Business Council of Canada | Conseil canadien des affaires

The Honourable John P. Manley, P.C., O.C.
President and Chief Executive Officer

L'honorable John P. Manley, C.P., O.C.
Président et chef de la direction

December 13, 2017

The Honourable William Morneau, P.C., M.P.
Minister of Finance
Finance Canada
90 Elgin Street
OTTAWA, Ontario
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Dear Minister,

On behalf of the men and women who lead 150 of Canada's largest and most globally engaged companies, I write to share our thoughts on priorities for next year's federal budget.

In Budget 2017, you set out a vision to make Canada a more inclusive and innovative economy, with targeted investments in areas such as infrastructure, skills, housing, gender equality and support for vulnerable and disadvantaged communities. We welcomed these policy measures and firmly believe your government's work in these areas should continue.

At the same time, we urge you to address an equally important challenge in Budget 2018: the need for a comprehensive strategy to promote economic growth, encourage private investment and strengthen competitiveness.

On the surface, Canada's economy is performing well. In the fall economic update you noted that our country is currently the fastest-growing economy in the Group of Seven (G-7). Unemployment has dropped to its lowest level in nearly a decade. Rising consumer confidence and low interest rates have contributed to strong growth in household consumption.

Unfortunately, these positive trends are unlikely to persist. Over the next two years, higher borrowing costs and excessive debt levels are expected to constrain consumer spending. Business capital investment, after showing encouraging growth over the past year, is forecast to decline, in part because of uncertainty over the future of NAFTA and fears that trade disruptions will damage regional value chains.

As a result, the OECD predicts that Canada's growth rate will slow to just 2.1 per cent. The Advisory Council on Economic Growth, looking ahead much further, says that GDP growth will likely average only 1.5 per cent over the next 50 years – half the rate of the past half century. In its final set of reports, the Advisory Council warns that the slower pace of growth, if left unchecked, "would have a profound impact on the prosperity of Canadian families and the outlook for them and their children."

In the face of these challenges, we urge you to act now to strengthen the country's competitiveness fundamentals and reset Canada's long-term growth trajectory. In our view, a comprehensive strategy to strengthen Canadian competitiveness should include the following:

**A holistic understanding of the business environment** – Canada is an expensive place to do business, and not just because of our small domestic market, cold weather and geographic vastness. Many other cost factors come into play when companies are deciding where and when to invest and create jobs. Recent measures such as changes to the Canada Pension Plan, the rollback of planned cuts to Employment Insurance premiums, the introduction of carbon levies and cap-and-trade programs, and significant minimum wage hikes in Ontario and Alberta have a cumulative impact on investment returns and business competitiveness.

We urge all governments in Canada to consider the overall burden of taxes, fees and regulations that companies across Canada are required to shoulder. Each of these measures may make sense in isolation, but collectively they represent a serious barrier to business investment. Recently, we asked 61 of Canada's largest companies whether, in their view, the business investment environment had improved, worsened or stayed the same over the past five years. By a margin of more than three to one, they said it had deteriorated rather than improved. Moreover, a clear majority of those surveyed (57 per cent) said investment conditions in Canada are worse than in the other countries in which their company invests. We strongly hope that you and your provincial counterparts will heed the serious message these findings convey.

**Tax reform and simplification** – In recent years a number of other advanced economies have reduced their corporate tax rates to attract business activity. The United States, our largest trade partner and most formidable competitor, is weighing a dramatic overhaul of its tax system that would include meaningful cuts to both personal and corporate rates. Meanwhile, Canada's personal and corporate tax rates have been moving in the opposite direction.

While governments like to boast of Canada's "low and competitive business tax rates," the fact remains that Canadian companies now pay rates higher than those borne by their counterparts in most other OECD countries. Similarly, recent increases in top marginal personal tax rates have undercut the ability of Canadian companies to attract and retain skilled labour, and have made Canada a less attractive base for entrepreneurs.

The government's proposal to increase taxes significantly on passive investments held by private corporations will exacerbate Canada's competitiveness problem. The measures put forward are far too broad and have created significant uncertainty for entrepreneurs, large private corporations and subsidiaries of multinational corporations. It should go without saying that the changes also further complicate an already overly complex tax system.

Minister, the ongoing controversy over small-business tax rules underscores a point that our association, and many independent tax experts, have been making for years: it is time to review Canada's tax system with the goal of strengthening the incentives for investment and growth. We endorse the recommendation of the Advisory Council on Economic Growth to establish an independent panel of tax experts from academia and the private sector. In the words of the Advisory Council, the panel should "consider changes to corporate and personal tax rates, the balance between types of taxes, and the use of tax instruments designed to support investment."

**A world-class regulatory environment** – The business leaders who took part in our survey on the investment climate identified the regulatory burden as the single most important policy factor affecting their investment decisions. Notably, only 13 per cent of respondents expressed a positive view of Canada's current regulatory environment – a finding that has troubling implications for economic growth and job creation.

