

BC CHAMBER OF COMMERCE

Comments on Budget 2009



About the British Columbia Chamber of Commerce

The BC Chamber is a volunteer, not-for-profit association, which serves its members as the provincial federation of autonomous community chambers of commerce/boards of trade and corporate members.

The BC Chamber is the widest and broadest based business organization in the province. Representing the views of 126 chambers of commerce and boards of trade The BC Chamber is the voice of over 32,000 businesses from every size, sector and region of the province. The BC Chamber is “The Voice of Business in BC.”

Known to be in operation as early as March 1867, The BC Chamber was re-established in 1951. The BC Chamber is mandated to:

- Develop a true cross section of opinions of the British Columbia business community, and effectively present these opinions to government;
- Build a diverse, competitive and sustainable economy that provides opportunity for all who invest, work and live in British Columbia; and
- Create and nurture an effective membership organization that provides value and purpose to its members

The BC Chamber has been highly successful at generating innovative policy solutions through local evidence-based analysis as well as information and judgments about the needs of communities across the province which reflect the values of influential stakeholders and community members. The understanding that it is only through the direct input of local chambers that The BC Chamber develops policy recommendations has come to a growing realization by the media, public and by government that The BC Chamber is the organization best able to continue to offer real solutions to real challenges facing business across the province.

The challenge for the BC Chamber is that the current economic crisis presents unique challenges that are unprecedented in recent times. Given the scale of these challenges the BC Chamber has undertaken a number of consultations with members as well as key stakeholders to determine the key considerations and concerns of BC business. These discussions are the foundation of the recommendations contained in this paper.

Introduction

The challenges of 2008 were a stark reminder that as an open, trading nation Canada's economy is at the mercy of global economic conditions. The global financial crisis, recession in virtually all industrial countries, a sharp drop in commodity prices will all result in Canada being dragged into a recession that will have profound implications for businesses and individuals through 2009 and perhaps beyond.

It is within this context that the Federal Government prepares to announce a Fiscal Stimulus Budget on January 27 that is intended to introduce significant government intervention in the economy.

We have already seen action on the monetary side with central banks around the world slashing interest rates to mitigate the impact of a prolonged recession which could lead to generalized deflation. This action has seen central banks take unprecedented action with the Bank of England setting a record low of 1.5%, the EU cutting to 2% and Canada going to a 50 year low of 1.5%. The BC Chamber believes we will see these economies, and others, introducing even further cuts to short-term interest rates both in the light of recent moves by the US Federal Reserve which has seen them cut their rate to effectively zero and also to offset the possibility of deflation.

While these moves are welcome these measures alone will not be sufficient to address the scope of the problem, direct government intervention is required.

However, this intervention must be structured in such a way to protect the interests of taxpayers while ensuring our long-term prosperity. To achieve these goals the BC Chamber believes it is important that the Budget must embrace a number of principles to be used by government in its deliberation on what measures will be included in this historic budget. These principles are;

Timely – must have an impact in no more than 4-6 months

Finite – cannot involve ongoing program spending

Improve long-term productivity & competitiveness –measures must improve our productivity & competitiveness

Partnerships – the federal government must ensure that money spent is done in consultation and partnership with the provincial and territorial governments and where appropriate the regional and local governments

Rational – base spending on realistic economic projections and does not lead to long-term structural deficits

BC's Economic Situation

BC's economy has been facing challenges for some time, indeed we would suggest that BC has been a tale of two economies with our export sector facing significant challenges while our domestic economy has been keeping our head above water.

On the one hand we have seen our export economies suffering under the combined pressure of a high dollar, which has shifted many of our critical export industries into a highly uncompetitive position with regards to the US market, a slow down in the US housing market combined with an export tax which has robbed BC's biggest export industry, forestry, of its primary market.

