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TOP 10

Barriers to Competitiveness

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TOP 10

Barriers to Competitiveness

I am pleased to provide you, as a valued member of the Canadian Chamber of Commerce, with details of a major advocacy initiative to harness the power of business and public policy to address the key barriers to Canada's competitiveness and our national prosperity. I hope that you will be our partner in this work.

As we know, powerful forces are transforming the global economic landscape and challenging Canada's prospects in the world. The weight of global economic activity has dramatically shifted from developed to developing countries. Canada risks being swept aside. Improving Canada's competitiveness requires an ambitious, aggressive and innovative private sector. Strategic thinking and smart public policies are needed to address long-standing structural impediments that hinder businesses at a time when they need much greater flexibility to compete.

Over the past year, the Canadian Chamber has consulted its members - local chambers of commerce, large companies and small businesses - to identify the key barriers hindering our competitiveness. I thank you for helping us identify ten critical policy and regulatory barriers that will be the focus of our advocacy and outreach activities in the months and years ahead. Effectively addressing these issues will sharpen Canada's competitive edge and allow us to prosper in the global economy.

We are calling on our own membership, on governments, on labour organizations, and on educators and others to attack these barriers instead of tolerating them.

The skills issue – Canada's looming human resource crisis - will be our highest priority for 2012. Canada's critical shortage of skilled labour is at the top of just about everybody's list. Many of our members told us that finding staff with the right expertise and training is their greatest challenge. Having qualified people is critical to their competitiveness and to their very survival.

We plan an initiative that is far more hands-on than just another study. The test of our success will not be the quality of a report, but whether we can actually make a difference. Meeting these challenges and improving the competitiveness of our nation is vital for both our businesses and Canadian workers.

The Canadian Chamber of Commerce — as Canada's largest and most influential business association — is uniquely positioned to contribute to this effort. Our organization has long served as a key resource to solving the issues — by making connections between businesses, workers, educators and government.

The need for action is urgent. The standard of living of every Canadian depends on how well we as a people respond to the challenge. The stakes have never been higher and we are determined to do our part. Please join us in this important initiative.

Perrin Beatty
President and CEO

Tackling the Top-10 Barriers to Canadian Competitiveness

Table of Contents

Introduction

Powerful forces are transforming the global economic landscape and challenging Canada's prospects in the world. In the last 20 years, the weight of global economic activity has shifted dramatically from developed to developing countries. Emerging economies now account for about one-half of the world's output and approximately 37 per cent of world trade.

Emerging economies like China and, India are also sparking a wave of innovation. Many of these countries have a critical mass of researchers, scientists and engineers. In addition to offering plentiful supplies of unshilled workers, they are rapidly increasing their investment in research and development and are emerging as technological powers. They recognize that research and innovation are the keys to success in the increasingly competitive global economy.

Canada risks being swept aside, with its influence diminished and its ability to compete severely hampered, as more aggressive nations power ahead. Improving Canada's competitiveness requires strategic thinking and smart public policies. It requires all levels of government to work together with the private sector to address long-standing structural impediments that shackle the economy at a time when our businesses need the utmost in flexibility to compete. Finally, it requires an ambitious, aggressive and innovative private sector.

Canadian Chamber of Commerce Action

The first challenge to improving Canada's global competitiveness is identifying the key areas of weakness. Over the past year, the Canadian Chamber of Commerce has worked with its vast network of members, both large corporations and small businesses, to identify the barriers that hinder our ability to compete.

Those consultations with our members, third party experts and other stakeholders have identified 10 critical policy and regulatory barriers on which we will be focusing our advocacy and outreach activities. Solving these issues will sharpen our competitive edge and allow us to prosper in the global economy.

As a part of its *Regaining Canada's Competitiveness* initiative, the Canadian Chamber of Commerce will tackle each of the top 10 barriers identified by Canadian business by connecting challenges to solutions, by promoting best practices and by analyzing the issues – so that we can impliment tangible, real solutions.

