

Office of the President and
Chief Executive Officer

Cabinet du président
et chef de la direction

December 5, 2014

Hon. James Moore, P.C., M.P.
Minister of Industry
235 Queen Street
Ottawa, ON K1A 0H5

Dear Minister:

In September, the Canadian Chamber of Commerce concluded its 85th Annual General Meeting (AGM) in Charlottetown, PEI. A highlight of the Canadian Chamber's AGM is the Policy Session, where the resolutions submitted by local chambers of commerce and boards of trade from across Canada are debated and voted on by accredited delegates. Once approved, these resolutions become policy of the Canadian Chamber for the following three years.

In 2014, our delegates issued a clear and decisive national policy mandate that we intend to pursue vigorously with the federal government over the coming months. Our renewed national policy mandate includes the following issues which fall within your portfolio:

An Innovation Box Approach in Canada

The growth rate of patent registrations and the ratio of patented ideas to commercialized products in Canada lags our trading partners. An alternative approach is needed to encourage business investment in innovative processes to improve productivity, economic growth and incomes. An "innovation box" approach would reduce the normal corporate tax rate for income derived from developing and commercially exploiting patented inventions and other intellectual property connected to new or improved products, services and related innovative processes in Canada. This would encourage companies to locate intellectual property activity and the new high-value jobs associated with the development, manufacture and exploitation of innovation inside Canada. The reference to "box" comes from having to tick a box on the tax form that indicates this type of revenue is being claimed.

If properly designed, it would promote and enhance the innovation capacity of sectors that leverage science and technology innovations throughout Canada. Firms in all sectors across Canada will have a greater incentive to adopt,

420 - 360, rue Albert St.
Ottawa, Ontario
K1R 7X7

613.238.4000
613.238.7643

Chamber.ca
info@chamber.ca

commercialize or otherwise exploit the output of the R&D process here in Canada.

Finally, an “innovation box” approach would complement the existing SR&ED Investment Tax Credit program – firms would have an incentive to base their R&D activities in Canada AND to commercialize them in Canada.

The Canadian Chamber of Commerce recommends that the federal government consult with business and industry leaders to define what intellectual property would qualify and implement by 2016-2017 an “innovation box” approach to encourage more business investment in innovation processes in Canada. We also recommend that the federal government ensure that any such regime adopted in Canada delivers the clarity and simplicity that encourages participation/ innovation from both SMEs and large companies.

Invest in Labour Market Information to Close the Skills Gap

The skills gap and mismatches in Canada are challenging employers, educators and governments to respond. As they navigate skills shortages, changes in skills requirements and the future of the labour force, each are coming up against shortfalls in the utility and accessibility of labour market information (LMI).

To address the gaps in LMI, the Canadian Chamber recommends that the federal government: invest in tools and surveys that are currently available to the government; leverage the data that already exists within post-secondary institutions; improve the relevance of the National Occupation Classification (NOC) by incorporating a skills dictionary; improve the dissemination and marketing of all available data; establish formalized partnerships between provinces, business, industry, academic institutions and the public sector to share labour market data; and require either ESDC and/or Statistics Canada to begin collecting and publishing more localized and regionally based labour market information.

Putting Federal Government Data to Work for SMEs

Data mining/analytics gives SMEs new tools to allow them to identify new markets and customers, clients they may be at risk of losing, etc.

The federal government's data.gc.ca website offers a portal to federal data and provides links to other levels of government (where available). While businesses appreciate the single point of access to a broad range of government data, some users have been frustrated by:

- Actions having to be repeated, for example downloading data for one municipality and then having to go back to the beginning to access the same information for another city
- Datasets from different government agencies and departments having different layouts and formats, requiring users to spend a lot of time converting them before they can be used
- Datasets using different statistical standards, for example, some being grouped according geographic regions/municipalities, while others are grouped according to economic regions
- Some datasets being out-of-date
- Some datasets being incompatible with Microsoft Office TM
- Some of the links provided not working

The Canadian Chamber recommends that the federal government:

1. Undertake to present its data in a consistently formatted manner;
2. Work with the provinces/territories and municipalities to adopt a consistent format in dataset presentation;
3. Release all data, with the exception of data that threatens privacy or public security, in formats that can be easily read and manipulated by computers;
4. Work with the provinces/territories and municipalities to release the data with a license that gives users the right to use and modify the data, merge it with other data, and distribute it for commercial and non-commercial purposes without restrictions; and
5. Fully implement Open Data in Canada by the end of 2016.

We understand that a few post-secondary institutions in Canada are looking at this issue and could be of assistance to the federal government.

Preserving the openness of the Global Digital Economy

According to the McKinsey Global Institute, cross-border Internet traffic grew by a factor of 18 from 2005 to 2012. By lowering transaction and transportation costs, data flows have brought enormous benefits to businesses, workers and consumers in Canada and around the world. However, this engine of economic growth and prosperity is under increasing pressure as some governments seek to pass measures restricting cross-border data flows or requiring that businesses store their data on local servers. Such “digital protectionism” increases costs, discourages investment and job creation, blocks access to services, stifles innovation, and makes the local economy less competitive. To prevent these measures, the Canadian Chamber recommends that the federal government seek strong provisions in international trade agreements and work actively in international fora to protect the current multi-stakeholder model of internet governance.

