



Business Council of
British Columbia

January 31, 2011

Via email: 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 are expected to present in March 2011.

Economic and Fiscal Backdrop

After several years of solid growth, the Canadian economy fell into recession in the second half of 2008 and 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 eventually triggered a full-scale global recession that soon enveloped Canada. Even in Western Canada, which previously led the country in economic and job growth, conditions deteriorated, 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 environment, the government responded appropriately with the stimulus program outlined in Budgets 2009 and 2010, notably through the Canada Economic Action Plan. By putting additional funding into infrastructure development, improving access to credit, reducing personal and business taxes, introducing a temporary home renovation tax credit, extending Employment Insurance for certain groups of workers, and allowing the “automatic stabilizers” built into the federal budget to operate as intended, the government provided support to the economy at a time when it was needed. The Bank of Canada also did its part to stabilize the economy and create conditions for subsequent recovery by sharply lowering its policy interest rate and taking steps to support the functioning of the financial system.



The Honourable James Flaherty
January 31, 2011
Page 2

The regrettable but inevitable consequence of the 2008-09 economic downturn and the policy responses to it has been a return to large deficits, which are projected to persist for the next several years.

Looking forward, we share your view that Canada must avoid falling back into structural deficits similar to those experienced over the 1980s and first half of the 1990s. Accordingly, we urge the government to deliver on the fiscal targets outlined in the October 2010 Economic and Fiscal Update. Specifically, we recommend that you significantly reduce the budget deficit by ending most discretionary stimulus spending in 2011-12, and outline a credible fiscal plan to balance the budget by 2014-15.

Strengthening the Economy's Foundations

The good news is that apart from adopting a sensible fiscal policy, there are other things the federal government can do to spur economic growth and job creation, while also strengthening the foundations for prosperity over the medium-and longer-term. Below we outline a number of suggestions.

Continue to reduce the federal corporate income tax rate to 15% by 2012. We applaud the government for sticking with its announced strategy to give Canada a globally competitive business tax regime by eliminating capital taxes and reducing the basic corporate tax rate. This year the corporate tax rate has been set at 16.5%, down from 18% in 2010. A lower tax burden on enterprises will encourage firms to create new and maintain existing jobs. Competitive business taxes are particularly important given the strong Canadian dollar and the business tax incentives that the United States government has implemented as part of its stimulus program.

Streamline federal environmental assessment. We acknowledge the steps taken in the 2010 Budget to improve the federal environmental assessment (EA) system. What the Business Council and many others in Western Canada would like to see is a more thorough overhaul of the *Canadian Environmental Assessment Act* (CEAA) to: i) ensure that economic factors are given more weight in federal environmental reviews; ii) expand the authority of the federal Minister of Environment to accept provincial environmental assessments as sufficient for individual projects; and iii) amend the *CEAA* by incorporating explicit timelines for reviews and decisions into the *Act*, following the example provided by the *British Columbia Environmental Assessment Act*. The above changes 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 hamper economic development in British Columbia.

Initiate discussions with the United States aimed at reversing the trend toward the “thickening” of the Canada-US border. We understand the government will soon commence talks with the US aimed at establishing a “perimeter” approach to managing



The Honourable James Flaherty
January 31, 2011
Page 3

bilateral trade and security risks for both nations arising from cross-border flows of goods, services and people. The Canadian business community is broadly supportive of such an initiative. Over the past several years, it has become more difficult and more expensive for many Canadian industries to do business with the United States, despite the existence of NAFTA. Reducing impediments to cross-border commerce with our largest trading partner will enhance economic growth, job creation and overall Canadian competitiveness.

Accelerate efforts to conclude trade agreements with other Canadian trading partners. We note that the United States recently concluded a bilateral free trade agreement (FTA) with South Korea. Canada has launched trade negotiations with the EU, and has recently embarked on discussions with India. The draft FTA with Korea appears to be stalled. More generally, Canada lacks a coherent strategy to ensure that the country is part of the emerging system of regional trade and other economic agreements spanning the Asia-Pacific region. Of particular concern, Canada is not part of the TransPacific Partnership (TPP) negotiations involving the United States, Australia, New Zealand, and several Asian countries. Going forward, it is important that we are not left behind as the United States and other jurisdictions such as Australia establish new economic and trade agreements with rapidly growing economies in Asia and elsewhere. Domestic policies that have diminished Canada's leverage and credibility in international trade talks, such as outmoded supply management regimes in parts of the agriculture sector, need to be reformed so that they no longer stand in the way of an effective and outward-looking 21st century Canadian commercial policy.

Recognize that post-secondary education (PSE) and research are key to achieving improvements in productivity, economy-wide innovation, and skills. The federal government plays an important role in supporting Canada's strong post-secondary education system – both through transfer payments to the provinces, and by providing direct support for research and commercialization. Today, jurisdictions around the world understand that investing in PSE, research and commercialization is essential to creating a highly skilled workforce – and to building an economy that is productive, innovative and globally competitive.

Modernize Canadian air policy. Efforts to leverage British Columbia's position as Canada's gateway to the Asia-Pacific are being thwarted by Transport Canada's reluctance to modernize Canadian air policy to improve service levels and increase international connectivity, particularly with Asia. At present, Asian carriers interested in providing service to Vancouver International Airport are impeded 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. Current Canadian air policy has led to a continued loss of opportunities for YVR and other Western Canadian airports to grow their business, and an adverse impact on potential jobs and economic



The Honourable James Flaherty
January 31, 2011
Page 4

activity in the West. With Canada having now obtained approved destination status from China, the time is right to overhaul national air policy. The government should work to conclude more open skies and air bilateral agreements, covering both passengers and air cargo.

In closing, I would emphasize the need to address the challenge posed by **Canada's lackluster productivity record**. On an international basis, Canada ranked 17th among OECD countries in overall productivity in 2007. Productivity growth in the business sector has been notably weak for more than a decade. Today, business sector productivity in Canada stands at just 75% of the US level, down from more than 90% in the mid- to late-1980s. Lagging productivity is not something the federal government can fix by itself, as it touches on the practices, choices and attitudes of businesses, labour, educational institutions and individuals. But we believe the federal government can and should take the lead in stimulating an overdue national discussion of what can be done to boost the country's productivity performance going forward.

Yours sincerely,

*Original signed by
Greg D'Avignon*

Greg D'Avignon
President and Chief Executive Officer

JAf/vjc

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