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August 5, 2016

The Honourable Wayne Easter
Chair, House of Commons Standing Committee on Finance

Dear Mr. Easter:

The Policy Forum of Financial Executives International Canada (FEI Canada) is responding to the committee's request for pre-budget submissions.

FEI Canada is the all-industry professional membership association for senior financial executives. With 11 chapters across Canada and over 1,500 members, FEI Canada provides professional development, thought leadership and advocacy services to members. The association membership consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, representing a significant number of Canada's leading and most influential corporations.

We applaud the current government for its leadership on issues raised by FEI Canada in previous submissions, including a focus on infrastructure investment, leadership on retirement planning through a [modest expansion](#) of the CPP, and the collaborative approach of inclusion with the provincial and territorial governments.

Executive Summary

It should come as no surprise that the primary concern for our members is the health of the Canadian economy. While many of our proposals here apply to all three areas of focus being examined by the Standing Committee on Finance, we have mainly addressed FINA's second question:

What federal actions would assist Canada's businesses – in all regions and sectors – meet their expansion, innovation and prosperity goals, and thereby contribute to economic growth in the country?

The recent shifts in the global economy emphasize the need for Canada to further examine and align our national strategies and policies focused on enhancing innovation, exports, infrastructure and trade, energy and environmental sustainability, while maintaining fiscal prudence.

- **Innovation**

Canada has many components of a healthy innovation ecosystem including a highly-educated workforce, world-class research institutions, and low barriers to starting a business. Despite these strengths, Canada's innovation landscape is lagging behind higher-performing peers. While the federal government has taken some important steps to rectify this in recent

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years, many programs lack focus and do not promote scale; funding promotes research and development but more needs to be done to assist in commercialization.

- **Exports, Infrastructure & Trade**

As an export driven economy, infrastructure investment should support our ability to be self-sustaining, while providing vital links in our ability to export Canadian products. The construction and long-term operation of port and pipeline infrastructure can provide lasting economic benefits to all Canadians and export opportunities for all of Canada. High-speed internet is also needed for businesses in remote and rural areas.

- **Energy & Environmental Sustainability**

Infrastructure priorities should focus on what can best help drive the economy, protect our environment and meet regional priorities. Investment in renewable energy infrastructure would help meet long-term energy needs for Canada, while diversifying the economy, promoting the development of new technologies and value-added products. Pipeline infrastructure is also needed to move oil to Canada's customers, serving as another economic driver.

- **Fostering a Competitive Business Landscape**

While we agree that well-placed infrastructure spending that spurs employment should now be undertaken even if it temporarily causes a Federal government deficit, we believe it is important to lay out the future steps to return to a balanced budget. Canada was well-served having its economic house in order in the last recession, and FEI Canada recommends the government detail how and when it will undertake the “path back to a balanced budget.”

There are significant opportunities to assist Canada's businesses by cutting red tape, for example, by simplifying the Income Tax Act to reduce administrative burden for both the government and taxpayers. There would be reduced costs by allowing consolidated tax return filings; the government could allow companies to transfer non-capital losses within corporations in the same provincial tax jurisdiction or elect to include capital losses in the eligible capital expenditure pool. For GST purposes, companies should be able to elect to claim input tax credits in a related company similar to the election currently available allowing another taxpayer to remit GST.

FEI Canada recommends that the federal government should:

- Increase support for innovation, with an emphasis on commercialization, and permit companies to issue flow-through shares.
- Increase collaboration with industry, startups, government and academia, encouraging start-ups to move to commercialization and remain in Canada.
- Invest in pipelines, rail and highway networks as part of its infrastructure focus, to enhance Canada's export ability (using the P3 model where appropriate).



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- Provide transparency and predictability in all fiscal matters by announcing:
 - the mechanics for implementation of infrastructure investments
 - the details of the expanded scope of the CPP, including cost and funding estimates and the timetable for implementation
 - how and when the federal budget will be balanced.
- Continue to support the elimination of inter-provincial barriers that hamper the transfer of skilled labour between provinces.

FEI Canada is pleased to present this submission and welcomes the opportunity to further discuss any matters related to the work of the Standing Committee on Finance.

Sincerely,

A handwritten signature in black ink, appearing to read "Norm Ferguson".

Norm Ferguson, CPA, CMA

Chair, FEI Canada Policy Forum
Managing Director, Ogilvie LLP

A handwritten signature in black ink, appearing to read "Michael Conway".

Michael Conway, FCPA, FCA, ICD.D

President & Chief Executive Officer
FEI Canada

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The following submission provides additional detailed comments and recommendations for your consideration:

Innovation

FEI Canada recognizes the important role government can play in supporting a collaborative relationship in the development of a future vision with Canada's business leaders, and providing an environment that nurtures and develops our future innovators, entrepreneurs, and leaders.

Whether viewed through the lens of cutting-edge product and service development or the imaginative retooling of companies' internal organizational and operating cost strategies, innovation drives competitiveness and inspires an atmosphere of workplace creativity. An innovative mind-set is crucial to enterprise success.

Further to the areas of focus noted in Minister Bains' Innovation Agenda¹, we agree innovation is needed to further leverage Canada's strengths in sectors such as:

- Natural resources – Canada should be proud of responsibly developing natural resources, including oil and gas, forestry and hydro-electricity;
- Agriculture and forestry – Canada should build on its leadership position as world demand for food and fiber continues to grow;
- Health sciences/ biotechnology – Canada has a strong foundation in these industries, that will see growth as the population ages.

