



The British Columbia Chamber of Commerce

Submission to the Competition Council

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About the British Columbia Chamber of Commerce

The British Columbia Chamber of Commerce (The 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 Chamber is the widest and broadest based business organization in the province. Representing the views of more than 130 chambers of commerce and boards of trade and over 28,000 businesses from every size, sector and region of the province The Chamber is “The Voice of BC Business.”

Known to be in operations as early as March 1867, The Chamber was re-established in 1951 with a mandate to:

- Develop a true cross section of opinions of the British Columbia business community
- Present members’ opinions to the provincial and federal governments
- Promote trade and commerce
- Improve the economic and human well being of the people of British Columbia

The policy recommendations contained in this submission derive from the 2005-2006 BC Chamber Policy and Positions Manual. The Chamber is pleased to provide these recommendations as a strong advocacy platform based on a unique policy development process.

This policy process 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 that reflect the values of influential stakeholders and community members. The understanding that it is only through the direct input of local chambers that The Chamber develops policy recommendations has come to a growing realization by the media, public and by government that The Chamber is the organization best able to offer real solutions to real challenges facing business and communities across the province.

Given our mandate – to advocate a policy framework that promotes a healthy and vibrant economy in which all British Columbians can grow and prosper – we are very pleased to be able to make this submission to the Competition Council.

Introduction

During the 1990's the challenge facing British Columbia was clear and immediate. The need to cut taxes, reduce regulation and balance the labour code were widely agreed to be essential to the provinces ability to grow and to attract new investment. While many of these "big ticket" issues have largely been addressed this success has brought its own challenges as the province faces new pressures, both domestically and internationally. Indeed our ability to sustain our current economic growth is likely to present even more complex and problematic challenges given that responsibility for many of these issues rests beyond the provincial government's direct sphere of influence.

With an eye on these challenges the 2005 Speech from the Throne announced the creation of a "Competition Council" (The Council) to review the provinces competitiveness across sectors and across regions. The intent of the Council is to identify barriers to economic growth and to provide solution to these barriers that can be utilized by government, industry, or both.

The Chamber strongly supported the creation of the Council as a key part of building a long term sustainable foundation for economic growth that will ensure the prosperity of the province for future generations.

Having said this, the scale of the task facing the Council is significant.

The rise of new industrial powers in China and India, in particular, as well as the dynamic created by the creation of new free trade areas subjects all economies to new efficiencies and new competition. The task for the province is therefore simple; we need to enhance our current strengths and develop new basis for competitive advantage.

The Chamber recommendations will focus on how our economic success and future competitiveness can be sustained over the medium to long term. While our focus must be on the medium to long term we remain cognizant of the need to acknowledge that over the short term we must not fall behind competing jurisdictions in terms of price and cost competitiveness to ensure that domestic demand continues to drive economic growth into the medium to long term.

With the intention of putting in place the policy platform that will transform the competitiveness of the province the recommendations of The Chamber are ambitious and will require both a structured plan and the political will to carry this plan through to fruition.

Given these ambitious nature of our recommendations The Chamber believes it is imperative that the recommendations of The Council build the foundation of a long term strategy by government to address the very real competitive challenges facing the province.

With this in mind we believe that The Council must ensure that its recommendations are accompanied by an implementation plan and schedule that lays out a clear timeframe for the implementation of The Councils recommendation. Further to this The Chamber believes that it is critical that a mechanism be put in place that holds the government to account on the implementation of The Councils recommendations. Without such a mechanism there is a very real danger that The Councils recommendations could be overridden by short term political considerations.

THE CHAMBER RECOMMENDS

That the government ensures that the findings of the Competition Council form of part of a continual process of tracking the provinces competitiveness in relation to competing jurisdictions. This should be done either by the formation of a permanent Provincial Competition Council whose responsibility would be to monitor the competitiveness of the province against criteria created by the Council and to provide recommendations on measures to improve the provinces competitiveness.

Alternatively the provincial government could expand the mandate of the BC Progress Board to perform these functions as part of its Benchmark Reports.