For decades, successive governments have worked to improve the way Canada develops and manages regulations, with the aim of protecting the public interest and supporting business competitiveness. Although there has been progress in some areas, significant gaps remain and seem likely to widen as technological advances stretch the capacity of regulators to respond effectively.

To address these challenges, we recommend that the federal government commit to establishing a world-class, efficient and responsive regulatory system that attracts investment and incents innovation. For a start, Treasury Board should be empowered to ensure that departments follow the guidance already set out in the recent Cabinet Directive on regulation. We further suggest that the government move from a stakeholder approach – one that relies on episodic consultation – to a model of true co-development that draws on industry expertise much earlier and throughout the process.

**Support for resource-based exports** – Canada's economy is increasingly diverse, yet natural resources remain to a large extent our country's "family business". In 2016 the natural resource sector accounted for 16 per cent of nominal GDP, employed 1.74 million Canadians and was responsible for 38 per cent of total non-residential capital investment.

Canada is fortunate to have one of the world's largest and most diverse natural resource endowments. Last year Canadians exported $201 billion worth of natural resources to customers and countries around the world. The International Energy Agency (IEA) projects that by 2040, the world will need 31 per cent more energy than is being produced today. Canada is well-positioned to help meet this demand as a responsible and reliable supplier of both conventional fuels and renewable forms of energy.

To take advantage of that opportunity, Canada needs modern and efficient energy transportation infrastructure. Now is the time for the federal government to deliver on its promise to reform regulatory approval processes for major private-sector infrastructure projects, ensuring they are transparent, predictable, fact-based and capable of rendering decisions in a timely manner.

**An ambitious trade strategy** – As a small open economy, Canada depends heavily on access to markets around the world. The jobs of more than three million Canadian men and women depend directly or indirectly on exports, according to Statistics Canada; trade with the United States alone accounts for more than two million jobs. It is therefore essential to safeguard Canada's longstanding preferential trade and investment relationships with the United States and Mexico. At the same time, Canada must play a leadership role in supporting an open global trading system at a time when protectionist forces threaten to reverse decades of progress.

Minister, we are deeply concerned by the government's recent failure to reach an agreement in principle on a framework for the proposed Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). Concluding this agreement would show leadership in the Asia-Pacific region and reaffirm Canada's support for the multilateral trading system. It would also give Canadian exporters preferential access to Japan, our country's second-largest trading partner in Asia.

Canada should be a leader in opening markets around the world. To this end, we recommend that the government strengthen its trade diversification efforts. Canada should redouble efforts to forge a closer economic partnership with China and to facilitate trade with India. It is time also to move from exploratory talks to formal trade negotiations with the Association of Southeast Asian Nations (ASEAN).

Minister, in addition to the foregoing recommendations to foster stronger economic growth and competitiveness, we wish to take this opportunity to flag three other important areas where we hope to see progress in Budget 2018.

**Cyber security** – In 2015, our Council helped lay the foundations of the Canadian Cyber Threat Exchange (CCTX), an independent, not-for-profit organization that helps Canadian businesses and consumers detect and mitigate cyber attacks. In Budget 2018, we urge you to bring forward a comprehensive, government-wide strategy on cyber security that emphasizes the importance of collaboration between the private and public sectors.

**Securities regulation –** Efficient and dynamic capital markets are vital to economic growth, investment and job creation. The creation of a single securities regulator in Canada to replace the existing patchwork of provincial and territorial securities regulators would enhance oversight, strengthen investor protection and boost competitiveness. To ensure a successful transition to and implementation of the proposed new Capital Markets Regulatory Authority, we urge you to implement the *Capital Stability Markets Act* as quickly as possible.

**Dealing with corporate wrongdoing** – For more than two years, the Business Council of Canada has argued that Deferred Prosecution Agreements (DPAs) should be part of the federal government's arsenal in dealing with white-collar crime. DPAs serve as a powerful incentive for companies to report cases of wrongdoing that might otherwise go undetected, and to focus resources on instilling a strong compliance culture throughout the organization. The United States, Britain and France have DPA processes in place but Canada does not – a fact that leaves Canadian firms at a serious disadvantage when competing against rivals in other markets. It also restricts acquisition opportunities for Canadian companies with strategies to become global champions. We therefore encourage the government to move ahead expeditiously with the implementation of a DPA regime.

On behalf of Canada's business leaders and the 1.5 million Canadians they employ, thank you in advance for your consideration of these proposals. The members of the Business Council of Canada are strongly committed to Canada's success in the global economy, to the creation of new opportunities for our citizens and to breaking down barriers that prevent Canadians from reaching their full potential. We are grateful for your leadership and would welcome an opportunity to discuss these ideas with you at your earliest opportunity.

Sincerely,