



CANADA FIRST!
***TAKING THE LEAD IN A
TRANSFORMING GLOBAL ECONOMY***

***A STATEMENT OF THE EXECUTIVE COMMITTEE
CANADIAN COUNCIL OF CHIEF EXECUTIVES***

***OTTAWA
JUNE 28, 2005***



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As leaders of Canadian enterprise, we are concerned about the future of our country. We know the importance of good governance, rigorous financial management, continuous development of people and ideas and above all of sound strategy to drive the sustainable growth of our enterprises. We know that Canada needs no less.

As an economy, Canada today seems to be in great shape. It is the only major industrialized country enjoying consistent surpluses both in its federal budgets and in its trade and current accounts. Its economic growth has been the best in the G-7 over the past five years, driving the unemployment rate to its lowest levels since the 1970s and producing impressive gains in family incomes, profits and tax revenues.

As a society, Canada remains a beacon of hope for the world. Its social services ensure that no one languishes in extreme poverty and that everyone has opportunities to get ahead. Its commitment to spreading peace and democratic values around the world is matched by an unparalleled openness to immigration. No other country has been as successful in shaping communities in which people from every corner of the globe can feel at home.

But as a political entity, Canada is a nation adrift. A minority federal government is frittering away the fruits of years of sacrifice. Provincial and municipal governments are making this problem worse by demanding a steady stream of special deals that give them a greater share of the taxes paid *by* all Canadians without accountability *to* all Canadians. In the political arena, the very idea of strategic policy-making is drowning in the swirling search for momentary tactical advantage.



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Public trust is being driven to new lows by a parade of improprieties. Civility and cooperation within the House of Commons have evaporated. The public service has been left paralyzed and demoralized. Millions of Canadians are frustrated and dismayed by this spectacle.

What is painfully absent today is any ambitious vision of what Canada could achieve over the next five to 10 years and any coherent strategy for realizing this vision in ways that could mobilize support across Canadian society.

The *Canadian Council of Chief Executives* (CCCE) is a non-partisan organization of individuals dedicated to building a stronger Canada and a better world. We have a long and proud history of contributing to the evolution of important national debates, from free trade and constitutional reform to the battles against inflation and government deficits.

In 1999, we launched the *Canada Global Leadership Initiative*, which produced a declaration in 2000 titled *Global Champion or Falling Star? The Choice Canada Must Make*. In this declaration, based on months of consultation and research, we addressed a wide range of competitiveness issues, identifying the need for significant tax cuts as an essential first step. In October 2000, the federal government announced a five-year plan for reducing personal and corporate tax rates, and Canadians have been reaping the benefits ever since.

The Canadian economy does not function in isolation, however, and the rest of the world is changing rapidly. Today, therefore, we are launching the next stage in our ongoing work to strengthen Canada's competitiveness and future prosperity.



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As the country's political leaders begin a summer break from the partisan frenzy of recent weeks, it is time to put Canada first. It is time to look past the name-calling and finger-pointing and consider what is right for the country. It is time to consider what will happen to jobs and investment in each sector of our economy in the absence of concerted national action, and to talk about our immense potential as a country if we pull out all the stops. It is time for Canadians to work together in shaping the national strategies and public policy choices that are needed if Canada is to take the lead in a transforming global economy.

We claim no mandate from the Canadian people, nor any monopoly on good ideas. But all citizens have a duty to stand up and be counted, to offer their best ideas for advancing the national interest and to make their best efforts to move such ideas forward. In launching our *Canada First!* initiative, we hope that ours will prove to be one of many voices contributing to a renewed sense of national purpose and direction.

In the months ahead, we plan to bring our expertise in thinking strategically about competitiveness and productivity to the broader challenge of shaping a more prosperous future for Canada. We also will seek out the expertise and advice of others who share our passion for building a better Canada. Our goal is to articulate a strategic vision and action plan for the country, one that is capable of inspiring broad support across all sectors and regions, before the next federal election.

We start from two fundamental premises: that a strong and globally competitive economy provides the foundation for improving the quality of life of Canadians; and that good governance and sound public policy are necessary conditions for robust and sustainable economic growth. Canada has strengths and weaknesses in terms of the competitiveness both of its private sector and of its governance and



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public policy framework, and as we launch our initiative, we suggest six critical issues that must be addressed in order to put Canada first.