The Canadian Chamber of Commerce – as Canada's leading business association – is uniquely positioned to contribute to this effort. Our organization has long served as a key resource for solving issues – by making connections between businesses, workers, educators and government. That is an approach we will continue to pursue in a collaborative effort toward a common goal: strengthening Canada's competitiveness in a knowledge-based global economy so our future prosperity and standard of living can be assured.

Top-10 Barriers

Resolving Canada's skills crisis. Despite current unemployment levels, Canada has a growing labour shortage. More people with the right skills are needed for Canada to compete and prosper in a global, knowledge-based economy. Developing domestic skills and improving access to foreign workers are vital to the continued success of Canadian businesses and our economy.

Keeping Canadians working/ Helping federally regulated businesses compete. Labour policies must encourage job creation, steer workers toward the jobs where they are the most productive, and allow employers to manage their businesses competitively. It is vital that the government not add costs or administrative burdens through additional regulations on federally regulated employers that do not address real problems and result in improvements for these companies, their employees and the Canadians they serve. Additionally, Employment Insurance reform is needed to improve fairness and increase incentives for the unemployed to return to work or relocate to find work.

Improving the tax system. Our tax system is too complex and relies too heavily on taxes on income and profits. It imposes major unnecessary compliance and administration costs on both businesses and consumers. We need a tax code that is more simple, fair, and more growth-oriented.

Breaking down internal barriers. A competitive national economy requires the free flow of people, goods, and services. A truly open market within Canada is long past due. While continuing to strengthen the 1995 Agreement on Internal Trade, the federal government must work with the provinces and territories to develop a more robust, pan-Canadian agreement.

Regulating efficiently. A 2011 World Economic Forum report ranked Canada 12th in global competitiveness, identifying "inefficient government bureaucracy" as our most serious challenge. Canada needs to find the proper regulatory balance to allow business to grow and prosper while ensuring national competitiveness.

Making Canada a magnet for international investment. Canada has taken steps to establish a welcoming foreign investment environment in recent years, but hurdles persist. Canada must be open to foreign direct investment, actively promote it, and strengthen regulatory regimes to enable it.

Stimulating research and development and bringing it to market. A culture of innovation is the foundation of business competitiveness and drives productivity and economic growth. Flaws in the Scientific Research and Experimental Development (SR&ED) tax incentive program must be addressed so it becomes a reliable and predictable incentive that does not genarate excessible compliance and administrative costs. Additionally, Canada's intellectual property rights regime must be strengthened so Canada can keep the higher-value added, high-priority jobs that come with R&D and innovation.

Using information and communication technology to make Canada competitive. Canada under-invests in information and communications technologies. This underinvestment is detrimental to the productivity of our workers, the innovative capacity of our businesses and the global competitiveness of our nation.

Providing the financing businesses need to grow. Venture capital in particular plays a critical role in helping entrepreneurs transform breakthrough ideas and technologies into marketplace successes. Canada's venture capital industry has been struggling for more than a decade, hindering our ability to develop leading global enterprises and competitive Canadian brands. An aggressive national strategy is needed to sustain and build a strong, robust venture capital industry.

Building a 21st century infrastructure. Investment in infrastructure has not kept up with our needs. As a result, the costs of maintaining and updating our infrastructure are increasing. Canada needs a national infrastructure investment plan that includes new funding models, increased private-sector involvement, and takes into account the wide range of challenges and opportunities in communities across Canada.

The Canadian Chamber of Commerce recognizes that building a more productive, more internationally competitive economy is a shared undertaking. It is the responsibility of business, the educational sector, all levels of government, and ordinary Canadians. The Canadian Chamber of Commerce has the strength and the voice to bring all parties together to help Canada regain its competitive edge as an economic powerhouse.

Barrier I: Canada's skills crisis

The issue

Canada is developing a desperate labour shortage, and resolving it is key to the continued success of Canadian businesses and the economy.

Canada's growth and prosperity will depend on our ability to be more innovative and globally competitive. Better trained workers are essential to improving Canada's productivity. A more highly skilled workforce will produce value-added goods and services and the of new technologies that can maximize productivity and improve the quality of life for all Canadians.

