CANADIAN COUNCIL of CHIEF EXECUTIVES

CONSEIL CANADIEN des CHEFS D'ENTREPRISE

Submission to the House of Commons Standing Committee on Finance

Priorities for the 2015 Federal Budget

August 2014

The Canadian Council of Chief Executives (CCCE) commends the government's commitment to sound management of public finances. With a small surplus expected in 2015-16, Budget 2015 is a pivotal opportunity for the government to ensure Canada's long term prosperity.

Canada's economy has proven resilient since the recession and continues to expand at rates higher than in most other OECD countries. Implementing pro-growth policies now would ensure that Canada remains an attractive destination for business investment and job creation. We offer the following recommendations:

Balancing the federal budget to ensure fiscal sustainability and economic growth

Balanced budgets and a low debt-to-GDP ratio would give the federal government flexibility to respond to future downturns while making targeted investments to improve economic competitiveness. The CCCE supports the government's commitment to reduce the debt-to-GDP ratio to 25 per cent by 2021. To ensure value for money for all government spending, the government should continue to require that departments and agencies look for ways to better focus programs and services, streamline internal operations and modernize the way they deliver services.

In the interests of fairness and transparency, Employment Insurance (EI) funds should be managed through a segregated account rather than flowing into general revenues. Among other benefits, this would prevent governments from using EI premiums, paid for by working Canadians and employers, for other spending purposes. To ensure a segregated account is able to cover a spike in benefits during a severe downturn, the government will need to maintain an appropriate reserve level.

Supporting skills development, education and training

As Canada's economy evolves and grows, employers face an increasing need for highly skilled and qualified workers. The CCCE encourages the federal government to work closely with the provinces and territories, as well as business and other stakeholders, to find creative solutions to the labour market challenges that confront employers, employees, students and future generations.

In particular, we urge all levels of government to expand and align our country's labour-market information (LMI) systems in ways that will help more people find rewarding and fulfilling careers. One approach – outlined by Don Drummond in a recent paper for the Institute for Research on Public Policy – would be to delegate much more of the LMI gathering responsibility to Statistics Canada.

All jurisdictions should work toward a single, comprehensive portal that brings together data on labour market conditions and job vacancies across the country. A model worth considering is Germany's integrated virtual labour market system, which facilitates job-matching, counseling, recruiting, case management and lifelong learning.

In addition, the federal government and the provinces and territories should accelerate efforts to expand apprenticeship opportunities for Canadians. Young workers are poorly served by a system that consists of 13 separate provincial and territorial apprenticeship jurisdictions. Harmonization of standards and programs would encourage more people to pursue and complete apprenticeships. At the same time, governments should develop new ways to recognize the skills and knowledge gained through apprenticeship. When apprentices complete their programs, they should be awarded diplomas rather than certificates or papers. This would signal to young Canadians that an apprenticeship is a worthy post-secondary option that requires intelligence, focus and dedication.

Strengthening research, development, innovation and commercialization

To encourage business investment in job-creating research and development, and aligned with the government's recent move to shift the balance of R&D support from indirect to direct spending, the government should introduce a direct R&D support program for major new private-sector innovation projects. The Advanced Manufacturing Fund, currently available only in Southern Ontario, could also be transformed into a national program with grants provided for pre-commercial activity.

These actions should be combined with a permanent extension to the Accelerated Capital Cost Allowance (ACCA) that is set to expire in 2015, to ensure that Canada remains an attractive destination in North America for major capital investments.

The CCCE also remains of the view that capital expenditures be reintegrated in to the Scientific Research and Experimental Development (SR&ED) tax credit. The changes made to the SR&ED credit reduce Canada's attractiveness as a destination for major job-creating global mandates.

Supporting growth through investment in infrastructure

Targeted investments in infrastructure can promote increased trade and economic growth. We encourage the government to prioritize critical transportation infrastructure, including ports, airports, seaways, highways and energy distribution networks such as pipelines.

The government's New Building Canada Fund (NBCF) needs to be more than a source of funding. It needs to encourage planning, better coordination of major projects to address rising costs in the construction sector, and transparency in budgeting and lifecycle maintenance.

Federal policies should continue to encourage private-public partnerships (P3) where appropriate to provide taxpayers with better value for money. To ensure that they can compete on a level playing field with foreign bidders for P3 projects, the government should continue to allow Canadian firms to apply to Export Development Canada for performance security guarantees. This support is vital given that foreign bidders often have the support of their national export credit agencies. Performance security, such as letters of credit, continues to be a differentiator in the competitive strength of P3 bids.

Improving Canada's taxation and regulatory regimes

Canada's tax competitiveness and overall business environment have improved significantly over the past decade. But other countries continue to reform their corporate tax systems and Canada must keep pace. The current tax regime is overly complex – a recent PwC study found that large Canadian companies are subject to more than 50 different kinds of taxes – and creates a perverse incentive for small firms to remain small to benefit from preferential tax treatment. The federal government should conduct a comprehensive review of the corporate tax system with the goal of simplifying the tax code and encouraging the growth of small and medium-sized companies.

One measure that would help to simplify the tax system would be to eliminate the withholding tax and reporting requirements that currently impairs the ability of businesses to engage skilled workers. This could be accomplished by creating a program for employers that send employees to Canada to work on projects – a measure that would improve government efficiency and enhance competitiveness.

Finally, creating a taxation and regulatory environment that encourages exporter competitiveness is critical to a small, open economy that relies on trade. To achieve this, the CCCE urges the government to conduct a comprehensive review of Canadian tariffs, as recommended by the Standing Senate Committee on National Finance. Lower tariffs on goods entering Canada would boost economic growth, attract investment and position Canada as a centre of trade activity. Combined with an increase in the *de minimis* threshold, tariff reductions would also provide consumers more choice and better value.

Jobs and opportunities for Canadians through trade

The United States is by far Canada's largest trading partner, responsible for 64 per cent of our country's total bilateral goods trade. The CCCE strongly supports the government's efforts to ensure an open and efficient Canada-U.S. border. Priority should be given to regulatory harmonization and the elimination of discriminatory labelling and procurement practices.

At the same time, we encourage all Members of Parliament to stay focused on the need to diversify Canada's trade relations. Conclusion and swift ratification of the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) would give Canada preferential access to the world's single largest economy, with more than 500 million consumers.

Delivering on Canada's ambitious trade agenda must also include opening new markets in the Asia Pacific region. Ratifying the recently negotiated free trade agreement with South Korea and the Canada-China Foreign Investment Promotion and Protection Agreement would position Canada to benefit from economic growth in two rapidly growing markets. Concluding the Trans-Pacific Partnership negotiations and bilateral deals with India and Japan would further improve trade, investment and people-to-people ties across the region. To further strengthen economic relations with China, the federal government should strongly support efforts to make Canada an offshore settlement centre for Chinese currency trades.

To help Canadian companies and workers reap the benefits of new trade agreements, the CCCE recommends that Parliament approve additional funding for the Trade Commissioner Service, trade enforcement agencies and Export Development Canada. The CCCE also recommends the creation of advisory committees, reporting directly to the Minister of Trade, to develop and report on export and investment strategies to the EU and South Korea.

Of equal importance is the need to liberalize trade within Canada by modernizing the Agreement on Internal Trade (AIT). Persistent interprovincial trade barriers penalize consumers and weaken Canadian competitiveness by imposing unnecessary compliance burdens on businesses of all sizes. We urge the government to press for comprehensive reform, including the use of a negative list, true labour mobility for all Canadians and an effective dispute-settlement mechanism. An effective AIT would create jobs and enable more Canadian firms to grow into global leaders.