CANADA'S CHALLENGES AND OPPORTUNITIES

Canada has made immense strides over the past decade as it adapted to freer trade, reduced inflation and interest rates and shifted the federal budget balance from deep deficits to repeated surpluses. At the same time, we are a country whose identity and prosperity flow from our engagement with the world. As the rest of the world changes, we must adapt, and we should be anticipating opportunities and shaping our strategies accordingly.

On the economic front, our world is being transformed by the rapid evolution of Asian economies, especially China and India. This transformation has produced benefits for Canada's resource sector, but poses new challenges to enterprises in both manufacturing and services. In every sector of the economy, Canada faces the need to specialize and to shift toward higher value-added activities.

Despite our trade-intensive economy, too few Canadian companies, especially among our smaller and medium-sized enterprises, export their products, invest abroad or seek out international partners. Both our experience and a large body of economic evidence suggests that regardless of their ownership, Canadian-based enterprises that are globally engaged are more likely to form partnerships with universities, develop products for export, adopt new technologies and invest in employee training. For our enterprises and our country to prosper, we need to become even more globally engaged than in the past.



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At the same time, the world is grappling with a very different threat, that of international terrorism. Canada has never limited its global engagement to issues of trade and investment, and both our economic interests and our democratic values require us to be active partners in the continuing struggle against the terrorist scourge. The most direct threat to Canada's interests lies in terrorism's potential to undermine the efficient flow of goods and people across our border with our largest trading partner, the United States. But the more fundamental threat is to the open global economy on which our prosperity is based and to the values that lie at the heart of our society. No national strategy for overcoming economic challenges will be successful unless it also contributes to global peace and security.

CANADA'S STRENGTHS AND WEAKNESSES

In charting a path forward, Canada starts with important advantages, but these are offset by significant weaknesses. The country's fiscal base remains strong, but is threatened by runaway spending growth. Declining tax rates have fuelled economic growth, but our tax structure is biased against investment and our overall tax burden remains higher than that of most of our major trading partners and competitors for new investment. Canada benefits from high regulatory standards, but its fragmented regulatory structure and its processes are too complex, slow, costly and uncertain. We have one of the most highly educated labour forces in the world, but far too many children are failing to complete even secondary schooling. Canada is a global leader in good public and corporate governance, yet public trust in both government and business has been declining.

Beneath the apparently healthy surface of Canada's economy, we see some disturbing signals. In the short term, while the rise of Asia as an



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economic power has produced significant gains for Canadian resource producers, it also has pushed up Canada's currency, especially in relation to that of our largest export customer, the United States. Business investment in new machinery and equipment is increasing at double-digit rates, but the combination of a higher currency and more intense competition from Asia and elsewhere remains a severe threat to the future of Canada's manufacturing base.

The sheer scale and speed of change in the global marketplace means that Canadian companies in every business have to consider all options for locating their operations and that Canadian governments and communities must do what they can to encourage businesses to compete and grow from a Canadian base. Key economic indicators suggest that despite our past strengths, Canada has begun to lose ground.

For instance, Canada's labour productivity has grown at an average pace of 1.7 percent a year since 1997. That is the second-best record in the G-7, yet it falls short of the 2 percent pace that will be needed over the next 30 years to cover the estimated health care, pension and other costs of an aging population. Worse, average output per hour increased a total of just 0.1 percent in 2003 and 2004. In other words, despite the rapid pace of business investment in new machinery and equipment, we have had essentially zero productivity growth over the past two years.

Another disturbing sign can be seen in Canada's poor performance in attracting foreign investment, which plays a critical role both in job creation and in business innovation. Foreign direct investment into Canada grew at an average pace of nine percent a year during the 1990s. It failed to grow at all in 2003, for the first time since the



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Depression of the 1930s, and did not do much better last year, rising just 3 percent.

It takes a first-class economy to sustain first-class social programs, and Canada desperately needs a coherent economic strategy that will deliver both. If Canadians want today's good news to continue, leaders in government, business and communities must set aside short-term differences and work together to shape a future in which Canada is second to none.

SIX WAYS TO PUT CANADA FIRST

To build consensus around a national strategy, we must do more than put the interests of the country ahead of those of individual citizens, businesses, interest groups and governments. We must agree to be bold in our vision for the country, to seek to put Canada first among nations in areas that are key drivers of national prosperity.

1. First in good governance

Good governance is not merely a competitive advantage; it is the foundation for healthy and sustained economic growth and for social progress. Good governance is as important to the success of countries as it is to that of companies.

