



Business Council of  
British Columbia

January 6, 2012

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

The Honourable James Flaherty  
Minister of Finance  
Government of Canada  
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 budget which you are expected to present in March 2012.

### **Economic and Fiscal Setting**

Against a tumultuous global economic backdrop, Canada's economy expanded at a reasonable pace in 2011. But growth was uneven, as the economy stalled in the second quarter before posting a rebound in the latter part of the year. The composition of the expansion was also unbalanced, as exports played a disproportionate role in generating GDP growth.

With the global economy weakening amid the serious sovereign debt and broader financial system challenges facing Europe, the momentum that the Canadian economy enjoyed in the latter part of 2011 is unlikely to continue. By many accounts, global economic growth is set to moderate to perhaps 3.0-3.5% this year, down from 4% in 2011. The troubles in Europe weigh heavily on the near-term outlook. The Eurozone as a whole – the 17 European countries that have adopted a common currency – has probably already slipped into recession, and the UK may be following suit. Given the heavy borrowing requirements of vulnerable European countries in 2012, a prudent operating assumption is that financial conditions in the EU will deteriorate further and a significant economic downturn will occur across much of the region. This will impart weakness to



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the global economy; it will also affect Canada via a mix of trade, financial and confidence channels.

As noted in the government's November 2011 Fiscal Update, the consensus outlook for the US economy has been downgraded. Real GDP is now projected to advance by 2% or so in 2012, down from the 3% assumed in the June 2011 budget. At the Business Council we share the view that US growth will be modest in 2012, despite some positive signs in the past few months. An expected recession in the Eurozone will invariably spill over to the US. The American economy is also being held back by ongoing deleveraging by households, continued soft housing markets, and the effects of fiscal austerity at the state and local government levels. All of this argues for using cautious economic growth assumptions for the US over the next year.

The Business Council is comfortable with the federal government's overall economic strategy to implement policies that support investment and jobs during these uncertain times.

### ***Corporate Taxes***

Proceeding with the final stage of the long-term reduction in corporate income taxes, bringing the basic federal rate down to 15% as of January 2012, is a welcome step and sends a positive signal that Canada is an attractive place to invest and create jobs.

### ***EI Premiums***

The government's decision to cap the increase in EI premiums to 5 cents per \$100 of insurable earnings for 2012 will help to limit the rise in payroll costs amid a sluggish job market.

### ***Fiscal Plan***

Like you, we believe Canada must avoid falling back into structural deficits similar to those experienced over the 1980s and first half of the 1990s. Although it is regrettable that economic circumstances led the government to push back the date for returning to a budget surplus to 2015-16, the Business Council remains supportive of the current fiscal plan. The projected deficit for 2014-15 is modest, and the key debt-to-GDP ratio should begin to edge lower by 2013-14. Of greater concern are fiscal trends at the provincial level, particularly given strong upward pressure on health care expenditures and the role of labour-related costs in driving overall provincial spending.

Looking to the 2012 budget, we urge the government to limit new spending commitments, and to adhere to the fiscal targets spelled out in the November 2011 Fiscal



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Update. Doing so will require an estimated \$15 billion of cumulative savings over the next five years. With total federal program expenditures now approaching \$250 billion per year, the target for savings is attainable, although meeting it likely will require a period of declining program spending on a real per capita basis.

That said, we agree with the suggestion made by the House of Commons Committee on Finance in its recent pre-budget report, that “the government should continue to closely monitor the global and domestic economic situation and, if the Canadian economy weakens significantly, respond as necessary in a flexible and measured manner to support Canadian jobs and economic growth.”<sup>i</sup>

### **Building a Stronger Foundation for Success**

Apart from establishing and implementing a credible fiscal plan, there are other measures the federal government may wish to pursue to support economic growth and job creation.

#### ***Tax policy***

In present circumstances, we see little room for major permanent tax cuts. Fortunately, both personal and corporate tax rates in Canada are broadly competitive on an international basis. However, in view of Canada’s disappointing productivity record, the government should remain open to considering further targeted tax measures designed to boost investment in machinery, equipment, software, and other advanced technologies that have the potential to foster faster productivity growth in the business sector.

Strategies to increase commercialization and nurture wealth-creating private sector research and development will also need to be considered. In this connection, the government should carefully review the recommendations from the recent review of federal support for private sector R&D, with a view to ensuring that policies and programs in this area are tailored to maximize the opportunities for wealth creation and to generate a positive return for Canadian taxpayers.<sup>ii</sup>

#### ***Border Security and Ease of Movement of People and Goods***

Reversing the trend toward a general “thickening” of the Canada-US border is a top priority. The government’s recently announced Canada-US joint action plan to stimulate trade, reduce border delays, and enhance security in North America is a positive step in this regards. The Business Council congratulates the government on this important accomplishment. Implementing the various elements of the new Canada-US agreement will be spread over a number of years, and success will depend in part on both



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governments' political commitment to make the necessary investments in technology and to modify existing security regulations and processes as contemplated in the agreement. We encourage you to ensure that the responsible federal departments and agencies have sufficient resources to press forward with the bold agenda outlined in the action plan.