The submission of The Chamber will firstly address the current economic climate; we will then provide a backdrop to our recommendations by outlining the role and importance of small and medium business to the province. Our submission will then focus on what The Chamber sees as the challenge facing The Council and the province followed by providing recommendations on what measures The Chamber believes are required to address the issue before the Council. The Chamber will do this by focusing on the following critical areas;

- Solid fiscal and government policy
- Education and Skills
- Infrastructure development
- A Diverse Economic Base

The Importance of Small and Medium Business

Any review of the competitiveness of the province must address the fact that small and medium sized businesses (SME's)¹ play a pivotal role in the provincial economy. The Chamber has consistently been the leading voice calling for the recognition of this role played by SME's in the economic growth, job creation, regional and local development and social cohesion of communities across the province.

With this in mind The Chamber believes that it is critical that The Council be provided a fundamental knowledge of the role SME's play in the economy of BC and some of the very unique challenges faced by this sector.

Table 1; Breakdown of SME's in BC, 2004

	Number of businesses	Per cent of total
Total small businesses	355,600	98.0%
Self-employed without paid help ²	204,600	56.4%
Businesses with less than 50 employees	151,000	41.6%
Total large businesses	7,300	2.0%
Total all businesses³	363,000	100.0%

Source: BC Stats using data supplied by Stats Canada

As we can see BC has a strong reliance on small business with a full 98% of all businesses in BC being either self-employed or having 50 employees or less. While these businesses are active in all sectors and all regions of the province there is a concentration in the business service sector with almost 22% of SME falling within this category⁴ as shown in Table 3.

The number of businesses does not tell us much about the true contribution and impact of the SME sector to the provincial economy, or to communities across the province. To understand this we need to look at the jobs and economic benefits these businesses bring to the economy.

¹ There are a number of definitions for what constitutes an SME, for the purposes of this submission we will use the definition of a business with fewer than 50 employees.

² To avoid double counting, incorporated self-employed are not included in this figure.

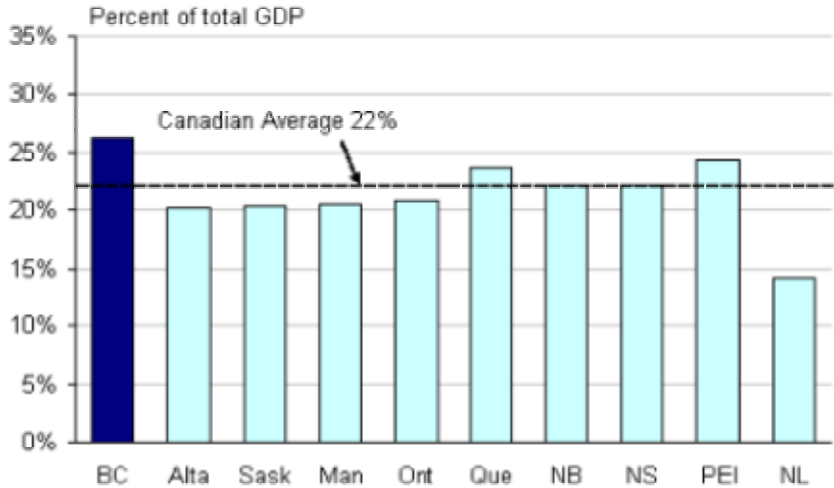
³ Figures do not add due to rounding.

⁴ This is unsurprising given that business services covers such occupations as lawyers and accountants as well as other businesses that require little start up capital and are therefore easier to establish.

The level of job creation by SME's in BC is second only to Saskatchewan in Canada. SME's in BC employed 971,000 people in 2004; this represents an impressive 47% of all jobs in the province and translates to 57% of all private sector jobs.

Perhaps more importantly SME's in BC rank first in Canada in terms of their contribution to the provincial economy when measured as a proportion of Gross Domestic Product (GDP)⁵.

Small Business proportion of GDP, 2004



Source: BC Stats

As we see SME's in BC represent 26% of GDP, compared to the national average of 22%. The Chamber cannot overemphasize how important this makes SME's to the provincial economy as drivers of economic growth and prosperity.

What is also particularly important to The Chamber is the fact that SME's are the economic lifeblood for practically every community across the province. This is driven by the simple fact that the distribution of SME's does not depend on proximity to any particular resource or location; the distribution of SME's is simply related to population and the need for goods and services.