Over the past 40 years, Canada's economy has been driven by labour-market growth, but two huge trends are affecting the Canadian labour market. First: Canada's aging population is resulting in "boomers" leaving their jobs. And, second, the nature of Canada's jobs continues to become more specialized which, in turn, demands more educated and skilled workers.

As a result of these factors, many companies and industry sectors already face shortages of the skilled people they need to remain competitive and grow.

The barriers

Canada is a middle performer in providing access to undergraduate education and also trails many other nations in the number of graduate degrees awarded. The country falls short in addressing the current and future skills needs of the workplace.

Fixing Canada's skilled labour shortage involves both domestic skills development and access to skilled foreign workers. Consequently, a number of issues will need to be explored, including:

- Employee skills upgrading for small- and medium-sized businesses;
- Integration services for immigrants;
- Connecting education and employment;
- Targeting urgently in-demand occupations;
- Aboriginal workforce development;
- Job placement programs; and,
- Attracting and keeping foreign workers.

The way forward

More people with advanced skills are needed for Canada to compete and prosper in a global, knowledge-based economy. Because both our society and the economy will benefit from a highly educated workforce, access to skilled labour is key to Canada's future economic success.

As the labour market tightens, Canadian businesses must view every person as an opportunity to contribute to the workforce. Accordingly, Canada's labour force participation can be increased by tapping underutilized segments of the population such as older workers, youth, Aboriginal peoples and the disabled as well as seeking the skills of foreign workers.

The Canadian Chamber of Commerce believes it can be at the forefront of connecting stakeholders who are affected by Canada's skilled labour shortage. Moving forward, we will continue to share insights and propose measures to help businesses overcome the labour shortage and stay competitive in a global economy.

Barrier II: Keeping Canadians Working/ Helping federally regulated businesses to compete

The issue

Federal labour market policies directly affect the competitiveness of the approximately 12,000 private sector employers falling under federal jurisdiction and the 840,000 people they employ.

The *Canada Labour Code* defines the responsibilities of federally regulated companies to their employees and vice-versa. Other federal programs like the Employment Insurance (EI) program have a profound impact on all employers and on the makeup of Canada's labour force.

Canada's federally regulated businesses need labour market policies that allow them to compete, while meeting their responsibilities to their employees and customers. All employers need programs that encourage the unemployed to return to the workforce, with retraining if necessary.

The barriers

For EI purposes, Canada is currently divided into 58 economic regions. There is no common set of EI benefits applied nationally. Instead, EI benefit qualifications and duration entitlements vary greatly between those regions. Where benefits are less accessible, Canadians who lose their jobs are unfairly treated. When benefits are more readily accessible, they can discourage labour market adjustment (i.e., skills upgrading and relocating to where there are jobs). The misallocation of labour reduces overall economic output and hampers productivity.

The *Canada Labour Code* addresses industrial relations and collective bargaining (Part I), occupational health and safety (Part II) and hours of work, wages, vacations, leaves of absence and holidays (Part III) for federally regulated employers. Federally regulated private sector employers provide essential services and infrastructure to Canadians including banking, transportation, telecommunications and broadcasting. Even the whiff of a disruption in their operations can drive customers to competitors within and outside of Canada.

The needs of these employers and their employees vary greatly. Therefore, the laws and regulations governing these businesses need to be flexible enough to allow these companies and their employees to protect their respective rights, to serve Canadians effectively and safely, and to be competitive and profitable.

The way forward

Federal labour policies must encourage job creation, steer workers toward the jobs where they are the most productive and allow employers to manage their businesses competitively.

Employment Insurance reform is needed to ensure regional fairness and increase incentives for the unemployed to return to work or relocate to find work. The government should adopt a national standard for EI eligibility (a minimum of 560 hours) and standardize the duration of EI benefits (20 weeks to 44 weeks). As part of EI reform, premiums for employers and employees should also be equalized. This would remove a significant cost barrier for small- and mid-sized businesses.

It is vital that the government avoid adding costs or administrative burdens through additional regulations on federally regulated employers that do not address a real problem and result in improvements for these companies, their employees and the Canadians they serve.