We are now seeing the impact of the global economy on the domestic economy with a significant downturn in the housing market (residential unit sales declined 33% to 68,923 units last year, the lowest level since 2000), a downturn in consumer confidence has seen confidence falling faster in BC than anywhere in the country except the prairies (confidence in BC has fallen from 117.6 in February, the highest in Canada at the time, to 78.1 in November, still above the national average). Further to this we are seeing a downward trend in international visitors that will continue and perhaps accelerate in 2009.

While non-residential construction remains a bright light with both major projects and non-residential building permits remaining positive in the second half of 2008 we believe this will not last and that non-residential construction will begin to be scaled back.

While BC has also been supported by a strong employment market, here too we are seeing worrying signs. While BC saw employment end the year relatively unchanged (+0.4%), this was the result of gains in the first eight months of the year being countered by losses in the last four months which has resulted in BC's province's unemployment rate rising by 1.1% over 2007 to stand at 5.3%. The BC Chamber expects layoffs to continue well into 2009.

BC's government has reacted to these challenges with the unveiling in October of a 10 point economic plan. This plan is intended to provide stimulus through accelerated tax relief for small business which will see the small business income tax rate reduced to 2.5 per cent, effective Dec. 1, 2008, this will provide \$146 million for small businesses over three years. In addition, other measure will result in \$485 million in tax relief and support over the next three years as well as a commitment to accelerated infrastructure spending.

Federal government areas of focus for 2009 Budget Consultations

In preparation for Budget 2009, being presented as Fiscal Stimulus, the Federal Government has asked for Canadians input on the measures that should be included in the 2009 Budget. The Federal Government has indicated several areas where they are considering dedicating funds to stimulate the economy. The BC Chamber has provided comment and recommendation on each of these areas;

- Investing in housing
- Expediting infrastructure spending
- Building strong and sustainable labour markets and training incentives
- Supporting traditional and emerging industrial sectors
- Improving access to credit

Expediting infrastructure spending

The benefits of investing in infrastructure has always been of critical importance to our ongoing competitiveness, as such the BC Chamber agrees that infrastructure spending must be an integral part of governments efforts to stimulate the economy.

Indeed, in the US Christina Romer, the future head of President Elect Obama's Council of Economic Advisers, and Jared Bernstein, who will be the Vice President's Chief Economist, released a report which stated that *"a dollar of infrastructure spending is more effective in creating jobs than a dollar of tax cuts."*

The BC Chamber agrees with this statement and therefore believes that infrastructure spending must take precedence over all other measures, including tax cuts. Indeed the BC Chamber believes that tax cuts are not a prudent measure at this time as they run the risk of either extending the length of time we are in a deficit, or even worse, establishing a structural deficit with little guarantee that the cuts will either lead to an increase in consumer confidence and spending.

Investment in infrastructure not only provides a short term boost to the economy but also addresses a long standing area of concern, namely that much of Canada's infrastructure, transit, roads, highways, bridges, and water and sewage, are nearing the end of their natural lifespan.

While the lack of a national infrastructure catalogue makes it difficult to understand the true scope of the funding challenge estimates of the gap at the municipal level alone range from anywhere between \$57 billion up to as much as \$123 billion. Whatever the true level of investment required the cost of addressing this infrastructure deficit is beyond the ability of a single level of government and requires a true partnership between all levels of government.

However, the BC Chamber is concerned with reports that MP's have been instructed to solicit from local and provincial governments what are their most important projects. While the BC Chamber appreciates this focus on partnerships we are concerned that

simply picking a local governments 'pet' project could have a positive short-term impact on the local economy, but may not improve our long-term competitiveness.

While ensuring ongoing employment is a critical part of the benefit of infrastructure spending, without a focus on the role individual projects will have on our competitiveness as a nation we run the very real risk of political considerations influencing which projects will receive consideration as part of the stimulus budget, rather than focusing on their importance to the economy.

The federal government have several programs that provide structure around investment in infrastructure, the Building Canada Fund, a significant program of \$33 billion which is scheduled to run through to 2014 and the Strategic Infrastructure Fund which has already allocated most of the programs \$4.3 billion budget.

