada established an automotive consultations group to seek industry and union views on the Canada-South Korea FTA negotiations. Moreover, in response to concerns raised by the Canadian automotive industry, the Government of Canada commissioned two economic studies. Both studies concluded that any potential negative impact on the automotive sector resulting from an FTA with South Korea would be very limited. Both of these studies are available on DFAIT's public website. The Government of Canada consulted closely with the shipbuilding industry on the EFTA negotiations.
51. In both FTA negotiations, the Government of Canada is seeking to address the automotive and shipbuilding industries' concerns. This will be achieved through provisions such as phase-out periods that would eliminate tariffs over an extended period of time, product-specific rules of origin that reflect industry input, and no changes to the Government of Canada's procurement rights and obligations as they relate to ships.

RECOMMENDATION 10

That the Government of Canada conduct an internal review of Canadian anti-dumping, countervail and safeguard policies, practices and their application to ensure that Canada's trade remedy laws and practices remain current and effective. This review would also include comparisons with other World Trade Organization members such as the European Union and the United States.

Response

52. The Government of Canada agrees with the Committee that emerging economies such as China and India present both opportunities and challenges to Canadian businesses.
53. The Government of Canada notes that in order to remain competitive in the rapidly changing international trade environment its trade remedy laws must protect Canadian businesses when warranted, while ensuring that Canadian businesses have stable and predictable access to global supply chains.
54. The Government of Canada agrees that Canada's overall trade remedy policies, laws and practices should be reviewed periodically. The last such review was completed in 2000.
55. Canada's trade remedy laws implement Canada's rights and obligations under the relevant World Trade Organization Agreements. The international rules pertaining to the taking of anti-dumping and countervailing measures are currently under negotiations to clarify and improve them as part of the Doha Round of Multilateral Trade Negotiations. The Government of Canada has consulted extensively with Canadian stakeholders to obtain their views on these matters in order to ensure that the Government of Canada's negotiating position reflects the changing needs and objectives of Canadian businesses and consumers.

RECOMMENDATION 11

That the Government of Canada immediately bring forth legislation to amend the *Copyright Act*; ratify the World Intellectual Property Organization (WIPO) Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPPT); amend related acts; and ensure appropriate enforcement resources are allocated to combat the scourge and considerable economic and competitive damage to Canada's manufacturing and services sectors, and to Canada's international reputation by the proliferation of counterfeiting and piracy of intellectual property.

Response

56. The Government of Canada is engaged in efforts to ensure the effective protection and enforcement of intellectual property rights in Canada in a digital age, to provide intellectual property protections to both our domestic and trading partners' industries, and to ensure investment, growth and innovation.
57. In this respect, the Government of Canada is:
- reviewing the enforcement of intellectual property rights, and options to strengthen this regime, in order to combat video piracy and the trade in counterfeit and pirated goods, and
 - preparing amendments to Canada's copyright regime that would provide for the implementation of the WIPO Internet Treaties into our domestic legislation.
58. The Government of Canada also notes that both the House of Commons Standing Committee on Public Safety and National Security and the Standing Committee on Industry, Science and Technology are further investigating the issue of counterfeit goods, from both a public safety perspective as well as its impact on the Canadian economy.

RECOMMENDATION 12

That the Government of Canada, in collaboration with provincial, territorial and foreign governments and the private sector, make implementation of a "smart regulation" initiative a priority. In the interests of efficiency, the government should build on the work of previous and current advisory groups in setting its goals for regulatory reform (e.g., the 2004 report of the *External Advisory Committee on Smart Regulation*, and the recommendations of the ongoing Advisory Committee on Paperwork Burden Reduction).

