



The Honourable Mark Eyking, P.C., M.P.
Chair, Standing Committee on International Trade
House of Commons
Ottawa, Ontario K1A 0G6

Dear Mr. Eyking:

Pursuant to Standing Order 109 of the House of Commons, the Government of Canada is pleased to respond to the Standing Committee on International Trade report entitled “E-Commerce: Certain Trade-Related Priorities of Canada’s Firms,” which was tabled in the House of Commons on April 26, 2018.

The Government of Canada extends its gratitude to the Committee for its hard work in developing the report and for the effort put into crafting the recommendations. We recognize that this study took place over many months and involved a range of public stakeholder consultations and meetings including with private sector, not-for-profit, and government representatives. We are grateful to all of those who appeared before the Committee to express their points of view, and provide evidence and expert advice.

The Government has carefully considered the report and broadly agrees with the report’s recommendations. The Government has various programs and policies corresponding to the directions set out in the recommendations. At the same time, the Government will continue to explore ways in which its programs and policies can be improved to further support the efforts of Canadian firms to maximize the potential of e-commerce.

The Government of Canada will address the recommendations put forward by the Committee by grouping them into three themes: 1) Tax Policy, 2) Support for Canada’s Firms, and 3) Infrastructure, Cybersecurity and Training.

...2

Tax Policy (recommendations 1, 2, 3)

The Government of Canada is committed to a tax system that is fair and equitable for all Canadians. With respect to taxes on sales, Canada's Goods and Services Tax/Harmonized Sales Tax (GST/HST) system is already based on the principle that sales of goods and services are subject to tax in the country where the products are consumed.

With respect to corporate income tax on a firm's profits, international tax norms provide that tax is based not on the location of consumption as such, but on where the productive activities by the firm which give rise to the underlying profits take place. Under these norms, the business profits of a non-resident corporation are taxable in a country only when it has a physical presence in the country. Canada is actively participating in a multilateral effort examining what updates may be required to international tax norms to reflect new digital business models. The Organisation for Economic Co-operation and Development (OECD) delivered an interim report on behalf of 113 countries to G20 Finance Ministers in March 2018.

Canada has one of the most competitive corporate tax systems in the G7. The Government is further supporting entrepreneurship by reducing the small business tax rate to 10% as of 2018, and to 9% as of 2019. By 2019, the average combined federal-provincial income tax rate for small businesses will be 12.2% – the lowest in the G7 and the third lowest among countries of the OECD. Canada's GST/HST, which is a value-added consumption tax, also makes an important contribution to business competitiveness as businesses engaged in commercial activities are able to fully recover the GST/HST paid on business inputs. In addition, the GST/HST does not generally apply to exports, which allows Canadian businesses to better compete in the international marketplace.

The Government has been clear that it will not make Canadians pay more for their online services; however, it is also examining the implications of the rapid growth in electronic commerce for tax systems.

Support for Canada's Firms (recommendations 2, 6, 7, 9, 10)

More entrepreneurs are taking advantage of the digital space and bringing their businesses online. That is why the Government agrees with the recommendation outlined by the Committee to ensure Canadian businesses, including small and medium-sized enterprises (SMEs), have the necessary policy and legislative frameworks in place to remain competitive in the international marketplace, including the necessary privacy, security, competition, and intellectual property (IP) protections.

For example, sound privacy practices are increasingly becoming a competitive advantage in the digital economy. Canada's private-sector privacy legislation is an important

enabler for trade as it provides for organizations to transfer personal information to other jurisdictions. However, in order to protect the personal information of Canadians, it sets rules which ensure that organizations that transfer personal information are accountable for the information that has been transferred.

Further, the government is engaged with various trading partners to discuss cross-border data flows and interoperability of privacy regimes. Canadian firms, including SMEs, will directly benefit from interoperability as it helps simplify compliance when doing business in other jurisdictions by providing clear and consistent rules that will minimize, or ideally avoid, fragmented rules and will reduce compliance costs for business – which can be proportionately higher for SMEs. This work furthers the Government’s commitment to helping to reduce the administrative burden on small businesses. As well, the Government recognizes that seamless and uninterrupted flows of data are essential to enhancing international trade, fueling innovation and ensuring competitiveness in the digital economy. While legitimate policy objectives may necessitate the need for measures that impose some restrictions on the movement and storage of data, there is a need to take a risk-based approach to applying such measures, in order to ensure that they are justified and proportionate.