Leveraging CETA to Eliminate Interprovincial Trade Barriers

Internal obstacles to trade have long created economic barriers within Canada. As explicit tariffs between the provinces is forbidden under section 121 of the Constitution Act of 1867, most interprovincial barriers are the result of differing rules, regulations, licensing requirements and regional programs, and cost the Canadian economy an estimated \$14-20 billion per year. The 1994 Agreement on Internal Trade (AIT) has addressed some of these barriers, but many remain. In fact, the recently concluded trade agreement with the European Union in some cases gives European companies more scope to challenge provincial trade barriers than is given to Canadian firms under the AIT.

The federal government needs to take strong action to eliminate these internal barriers by: considering the New West Partnership Trade Agreement as a model; implementing the Council of the Federation work plan on internal trade before the Canada-EU Comprehensive Economic and Trade Agreement (CETA) comes into force; encouraging smaller groups of provinces/territories to move forward with each other in cases where overall consensus is not achieved; and conducting a full review and renegotiation of the AIT to establish stricter and more enforceable rules.

Fostering Growth in Canadian Productivity

Canada's productivity gap (measured as output in dollars per hour worked) with other leading economies continues to increase. Canada is in 13th place among 16 peer countries on the level of labour productivity, with only Finland, Switzerland and Japan exhibiting lower levels of productivity. Although the government has taken steps to address this gap, more is needed.

The cause of the productivity gap in Canada can be attributed to:

- lower investment in capital compared to other countries
- less focus on research and development
- fewer large multinational firms based in Canada
- cultural differences
- a larger proportion of small firms compared to peer countries
- lower levels of spending on research and development and capital equipment

We submit that improving the immigration process for highly skilled immigrants along with encouraging more foreign direct investment could help drive Canada's growth and productivity. The Canadian Chamber of Commerce recommends that the federal government enable more investment in machinery and equipment through tax incentives and granting mechanisms, continue to improve the efficiency and flexibility of Canada's immigration system and facilitate foreign direct investment in Canada.

Recognizing and Devising Strategies to Counteract the Generous Incentives Offered by Competitor Jurisdictions

Canada's international competitors are increasingly using very aggressive techniques to lure Canadian businesses, causing job losses here at home and weakening the Canadian economy. The federal government has a responsibility to both fully understand the impact that competitor jurisdictions' business attraction efforts are having on the Canadian economy and devise strategies to counteract them. The Canadian Chamber recommends that the federal government in coordination with businesses and chambers of commerce from across Canada, undertake an expedient review of the full impact - in terms of

both GDP losses and job losses – that competitor jurisdictions’ business attraction efforts are having on Canada’s economy.

Expanding Markets and Technology for Canadian Food & Beverage Manufacturers

The food and beverage industry employs more than 200,000 Canadians and provides significant potential for job creation and opportunities across the global market. However, in recent years, a higher Canadian dollar, increased foreign competition, retail concentration, and higher input and commodity prices have reduced margins and growth rates. To ensure the sector’s competitiveness, the federal government should negotiate trade agreements that create policy and regulatory environments that support food exports, and improve the alignment and coordination of regulatory regimes with major competitors. Innovation and technology programs that enhance the sector’s productivity should also be priorities.

Improving Regulatory Processes to Support the Growth of Agribusiness

Current legislation prevents a large number of agricultural products from crossing provincial/territorial borders or being exported from Canada without a federal licence. Current Canadian Food Inspection Agency regulations and licensing fees are cost prohibitive for small operators and present a barrier to growth for SME processors because the costs are out of step with jurisdictions like the U.S.

We urge collaboration to effect positive changes to food safety outcome inspections, enabling processors to compete more efficiently. We believe food safety regulations need to be reviewed for relevancy and that the implementation must be consistent and cost-effective throughout the food distribution chain, without compromising Canada’s reputation for high food safety standards. We encourage the Canadian Food Inspection Agency and provincial/territorial agencies to shift away from a rules-based regulatory regime to an outcomes-based food safety discipline. Finally, we ask that inspection and regulatory costs be reassessed.

Technovation: a shift in philosophy, an investment in Canada's future

Technovation is technology-driven innovation. Technology is pervasive in our lives (examples include mobile apps, social media, in-vehicle monitoring systems, office webinars, robotic field personnel) and the knowledge-based economy. It must be embraced for any level of productive living, working, and interacting.

Canada is lagging in its investment in and commitment to innovation and technology in five areas:

- publicly-funded researchers
- privately-funded innovators (“technovators”)
- SMEs/entrepreneurs
- venture capitalists
- political advocates

By capitalizing on a balanced combination of educational programming and the cultivation of market-driven, private sector technovation opportunities, Canada can address issues such as job creation, a stable, diverse economy, brain drain, wealth creation and global competitiveness. Canada can also strengthen its enviable position as a stable, robust, continuously growing global economic force.