Response

59. The Government of Canada agrees on the need for a new performance-based regulatory system.
60. Regulation is an important tool for protecting the health and safety of Canadians, preserving the environment and securing the conditions for an innovative and prosperous economy. Regulations must be necessary, strong and effective while supportive of Canada's competitiveness.
61. Since the publication of the report of the External Advisory Committee on Smart Regulation (EACSR) in 2004, the Government of Canada has given priority to implementing many of the features of an effective and efficient regulatory system envisaged by this Committee. EACSR identified "developing a regulatory policy for the 21st century" as an essential element of the Government of Canada's action to make smart regulation happen. Among the priorities laid out in Budget 2007, the Government of Canada announced the adoption of a new Cabinet Directive on Streamlining Regulation that came into force on April 1, 2007. It committed \$9 million over two years to implement the Directive and make Canada a best-in-class regulator by ensuring that efficiency and effectiveness are key considerations.
62. In an effort to "free businesses to grow and succeed," the Government of Canada made several commitments

in *Advantage Canada* and Budget 2007.

These commitments included:

- improving regulatory coordination and cooperation with the United States and Mexico through the Security and Prosperity Partnership,
 - reducing the paper burden on Canadian businesses by 20 percent,
 - streamlining the review of large natural resource projects by putting in place a Major Projects Management Office, and
 - several measures to reduce the number of tax remittances and filings of more than 350,000 businesses by about one-third on average.
63. To give priority to advancing federal, provincial and territorial cooperation on regulatory reform, governments established a Federal Provincial Territorial Working Group on Regulatory Reform. This group is working to:
- develop common regulatory principles,
 - build capacity to implement smart regulation at all levels, and
 - seek ways in which the regulatory system can keep pace with evolving needs.
64. In addition to these regulatory reform initiatives, the Government of Canada is working with provinces and territories to address differences in regulations that impede internal trade and labour mobility, thereby contributing to a stronger domestic economy. The Government of Canada will work with interested provinces and territories to examine how the Trade, Investment and Labour Mobility Agreement, signed by the Governments of Alberta and British Columbia, could be applied more broadly to reduce interprovincial barriers to trade and labour mobility across the country.

RECOMMENDATION 13

That the Government of Canada conclude negotiations related to the implementation of any regulations on the reduction of greenhouse gas emissions and air pollution, and that the process be expedited.

Response

65. The Government of Canada supports the recommendation. Budget 2007 signalled the Government of Canada's continued commitment to preserve and protect the environment through a clean air agenda. This agenda replaces voluntary approaches and a patchwork of regulatory processes across the country with a national mandatory system that will achieve real results.
- The *Notice of intent to develop and implement regulations and other measures to reduce air emissions* (October 21, 2006) proclaimed the Government of Canada's intention to regulate each of the main sources of air pollutants and greenhouse gases, including for key industrial sources.
 - The Government of Canada is committed to deliver a regulatory framework, including short-term targets for greenhouse gases and air pollutants. The Government of Canada has undertaken consultations with stakeholders, including affected industry sectors, to discuss implementation of this agenda.
 - The Government of Canada has announced its regulatory framework, including targets and compliance mechanisms, for industrial emissions of greenhouse gases and air pollutants.

RECOMMENDATION 14

That the Government of Canada review the requirements of the *User Fees Act* and ensure that all federal departments are setting and meeting the performance standards and reporting to Parliament as required under the provisions of the Act.

Response

66. The Government of Canada recognizes the importance of the *User Fees Act*, and the need for legal compliance when user fees are charged. The provisions of the Act establish requirements for departmental implementation of new or amended user fees, including the establishment, in consultation with stakeholders, of performance standards that could trigger fee reductions if not met, and detailed annual reporting to Parliament.
67. The Act requires the President of the Treasury Board to report on provisions and operations of the Act. A review was completed by the Treasury Board of Canada Secretariat and the report was tabled in both Houses of Parliament on March 30, 2007. The report noted that the Department of Justice Canada concluded that the existing inventory of fees in effect at the time the Act received Royal Assent would come under the consultation and fee-reduction ambit of the Act only when they are modified, after being tabled in Parliament in a user fee proposal.
68. The Act further requires departments to annually submit to Parliament a list of all user fees, irrespective of when the fees were established. The Treasury Board Secretariat has requested more detailed annual reporting to Parliament, for the entire inventory of user fees, through the *Reports on Plans and Priorities* and the *Departmental Performance Reports*. The reporting instructions are based on a review of the information on new or amended fees requested in the Act, which provides direction from parliamentarians on their information needs.