Budget 2018 builds on Canada’s position by helping Canadians get the skills they need to succeed, making investments to spur innovation, and helping Canadian businesses find new customers around the world. Supporting Canada’s competitiveness is a central element of the Government’s approach to building a fair and inclusive society in which all Canadians can contribute to – and benefit from – economic growth.

The Government of Canada continues to identify ways to encourage Canadian firms to make greater use of digital technology. As announced in Budget 2018, as part of the broader review of innovation programs, the Government of Canada will explore ways to simplify the existing suite of programs offered by the Regional Development Agencies to place greater emphasis on helping firms scale-up, including assisting firms with the adoption of new technologies and processes. The Business Development Bank of Canada (BDBC) provides specific technology financing for businesses of all sizes to purchase or upgrade their software or hardware. Technology loans can also be used to invest in advisory services including IT planning, strategy, security, online sales, marketing, and social media. Purchasing these technologies and services help to better position Canadians businesses to participate in the global economy through e-commerce.

The Government of Canada is supporting the development of skills needed to address the changing nature of the economy, ensuring it works for all Canadians. In Budget 2017, Canada introduced the Innovation and Skills Plan. The plan created six Economic Strategy Tables in areas where there is great potential for Canadian businesses to grow and create high-quality jobs and to develop sector-specific recommendations to support

innovation: advanced manufacturing, agri-food, clean technology, digital industries, health/bio-sciences and resources of the future.

Furthermore, Government of Canada support for skills development includes Employment and Social Development Canada (ESDC)'s Office of Literacy and Essential Skills (OLES) which supports Minister Hajdu's mandate letter commitments around "improving workers' access to quality job training that provides Canadians with pathways to good careers" in part through eLearning solutions. For example, early exploration of federal support for eLearning solutions includes OLES' efforts to advance the Workplace Digital Skills Training Program pilot in English and French with 200 learners through the Job Bank website. The online training program will provide access to basic workplace digital skills training for adult Canadians. It is expected to be available in August of 2018.

ESDC's annual allocation for literacy and essential skills program funding is approximately \$25 million from both the Consolidated Revenue Fund – Adult Learning, Literacy and Essential Skills Program (ALLESP) and Employment Insurance (EI) Part II – and the National Essential Skills Initiative (NESI). The Government has prioritized the integration of essential skills into direct federal funding programs (such as ESDC's Indigenous Skills and Employment Training Program; Skills Link) and labour market transfers to help more Canadians access training and support.

In addition, Budget 2018 committed to launch Future Skills in spring 2018. This builds off of a Budget 2017 commitment of \$225 million over four years, starting in 2018–19, and \$75 million per year thereafter, to establish a new organization tasked with identifying the skills sought and required by employers, exploring new and innovative approaches to skills development, and sharing information to inform future investments and programming. Future Skills will bring together expertise from all sectors and leverage experience from provinces and territories, the private sector, educational institutions and not-for-profit organizations across the country. It will include an expert Council to advise on emerging skills and workforce trends, and a research lab focused on developing, testing and rigorously measuring new approaches to skills assessment and development.

Canadian exports remain a significant component of Canada's economy and the livelihood for countless Canadians. For this reason, the Government has supported Canadian exporters for more than a hundred years through the Trade Commissioner Service (TCS). The report recognizes that the changing landscape of how business is conducted has placed e-commerce at the forefront of Canada's economic drivers: Canadians need support in selling products and services on new and evolving digital platforms. The TCS is well placed to help Canadians take advantage of these opportunities.

Following on strategic direction from Budget 2018, the TCS is modernizing its digital tools to better serve Canadian businesses, including seamless client navigation across federal partners and is orientating itself towards the new economy, with targeted support towards growing Canada's exports in technology, digital services and intellectual property. These measures are already having a positive impact on helping Canada's small and medium-sized firms to export using e-commerce platforms. Specifically, the TCS has developed guides such as "Doing e-Commerce in China" and a similar guide for the U.S. market to support the expansion of Canadian e-commerce exports into these two priority markets.

The TCS also supports Canadian companies to develop market entry and retention strategies through major online platforms such as Alibaba and eBay. In addition, the TCS is working closely with Export Development Canada, Agriculture and Agrifood Canada, the BDBC, Innovation Science and Economic Development, and Canada Post through an interdepartmental project team to better coordinate, and promote, the suite of services available to Canadian exporters. With the launch of new websites, better digital tools, and a marketing drive that outlines the support that is available to Canadians who are selling online, as well as stronger government coordination, Canadian exporters will continue to expand internationally through the use of e-commerce.