As a result it is unsurprising that the vast majority of SME's are found in the Lower Mainland/Southwest region with the region home to 59% of the provincial population and also 59% of the provinces SME's. In terms of other regions, Vancouver Island/Coast is home to about 17% of the population and 18% of the population, in the Thompson/Okanagan, which represents about 12% of the provinces population, also represents the same percentage of the provinces SME. This correlation continues in the other regions which together represent close to 12% of the population and around 13% of the provinces small businesses.

⁵ This measure gives a clear understanding of the true contribution of SME's as it includes the contribution through the materials and services used.

Table 2; Number of small businesses by region, 1999-2004

	Average annual growth (#)	Average annual growth rate
Vancouver Island/Coast	-1,700	-2.5%
Mainland/Southwest	1,300	0.6%
Thompson/Okanagan	-30	-0.1%
Kootenay	200	1.5%
Cariboo	-500	-3.1%
North Coast & Nechako	-200	-2.2%
Northeast	300	5.4%
Provincial Total	-700	-0.2%

Source: BC Stats using data supplied by Statistics Canada

So the question then becomes, is this regional distribution simply related to population?

The Chamber does not believe that this apparent correlation between population and SME's mean there is no room for significant growth in the sector unless there is growth in the population.

To understand the nature of the distribution, health and importance of the SME sector, and therefore its ability to grow, it is important to develop an understanding of the sectors that are represented by SME's.

Table 3; Breakdown of SME's by sector

Number of employees	% of businesses in each sector	
	1-49	0
Business Services	18	25
Accommodation and Food	7	2
Health and Social Services	9	8
Education Services	1	4
Finance, Insurance & Real Estate	8	7
Trade	18	7
Transportation	5	6
Construction	11	14
Manufacturing	5	2
Primary	6	5
Other	12	20

The range of sectors with a high concentration of SME's are as varied as the economy of BC. This leads The Chamber to believe that it is the strength of economic activity that drives SME growth, not population.

As we have seen above SME's seem to concentrate in the areas that are seeing strong economic activity with trade, construction and transport all showing high levels of activity. This pattern is further enhanced when we look at pattern of growth of SME's in the various regions.

As we can see the largest increase has occurred in the mainland/southwest which reflects the increase in population; the regions move towards the service sector; as well as the growth of the high-tech industry.⁶

The regional activity of SME is enforced by the growth in certain industries. Historically the focus of SME's has been in the sectors that are the strength of the economy; this has meant that SME's have been prominent in our traditional resource industries such as forestry and mining.

The logical conclusion is that as these industries decline in importance so will the level of SME activity.

While it is true that the decline in SME activity in certain regions (as outlined above) can be attributed to the decline in certain resource sectors (such as the impact of softwood on the Caribou) it is also clear that SME's have a remarkable tendency to re-invent themselves to suit the needs of the economy.

As shown in the above case study the role of SME's within an industry are critical to the competitiveness of that industry. The role played by SME's in providing goods and support services to the operation of the large companies mean they are critical to these businesses ability to remain competitive on a global scale. Without an efficient,

Case Study

There is a increasing realization that without a viable forest industry the more than 270,000 British Columbians, 14% of the total workforce, that are either directly or indirectly employed by the industry and the 31 local areas, containing 270 communities where forestry represents more than 20% of the areas income would face a bleak future.

SME's dominate all the major sectors of the industry but are particularly dominant in the logging and forestry sector (silviculture and support activities), as demonstrated by the fact that SME's comprise 95% of all firms and over 57% of all employees.

It is the reliance of SME's that makes the future of the industry so vital to communities across the province. The challenges facing the industry in BC will have a profoundly greater effect on these businesses that do not have the ability to invest significant capital or have the financial ability to ride out any tough times.

⁶ 95% of employers in the high tech sector are small businesses, Small Business Profile 2005

competitive SME sector many businesses would find it impossible to compete on the global scale. The efficiency and competitiveness of the goods and services provided by SME's directly impact the cost structure of the large companies, without an efficient SME sector the economy would quickly be rendered uncompetitive.

In short, the distribution of SME's on both a geographic and sectoral basis ensures that they are a good indicator of the economic vitality and strength of the entire provincial economy. If SME's are not flourishing, then neither can the province.