RECOMMENDATION 15

That the Government of Canada announce its national gateway and trade corridor policy, and that it respond specifically to the concerns about infrastructure expressed by the Coalition for Secure and Trade-Efficient Borders in its policy.

Response

69. The Government of Canada agrees with the Committee and Transport Canada has been developing a national policy framework for strategic gateways and trade corridors. This framework will ensure that future strategies are appropriately targeted and that they respond to regionally specific issues and opportunities consistently in overall concept, principles and vision.
70. As part of the launch of the Asia-Pacific Gateway and Corridor Initiative (APGCI) in October 2006, the Government of Canada indicated that it would develop a national policy framework for strategic gateways and trade corridors that would draw on the key concepts and lessons of the APGCI. *Advantage Canada* reinforced this commitment by highlighting that high-quality, modern public infrastructure that allows people and goods to move freely and efficiently is essential to Canada's long-term prosperity — with the infrastructure that provides gateways to foreign markets — being especially important.
71. Budget 2007 announced \$2.1 billion for a new national fund for gateways and border crossings. Awarded on a merit basis, and guided by a new national gateways and trade corridor policy framework, these new funds will improve the flow of both goods and people between Canada and the rest of the world. This will help to enhance infrastructures at key locations, such as major border crossings between Canada and the United States and the Atlantic gateway.
72. As the Coalition for Secure and Trade-Efficient Borders made clear in its submission to the Standing Committee, the multi-layered nature of security protections at border crossings has a material impact on the efficiency and

cost of trans-border trade. As the national trade corridor and gateway policies and initiatives are implemented, Canadian security institutions, and Public Safety Canada specifically, are working to balance security and efficiency concerns. Work is also under way with NAFTA partners under the Security and Prosperity Partnership (SPP) to build a safe and trade-efficient border. This strategy also includes funding for new programs that will increase speed, certainty and predictability at the border for the benefits of Canadian manufacturers and exporters. Canada is also working with the United States under the SPP to assess alternative documents for cross border travel based on common standards, as well as technology and infrastructure requirements to support these documents. Better and more secure traveler documentation will facilitate the flow of legitimate travelers and goods across North America. These efforts will allow the Government of Canada to create an environment that maximizes competitive opportunities while maintaining the security of Canadians.

RECOMMENDATION 16

That the Government of Canada ensure that sufficient, dedicated Free and Secure Trade (FAST) lanes be available for commercial traffic at important crossings, and be staffed to meet traffic demands during peak periods. Where infrastructure limits prohibit such an undertaking, the government should expand or alter the infrastructure to accommodate additional FAST lanes, and other border programs that facilitate trade.

Response

73. The Government of Canada agrees on the need to have sufficient, dedicated FAST lanes at key border crossings.
74. The FAST program is a bi-national initiative between Canada and the United States (U.S.) that offers pre-authorized importers, carriers and commercial drivers, expedited clearance for eligible goods through dedicated

FAST lanes, and/or FAST Primary Inspection Lines, at all major border crossings.