Barrier III: Improving the tax system

The issue

Our tax system is too complex. It imposes major unnecessary compliance and administration costs on both businesses and consumers. The complexity of the system is particularly challenging for small- and medium-sized businesses because they lack the money or expertise to engage in complex tax-planning arrangements. Our tax system over-relies on income and profit taxes, the most economically damaging forms of taxation.

The barriers

The myriad tax preferences enormously complicate the tax structure and increase compliance costs.

Tax compliance imposes a heavy burden on business in terms of cost and time, and has the potential to be a disincentive to investment. It costs Canadian businesses $13 billion to $19.3 billion to comply with their tax obligations.

Business taxes have a significant negative impact on investment and job creation, while personal income taxes affect a wide range of decisions regarding work effort, savings and entrepreneurship. In Canada, about 46% of total tax revenue comes from income and profit taxes, compared to an OECD average of 36%. Consumption taxes (e.g. GST and HST) reduce instances of tax evasion and rely on a broader base. They can be more equitable and economically efficient than income taxes because consumption taxes do not tax savings and investment.

Marginal effective tax rates (METRs) on capital investment vary widely by industry. Service providers (e.g., the retail trade and communications sectors) face a rate of around 25%. In contrast, METRs on capital are relatively low for forestry and manufacturing (6 per cent and 11 per cent respectively). Yet services are a major source of job creation and are increasingly exposed to international trade and competition. Corporate taxes can hurt the economy most when they are not neutral among industries because capital tends to flow to less taxed activities, rather than to those that generate the greatest economic returns.

Canada's punishing high marginal personal income tax rates for low- and middle-income earners discourage people from working, saving and undertaking further education and training and, thus, negatively affect productivity and economic growth.

The way forward

Tax reform must be placed back on the national agenda. Canada needs a tax code that is more simple, fair, and growth-oriented.

The Canadian Chamber of Commerce and its network will encourage the federal government to launch a national consultation aimed at reducing the complexity of the tax system. We will also press for an independent panel to conduct a comprehensive review of the hundreds of exemptions, deductions, rebates, deferrals and credits in the federal tax system with an eye to eliminating special measures that are unfair or that undermine economic efficiency.

The Chamber will urge the federal government to expeditiously work with provincial and territorial governments to create a loss-transfer system to address corporate group taxation.

Barrier IV: Breaking down internal trade barriers

The issue

Canada's patchwork system of internal trade regulations blocks the free flow of workers, goods and services across the country, hindering growth, innovation and our ability to compete in the global market.

Implementation of Canada's 1995 Agreement on Internal Trade is moving at far too slow a pace to help many businesses burdened by internal barriers to trade, investment and mobility.

Canada already has a relatively small market. Internal barriers restrict it even further and impose unnecessary costs on business operators and consumers.

The barriers

The patchwork system of regulations within Canada significantly hinders our productivity and competitiveness. According to the government of Alberta, such barriers cost the Canadian economy up to $14 billion each year. While our main competitors are systematically tearing down domestic non-tariff barriers to labour mobility and trade, Canada's domestic market enshrines inefficiency and curtails our economic growth.

To address these concerns, the federal government worked with the provinces and territories to create the Agreement on Internal Trade (AIT) in 1995. The AIT was designed to reduce and eliminate internal barriers to trade, investment and labour mobility in Canada and to create an open and efficient domestic market. But progress has been slow. In 2004 the Council of the Federation agreed on a work plan to fully implement the AIT, but eight years later, outstanding issues remain.

The ongoing evolution of the AIT is welcome. However, provincial and territorial governments must do much more to strengthen the agreement, remove the remaining barriers to trade, investment and labour mobility, and improve the person-to-government dispute-resolution process.

The way forward

A competitive national economy requires the free flow of people, goods, and services. A truly open market within Canada is long past due. While continuing to strengthen the 1995 Agreement on Internal Trade, the federal government must work with the provinces and territories to develop a more robust, pan-Canadian agreement.

While strengthening the existing AIT is important, other models suggest what could be possible under a more comprehensive agreement.