The Canadian Chamber recommends that the federal government:

1. Broaden funding programs to encourage the proof of concept and commercialization of intellectual property (IP);
2. Update and evergreen the definitions of technology innovation across ministries; and
3. Modernize Canada's IP regime.

Reinstate the Canadian Mandatory Long Form Census

In 2010, over the objections of a very broad sector of society, the federal government abolished the mandatory long-form census questionnaire, in favour of a voluntary National Household Survey. The impetus for the change was reported to be concern for the privacy of individuals that submit the questionnaire. However, there are no indications that any census information gathered has been compromised.

During 2014, Statistics Canada has been releasing information based on the census conducted without this tool. This has resulted in questions about the reliability of the data collected.

We urge the government to reinstate the long form census as the data are used by businesses, provinces/territories and municipalities, economists, urban and community researchers, policy analysts, sociologists, and other scholars in the humanities and social sciences (including geographers and historians). Religious and ethnic groups are also users. They all rely on the mandatory long form census for solidly representative and accurate data.

Making the Accelerated Capital Cost Allowance for Computer Equipment Permanent

We recommend that the federal government permanently change the Capital Cost Allowance (CCA) depreciation period for computer equipment, to a period of two years (as reflected in the recent accelerated CCA program).

Prioritizing Regional Cluster Development

There is significant evidence that economic development based on targeted funding towards knowledge clusters within cities and regions is a successful strategy for growth.

Clusters by definition are geographic concentrations of interconnected companies, specialized suppliers, service providers, and associated institutions in a particular field that are present in a nation or region. They emerge from regions that have achieved critical mass in a particular area of expertise and are often anchored by strong research universities, industrial laboratories and/or entrepreneurial companies with human capital to match.

In many cases across the world, the integration agent tends to be a government agency that - through a combination of funding and policy levers - enables other regional stakeholders to collaborate. Information technology and digital media clusters in Waterloo and Toronto are prominent global examples.

Although some regional institutions have been successful in translating Canada's research and innovation capital into economic productivity and job growth, there is still room to strengthen cluster growth.

We urge the government to prioritize the development of innovation clusters based on regional strengths and drive this collaborative behaviour across post-secondary institutions and the private sector to create robust ecosystems that focus on both research and commercialization. We also encourage the government to continue to critically re-evaluate and reallocate the annual Science and Technology budget to focus additional resources towards funding tools that foster regional collaboration.

Fostering the role of municipalities within the North America Advanced Manufacturing and Trade Corridor

Since NAFTA, advanced manufacturing sectors have extended their supply chains across the United States, Mexico, and Canada, anchored by productive metropolitan hubs in all three countries. Efforts must be undertaken to foster and enhance the integration of Canadian and other municipalities and their constituent businesses within supply chain corridors.

Metropolitan areas within North America generate 86 per cent of the combined GDP of Canada, Mexico and United States with a concentrated host of advanced manufacturing industries. Many of these industries operate within complex "value chains" of intersecting natural resources, talent, innovation ecosystems, infrastructure and knowledge capital. Advanced information and logistics management systems allow businesses to spread out production lines over multiple countries globally, while also allowing smaller businesses to seamlessly integrate within the manufacturing cycle of multinationals.

In some areas, environmental factors that inhibit regional clusters include a lack of infrastructure and freight movement congestion.

The Canadian Chamber recommends that the federal government expand the capacity of Invest Canada as well as High Commissions and embassies to spearhead and facilitate opportunities for municipalities, local chambers and their constituent businesses to increase their integration within global value chains. We also suggest that the government improve goods movement efficiency by targeting additional freight infrastructure investments and the continued implementation of work plan objectives for the Regulatory Cooperation Council related to transportation.

Labelling of agricultural products

An increasing number of Canadians wish to “buy Canadian” when making their food purchases. Several stakeholders in the Canadian agri-food sector are demanding that the percentage of Canadian content required for use of the “Product of Canada” label be reduced to 85 per cent. The current 98 per cent standard is fine for products that undergo minimal processing, such as meats, but processed products that require the use of preservatives, for example jams, no longer meet the requirements of the current “Product of Canada” standard. Many Canadian products that are blended with small quantities of imported ingredients are no longer considered as Canadian products under the current standard. This is detrimental to Canadian food production and processing companies.

The Canadian Chamber recommends that the federal government modify the guidelines that apply to the labelling of agri-food products so as to authorize the use of the “Product of Canada” label on foods the ingredients and components, as well as the processing and labour costs used to manufacture the food, of which are 85 per cent Canadian.

Copies of the complete texts of these resolutions are attached.

While the advocacy agenda of the Canadian Chamber is directed in large part through the policy resolution process, other priorities are established by our Board of Directors. This year, our Board has directed that our advocacy priorities include the call for the creation of a national bio-economy strategy that leverages Canada's universities and colleges, and provides support to attract new businesses to Canada.

I hope to discuss these issues in more detail with you or your staff. My assistant will be contacting your office to schedule a meeting.

Sincerely,

A handwritten signature in black ink that reads "Perrin Beatty". The signature is written in a cursive style with a large initial "P" and a long, sweeping underline.

Perrin Beatty
President and Chief Executive Officer

Attachments