### ***Regulatory reform and coordination with provinces***

Another priority for our members is a continued effort to work toward more efficient and streamlined regulation in areas of federal jurisdiction. The Business Council supports the direction and recommendations advanced by the Red Tape Reduction Commission in its 2011 report, and we urge the government to act on the Commission's proposals.<sup>iii</sup> But there are some fields of regulation that the Commission didn't address, particularly around project development and environmental reviews.

We acknowledge the steps taken in the past two years to improve the federal environmental assessment (EA) process. The Business Council recommends a more thorough overhaul of the *Canadian Environmental Assessment Act* (CEAA) that leads to a more streamlined and integrated review process. As we have noted in previous submissions, economic factors should be given more weight in federal environmental regulatory decisions – under CEAA, as well as in other legislation such as the *Species at Risk Act*, the *Navigable Waters Act* and the *Fisheries Act*. The latter two statutes in particular are out of date and often lead to seemingly arbitrary decisions that vary by region and project.

In combination, these environment-related regulatory impediments and inefficiencies act as a barrier to sustainable growth and investment by unnecessarily slowing projects and encumbering daily operations at great cost and time, making Canada a less productive and more expensive a jurisdiction in which to do business.

There must also be a high level commitment to eliminate duplicative federal-provincial processes for the review of projects. Expanding the authority of the federal Minister of Environment to accept provincial environmental assessments as sufficient for new projects may be one way to speed up the review process. We also believe the CEAA should be modified to incorporate explicit statutory timelines for reviews and decisions made under the Act. Finally, too many small projects are captured by the existing federal EA process. Arguably, full federal environmental assessments should only be carried out in respect of projects of national significance, or where substantial federal funding is involved. Finally, we would note that updating and streamlining environmental review and project permitting is especially important given the large number of resource and infrastructure projects planned or proposed across the country.



### ***Federal Air Policy***

As we have observed in the past, the development and expansion of British Columbia's position as Canada's gateway to the Asia-Pacific region is being undermined by Canadian air policy, which impedes international connectivity, particularly vis-à-vis Asian markets. At present, Asian carriers interested in providing service to Vancouver International Airport are often thwarted by Transport Canada's reluctance to allow such access, in part because federal officials evidently feel the relevant markets are too small to accommodate additional capacity. Commercial decisions around the size and growth of markets are best left to air carriers, not public servants. There is significant potential to expand air connections with Asian markets. In 2011, China Southern Airlines began operating direct flights from Vancouver to Guangzhou in the Chinese province of Guangdong. It has also launched all-cargo flight service between Vancouver and Shanghai, tapping into the growing demand in China for BC-produced perishable goods. Notwithstanding these new ventures, Canadian air policy has led to a continuing loss of opportunities for YVR and other Western Canadian airports to expand their business, with negative impacts on jobs and economic activity in the West. The federal government should commit to conclude more open skies and air bilateral agreements, covering both passengers and air cargo.

### ***Trade Agreements***

Forging new trade agreements is another focus of federal government economic policy that promises sizable benefits, especially over the medium term. That the United States recently ratified a bilateral free trade agreement (FTA) with South Korea, an important Canadian trading partner. Canada's own long-mooted FTA with Korea appears to be stalled. Canada has launched trade negotiations with the EU, and has recently commenced discussions with India and Japan. Of particular interest to the BC business community is that Canada is substantively engaged in the Trans-Pacific Partnership (TPP) negotiations involving the United States, Australia, New Zealand, and several Asian countries. We were pleased by the recent announcement that the federal government is embarking on consultations to seek input on Canada's participation in the TPP, which may over time become a fully-fledged multilateral commercial agreement. Going forward, it is vital that Canada not be left behind as the United States and jurisdictions such as Australia, New Zealand and even Japan pursue new trade and other commercial agreements with rapidly growing economies in Asia and elsewhere. Domestic policies that have weakened Canada's leverage and credibility in international trade negotiations, such as costly supply management regimes in parts of the agricultural sector and outdated intellectual property laws, need to be reformed so that they no longer stand in the way of an effective and outward-looking 21<sup>st</sup> century Canadian commercial policy.



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### ***Intellectual Property Policies***

Intellectual property rights (IPR) play a critical role in investment decisions, particularly in sectors like bio-technology, health innovation and pharmaceuticals which have significant growth potential, support high paying jobs, and spend significantly on research and development. Canada competes directly with other jurisdictions to attract R&D funding and employment in these and other science-based sectors, and we need to ensure that our intellectual property laws and policies are aligned with the objective of building these industries. Today, the regimes governing the protection of intellectual property in Canada fall short of the standards found in most other advanced countries, including the US and the EU. This is an area that requires further policy change by the national government as part of a strategy to make Canada one of the world's most competitive jurisdictions for the development and growth of knowledge-based industries.

Thank-you for providing an opportunity to share some of our views on the upcoming federal budget and on national economic policy priorities.

Yours sincerely,

*Original signed by*  
*Greg D'Avignon*

Greg D'Avignon  
President and Chief Executive Officer

JAf/vjc

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<sup>i</sup> Staying Focused on Canadian Jobs and Growth, Report of the Standing Committee on Finance, December 2011, p. 8.

<sup>ii</sup> Expert Panel Report on Federal Support for Research and Development, October 2011.

<sup>iii</sup> Red Tape Reduction Commission, What We Heard Report, September 2011.