The New West Partnership Trade Agreement (NWPTA) between Saskatchewan, Alberta and British Columbia provides a good framework for a broader, pan-Canadian agreement. The NWPTA facilitates the free movement of goods, services, capital and people across provincial lines and creates one of Canada's largest, barrier-free, interprovincial markets. Under the agreement, the three provinces have committed to full mutual recognition or reconciliation of regulations that could restrict trade, investment and labour mobility. They have also agreed to treat investors and businesses operating in partner jurisdictions in the same way they treat those operating in their own.

While this regional initiative is a step in the right direction, the long-term success of the Canadian economy depends on an approach that incorporates all provinces and territories.

The Canadian Chamber of Commerce will continue to press the federal government to fully implement the Agreement on Internal Trade, to broaden the agreement and to improve the enforcement provisions.

Barrier V: Making regulations work

The issue

Canadian businesses are bogged down in regulatory red tape. A 2011 World Economic Forum report ranked Canada 12th in global competitiveness, identifying "inefficient government bureaucracy" as our most serious challenge.

There are many levels of government in Canada and each has a regulatory role in economic activity. Regulatory oversight is necessary, but unnecessary duplication and inefficiencies result in delays, higher costs and increased administrative workloads for business operators.

Regulation is a two-sided issue for business. On one side, regulation causes delays and raises business costs and workloads. Overly expensive regulatory approvals processes can deter investment.

On the other side, regulation can also be useful tool in national economies, ensuring equity and consistency of treatment, curbing corruption, protecting the environment and ensuring worker and community safety. Strong government institutions and reliable regulatory processes are characteristics of nations that lead the rankings in competitiveness.

Regulating well is a competitive advantage. Doing it badly a significant constraint.

The barriers

Complying with diverging regulations and rules raises costs for manufacturers, costs that are in turn passed along to consumers. It has been estimated that Canadian businesses can spend up to $33 billion in order to comply with layers of regulations. In December of last year, Prime Minister Harper and President Obama reached an agreement that will further regulatory cooperation between Canada and the U.S. and reduce the costs imposed by regulatory divergence.

The Canadian Chamber of Commerce welcomes the Red Tape Reduction Commission's Recommendations Report, which was issued on January 18. The report provides specific advice to departments and agencies on how to reduce unnecessary burdens on business. However, there are specific industry sectors that require particular attention to redress the unique regulatory burden they are experiencing. This was not fully addressed by the Commission. One such sector is natural resources.

Canada's natural resource wealth is the key to its prosperity in the coming years and decades. The mineral, energy and agricultural products produced here are in demand around the world and it is only through the efficient development and delivery of these products that Canada can capitalize on that demand. Our customers have other options. The efficiency with which Canadians decide to approve or deny a proposed natural resource project, and under what conditions it can proceed, is a central concern of national competitiveness. In 2007 the federal Cabinet approved the creation of the Major Projects Management Office (MPMO) within the department of Natural Resources. Its mandate was to streamline the approval process for large natural resource projects.

Although the initiative was greeted with enthusiasm when announced in 2007, business has not seen clear benefits.

The way forward

Canada needs to find the proper regulatory balance to allow business to grow and prosper while ensuring national competitiveness.

The Canadian Chamber of Commerce will work with its network partners to press the federal government implement the Red Tape Reduction Commission's Report as a first step toward that regulatory balance.

We will continue to press all governments in Canada to take appropriate measures that will reduce business compliance burdens and costs by creating a streamlined, one-stop online portal for government regulatory services.

We will also urge Ottawa to accelerate approval reviews for natural resource projects of significant size.

Barrier VI: Making Canada a magnet for international investment

The issue

Canadian businesses need foreign direct investment (FDI) to help fuel capital equipment purchases, skills development and innovation.

FDI can convey great advantages to the whole country by infusing know-how, efficiencies and economies of scale into the Canadian economy and thereby strengthen our global competitiveness. When it comes to FDI, however, Canada is relatively restrictive among Organization for Economic Co-operation and Development member countries

The Government of Canada has taken some important steps that will help attract FDI, including maintaining sound fiscal and macroeconomic fundamentals, lower business taxes and strategic funding for organizations that attract FDI to Canada (e.g. Invest Canada-Community Initiatives). More remains to be done, however.