The BC Chamber believes that both of these programs provide a template for infrastructure spending that focuses on both partnership as well as ensuring the projects is of significant strategic value to the community, province and the nation.

The BC Chamber believes that a new program should be created that builds upon these programs by focusing on investing in community projects that will meet the criteria of providing a short-term economic boost, while also ensuring a prudent and strategic investment of taxpayers dollars in our future prosperity. Unlike the Build Canada and the Strategic Investment Funds the BC Chamber believes that given the scale of investment required the allocation of funds under this program cannot be dependent on partnership dollars from other levels of government. It is simply not feasible to ask local governments to commit partnership dollars under this new program given that projects will need to commence immediately and local governments have both limited financial resources and often significant constraints on their ability to borrow or to run deficits.

The community focus of this program will allow the Federal Government to not only fulfill its election commitment to “*support rural and remote communities by investing in new infrastructure throughout rural and northern Canada*” but will also represent the most effective way for the government to stimulus the economy at a local level.

The BC Chamber recommends that the Federal Government;

- 1. Create a new “Community Partnership Fund” to fund local strategic infrastructure projects;*
- 2. Immediately expedite projects approved for funding that have cleared their regulatory hurdles to ensure construction begins in no more than 4-6 months;*
- 3. Expedite the approval processes for all projects to ensure that as the economy recovers new infrastructure projects are able to begin construction thereby accelerating our recovery;*
- 4. provide sustainable, long time funding for communities to invest in infrastructure within their jurisdiction by expanding the Gas Transfer Program to ensure that*

100% of all gas tax collected within province/territory be returned to that jurisdiction.

Improving access to credit

Access to credit is a significant concern to businesses of every size and in virtually every sector. While there is no empirical data on the level of lending there is growing anecdotal evidence that there has been a significant tightening of the credit market.

Our members are telling us that not only is lending more difficult, both through the disappearance of the asset-backed lending markets and the increasing level of risk aversion from commercial banks. This is resulting in a decrease in lending (even for large, established firms) and an increase in the cost of credit for those fortunate enough to be accepted that is beginning to threaten businesses survival.

The government has several mechanisms available to address this issue. As has been done in the US the federal government could intervene in specific market segments, or they could inject equity directly into Canada's commercial banking system to underwrite their lending. While either of these will have a positive impact on the availability of credit the BC Chamber believes these measures should only be undertaken if it can be clearly demonstrated that the commercial lending institutions are not restricting lending or unnecessarily tightening lending conditions.

The BC Chamber believes the mechanism that has the most immediate impact would be to expand the existing public sector financial institutions to provide immediate liquidity into the lending market. These mechanism, Business Development Bank of Canada Export Development Canada and Community Futures each have a clear focus on specific market segments and a strong brand that would allow them to step into the hole created by commercial lenders by providing alternative sources of credit.

One of the challenges with this approach is the fact that each of these institutions has a very specific mandate that limits the range of lending options they can provide. The BC Chamber believes that in addition to injecting additional capital there may be a need to also expand the remit of these organizations to ensure that they have the capacity to fill all sectors and all sizes of business that are facing difficulty in accessing credit.

The BC Chamber recommends that the federal government;

- 1. Expand the ability of the Business Development Bank of Canada Export Development Canada and Community Futures to provide firms with alternative access to credit by significantly increasing the level of capital available while also increasing the range of lending these institutions can undertake; and*
- 2. Work with the Bank of Canada and the commercial banking sector to ensure liquidity and the affordability of credit for Canadian businesses and consumers*

Building strong and sustainable labour markets and training incentives

The BC Chamber believes that efforts in this area, as part of a stimulus budget, should focus on re-training workers who need to shift industries or sectors.

Progress has already been made on this front through the Labour Market Agreement (LMA) and the Labour Market Development Agreement (LMDA). The transfer of these programs to the province represented a significant devolution of responsibility for the provision of programs and services intended to remove barriers for people to enter the workforce as well as the provision of programs and services to enhance employer's ability to offer training opportunities for their workforce.