With regard to postal rates applicable to foreign and Canadian firms, international mail (both letters and parcels) originating from foreign postal administrations enters Canada under one of two agreements – under bilateral arrangements between Canada Post and other foreign posts, or under the Convention and Acts of the Universal Postal Union (UPU), which constitute a multilateral treaty obligation for all 192 member countries, creating a common framework to facilitate an efficient postal exchange within the global postal network. Given the operational nature of such agreements and that the Canada Post Corporation operates at arm's length from the Government of Canada, it is the responsibility of the Corporation to assess whether certain foreign sellers have a postal rate advantage over Canadian firms.

The current UPU intra-Post compensation model for non-tracked services was created based upon the exchange of letters, not the exchange of goods (parcels). Canada Post has successfully led efforts to improve the compensation model. As a result, effective 2018 the rates paid by foreign posts to Canada Post have increased substantially and will continue to increase until 2021. While Canada Post recognizes that more progress is required, it should be noted that decisions of the UPU are made within a system of "one-country, one-vote" and are socially, politically, and commercially motivated. Canada Post will continue to advance efforts to support affordable, reliable and financially sustainable market-driven cross-border services within this multilateral environment. Should efforts stall, Canada Post may need to reconsider its approach within this agreement.

In addition, Canada Post continues to negotiate bilateral agreements with its largest partners for important import/export flows. Postal bilateral agreements afford Canada Post the opportunity to negotiate more favourable compensation, service and operational flows than those afforded under the UPU regulations. They provide Canadian merchants and consumers wishing to access international markets with affordable, modern postal services. Furthermore, these agreements enable Canada Post to charge rates which have significantly improved Canada Post's compensation for services rendered. Canada Post currently has bilateral agreements with the U.S. and with China. Approximately 75% of incoming international parcel product is governed by these bilateral agreements.

The Government is committed to regular reviews of Canada's federal legislation that regulates e-commerce, including data protection, competition and IP frameworks. To begin with, the commitment to protection of personal information is reflected in the Government's Response to a 2018 report of Parliament on its review of *Personal Information Protection and Electronic Documents Act* (PIPEDA), which governs the handling of personal information in a commercial context. In its response the Government indicated that it would be closely examining the recommendations for change in consultation with all stakeholders and the public, with a view to ensuring that the law is clear, enforceable, and supports the level of privacy protection that Canadians expect.

This commitment is also illustrated by the Government's Response to a 2017 report of Parliament on *Canada's Anti-Spam Law* (CASL) in which the Government indicated it is of the view that a healthy electronic marketplace is key to a growing, competitive, knowledge-based Canadian economy, which in turn helps businesses grow, innovate, export and create quality jobs for Canadians. The Government also indicated that it will work with a diversity of stakeholders to identify concrete solutions that will ensure CASL continues to protect Canadians from spam and other digital threats while also minimizing the costs and burden of compliance for businesses.

Considering the continuously evolving cyber threat environment, the Government further indicated it will be mindful of emerging issues and revisit developments that have occurred in international anti-spam laws to ensure the law remains relevant and technology neutral. The Government is taking a balanced approach that will protect Canadians while allowing organizations to have reasonable ways to communicate electronically with Canadians.

Also, in a recent example, Bill C-25, which received Royal Assent on May 1, 2018, amends the *Canadian Business Corporations Act* to enable federally incorporated companies to make better use of electronic communications with shareholders. Moreover, the Competition Bureau recently published a White Paper considering the adequacy of

the *Competition Act* for the digital economy. While its conclusions were that the *Competition Act* is generally well positioned for the digital marketplace, this is an example of one of many areas in which the Government remains committed to studying, with an eye to strengthening the e-commerce environment.

Marketplace framework laws such as PIPEDA, CASL and IP statutes provide the foundation for the digital marketplace including activities that are core to enhancing a data-driven economy. Taken together, these laws provide concrete protection for individuals and serve to address the underlying need for trust and confidence in the digital marketplace. This framework promotes commercial activities and ensures that businesses can continue to compete in the global marketplace.