The barriers

Amendments in 2009 to the *Investment Canada Act* raised the threshold for government review of direct acquisitions by foreign investors of Canadian businesses. The changes introduced a new enterprise-value threshold for such foreign acquisition reviews, initially C$600 million and rising to C$1 billion by the fifth year after the new review thresholds came into force. Unfortunately, the amendments to the Act have not yet been implemented.

The review process includes six economic factors that are considered by the Minister in determining whether a foreign acquisition is of net benefit to Canada. The reasons for a negative ruling are never disclosed to the potential purchaser, causing uncertainty for investors and others in the very resource-intensive acquisition process. The main priority must be to reduce uncertainties and unclear terminology around the review process. Unclear interpretations of terms like "net benefit" and "strategic asset" create investment uncertainty and barriers to entry for foreign investment.

Investment is a two-way street and Canada's openness must be matched by its investment partners. Foreign Investment Promotion and Protection Agreements, provided they are high-quality, afford solid long-term frameworks for two-way investment, with high standards of protection for investors and recipients in both countries. Economic and trade agreements between Canada and other countries should remove investment barriers.

The way forward

During 2012, the Canadian Chamber of Commerce and its network partners will advocat the following federal government actions:

1. Full implementation of the new enterprise-value thresholds under the amendments made to the Investment Canada Act in March 2009, adopting provisional book-value thresholds above the C$312 level as a transitional measure in 2012.

2. Reducing uncertainties around the foreign investment review process by making it more transparent and predictable and by providing greater clarity for terms likes "net benefit" and "strategic asset". At the same time, the net-benefit review is appropriate and necessary to ensure Canada's long-term economic and other interests are safeguarded.

3. Successfully concluding, with key partner economies, high-quality Foreign Investment Promotion and Protection Agreements as well as comprehensive economic and trade agreements that include robust investment chapters, to provide comprehensive, high standards of protection for investors and recipients on both sides.

Barrier VII: Stimulating research and development and bringing it to market

The issue

Legislation severely limits the number of companies that can take full advantage of Canada's Scientific Research and Experimental Development (SR&ED) tax incentive program to innovate and grow. The program helps small, Canadian-controlled private corporations and unincorporated businesses by providing cash infusions through refundable SR&ED investment tax credits even if they don't generate taxable income.

All other companies, including publicly traded ones, can only tap into the credit to offset payable federal taxes. But when the economy is lagging, some large companies may not have taxable income. As a result, they can't access the full value of their credits and billions of dollars in potential credits go unused and are carried forward.

Intellectual property rights protection is fundamental to innovation and a key element of economic success. Leading economies around the world have made IP protection a priority. Compared with the IP protection provided to our global competitors in other countries, Canadian IP laws and rules do not provide Canadian IP rights holders the same level of protection. Also, Canadian authorities lack the tools to efficiently and effectively stop the flow of counterfeit goods and stem IP infringement in Canada.

The barriers

For businesses that do not qualify for refundable tax credits, the program does not provide the financial assistance they need to weather a sustained downturn. In fact, because it discourages continued research and development (R&D) spending during an economic downturn, it puts companies at a competitive disadvantage when the business cycle rebounds.

More companies of all sizes are finding that that the SR&ED program has become increasingly difficult to navigate. The scope of eligibility has narrowed significantly and tax credits are being doled out in a much less predictable manner to successful applicants.

Meanwhile, another major barrier to Canadian innovation can be found in our country's intellectual property protection laws, which need to be strengthened. Currently, unlike the treatment given commercial competitors in other countries (e.g. U.S.A., EU), our IP laws don't give rights holders and regulatory authorities the tools they need to effectively protect Canadian intellectual property rights pursuant to Canada's obligations under international trade agreements (e.g. TRIPS Agreement of the WTO) and stem patent infringement and the flow of counterfeit goods.