75. The Government of Canada has taken action to ensure that sufficient lanes are available for FAST traffic at important border crossings, and that these lanes are staffed to meet traffic demands during peak periods. For goods entering Canada, FAST is available at all automated Canada Border Service Agency offices. Dedicated FAST lanes are in place at high volume highway ports such as Windsor, Sarnia, Fort Erie, the Queenston-Lewiston Bridge (Niagara Falls), Pacific Highway and Saint-Bernard-de-Lacolle.
76. Infrastructure changes to accommodate the FAST program have also been made. For example, a FAST lane was recently added at the Queenston-Lewiston Bridge as a result of a re-design of the existing facility. At Sarnia, there are three inbound traffic lanes to the port; the middle lane has been dedicated to FAST and NEXUS traffic so that other traffic does not prevent FAST traffic from accessing the dedicated lane during peak periods. Other potential infrastructure changes continue to be studied.
77. Budget 2007 announced \$2.1 billion for a new national fund for gateways and border crossings.
78. A key mechanism to coordinate multiple jurisdictional issues is the Canada-U.S. Transportation Border Working Group (TBWG). The TBWG facilitates the safe, secure, efficient, and environmentally responsible movement of goods and people across the Canada-U.S. border. The TBWG brings together multiple agencies to coordinate transportation planning, policy implementation, and the deployment of technology to enhance border infrastructure and operations. The TBWG will hold regional workshops to improve communication for border infrastructure project planning purposes and overall coordination for project implementation.
79. The Government of Canada is also pursuing other strategies to ensure that our borders are safe and conducive to business. Budget 2006 invested \$303 million

over two years to advance smart border cooperation with the United States under the Security and Prosperity Partnership of North America. This strategy also included funding for new programs that will directly benefit Canadian traders such as eManifest for road and rail cargo to speed up commercial shipments at the border. Budget 2006 also included investment in the Partners in Protection program to make it compatible with the U.S. Customs-Trade Partnership Against Terrorism security certification program. This enables Canadian companies to enjoy higher return for customs benefits for security-related investments. In addition, Budget 2006 invested \$101 million over two years to start arming border officers and address work-alone situations at border posts. This initiative will place greater emphasis on law enforcement at the border and reduce safety concerns that can affect the flow of legitimate trade and travellers. These Budget 2006 investments will increase certainty and predictability at the border for the benefits of Canadian exporters and importers.

80. The Government of Canada remains committed to working with all stakeholders to coordinate the next generation of border infrastructure investments, enhancing the FAST program and working to increasing participation.

RECOMMENDATION 17

That the Government of Canada define its financing strategy for the Windsor-Detroit crossing, including any potential tolls and toll roads associated with the crossing.

Response

81. The Government of Canada announced its financing strategy for the new crossing at Windsor-Detroit in Budget 2007.
82. The Government of Canada will be responsible for the Canadian half of the new international bridge, including the Canadian plaza. Once a location has been determined, the Government of Canada will proceed quickly with the necessary property acquisition. The Government of Canada will also create a public entity to own the

Canadian portion of the bridge, as well as the Canadian plaza. In concert with Michigan and its United States partners, Canada is exploring partnering with the private sector to design, build, finance and operate the bridge. The new public entity should help in realizing this public-private partnership.

83. A new access road will link the bridge and the Canadian plaza with Highway 401. The Province of Ontario will be responsible for this part of the project. To help support this component of the new crossing, the Government of Canada will make a contribution of 50 percent of the eligible capital cost of building the access road. This contribution will come from the new \$2.1 billion national fund for gateways and border crossings. Budget 2007 set aside \$400 million from this new national fund for this important project.

RECOMMENDATION 18

That the Government of Canada seriously consider the recommendations of the Expert Panel on Commercialization and report back to Parliament on its intentions with respect to implementing any or all of them, and / or on other policies it intends to implement to improve Canada's commercialization performance.

Response

84. The Government of Canada welcomed the report of the Expert Panel on Commercialization and has already moved ahead on a number of initiatives that directly speak to the Panel's recommendations.
85. The Expert Panel on Commercialization recommended the removal of barriers to foreign capital investment. *Advantage Canada* acknowledged the importance of having a policy framework that supports the global development of Canada's financial services industry, so that it may maximize its contribution to the Canadian economy. One component of this policy framework is the reduction of barriers to international capital flows.