We need to consider any regulatory barriers to innovation in Canada, and ensure regulation fosters the introduction of new ideas in an economically achievable manner. The government should increase funding for innovation projects that promote growth and employment, including those that advance climate change technologies.

Although Canada is one of the world's more generous indirect tax incentive funders of innovation, this is not an achievement in itself in today's fast-paced and globally competitive marketplace if Canada does not ultimately rank among global leaders. According to a World Economic Forum's [Global Competitiveness Index](#) 2015-16, although Canada is ranked 13th in the world, up from 15th, it still lags well behind the U.S (who ranked third).

A study by FEI Canada's research arm, the Canadian Financial Executives Research Foundation (CFERF), entitled [The Funding of Innovation in Canada](#), reveals challenges in the following areas:

1. The process to obtain direct or in-direct funding from governments and banks is slow and time consuming. It is challenging to go from first-stage to second-stage research and then to full commercialization. There is concern funds are spread too thin across all eligible projects versus placing funds with projects with higher success potential.

¹ <http://news.gc.ca/web/article-en.do?nid=1084439>

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2. When companies require more funding to finance from stage two to the latter-stage, many start-ups are often acquired by U.S. and/or foreign concerns; buying out our tech gems and other industry successes who have now made it beyond “proof of concept”. With the loss of successful start-ups and innovative companies to foreign concerns, this creates a vast “brain drain” away from our country. Canada needs these people so they can develop products and solutions to keep our companies innovative, competitive, and able to grow.

We recommend companies be permitted to issue flow-through shares to monetize development and related commercial expenses.

In the end, CFERF found that the money is there for start-ups, the funding programs spark innovation, and long-standing Canadian organizations have been galvanized. Developing effective strategies for getting at the funding is the challenge.

Companies thinking about the second stage, commercial viability and export should also be working with EDC/BDC to help create leverage on the pathway to full commercialization. That is how to maximize the true benefit of government funding, as governments are involved as a partner every step of the way.

We believe startups in Canada should continue to be supported by innovation hubs such as the Ontario Centre of Excellence, MaRS, Communitech, Growlabs, Wave Front and so on.

FEI Canada encourages the government to review the current state of support for innovation (with an emphasis on commercialization) as part of the work of the Advisory Council on Economic Growth recently appointed by Finance Minister Bill Morneau.

Exports, Infrastructure & Trade

Exports represent 31.5% of Canada’s total economic output², and trade represents more than half of Canada’s GDP. Exports have been linked to approximately one in five Canadian jobs. We encourage the government to put forward a strong vision, demonstrating leadership in infrastructure enhancements that increase and improve access to export markets.

As an export-driven economy, infrastructure investment should support our ability to be self-sustaining, while providing vital links in our ability to export Canadian products. The construction and long-term operation of port and pipeline infrastructure can provide lasting economic benefits to all Canadians and export opportunities for all of Canada. High-speed internet is also needed for businesses in remote and rural areas.

² World Bank – Exports of goods and services (% of GDP). <http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS/countries?display=default>

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The federal government, in collaboration with provinces, is best able to identify those large infrastructure projects that will improve the lives of Canadians.

From roads to northern shipping lanes, strategic infrastructure investment coupled with sustainable environmental policies can foster job creation and economic growth. Revitalization of our cities and communities can be supported through improved health care facilities (e.g. long-term care or assisted living), enhanced transportation networks, efficient and effective public transit, and expanding our telecommunications infrastructure, including improved access to high-speed internet in rural and remote areas. A strategic infrastructure investment approach can create stronger communities with enhanced quality of life and provide the socio-economic conditions in which safer communities can flourish. A solid economy leads to stronger communities.

Governments should continue to support the elimination of inter-provincial barriers that hamper the transfer of skilled labour between provinces, thus aiding the federal government's efforts to promote the availability of jobs across Canada. We therefore recommend the government continue to explore opportunities and provide leadership and vision to enhance collaboration between governments, business and industry, with the goal of improving market access for all Canadian exports – commodities, services and manufactured goods – and enhancing our country's economic stability.

Energy & Environmental Sustainability

Infrastructure priorities should focus on what best can help drive the economy, protect our environment and meet regional priorities. For example, investment in renewable energy infrastructure would help improve the long-term energy needs for Canada, while diversifying the economy, promoting the development of new technologies and value-added products. An integrated, collaborative approach stimulating energy development, emerging and sustainable technologies and alternative energy sources such as wind, solar, biomass, gas, hydroelectric, oil extraction techniques and/or geothermal, should all be encouraged. Finally, to facilitate the export of energy projects to overseas markets, the government should ensure Canada has modern port infrastructure and world-class spill prevention and response protocols.

FEI Canada believes that, in ordinary course, government should balance budgets and reduce the debt-to-GDP ratio without raising taxes, to be globally competitive and remain attractive for capital investment. FEI Canada understands this must be weighed against economic pressures that negatively affect government revenues. As it did following the 2008 credit crisis, FEI Canada recommends, in the short term, the government give a higher priority to sustaining and enhancing the economy and protecting jobs. At the same time, we believe it is important to lay out the steps the government will take to return to a balanced budget.