However, we have been disappointed by the conditions attached to these funds by the federal government. These restrictions have meant that funds cannot easily be directed to employers as it must be directed to the employee. This is a significant challenge as it has resulted in an inability of employers to utilize these funds for the upgrading of the skills of their employees while ensuring that the money is so narrowly directed that it becomes hugely expensive on a per person basis to administer.

While the Chamber movement has been consistent in its calls for reform of the EI program to create an employer-based experience rating system we recognize that this is a longer term goal that does not address the immediate need to protect workers. With this in mind the BC Chamber believes that government must utilize the EI system cautiously as it looks to protect workers to ensure that we do not introduce measures that will permanently expand this program without fundamental review.

The BC Chamber believes it is important to emphasize that while we will certainly face some labour market challenges in the short-term these will be just that, short-term. As has recently been demonstrated by the Conference Board Canada faces a systemic skills and labour shortage that is based on a demographic reality that will see Canada experience a labour shortage of nearly one million people by 2025. Quebec could face a shortfall of 292,000 workers by 2025. Alberta could be short of 332,000 workers by 2025. Ontario could be short of 360,000 workers by 2025. In the case of BC estimates suggest that the province will create one million new job openings by 2017 while only graduating 650,000 students through the K12 system.

The BC Chamber believes that this reality requires action through both the development of a system of innovative tax credits that will increasing businesses ability to provide training and skills development and a continued focus on an efficient and focused immigration system.

The BC Chamber recommends that the Federal Government;

- 1. Create a training fund for workers impacted by the current crisis;*
- 2. Introduce a national human resource investment tax credit program that provides a tax credit for firms that provided training as part of the federally accredited training program;*

3. *Work closely with the provinces and territories to remove restrictions on the LMA and LMDA programs to allow for the design of programs that will meet the needs of employers;*
4. *Extend length of time for which companies can use the EI worksharing program, beyond the current limit of 38 weeks, in order to preserve jobs during the current economic downturn;*
5. *Consider introducing temporary income support measures for hard-hit industries and communities; and*
6. *Expand the Working Income Tax Benefit to provide support to the newly unemployed on a strictly temporary basis.*

Supporting traditional and emerging industrial sectors

The membership of the BC Chamber has reluctantly accepted the need for financial assistance for the auto sector given the importance of this sector to Ontario and the importance of Ontario to the Canadian economy. However, our membership were also clear, this is an exceptional circumstance and should be viewed as such, no other sector warrants dedicating funds to support their operations.

Further to this our members were also clear, assistance provided to the auto sector must be on the conditions that government ensures that it meets its election commitment to “ensure that taxpayers' investments are repaid” and that the industry provide a long-term plan for the restructuring of the industry in Canada.

Beyond the auto sector, our members have consistently stated that support for traditional and emerging industrial sectors should always be a cornerstone of budgets at any level of government. This support should be limited to ensuring the foundation exists for businesses to prosper through ensuring a competitive taxation and regulatory regime, a skilled workforce, and world class infrastructure and transportation.

For BC our traditional industries have focused on our resource sector. However, the benefits which should accrue from specific resource development are often threatened by review and permitting delays which undermine investor confidence and result in a loss of market opportunities. Time is of the essence and it is essential that government investigations be made promptly and decisions be rendered expeditiously. Duplicative processes must be eliminated.

Consequently, review processes of proposed resource developments must balance the impact on the natural environment against the social and economic requirements of society for the products recovered. Duplicative review processes between Federal Government agencies or duplication between federal and provincial processes must be eliminated. The approval process must be efficient and transparent, and “one-stop shopping” processes must be used wherever possible to create a more attractive investment climate for project developers.