Regarding IP, after extensive consultations the Government recently announced an Intellectual Property Strategy. The strategy includes a legislative component and includes amendments to key IP laws to clarify acceptable practices and prevent misuses of IP rights that act as barriers to innovation. The Government is also working towards identifying reforms to the Copyright Board of Canada in a timely manner. An efficient, transparent and predictable Copyright Board is the key to well-functioning copyright markets in Canada, notably digital ones. Finally, the Government looks forward to the results of the parliamentary review of the *Copyright Act* currently being conducted by the Standing Committee on Industry, Science and Technology, in collaboration with the Standing Committee on Canadian Heritage. The review provides an opportunity to ensure that Canada's current copyright framework effectively supports creativity and innovation in a changing technological environment.

Infrastructure, Cybersecurity and Training (recommendations 4, 5, 8, 11)

The government agrees with the Committee that Canadians' trust in e-commerce platforms is essential, given the importance of trust in maximizing the benefits of a data- and digitally driven economy for all citizens. As such, the Government believes that Canadians deserve an effective legislative framework that protects them from spam and other electronic threats that lead to harassment, identity theft and fraud. To that end, the government notes that PIPEDA and CASL play an important role in building trust in the digital environment, which is essential for continuing economic growth.

The government also notes that current federal legislation and regulations protect the personal data of Canadians who purchase and sell products online. The management and use of personal information are crucial to the conduct of business, trade and commerce in a modern and data-driven global economy, and a major element of Canada's Innovation and Skills Plan. Nonetheless, the protection of privacy remains a fundamental value and concern for Canadians.

The Government has recently committed to a renewed cyber security framework for the country. Canada's plan for security in the digital age starts with a strong federal cyber governance system to protect Canadians and their personal information. Key to realizing this commitment is the creation of a new Canadian Centre for Cyber Security, which will establish a single, unified Government of Canada source of unique expert advice, guidance, services and support on cyber security operational matters, providing Canadian citizens and businesses with a clear and trusted place to turn to for cyber security advice.

The Government is committed to review regularly Canada's data protection frameworks to ensure that Canadians and their personal information are protected in a manner that also recognizes the needs of organizations to collect, use or disclose personal information for reasonable purposes. Recently the Government announced that new requirements for businesses to alert consumers, and notify the Office of the Privacy Commissioner, if their personal information is lost or stolen as a result of a data security breach would come into force later this year. Organizations will also be required to keep a record of all data breaches that involve personal information, for provision to the Privacy Commissioner of Canada upon request. These new requirements will empower Canadians to protect themselves and encourage sound data protection practices.

All of this important work on marketplace frameworks underscores their foundation in providing Canadians with the confidence and trust to engage online, and to fuel Canadian leadership in a data- and digitally driven economy.

The Government of Canada also remains committed to ensuring that Canadians are prepared to thrive in a rapidly changing economy, where new technologies (including digital infrastructure) are driving change. To make the most of these opportunities, governments must work together to ensure Canadian workers have the skills they need to succeed.

While responsibility for education falls under provincial/territorial (P/T) jurisdiction, including with respect to curricula, the Government of Canada will continue to work with provinces and territories to ensure that Canadians have access to affordable post-secondary education (PSE) by helping families save for their children's education, providing loans and grants to students, and ensuring that debt loads are manageable. Examples of these efforts include the Canada Student Loans Program (CSLP), through which the government provides non-repayable Canada Student Grants (CSG) and up to 60% of a student's financial needs in Canada Student Loans, and the participating province or territory typically covers the remaining need. Effective August 1, 2016, the CSG amounts increased by 50% from \$2,000 to \$3,000 per year for students from low-income families; from \$800 to \$1,200 per year for students from middle-income families; and, from \$1,200 to \$1,800 per year for part-time students.

The Government also recognizes the importance of supporting workers impacted by technologies and to help them adjust to the new world of work. The Government has recently taken important steps, working closely with the provinces and territories, to improve access to training and skills development for all Canadians. For example, drawing on consultations with the provinces and territories, the Government recently expanded and modernized labour market transfer agreements with provinces and territories to help improve skills training and employment supports. This includes broadening eligibility for programs and services under these agreements, and providing an additional \$2.7 billion over six years (2017–2018 to 2022–2023) on top of the \$3 billion provided annually by the Government of Canada to the provinces and territories through these agreements so they can support Canadians with skills training and employment assistance. In addition, the recently announced Skills Boost initiative, is helping adults seek new skills and qualifications throughout their working lives: by enhancing access to Canada Student Grants and Loans for adult learners looking to return to school; and by providing more opportunities for eligible unemployed Canadians to keep their EI benefits when they upgrade their skills

In addition, as announced in Budget 2018, the Government is also looking to launch Future Skills this year. Bringing together expertise from across sectors and leveraging experience from partners across the country, Future Skills will support innovative approaches to skills development and facilitate knowledge exchange on best practices.

