



Business Council of  
British Columbia

February 3, 2010

**Via email: [jflaherty@fin.gc.ca](mailto:jflaherty@fin.gc.ca)**  
(Original to follow by mail)

The Honourable James Flaherty  
Minister of Finance  
140 O'Connor Street  
Ottawa ON K1A 0G5

Dear Minister:

On behalf of the Business Council of British Columbia, I am pleased to submit our comments and recommendations on the Federal Budget which you will be presenting on March 4, 2010.

Established in 1966, the Business Council is an association representing more than 260 large and medium-sized enterprises engaged in business in British Columbia. Our members are drawn from all major sectors of the provincial economy, including forest products, mining, manufacturing, transportation, agri-food, telecommunications, information technology, financial services, energy, utilities, tourism, retail, construction, biotechnology and life sciences, film, engineering, healthcare, education and the professions. Taken together, the corporate members and the associations affiliated with the Business Council are responsible for one-quarter of all jobs in British Columbia.

### **Economic Backdrop**

After several years of solid growth, the Canadian economy fell into recession in the second half of 2008, and it continued to struggle over 2009. The economic downturn originated outside of the country's borders – initially in the US housing and mortgage markets, and then leading to a broader destabilization of financial markets that took hold in the fall of 2008 and eventually triggered a full-scale global recession. Even in Western Canada, which previously led the country in economic and job growth, conditions have been difficult, with unemployment rates rising, housing starts down sharply, and many small and mid-sized firms finding it difficult to access credit.

In this difficult economic setting, we believe the federal government responded appropriately with the stimulus measures outlined in Budget 2009 and the Economic Action Plan. By putting additional funding into infrastructure development, improving access to credit, reducing personal and business taxes, introducing the temporary home renovation tax credit, extending Employment Insurance for long-serving workers, and allowing the “automatic stabilizers” built



into the federal budget to operate, the government provided much needed support to the Canadian economy at a time when such support was clearly needed.

The regrettable but inevitable consequence of this fiscal policy stance has been a return to large deficits which are projected to persist for the next several years. Looking forward, we share the government's view that Canada must avoid falling back into structural deficits similar to those experienced over the 1980s and first half of the 1990s. That said, it would be unwise in our view to tighten fiscal policy until the economic recovery has gained traction. The good news is that economic forecasters expect Canada to outperform most other OECD countries in 2010. But risks remain. In this connection, it is important to note that while US real GDP grew at an annualized rate of 5.7% in the fourth quarter of last year, much of this reflects changes in inventories -- and therefore could be reversed in the coming months. Moreover, the dismal state of the US job market and the serious financial difficulties facing many American households also argue for caution in projecting a US economic recovery over 2010-11. In the circumstances, the Business Council recommends that the federal government continue with the second year of its planned two-year Economic Action Plan. Significant tightening of fiscal policy should be deferred until 2011.

Beyond 2011, the government will need a credible fiscal plan to return to balanced budgets over the medium-term. Achieving this will depend on the resumption of economic growth coupled with disciplined management of government expenditures. Stimulus spending programs will need to be wound down over time. In addition, the government should move to reduce spending in low-priority areas and limit future increases in public sector compensation. We also recommend a stepped-up pace of program review across all federal Ministries and agencies as part of a multi-year strategy to rein in deficits.

### **Measures to Strengthen the Economy**

We believe there are further measures the government can take to support economic growth and recovery in the near term, while also strengthening the foundations for prosperity over the medium-and longer-term. Some of these carry a short-term fiscal price tag, while others can be implemented at no cost. Below we outline a number of suggestions.

**Extend the eligibility period for accelerated write-offs in respect of investments in manufacturing processing machinery and equipment for an additional year beyond 2010-11.** This will encourage Canadian companies to re-tool and modernize their capital stock, thus setting the stage for future productivity gains.

**Modernize Canadian air policy.** Efforts to leverage BC's position as Canada's gateway to the Asia-Pacific are being hampered by Transport Canada's reluctance to modernize Canadian air policy to improve service levels and increase international connectivity, particularly between Western Canada and Asia. At present, Asian carriers interested in providing service to Vancouver International Airport are stymied by Transport Canada's unwillingness to allow such access, in part because officials apparently believe the relevant markets are too small to accommodate additional capacity. Decisions around the size and growth of markets are best



left to air carriers, not government officials. The result of current Canadian air policy is a continued loss of opportunities for YVR and other Western Canadian airports to grow their business, and an associated loss of potential jobs and economic activity in the West. With Canada at last having obtained approved destination status from China, the time is right to overhaul national air policy. The government should be moving to conclude more open skies and air bilateral agreements, covering both passengers and air cargo.