The BC Chamber recommends that the federal government;

1. *Implement the election commitment to;*
 - *Extend funding for the forestry industry to market its products abroad and continue support for lumber mills to convert from fossil fuels to biomass.*
 - *Modernize the administration of our fisheries to ensure greater focus on conservation and using administrative sanctions, rather than court proceedings, to deal with violations.*
 - *Extend the “super” flow-through share incentive for mining.*
2. *Implement the election commitment to support capital investment by abolishing tariffs on a wide range of imported machinery and equipment.*
3. *Work with all levels of government to identify leading edge research, development, technology and innovation initiatives and link information from those initiatives to current and new industries in the value-added products sector*
4. *Undertake a fundamental review of the regulatory burden placed on our resource sectors and immediately reduce and streamline the regulatory burden;*
5. *Implement the election commitment to;*
 - *Create a new venture capital fund to be administered by the Business Development Bank of Canada, which will allow late-stage technology companies to move from research and development to commercialization stages of business.*
 - *Increase support for science and technology by \$850 million by 2009-10 and make additional investments in internationally recognized science and technology projects in Canada*

Investing in housing

Homelessness is presenting an increasing challenge for many communities across BC. There is a very real possibility that if the recession is as deep and as long as some have predicted many will find themselves joining the ranks of the homeless as unemployment rises.

Recent examples of studies have shown that significant cost savings would result from a new approach to housing the homeless, include one by the government of B.C.¹ Further to long term savings in terms of program spending investing in the construction of new housing stock would stimulate the residential construction sector which is facing difficulty with the downturn in the housing market.

The province has committed significant funds to the development and construction of social housing, as have many municipal governments. The BC Chamber believes it is these levels of government that are best placed to ensure that funds are targeted to those most in need (a principle recognized by the federal government through the devolution of responsibility for federally-led subsidized housing units to BC).

¹ The Cost of Homelessness in B.C., February 2001

The BC Chamber recommends that the Federal Government create a fund that can be used to partner with other levels of government in the construction of social housing.

ENSURING CANADA'S LONG TERM COMPETITIVENESS AND PROSPERITY

Developing a more competitive Canada

While the focus of Budget 2009 will rightly need to be what measures are required to stimulate the economy the BC Chamber believes that the current global economic climate also requires us to look at our long-term economic competitiveness. While we may not know when we will come out of the current situation the impact global economic conditions have had on the Canadian economy clearly demonstrates that when we do recover we will need to be a leaner and more productive economy.

The need to improve our competitiveness has been recognized by the government in its 2008 election manifesto, “the True North Strong and Free” which outlined the following commitments under the heading “Making Canadian Business More Competitive”;

- Increase the threshold for foreign investment reviews to attract more foreign investment to Canada while ensuring that such investments are of net benefit to Canada.
- Ensure that consumer interests are protected and that the government can block foreign takeovers that would jeopardize our national security.
- Work to ensure that Canadian companies also receive increased access to investment opportunities abroad.
- Open up two regulated sectors, airlines and uranium mining, to allow increased foreign investment, subject to any investments in these sectors meeting the national security test and negotiation of reciprocal benefits with our trading partners.

While these are worthy commitments that are fully supported by the BC Chamber we do not feel they go far enough to address the underlying, structural issues hampering the Canadian economies long-term competitiveness and productivity.

In much the same way that the unprecedented economic situation has necessitated a unique fiscal response from government the BC Chamber believes that our underlying lack of competitiveness also requires bold action.

The recommendations listed above are amongst a number provided by the Competition Panel in its recent report – Compete to Win. While the full slate of recommendations provided by the Panel are beyond the scope of this submission to address in detail the BC Chamber is on record as supporting a number of the recommendations as worthy of implementation, as well as supportive of the direction and focus of the Panel.

The BC Chamber recommends that the Federal Government;

- 1. Immediately produce a plan for the implementation of all the Competition Panel's recommendations; and*
- 2. Immediately establish an independent Canadian Competitiveness Council under the Minister of Industry.*

Reducing the regulatory burden

The effectiveness and quality of regulation and the institutions that enforce it are a major determinant of jurisdictions prosperity.