The Chamber believes that this leads to a very simple, incontrovertible truth; the future competitiveness of the provincial economy will depend upon the competitiveness of SME's. This is not to suggest that the only role SME's play is a support role, SME's are also critical to the provinces export capability.

Number of British Columbia exporters, employees and value of exports, 2003⁷

	Number of Establishments	Number of Employees	Value of Exports (\$millions) ⁸
Small business exporters	5,100	70,075	\$8,857.6
Large business exporters	1,271	277,292	\$19,865.8
Total all exporters	6,371	347,367	\$28,723.4

Source: Statistics Canada / Prepared by BC Stats

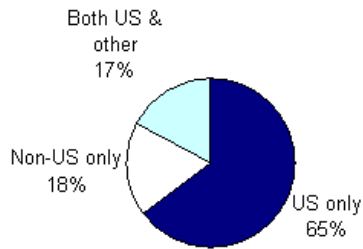
The Chamber thinks it is worthy of note that while only 5,100 businesses (representing 1.4% of the total number of SME's in the province) they are responsible for a full 31% of the total value of the provinces exports, representing \$8.9 billion in economic activity.

Further to this it would be somewhat disingenuous not to look at some of the reason why only 1.4% of SME's export. The reasons for the lack of participation become somewhat clearer when we look at the destination of these exports.

⁷ This includes data for the Territories and therefore includes the export of diamonds that may have increased the value of exports for large business by 2-3%

⁸ Due to a lack of accurate data this figure only addresses merchandise exports to international destinations and does not include service exports or interprovincial trade

Destination of exports for British Columbia small business exporters in 2003⁹



Source: Stats Canada, prepared by BC Stats

The Chamber feels that future health of the provincial economy is dependent on both strengthening the existing export base while also looking to expand both our export markets and the participation by all sectors of the economy.

The fact that small business exporters are dependent on the US market is far from surprising given the reliance of the provincial economy on north/south trade corridors. Also unsurprising (although worrying) is the level of export activity of SME's in BC compared to other provinces.

There is significant variation between provinces small business exporter activity, both in terms of the number of exporting businesses and value of exports. This variation is linked to the industrial structure of the provincial economy which in many provinces is more geared towards export markets.

The critical role played by SME in the provincial economy necessitates The Council ensuring that its recommendations address some of the very real and unique challenges facing these critical generators of economic activity and prosperity. These include, but are not limited to;

- a regulatory environment that imposes undue burdens on SME and is uncondusive to entrepreneurship, innovation and growth.
- a tax regime that promotes good governance and greater accountability in public administration, fiscally responsible government driven by transparent, stable and non-discriminatory tax regime
- their ability to access education and a HR environment that fosters an innovation and entrepreneurial culture focused on lifelong learning, mobility of labour and reducing the disparity between the education system and the demands of SME's
- inability to access finance, both start up and their ability to borrow. The government should ensure that small businesses that meet a set of eligibility criteria should be able to borrow up to a set amount. This can either be offered

⁹ Includes data for the Territories

directly by the government or can be offered by a private lender while being underwritten by the provincial government.

- Financial barriers to innovation are significantly reduced by 1) creating the mechanisms for equity financing, particularly for innovative start-ups, 2) an environment that supports the development and diffusion of new technologies for and by SME

The remainder of our submission will focus on how these challenges relate to the wider economy and what must be done to ensure that actions to address these issues address the needs of all sectors of the economy.

The Economic Climate

One of the challenges facing The Council in the formation of its recommendations is getting the message that we have a competitive problem heard by an economy that is enjoying a period of significant economic prosperity and growth.

2005 was another good year for the provincial economy with BC leading the way in many of the key economic indicators, including posting strong economic growth for the year of 3.6%

Table 4; BC Economic Forecast Council Forecasts (% change in real GDP)¹⁰

Organization	2005	2006	2007	2008-10 Average
Bank of Montreal	3.5	3.6	3.5	3.2
BC Business Council	3.9	3.8	3.1	3.4
CIBC	3.6	4.1	3.4	3.3
Conference Board	3.3	3.4	3.0	2.8
Credit Union Central of BC	3.9	3.7	3.9	3.8
Infometrica	4.5	3.3	2.7	2.9
Global Insight	3.7	3.7	3.1	2.8
M Murenbeeld & Ass	3.7	3.4	2.2	2.7
RBC Financial	3.8	4.0	3.5	3.5
Scotiabank	3.8	3.8	3.5	3.6
Stokes Economic Consulting	3.8	3.6	3.6	3.2
TD Bank	3.8	3.5	3.2	3.6
Urban Futures Institute	3.8	3.5	3.4	3.0
Average	3.8	3.6	3.2	3.2
BC Government	3.6	3.3	3.1	3.1