86. The Expert Panel on Commercialization also recommended the establishment of a Commercialization Partnership Board to provide private sector advice on science and technology (S&T) commercialization. Budget 2007 acknowledged the importance of business input by establishing a private sector advisory board for S&T issues, including the new Centres of Excellence in Commercialization and Research and the Business-Led Networks of Centres of Excellence.
87. The Government of Canada supports venture capital investments and more specifically direct seed and commercialization funds — investment activity of this type by the Business Development Bank of Canada (BDC) totaled \$43 million in its fiscal year 2006. Through its creation of seed and commercialization funds, BDC has been instrumental in leveraging seed fund activity in Canada. The most recent example is BDC's \$10 million investment to launch the \$50 million GO Capital Fund, which is a joint partnership of public and private sectors, to support the creation of companies in all sectors of science and technology, including natural sciences, life sciences and information technology.
88. Budget 2007 announced significant developments that are relevant to the Expert Panel's recommendations as they facilitate access by Canadian entrepreneurs to venture capital from the United States (U.S.). Most notably, agreement in principle has been reached on changes to the Canada-U.S. tax treaty, including treaty recognition of limited liability companies and the elimination of source-country withholding tax on interest. Another important change is the removal of non-resident tax clearing requirements ("section 116 certificates") for shares that are listed on any stock exchanges in any Organisation for Economic Co-operation and Development country with which Canada has a tax treaty. These measures address longstanding concerns of the venture capital sector.
89. The Government of Canada continually monitors the effect of various provisions of the tax system, including international tax treaties, to ensure that they meet the needs of Canada's growing economy.
90. The Government of Canada is moving to provide immediate funding for Centres of Excellence in research and commercialization in Canada. These centres, along with others that are achieving global leadership and commercial advantage for Canada will be eligible for a new Centres of Excellence in Commercialization and Research program. This program will identify the best initiatives based on international peer review and advice from the private sector, and make investments in partnership with others, such as the provinces and businesses. Budget 2007 is providing \$15 million in 2007–08 to support the operations of each of these centres. It is expected that the institutes will raise matching funds from other sources. This program will complement the research and science infrastructure funding available through the granting councils and the Canada Foundation for Innovation. Budget 2007 also provides funding to support competitions under this new program.
91. *Advantage Canada* committed to help strengthen the links between colleges and the private sector. The College and Community Innovation Program (CCIP) is a pilot project administered by the Natural Sciences and Engineering Research Council of Canada that supports research collaborations between firms and colleges. To build on the CCIP, the Government of Canada will make the program permanent and expand it to additional colleges across the country. Budget 2007 provides \$48 million over five years to launch the next round of projects. When fully in place, CCIP will support up to 25 college-industry partnerships.
92. *Advantage Canada* also committed to exposing more students to private sector research challenges through collaborative internships. To meet this commitment, Budget 2007 provides \$4.5 million over two years to the Networks of Centres of Excellence program to establish a new Industrial Research and Development Internship program. This initiative will partner graduate students and post-doctoral candidates with businesses to help meet the host firm's innovation needs. When fully in place, the new program will support up to 1000 internships each year.

93. To enable more young Canadians to pursue graduate-level studies, Budget 2007 provides \$35 million over two years to expand the Canada Graduate Scholarships program. When the new scholarships are fully in place, the councils will support an additional 1000 graduate students each year. These new scholarships will include: 400 delivered by the Canadian Institutes of Health Research, 400 delivered by the Natural Sciences and Engineering Research Council of Canada; and 200 delivered by the Social Sciences and Humanities Research Council of Canada.
94. To give Canada a competitive edge in attracting the best and the brightest foreign students, the Government of Canada will launch a new international education marketing campaign to promote Canada as a destination of choice for post-secondary students. This campaign will establish a brand for Canadian education abroad and complement Canada's efforts to enhance the visibility of our post-secondary institutions in priority markets such as Brazil, India and China. Budget 2007 provides \$2 million over the next two years for this initiative, which will build on existing partnerships with provincial and private partners as well as with post-secondary institutions.
95. In February 2007, at the request of the Minister of Industry, the National Research Council, the Natural Sciences and Engineering Research Council and the Business Development Bank established a new initiative to develop closer working relationships, and better align their programs to accelerate the commercialization of publicly funded research.
96. Building on these directions, the Minister of Industry will shortly release a comprehensive and forward-looking science and technology strategy. The strategy will outline a multi-year framework for action detailing the Government of Canada's new approach to supporting and funding science and technology in Canada.