Well-designed and efficiently enforced business regulation improves the functioning of the economy by providing certainty for the business community. In addition, they also achieve environmental and social policy goals without imposing significant compliance costs on firms or weakening the ability of businesses to adapt to changing economic conditions, technologies and consumer preferences. Regulations that create high compliance costs or restrict competition have been shown to damage investor confidence, increase costs and reduce investment in technology and innovation.

As we said previously, the negative impact of regulation on our economic prosperity is particularly pronounced in relation to our resource industries, particularly in BC. The benefits which should accrue from specific resource development are often threatened by review and permitting delays which undermine investor confidence and result in a loss of market opportunities. Time is of the essence and it is essential that government investigations be made promptly and decisions be rendered expeditiously. Duplicative processes must be eliminated.

The BC Chamber recognises that both levels of government have begun to take steps to address this problem. Whether it is the Major Projects Management Office or the Environmental Process Modernization Program both levels of government have recognised that duplication, uncertainty, lack of timelines, a lack of concurrency are an impediment to investment and job creation.

The BC Chamber recommends that the Federal Government work with the Provinces and Territories to streamline the approval process in the areas of environmental permitting, major project development and fisheries management through strategic regulation and legislative reform that establishes 'one-stop' approval processes.

Breaking Down Trade Barriers within Canada

The BC Chamber was pleased to see a commitment from the Federal Government to work towards eliminate barriers that restrict or impair trade, investment or labour mobility between provinces and territories by 2010.

We have been pleased to see progress by the provinces and territories in strengthening elements of the existing Agreement on Internal Trade (as demonstrated by the recent announcement of amendment to the Labour Mobility Chapter of the Agreement). Despite

this progress the BC Chamber believes that more fundamental reform is needed to remove the barriers to trade, investment and mobility remain by 2010, even in the face of opposition from individual provinces and territories.

The BC Chamber recommends that the Federal Government fulfill its election campaign commitment to use the federal trade and commerce power to reduce barriers to trade, investment and mobility if immediate progress is not made by the provinces.

Increasing Trade with Emerging Markets

The BC Chamber also welcomed the focus by the government on the need to pursue trade agreements and to move aggressively to improve Canada's network of bilateral and regional free trade and economic agreements.

Canada has tremendous opportunities to enhance and expand its trade and investment relationships on the basis of bilateral, regional and multilateral agreements. Historically, Canada has worked diligently in multilateral forums and these rules-based agreements are essential to ensure the competitiveness of a mid-sized, trading nation such as Canada.

However, given the changing dynamics of world trade negotiations, Canada needs to set clear priorities about where to put time and effort in order to make the most of negotiations and to bring maximum value to Canada. There is no denying the importance of trade to Canadian economic wealth. Canada has the highest trade/GDP ratio amongst the G-8, close to 40%. To sustain this pattern, continued access to markets remains essential. Trade policy must to be an important policy priority for the country.

The BC Chamber recommends that the Federal Government;

- 1. Fulfill its election campaign commitment to will move aggressively to improve Canada's network of bilateral and regional free trade and economic agreements to reduce our reliance on the US market by diversifying our export markets.*
- 2. Make the conclusion of Approved Destination Status with China an immediate priority*

Conclusion

The BC Chamber believes that the current economic challenges facing the world present a unique opportunity to build a new consensus on both the role of government in addressing our economic challenges.

A bold vision of governments role in stimulating the economy is the first step in what the BC Chamber hopes will be a renewed focus on smart government. The BC Chamber believes that the measures introduced on January 27 must be a foundation for a new era of focus on our competitiveness.

Canada is well positioned to weather this economic turmoil. Further to this the BC Chamber believes that your government has a fundamental responsibility to reassure Canadians that while we do face some challenges and we will face some tough times the fundamentals of our economy are strong. This strength positions us well for recovery in the short terms and with a renewed focus on enhancing our competitiveness Canada can come out of this a leaner economy, in a position to excel once the global economy recovers.