The foundation of the strong economic growth that will see BC outperform most other provinces and be well above the Canadian average is being driven by several key factors; strong commodity prices, robust domestic demand driven by a steady housing market, consumer confidence, strong employment and in-migration gains, and an increase in 2010 activity.

In addition, strong commodity prices drove a 5.8% increase in merchandise exports in 2005 as energy exports showed significant gains of 68.5% in 2005, driven by increases in price and demand¹¹.

¹⁰ Budget 2006, Province of British Columbia

¹¹ Much of this increase was driven by the effects of hurricanes in the southern US and is not expected to show such strong demand in 2006

BC also witnessed strong growth in other commodities as well with coal exports more than doubling¹² as well as prices for molybdenum, zinc, copper, lead and aluminium posting double digit growth in 2005 while gold and silver also posted strong price gains.

Domestic demand has remained strong in BC with growth in employment, incomes and in-migration all fuelling hot domestic demand in the retail and housing sectors.

In many ways the domestic market is fuelling its own virtuous circle. The high level of housing starts¹³, has increased demand for associated retail spending on home furnishings, home improvement, home electronics and appliances. This has resulted in an increase in retail sales of 6.1% in 2005 over 2004¹⁴; all of which drives consumer confidence.

As with many of the other indicators for the economy this strong domestic demand is forecast to continue over 2006 and into 2007. While a number of factors are expected to dampen some of the growth in housing starts they are still anticipated to total 32,000 units in 2006 and 31,700 in 2007.

The continued healthy activity in the housing market, combined with continued strong job creation and rising incomes will continue to fuel consumer confidence with spending on goods and services expected to grow at 3.4% in 2006 and 3.1% in 2007.

BC has led the nation in job creation, creating nearly 68,000 jobs in 2005. This strong job creation record has been across sectors and has been in both full and part-time jobs. The jobs created have placed BC in the enviable position of posting its lowest unemployment figures since records began.

This strong growth in employment is forecast to continue with employment growing by 2% in 2006, adding 41,000 jobs and a further increase of 2% or 43,000 jobs in 2007. This will mean BC's unemployment rate falling to 5.7% and 5.6% in 2006 and 2007 respectively.

Another positive statistic from 2005 was the fact that real business investment rose by a strong 5.9%. This growth was driven by strong investment in machinery and equipment and non-residential construction and demonstrates that BC is increasingly viewed as a positive place to invest. This positive trend is set to continue with total real investment in British Columbia forecast to grow 6.4% in 2006, moderating to 3.1% in 2007.

As a small, open trading province the economy of British Columbia is dependent on exports. Many of BC's industries are particularly sensitive to the state of the US economy and to the value of the Canadian dollar, which, as of February 7, 2006, was at

¹² This was driven by demand from China and is expected to remain strong through increased demand from India's steel industry

¹³ Housing starts totaled 34,667 units in 2005, a 5.3% increase over 2004

¹⁴ It should be noted that the largest contributor to retail sales growth in 2005 was the value of fuel sales, reflecting higher market prices for gasoline.

\$0.87 against the U.S. dollar. B.C.'s year-over-year inflation rate in November, 2005 decreased by -0.1% much of the impetus for our economic growth is derived from the strength of external markets, particularly the US.

Having said this, British Columbia is more diversified than the rest of Canada as an exporting jurisdiction, with a better balance in terms of trading partners. While Canada sent some 81.1% of its exports to the U.S. in 2005, only 64.15% of British Columbia's exports went to the US. After the US, the largest destinations for provincial exports were the Pacific Rim¹⁵ and Europe.

This reliance on foreign markets means that BC must pay close attention to external conditions, particularly those in the US. Indeed, the Bank of Canada has sounded a word of caution over the medium term that a slowdown is likely in 2007 and beyond as "the unwinding of global imbalances could involve a slowdown in world economic activity."¹⁶ Having said this, growth projections for the US remain strong.