A flurry of highly publicized corporate scandals in recent years triggered widespread demands for new rules and tougher enforcement. Market forces also have been at work, often driving change further and faster than governments. As business leaders, we are the first to admit that the job of restoring public trust in private enterprise is far from complete. But by working together, governments, regulators,



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institutional investors, professional bodies, financial markets and the directors and executives of individual companies have within a remarkably short time transformed Canadian corporate governance practices. These practices stand as among the best in the world.

The federal sponsorship scandal has become the symbol of the need for an equally sweeping transformation of public governance. What Prime Minister Paul Martin has called Canada's "democratic deficit" demands action on at least two levels.

First, public governance reforms must mirror those that have taken place within the private sector in strengthening transparency and accountability. In the private sector, CEOs and CFOs are now required to certify that each of our reports fairly reflects the state of our business, that everything in the report is true, that nothing has been left out that might make what is said misleading and that we are aware of all material facts. We would suggest that governments consider comparable ways to strengthen the personal responsibility and accountability of ministers and deputy ministers.

Second, there is an urgent need to reshape the relationships among Canada's governments. The flexibility of a federal governance structure can be a competitive advantage, but inter-governmental relations in Canada have become dominated by an endless argument over the so-called fiscal imbalance: recurring surpluses at the federal level at a time when many provinces are struggling to stay afloat in the face of dramatically rising health care costs. This has led to a tangled web of one-off and asymmetrical deals that has sent public spending skyrocketing while reducing accountability to taxpayers.



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To position Canada to compete more effectively in the global economy, it is vital to deal with the structure of our federation, not through constitutional change but through a systemic and pragmatic review of what Canadians expect from our governments, which governments can deliver the best value in each case and how to ensure that each government can raise the revenue it needs to meet its responsibilities.

2. First in public services and infrastructure

What governments do, and how well they do it, has a fundamental impact on Canada's competitiveness and economic success. A reputation for solid rule of law, effective policing, an independent judiciary and honest and competent public servants is the necessary foundation for any competitive economy. Sound fiscal and monetary policy forms the base for sustainable economic growth. Effective public services, from infrastructure and education to cultural facilities and national defence, can build on this base and help to make our economy more competitive and productive.

The most important issue with respect to what governments do is not the scope of their activities, but rather the extent to which they deliver value for the money they spend. Governments must be careful to ensure that their activities contribute to future economic growth rather than merely redistributing wealth for current consumption. They also must consider how best to deliver services they deem important, and be sure not to overlook opportunities for partnerships with the private sector if these can provide more competitive and efficient ways to achieve important public policy goals. Whatever governments do, they must do well and they must do better than the country could achieve through other means.



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3. First in taxation and regulation

Taxation and regulation are the two most effective ways governments can shape the business environment without engaging in public spending.

Tax policy represents a balancing act. Governments must collect enough taxes to pay for their current activities, while doing as little damage as possible to the economic growth that will determine their future tax base. Taxes on business income and investment are more damaging to economic growth than are taxes on consumption. This is why European countries with high overall tax burdens and extensive social programs rely heavily on value-added taxes like the GST, while keeping their corporate and personal income tax rates relatively low.

Globally, the most potent tax trend is toward lower rates on corporate income. Since 1997, 25 of the 30 member countries of the Organisation for Economic Co-operation and Development, including Japan, Germany, France, Italy and the United Kingdom, have cut corporate taxes significantly. Canada now has the third highest marginal effective tax rate on business investment in the industrialized world.

Unlike taxation, regulation can be used to improve competitiveness without direct fiscal costs. Sound regulation reinforces a positive country brand and provides an attractive environment for business investment. Poor regulation undermines growth by imposing excessive costs and delays, uncertainty, inconsistency and duplication.



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4. First in business investment and productivity

Finance Minister Ralph Goodale recently noted that the purpose of both competitive taxation and smart regulation is to encourage Canadian businesses to boost their productivity and performance. Faced with an aging population, he declared, “we must improve the productive capacity of our economy if we are to continue to enjoy the benefits of one of the most compassionate and equitable societies in the world and build an even better economy for the next generation of Canadians and beyond.”

Canadian output per hour of work in the business sector stood at 82 percent of the United States average in 1999. In wood products, paper, mining, primary metals, motor vehicles and other transportation products, construction, printing and publishing, Canadian productivity is higher than in the United States. But in 19 out of 28 industry sectors, Canadian productivity lags, with ominous implications for the future of Canadian jobs.