The Government of Canada also recognizes the importance of access to high-quality, affordable telecommunications services for Canadian consumers and businesses to participate in the digital economy. In Canada, the private sector is the main driver of investment in telecommunications networks, which invested \$11.6 billion in 2016. Where there are persistent gaps, governments at all levels have established targeted funding initiatives to help promote high-speed Internet access in underserved areas.

The latest initiative from Innovation, Science and Economic Development (ISED) is the Connecting to Innovate (CTI) program, which is investing \$500 million by 2021 to expand and improve broadband access in rural and remote areas, including the North. CTI will support broadband infrastructure that benefits businesses as well as institutions and households. To date, the Government has announced projects to connect over 800 rural and remote communities. CTI builds on the success of the Connecting Canadians program, which is expanding access to 300,000 households by 2019.

These initiatives are complementary to actions taken by the Canadian Radio-television and Telecommunications Commission (CRTC). In December 2016, the CRTC classified broadband Internet as a basic telecommunications service, established new broadband targets, and announced a new \$750 million fund to help achieve them. The government's radio spectrum frameworks are also supporting the expansion of wireless services. For example, the auction framework for 600 MHz spectrum was announced March 28, 2018.

The auction will set aside 43% of the spectrum for regional competitors and potential new market entrants. The airwaves in the 600 MHz frequency carry signals over long distances, which is useful for expanding coverage. In June 2017, the government announced a new licencing framework for next generation satellites to enable entry in Canada and Budget 2018 announced \$100 million for the Strategic Innovation Fund to support the development of next generation satellite technology.

Connectivity is also eligible under the \$2 billion rural and northern communities stream of the Investing in Canada infrastructure program. As with past Infrastructure Canada programming, provinces and territories will play an important role in identifying their priorities under the fund. Other levels of government including provinces, territories, and municipalities also have their own digital infrastructure initiatives, which are collectively helping to improve access for Canadian consumers and businesses across Canada.

The Government of Canada's telecommunications policy is focused on three core objectives of quality, coverage, and affordability. It is important that our networks support the latest applications; that they are available to all Canadians in the communities where they live and work; and that service prices are affordable.

Last year, the government asked the CRTC to reconsider a decision with the goal of increasing affordable wireless options for Canadians. After holding a public proceeding, the CRTC responded to this concern by directing the national incumbent carriers to offer new lower-cost data-only plans to help fill a market gap.

While progress is being made, the Government hears the concerns of Canadians that prices are still too high. This is why the Government is taking concrete action to support vigorous competition in the marketplace. Supporting increased and sustainable competition from smaller carriers will lead to better quality services and lower prices for Canadians. One such measure to support this is setting aside 43% of the spectrum for regional competitors and potential new market entrants in the upcoming 600MHz spectrum auction. Setting aside spectrum enables smaller carriers to expand and strengthen their networks.

The latest Price Comparison Study of Telecommunications Services, commissioned by ISED, highlighted the importance of new and smaller wireless players in Canada, such as Freedom Mobile, Videotron, and Eastlink. The study found that the average prices of these carriers were lower than those of the national incumbents by a range of 7 to 27%.

Conclusion

The government of Canada would like to reiterate its gratitude to the members of the Standing Committee for their hard work and dedication to the completion of this report on e-commerce and trade-related priorities of Canadian firms. The government has taken

the recommendations into consideration and will continue to work with stakeholders, including the private sector, as well as the provinces and territories, to help Canadian firms to flourish in the digital economy.

Sincerely,

A handwritten signature in blue ink, appearing to read "N. Bains".

The Honourable Navdeep Bains, P.C., M.P.
Minister of Innovation, Science and Economic Development

A handwritten signature in blue ink, appearing to read "Bill Morneau".

The Honourable Bill Morneau, P.C., M.P.
Minister of Finance

A handwritten signature in blue ink, appearing to read "François-Philippe Champagne".

The Honourable François-Philippe Champagne, P.C., M.P.
Minister of International Trade