**Streamline federal environmental assessment.** This was a key recommendation of the Expert Committee on Smart Regulation which reported to the federal Minister of Industry several years ago. What the Business Council and many others in Western Canada would like to see is a change in the *Canadian Environmental Assessment Act* (CEAA) to permit the federal Minister of Environment, on a case by case basis, to accept provincial environmental assessment reviews as sufficient for individual projects. This would address the issue of separate, often duplicative provincial and federal environmental assessments of the same projects – something that adds greatly to the costs and uncertainty facing proponents and continues to impede economic development in British Columbia. A second recommendation concerning environmental assessment is to amend the *CEAA* by incorporating explicit timelines for reviews and decisions into the *Act*, based on the example provided by the *British Columbia Environmental Assessment Act*.

**Remove barriers to foreign capital investment in Canadian technology companies.** Currently, when a Canadian venture capital investor invests in a private US technology company and later sells its shares at a profit, the Canadian VC takes the profits to Canada and is taxed here; it does not have to deal with US tax filings or other red tape. In contrast, when an American venture capital investor takes an equity stake in a private Canadian technology company and later sells at a profit, one-quarter of the gross proceeds are withheld unless that investor first obtains a “section 116 clearance certificate” from the Canada Revenue Agency, confirming that it is exempt under the terms of the Canada-US tax treaty. Section 116 of the *Income Tax Act* not only creates significant impediments to international investment in Canadian technology companies, it has also prompted many promising Canadian firms to relocate to the United States to access to capital to fuel their growth. This situation is contributing to Canada’s demonstrated inability to commercialize the large amounts of money being spent on R&D in this country. The solution is to amend section 116 so as to harmonize Canada’s rules with those in the US, the UK and Australia – something that can be done at essentially no cost to the government.

**Step up enforcement of Industrial and Regional Benefits.** The Canadian government created an IRB policy in 1986 to ensure that companies across the country derive benefits from major defence procurements. Still in place today, the policy generally requires that for defence contracts over \$100 million, the Prime Contractor has to make sub-contracts and investments in the high-tech sector of the national economy, in an amount that normally matches the value of the contract signed. These sub-contracts and investments can be either direct – providing goods/services directly related to the items being purchased – or indirect. The issue that has arisen is that “debt” to Canada under the IRB program has grown to more than \$10 billion as the pace of defence procurement has accelerated, and that most foreign companies claim there



The Honourable James Flaherty  
February 3, 2010  
Page 4

is “nothing to buy” in Canada from the domestic defence industry. Given planned DND procurement over the coming decade, the IRB-related “debt” is expected to climb to \$25 billion or more unless action is taken to address the problem. To spur investment and development of the defence sector, the government should i) announce a fast-track review of the IRB program, with a view to requiring foreign suppliers to live up to their past commitments; ii) institute penalties for chronic “debtors” in terms of their participation in future procurement competitions; iii) offer extra credit for foreign entities that accelerate the burn-off rate of their IRBs, and/or that transfer technology and product development to Canadian firms; and, iv) broaden the definition of an eligible offset credit to allow Canadian companies to offer Canadian technology offshore or via international trading of offset credits. We believe the above measures would support investment and jobs in the defence sector without causing the government to increase its own expenditures.

**Replenish the Clean Energy Fund.** We see a case for the government to extend the life of the Clean Energy Fund for another year, in alignment with the two-year time frame of its Economic Action Plan. The Clean Energy Fund was established to support “research, development and demonstration projects to advance Canadian leadership in clean energy technologies.” To date, it has enabled investments in technologies such as biomass energy and carbon capture and sequestration, as well as in initiatives to increase energy efficiency. The economic impact of the Fund has been boosted because of leveraged investments from the private sector and other levels of government. Continuing the Clean Energy Fund for another year will help position Canada as a leader in clean energy development and support the goals of job creation/retention and economic stimulus at a time when the economy remains fragile.

The Business Council appreciates the opportunity to provide input into the 2010 federal budget.

Yours sincerely,

*Original signed by  
Virginia Greene*

Virginia Greene  
President and Chief Executive Officer

JAf/vjc

cc: Honourable Stockwell Day, President of the Treasury Board and Minister for the Asia-Pacific Gateway