In 2005 the US economy grew by 3.5% and is forecast to post real GDP growth of 3.4% in 2006 and 3.1% in 2007¹⁷. This slow down in growth can be attributed to the impact of sustained high oil prices, an increase in interest rates and a slow down in the housing market and consumer spending.

In addition to stable growth in the US Canada and BC will also see the re-emergence of the traditionally strong markets of Japan and Germany.

While the predictions for growth in the Japanese economy remain somewhat understated at 2.2% in 2006 and 2.1% in 2007 there are strong reasons to suspect that growth could be significantly higher than these predictions.

In 2005 Japan witnessed strong domestic demand that combined with strong export growth, this combination of factors meant that Japan performed better than expected. The strength of the growth in exports is expected to continue in 2006 and be bolstered by resurgence in the job market and a rebound in the housing activity. While these are positive signs for a market that is important to BC one of the potentially more promising initiatives has been the approval by the Japanese parliament of an ambitious plan to privatize Japan's huge post office.

The privatization of the post office has been the cornerstone of plans to streamline the economy by downsizing the government and encouraging private investment and enterprise.¹⁸ While the plan is long term (full privatization is anticipated to take 12 years) change has already begun to occur with Japan already taking steps to modernize its

¹⁵ China has just overtaken Japan as the second largest country destination

¹⁶ Bank of Canada *Monetary Policy Report Update*, January 26, 2006

¹⁷ January Consensus Economic survey of private sector economists

¹⁸ Japan's post office is essentially the worlds largest bank with 25,000 branches and over \$3 trillion in deposits

operations by offering private stock market investment trusts managed by private brokerage houses.

The Chamber believes that these are positive steps that go along way toward laying a foundation for the revitalization of the Japanese economy and thereby increasing the opportunities for exports. A resurgent Japanese economy would allow Canada to increase export and trade with our third largest export market.

Following the collapse of the German economy many thought that it would be a long and painful road back for the economic powerhouse of the European Union. The need to address issues of high unemployment, lack of investment and the structural changes that are required to create a flexible and responsive labour market presents some significant challenges. Yet despite these are challenges the German economy showed signs of significant improvement in 2005 with investment, business confidence and industrial production all moving in the right direction.

While it is difficult to anticipate how the new government will address some of the much needed reforms to the economy a resurgence in the German economy will do much for growth across Europe and may well be the impetus needed to drive growth above the 1.9% in 2006 and 1.8% in 2007 currently forecast.

No examination of the external conditions as they impact the economy of BC and Canada would be complete without looking at the impact of emerging Asian markets, particularly China and India.

China once again posted astonishing economic growth in 2005 of 9.9%. This continued a trend of growth in the region of 9% that has been consistent for two decades and has moved China to the position of emerging economic superpower and is anticipated to become the world's second largest economy by 2020.

The growth of China's economy is becoming ever more important to Canada and to BC as we see continued rapid growth in both imports and exports that has dramatically enhanced the importance of China to the economies of Canada and BC¹⁹.

While this presents significant opportunities for Canada, the emergence of China on the international economic stage in such a dramatic fashion has not been greeted with enthusiasm in certain sector in the US and this must be a concern to BC and to Canada.

Since 1995 the value of US imports from China has increased over 300%.²⁰ As a result of this increase the U.S.'s trade deficit with China has risen to a record breaking \$201.6 billion. This has resulted in the emergence of a growing movement in the US calling on the government to reverse this trend and to aggressively enforce US trade laws.

¹⁹ China's share of Canadian imports has jumped from 2% to 7% in ten years and BC's exports to China have increased by more than 400% since the 1990's

²⁰ Exports increased by 39% in 2003-2004 alone. By comparison US imports from Canada have increased by 68% since 1995.

As the province looks to grow one of the key elements of our strategy must be our strategic location as the gateway to Asia Pacific. With this in mind any impediment to free trade, particularly from the US, will have a significant impact on China's economic growth and will therefore impact our ability to realize the full opportunity presented by our strategic location as Canada's only pacific province. This is critical to BC which has seen significant trade gains with China, driven by our abundant natural resource sector²¹.