Work by the McKinsey Global Institute suggests that government policies play a major role in holding back productivity. Restrictions on foreign investment, for instance, affect productivity by reducing competition and incentives to innovate, and Canada is more restrictive than every other member of the Organisation for Economic Co-operation and Development (OECD) except Iceland. Similarly, non-tariff barriers such as marketing boards reduce productivity in Canadian agriculture, while barriers to internal trade act as a drag in sectors such as personal services. Regulatory fragmentation and duplication add to the damage. Maintaining 13 separate securities regulators, for instance, adds to the cost of capital and inhibits business investment and productivity across the country.



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Whatever the business environment created by governments, Canada's private sector needs to work harder at improving productivity and competing vigorously at home and abroad. As leaders of our country's largest and most globally engaged companies, we have a responsibility to do our part, not only in growing our own businesses, but in encouraging others to raise their sights and be bolder in exploring the opportunities of a global marketplace.

5. First in education and expertise

As the baby boom generation approaches retirement, a labour force that makes up a smaller portion of the population will have to support an expanding population of seniors who depend on public health care, pensions and other social programs. Given this reality, we need to ensure that every Canadian is able to achieve his or her full potential.

Canada boasts the highest proportion of people with a post-secondary education among the G-7 nations. But we also have notable weaknesses, including an excessive high-school drop-out rate, especially among boys and among aboriginal children; a weak recruitment rate for apprenticeships in skilled trades; continuing issues of access to post-secondary education; and an uneven performance by public and private sector employers in encouraging and funding lifelong learning.

At the post-secondary level, the federal government has made research and development a priority for additional funding in recent years, and this is helping Canadian post-secondary institutions to recruit and retain top talent. Canada has been less successful to date in increasing the pace of commercialization of the results of this research.



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What existing companies and industry sectors do with the results of Canadian research will play an important role in determining which ones grow and which ones shrink in the decade ahead. But to ensure the healthy growth of our economy as a whole, Canada also must become more creative and more determined in fostering new knowledge-driven ventures and the development of whole new business sectors.

6. First in immigration and integration

Making the most of our existing pool of talent is not enough. Canada always has been an immigration-intensive economy, and we will be counting on immigration for all of the net growth of our labour force in the years ahead. At the same time, other countries are beginning to compete more vigorously for mobile talent.

Canada needs to work harder to encourage talented people to move to our country and to enable immigrants to achieve their full potential within our economy. The open and diverse society that we have built gives Canada a real competitive advantage in the global economy, but we cannot take this advantage for granted.

We need to offer more than an open door. We must make Canada the destination of choice for talented people with skills, energy and drive. As leaders of Canadian enterprise, we are committed to doing our part in strengthening our country's reputation as a land of opportunity.

TOWARD A NEW NATIONAL STRATEGY

Globalization has been good for Canada. The country's willingness in the 1980s and 1990s to open up its economy unleashed a wave of



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innovation and creativity within the private sector. The simultaneous commitment to sound fiscal and monetary policy provided a solid foundation for more rapid and sustainable growth, a trend that was reinforced over the past five years by falling tax rates.

The continuing evolution of the global economy, however, poses new challenges to every one of our industries. Canada's natural resource wealth, its advanced technology base, its highly skilled labour force and its diverse, outward-looking society give our country the potential to be a model of post-industrial success. In many ways, we already are the envy of the world, but we cannot take either this status or its benefits for granted.

To achieve our country's potential, Canada must move decisively beyond its current complacency and lack of direction. As a country, we must develop a vision of what we want Canada to look like by 2010 and 2015, build a broad consensus around this vision and execute a coherent strategy for turning this vision into reality.

What really matters to Canadians is not where political parties may stand in public opinion polls five minutes from now, but what kind of a country our children will inherit over the next generation, what kind of work they will be doing and what kind of lives they will lead. Five years ago, the *Canadian Council of Chief Executives* established as our overarching goal to make Canada "*the best place in the world in which to live, to work, to invest and to grow*". As we launch the next stage of our continuing efforts toward this goal, we hope that others will join us in putting Canada first.



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Messrs. George, D' Alessandro, Desmarais, Lamarre, Morgan and Nixon are the chief executives respectively of Suncor Energy Inc., Manulife Financial, Power Corporation of Canada, SNC-Lavalin Group Inc., EnCana Corporation and Royal Bank of Canada.