RECOMMENDATION 19

That the Government of Canada provide increased funding for organizations that bring together business, government and post-secondary education institutions to focus on the development and commercialization of new technologies.

Response

97. The Government of Canada supports bringing business, government and post-secondary institutions together to focus on the development and commercialization of new technologies.
98. The Natural Sciences and Engineering Research Council's Research Partnership Programs have a proven record of increasing collaboration between the academic, industrial and government sectors. Through such collaborations, industry is able to access knowledge, ideas and technologies, as well as specialist expertise.
99. The National Research Council (NRC) works with university, industry and government partners to stimulate "clusters" of firms specializing in specific areas of technology. A key ingredient for successful clusters is the presence of a science and technology anchor, usually a government research organization or a university able to work with local companies, transfer technology and spin off new enterprises. In the context of its new strategy, NRC has identified manufacturing as a key sector. NRC will consolidate and strengthen its research and development efforts to best meet the needs of the Canadian manufacturing industry.
100. *Advantage Canada* committed to help strengthen the links between universities, colleges and the private sector. Due to mechanisms such as business-led Networks of Centres of Excellence (NCE) commercialization of Canadian ideas and knowledge are enhanced. Through competitive awards, the NCE program fosters research partnerships between research institutions, government and industry. To ensure that new networks and centres truly meet the needs of businesses, the

NCE program will establish a private sector advisory board. Budget 2007 also dedicates \$11 million in 2008–09 to accelerate the creation of new networks, which will be proposed and led by the private sector. The funding is expected to support up to five new networks beginning in 2008–09.

101. *Advantage Canada* committed to exposing more students to private sector research challenges through collaborative internships. Internships allow host firms to benefit from the latest knowledge and skills developed in Canadian universities' world-class laboratories, while providing students with valuable applied research experience.
102. Budget 2007 provides \$4.5 million over two years to the NCE program to establish a new Industrial Research and Development Internship program. By participating in these one-semester internships, businesses will benefit from the knowledge and skills brought by students, while interns will acquire hands-on research experience and greater exposure to research challenges and opportunities in the private sector.
103. The Government of Canada is prepared to invest in partnership with other levels of government and the private sector to create centres that operate at international standards of excellence and put knowledge to work for the social and economic benefits of Canadians. The Government of Canada is also targeting resources to areas where Canada has the potential to be a world leader, such as energy, environmental technologies, information technologies and health sciences.
104. As indicated in its response to Recommendation 18, the Government of Canada is moving to provide immediate funding to centres of excellence focused on research and commercialization. A number of these centres bring together business, government and post-secondary institutions as they work on developing new technologies.

105. Budget 2007 provides:

- \$510 million to the Canadian Foundation for Innovation to enable it to undertake another major competition before 2010. The new resources to be provided are expected to lever close to \$600 million from others in support of state-of-the-art science infrastructure at universities, colleges and research hospitals.
- \$120 million to CANARIE in 2006–07 to maintain CA*net (a sophisticated research broadband network that links Canadian universities, research hospitals and other facilities to each other and to leading science facilities in other countries) over the next five years and to develop the next generation network, CA*net 5.
- \$10 million, over the next two years, for the Canadian Institute for Advanced Research (CIAR) to advance its activities. CIAR is an organization linking Canadian researchers with top researchers in other nations. Its main priority is to establish and maintain global networks for top researchers and students, enabling Canadians to participate in and lead groundbreaking research on the international stage.
- \$48 million over five years to the College and Community Innovation Program (CCIP), a highly successful program. These funds will help CCIP launch its next round of projects, make the program permanent and expand it to additional colleges across the country. When fully in place, CCIP will support up to 25 college-industry partnerships.
- An additional \$100 million in 2006–07 to Genome Canada to sustain funding for the regional genome centres and related technology platforms. This will extend promising research projects, and support Canada's participation in strategic international research collaborations. Genome Canada supports Canadian research leadership in genomics and invests in partnership with provinces, the private sector and other domestic and international organizations to support leading-edge genomics research in Canada through six regional genome centres.