The way forward

During 2012, the Canadian Chamber of Commerce and its network partners will press the federal government to take the following actions to foster innovation:

1. Correcting the design flaws in the *Scientific Research and Experimental Development* (SR&ED) tax incentive program and ensure the program delivers incentives efficiently and cost-effectively. This will enable businesses to see SR&ED Investment Tax Credits as a reliable and predictable incentive that does not entail excessive compliance and administrative costs;

2. Stimulating R&D in the pharmaceutical and biotechnology sectors by extending data protection and implementing a five-year patent term restoration system;

3. Examining the feasibility of creating a specialized federal patent court that would enhance judicial expertise and improve timelines for patent approvals; and,

4. Streamlining the patent review system to get products to market more quickly.

Barrier VIII: Using information and communication technology to make Canada competitive

The issue

Without proper investment and dedication to information and communications technology (ICT), innovation and protection of intellectual property rights, Canada's productivity will lag and other countries will continue to surpass us as a destination for domestic and international business investment. Canada is a huge country, which can make it difficult and costly for businesses to connect with customers, suppliers and employees with the appropriate skills and experience.

The ICT literacy of students and all Canadians must improve. Enrolment in science, technology, engineering and mathematics programs is declining while employment opportunities in these fields continue to grow.

It can be extremely costly for business owners to ensure they remain up-to-date with equipment, infrastructure, training and software needed to use ICT effectively.

It is urgent that Canada increase its investment in productivity-enhancing technology. The government needs to do a better job promoting the knowledge-based economy in Canada.

The barriers

Canada needs to develop and implement a robust digital economy strategy. This future investment is critical for several reasons: digital communications makes our vast geography less an impediment for labour, collaboration and innovation; transportation impacts on climate change can be mitigated through increased digital travel; businesses depend on advanced communications technologies to compete; and many sectors in both urban and rural economies could become more productive if the digital pipes were larger and faster.

Canada's ICT strategy requires comprehensive support programs and policies that will provide a sufficient supply of technologically literate workers and citizens to keep Canada's economy globally competitive. Improving Aboriginal peoples' ICT education should receive particular attention, as they are the largest and fastest growing potential talent pool.

Any successful strategy to improve productivity must include public and private investment in broadband connectivity and wireless networks, as well as in computer hardware and software.

More can and needs to be done to encourage businesses to invest in ICT. Between 1987 and 2009, Canadian businesses invested 23% less per worker in machinery and equipment compared to their American counterparts; 41% less per worker in information and communication technologies. Canadian workers have fewer tools to do their jobs. Without proper investment and dedication to ICT, innovation and protecting intellectual property (IP) rights, Canada's productivity will lag and other nations will continue to outpace us.

The way forward

In 2012, the Canadian Chamber will press the federal government to:

Publish an update on the implementation to date of the Digital Economy Strategy;

1. Review its tax policies to ensure they stimulate business investments in next-generation networks on a geographically and technologically neutral basis;

2. Work more closely with the business community to accelerate e-business adoption among small- and medium-sized enterprises like other nations are already doing; and,

3. Develop a comprehensive information and communications technology (ICT) strategy that evaluates the progress of ICT literacy programs in Canada and education and report annually on successes.

Barrier IX: Providing the Financing Businesses Need to Grow

The issue

Access to finance is essential if businesses are to invest and grow. In particular, venture capital (i.e. money invested at the earliest stages of a company's development) plays a critical role in helping young technology companies with new or unproved products, and start-ups that lack cash-flow and tangible assets to satisfy a commercial bank's collateral requirements. Venture capitalists help to plug the financing gap.

By accessing venture capital, entrepreneurs can transform breakthrough ideas and the technologies that spring from their research and development efforts into successes in the marketplace that drive productivity and economic growth.

Venture capitalists also offer extremely valuable ancillary services such as mentoring, assisting in hiring key management, sitting on boards of directors, participating actively in company operations, formulating strategies and making connections to aid sales and marketing efforts.

Canada's venture capital industry has been struggling for more than a decade, hindering our ability to develop leading global enterprises and competitive Canadian brands. Canada's Venture Capital and Private Equity Association (CVCA) reports that fundraising continues to be the major challenge facing the venture capital industry.

