

February 12, 2019

The Honourable William Morneau, P.C., M.P.
Minister of Finance
Finance Canada
90 Elgin Street
OTTAWA, Ontario
K1A 0G5

Dear Minister,

As you and your colleagues prepare the upcoming federal budget, I would like to offer the following observations on behalf of Canada's business leaders.

The Canadian economy performed well in 2018 despite a number of headwinds including ongoing global trade uncertainty and declines in commodity prices. The unemployment rate has fallen to its lowest level in over four decades and wage growth is showing signs of accelerating.

The Council applauds the government's efforts to reduce trade uncertainty, address the impact of US tax reform and deal with the regulatory burden. We are committed to working with you to ensure the passage of the Canada-United States-Mexico Agreement (CUSMA) through the US Congress, as well as the removal of tariffs on steel and aluminum products. We actively support your government's trade diversification and regulatory reform initiatives as a way of boosting job-creating investment.

Notwithstanding these successes, the economic outlook for 2019 is deteriorating with global growth expected to slow. According to the World Bank, international trade and manufacturing activity have softened, trade tensions remain elevated and some large emerging economies have experienced substantial financial market pressures. Meanwhile, low commodity prices continue to complicate the outlook for Canada.

Canada's business leaders are concerned about Canada's economic future and are committed to building a future of good jobs, strong communities and a higher quality of life for all citizens. According to a recent Business Council poll of 70 CEOs of Canada's leading employers, 90 per cent said they are concerned or very concerned with the competitiveness of Canada's business environment.

These concerns have led the Business Council of Canada to launch a Task Force on Canada's Economic Future. This Task Force is co-chaired by Chuck Magro, President and Chief Executive Officer of Nutrien Ltd., Nicole Verkindt, Founder and Chief Executive Officer of OMX, and Louis Vachon, President and Chief Executive Officer of National Bank of Canada. Business leaders from all industries and regions will contribute ideas and recommendations on strategies to attract investment and drive economic growth. Stakeholders across Canada will also be asked to contribute to the development of these ideas.

In the meantime, Budget 2019 is an important opportunity to introduce measures to help Canada reach its full potential while preparing for the next downturn. We recommend that Budget 2019 address the following:

Talent and re-skilling

Canadians are anxious about the effects of technological change on their jobs and careers. Our 2018 Skills Survey found that large employers are investing more in workplace training and partnering with post-secondary institutions to help prepare young people for the future of work. But more can be done.

To this end, we support the Business/Higher Education Roundtable's efforts to ensure that all post-secondary students benefit from access to a work-integrated learning (WIL) experience. Investing in WIL, and other programs to help workers upgrade their skills, will help Canadians thrive in a changing world.

Canada should be home to the world's most highly skilled labour force. Your government's commitment to boosting skilled immigration, as well as the successful implementation of the Global Talent Stream program, are positive steps in this direction. Talent is central to the Canadian brand and your government can count on our support to defend the importance of a robust, forward-looking skills and immigration agenda.

Regulation

Canada's regulatory system is broken. According to the Business Council's poll, two-thirds of CEOs say that, over the past three years, they have had to cancel, scale back or postpone a project because of excessive or inefficient regulation. The Economic Strategy

Tables echoed this in their report to the government in September: “Regulations are priority number one, two, three and four. If we don’t fix our regulatory issues, none of the rest matters.” It is important that we all remember excessive regulations ultimately end up costing Canadians by hurting competitiveness and raising the cost of goods and services.

Our members welcomed the government’s commitments to reform and modernization in Budget 2018 and the Fall Economic Statement. These measures should be implemented swiftly in order to deliver tangible results by the end of this year. In particular, we look forward to:

- outcomes from the current three targeted sector reviews and the announcement of other reviews in priority areas, such as natural resources;
- the introduction of an annual regulatory modernization bill;
- legislation to incorporate competitiveness into the mandates of all federal regulators; and
- a joint plan with provinces and territories to address one third of the regulatory barriers currently on the agenda of the Regulatory Cooperation and Consolidation Table.

We are hopeful that these efforts can eliminate some longstanding bottlenecks and set a foundation for better regulatory policymaking in the future. Until such modernization efforts are complete, however, we urge the government to temper the current regulatory agendas of federal departments and to refrain from pursuing any non-essential initiatives that would impose new burdens on business.

Energy

The Fall Economic Statement contained some helpful changes that will improve the investment incentives for several Canadian resource sectors. However, the energy industry, and the Western Canadian economy more generally, are facing unprecedented challenges and further action is warranted. A critical element is a policy regime that supports the building of additional infrastructure to enable Canadian energy to access markets beyond North America. We urge the government to move ahead as expeditiously as possible to conclude the remaining prerequisites to the construction of the TransMountain pipeline expansion.

We also need the government to make targeted amendments to Bill C-69 to address the legitimate concerns that have been raised and to provide a more certain regulatory environment for major projects. The ultimate test of the bill is whether it will actually

attract the investment, innovation and skilled jobs that are critical to the country's economic future, not its passage in Parliament.

Trade

Trade uncertainty continues to weigh on the Canadian economy. The ratification of CUSMA in the United States is by no means guaranteed. Meanwhile, US tariffs on aluminum and steel are increasingly damaging to Canadian industry. We urge you to secure the lifting of the steel and aluminum tariffs before CUSMA is ratified.

Trade diversification should continue to be a priority to reduce Canada's reliance on a single market. With the recently implemented Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP), Canada now has free trade access to nearly 90 per cent of existing export markets. We applaud the announcements made in the Fall Economic Statement to improve the Trade Commissioner Service (TCS) and help Canadian companies access new trade opportunities.

Any credible trade diversification strategy must include China, our second largest trading partner. Disengagement with China, on track to become the world's largest economy, is simply not an option. The government should identify a path to normalizing relations while still defending the national interest.

We also support launching trade negotiations with the Association of Southeast Asian Nations (ASEAN), a regional economic association that includes four members of the CPTPP as well as the emerging-market economies of Indonesia and the Philippines. With a combined population of 643 million, GDP of \$3.6 trillion and average economic growth rates of five per cent, ASEAN represents one of the most promising opportunities for Canadian trade and investment diversification.

Fiscal Sustainability

The Business Council supports moderately expansionist fiscal policy for investments aimed at growing the economy and shared prosperity. However, we are increasingly concerned with the significant increase in spending since your government took office, well beyond the mandate it sought and received from Canadians for modest deficits with a clear plan to bring it to balance. Growth in direct program spending in 2017-18 was nearly as large as the fiscal response to the global financial crisis in 2008-2009.

The government's own long-term fiscal projections suggest that it will continue to run deficits through 2040. The next time Canada enters a recession, tax revenues will decline while demands for higher spending will increase. Balancing the budget would help to ensure that Canada is positioned to weather the next downturn with greater fiscal flexibility.

Minister, there remains much work to be done to address Canadian competitiveness concerns raised by our members. We need a comprehensive agenda for growth and prosperity that benefits all Canadians. Your leadership will be critical to achieving this. On behalf of our member companies representing nearly two million workers, you can count on our support as you look for ways to strengthen our economy for the short and long term.

I would welcome an opportunity to discuss this with you at your earliest opportunity.

Sincerely,

A handwritten signature in blue ink, appearing to be 'W. Morneau', written in a cursive style.