- \$500 million over seven years available to Sustainable Development Technology Canada to invest with the private sector in establishing large-scale facilities for the production of next-generation renewable fuels. Projects could include provincial technology and infrastructure development, such as carbon sequestration and clean coal and electricity transmission that will lead to a significant decrease in greenhouse gas emissions and air pollution.

106. The Government of Canada will relocate the CANMET Materials Technology Laboratory to new state-of-the-art facilities at the McMaster Innovation Park in Hamilton, Ontario. This new location, in the heart of Canada's automotive and steel manufacturing industries, will foster synergies among industry, academia and government research.

RECOMMENDATION 20

That the Government of Canada identify, as soon as possible, a replacement program or alternative funding mechanism for Technology Partnerships Canada in order to support strategic R&D and demonstration projects by industry that are intended to produce economic, social and environmental benefits for Canadians.

Response

107. The Government of Canada recognizes the importance of knowledge and innovation to its future economic success. In April 2007, the Government of Canada announced the Strategic Aerospace and Defence Initiative (SADI), a new R&D initiative to promote excellence and innovation in Canada's aerospace, defence, security and space industries. This new initiative will promote excellence in an important economic sector across Canada.
108. The Government of Canada has also recently unveiled funding for its ecoENERGY Initiatives, a set of focused measures to help Canadians use energy more efficiently, boost renewable energy supplies and develop cleaner energy technologies.

RECOMMENDATION 21

That the Government of Canada conduct a review of the funding levels and operation of the Networks of Centres of Excellence program, and eliminate the automatic 14-year sunset clause that restricts the lifespan of an individual network.

Response

109. The Government of Canada agrees with the need to review the Networks of Excellence (NCE) program and will do so in 2007.
110. The appropriateness of the automatic 14-year sunset clause was evaluated during the 2002 evaluation of the NCE program. At that time there was insufficient evidence warranting a change to the sunset clause. In preparation for the current (2007) program evaluation of the NCE, consultations were held with key stakeholders. While the sunset clause was not identified as a priority for examination, the evaluation will provide valuable information about the evolution and life cycle of networks.

RECOMMENDATION 22

That the Government of Canada continue to fund research infrastructure through the Canada Foundation for Innovation on a cost-sharing basis.

Response

111. The Government of Canada agrees on the need to fund research infrastructure.
112. The Government of Canada has taken important steps to increase its investment in university research through Granting Councils, Canada Foundation for Innovation (CFI), the Canada Research Chairs and the Canada Graduate Scholarships. Conducting world-class research and providing training at the cutting edge depends on access to state-of-the-art equipment. The CFI is a not-for-profit corporation that supports the modernization of research infrastructure at Canadian

universities, colleges, research hospitals and other not-for-profit research institutions across Canada. The CFI ensures that its investments support excellence by allocating funding through international peer-reviewed competitions and investing jointly with other stakeholders.

113. Budget 2007 provides \$510 million to the CFI to enable it to undertake another major competition before 2010. The Government of Canada will account for the funds as they are disbursed by the CFI to institutions. It is anticipated that \$70 million will be provided to institutions in 2008–09. The new resources provided in Budget 2007 are expected to lever close to \$600 million from others in support of state-of-the-art science infrastructure at universities, colleges and research hospitals.