Without a fully funded domestic industry, it will be extremely difficult for companies with great potential to secure the capital they need to grow. Canada will lose out on building an innovative economy.

The barriers

In 2010, just $1.1 billion in venture capital was invested in 354 ventures, with the average investment being $3.2 million, according to Thomson Reuters. Ten years ago, $5.9 billion was invested in over 1,000 Canadian start-ups. In the United States, $23.4 billion in venture capital was invested in 3,496 ventures for an average investment of C$6.9 million in 2010. That difference in access to venture capital places Canadian entrepreneurs and young technology companies at a tremendous competitive disadvantage to their U.S. counterparts.

Canadian venture capital fundraising was particularly weak in 2010. The industry raised only $819 million (down 24 per cent from 2009), a 16-year low. That situation is severely curtailing the future prospects of thousands of Canadian innovative companies that depend on a continuing, reliable stream of venture capital to grow and prosper. If this situation continues, Canada will lose out on development of an innovative, highly-productive economy that is the foundation for sustainable job creation.

Poor long-term returns in the venture capital industry have compounded difficulties raising capital. Some institutional investors (mainly pension funds) have fled the industry. The relative poor returns discourage foreign investors from investing in the Canadian venture capital industry.

The way forward

In 2012, the Canadian Chamber will press the federal government to engage all key stakeholders—provincial and territorial governments, the private sector, venture capital industry associations, educational institutions, think tanks, venture capital funds, investors and entrepreneurs—to develop an aggressive national strategy to sustain and build a strong, robust venture capital industry in Canada.

Barrier X: Building a 21st Century Infrastructure

The issue

Public infrastructure, including roads, bridges, highways, water systems and the electrical grid, provide services critical to economic competitiveness, sustainability and a high quality of life. The service life of public infrastructure typically extends only four or five decades. This timeframe poses a significant challenge for Canada, where much of the existing public infrastructure was built during the 1950s and 1960s and in some cases dates back to the early 1900s.

Today, a large percentage of Canadian publicly owned infrastructure needs to be refurbished or completely replaced.

Much of the responsibility for infrastructure maintenance and upgrades lies with municipal governments. Unfortunately, municipal costs have been increasing and local government have few revenue-generating options, resulting in the need to defer much of the required infrastructure investment.

The barriers

The Canadian government has made helpful investments over the past several years. The Building Canada Fund, the Green Infrastructure Fund, the Gas Tax Fund and the infrastructure stimulus under Canada's Economic Action Plan are all examples. The federal government has also made the annual $2-billion gas tax contribution to municipal infrastructure a permanent program. While these initiatives are useful, they will not be sufficient to address the growing infrastructure challenge in Canada.

Municipalities hold the responsibility for most infrastructure maintenance and improvement, but are limited in their authority to generate and sustain revenue, as well as in their ability to borrow funds for capital investments. These fiscal constraints apply to needed infrastructure improvements in public transit, roads, bridges, water and sewage systems and local electricity distribution systems.

Given the size of the financial issue and the long-term neglect of our infrastructure, the modernization process will be lengthy and must be both strategic and sustained. The first step should be to develop a long-term plan for Canadian upgrading infrastructure. Cooperation among taxing administrations at the federal, provincial, territorial and municipal levels is needed. Funding will need to shift beyond property and income taxes and include greater use of user fees and other consumption-based levies.

Public-private partnerships represent another important tool. Appropriately designed, these partnerships have the potential to bring international investment to Canada and to call on the best innovation that the global market can offer.

The way forward

In 2012, the Canadian Chamber will press the federal government to:

1. Initiate a national infrastructure investment plan in cooperation with other levels of government that includes a full review of current and future infrastructure needs. It should also include a comprehensive review of best practices in infrastructure finance, the development of innovative fiscal tools, planning for the required investments and the development of enabling legislation; and,

2. Initiate steps so relevant public-sector employees are properly trained and possess the necessary skills to efficiently manage public-private partnerships (P3s) and to deliver quality P3 investment in a timely manner.

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Barriers to Competitiveness

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