Despite the excitement generated by the opportunities presented by China we cannot forget the opportunities presented by other Asian markets. The strength of these markets has seen BC increase its exports to Hong Kong by 69% in 2005, to India by 24%, and South Korea by 22%.

While The Chamber agrees with the Economic Forecast Council that the prospects for the provincial economy are positive for the short term we note that the trend over the longer term is somewhat less optimistic. The reasons for this trend are contained in the risks to the provincial economy and deserve some further examination as it strikes at the heart of The Council mandate.

Risks to the Economy

Despite the rosy picture painted above there are significant risks to the provincial economy that could have a profound impact on communities ability to maintain vibrant economic growth.

The majority of the risks identified by the provincial government²² are either macro in nature or are outside the jurisdiction of the provincial government, as such they are worthy of mention to highlight the precarious nature of the economic growth we are currently witnessing in BC and to emphasise the importance of the government addressing the underlying competitiveness of the provincial economy.

- ❖ The rise of the Canadian dollar.
- ❖ Oil prices rise and are sustained at a high level, dampening North American growth prospects.
- ❖ Interest rates in the U.S. and Canada rise more quickly than forecast.
- ❖ Commodity prices decline more sharply than forecast or become more volatile.
- ❖ The recent monetary tightening, as well as the effects of high oil prices on China, slows the Chinese economy significantly.
- ❖ The role of the Department of Fisheries and Oceans on economic development

²¹ BC has seen exports to China increase with China now the third largest customer for BC exports with 4.1% of commodity shipments going to China in 2004.

²² Budget 2006, Province of British Columbia

The Challenge

Creating an Enterprise Culture

Many have predicted globalisation would spell the end for small business who would be swallowed as large, faceless multinationals swept across national boundaries devouring all in their way on their quest for market domination. This has not only proved not to be the case, we have in fact found the reverse as small businesses find themselves increasingly important.

As the underlying economic structures of western societies have changed, so the industry structure most conducive to growth has changed. No longer is bigger necessarily better. Innovation in technology, labour supply, new modes for demand and deregulation have all resulted in higher levels of uncertainty that has heralded a move away from greater concentration and centralisation and a shift toward an increased role for small business. This has led to a subsequent increase in entrepreneurial activity, resulting in higher subsequent rates of growth.

To understand this new reality is to begin to embrace the fact that the role of government is in creating the conditions for society as a whole to develop an enterprise culture. This involves moving away from a dependency culture where people continually expect others (often the government) to sort out problems for them. An enterprise culture is made up of enterprising people who are prepared to challenge existing ways of doing things, and to come up with new ideas and solutions to the benefit of the economy and society as a whole.

First of all, it is crucial to recognize that while government action can stimulate enterprise the government's role in encouraging enterprise is not about doing more. It is therefore important that at the heart of the government's agenda is the aspiration to create the conditions for a more enterprising culture in BC.

Many have called for the government to focus on encouraging enterprise by simply encouraging start-ups. While important, this fails to address the full spectrum of enterprise and entrepreneurship. Being enterprising is about risk taking in all areas of society. It is about competing in schools, innovating in business and challenging the status quo in government. It is also about recognizing the importance of encouraging existing businesses to be more enterprising and grow.²³

The Chamber sees the response to the challenge posed by an increasingly competitive global market as the development of a dynamic, competitive economy that fosters and promotes a culture where businesses with vision and drive are provided a framework to grow and prosper. A culture where enterprise and ambition are valued, where all sectors from the young to women to aboriginals are given encouragement and assistance in

²³ Enterprising Brief, Issue 03, November 2005 – Confederation of British Industry

developing entrepreneurial skills and aspirations that ensure they are given the confidence and skills to apply their creativity and drive to the world of work.

The Chamber does not see the accomplishment of this ambitious task as being achievable through a simple set of policy recommendations. This transformation requires a shift in the mind set and thinking of society as a whole. This involves moving away from a culture where risk taking is discouraged, where innovation and enterprising people who are prepared to challenge existing ways of doing things are provided the framework to come up with new ideas and solutions to the benefit of society as a whole. The Chamber believes that the recommendations contained in this submission will go some way towards laying the foundation for an Enterprise Culture.

Growing Productivity across the Entire Economy

The nature of the current transformation occurring in the global economy will have profound implications for BC. The growing economic strength and vitality of Asian economies, particularly India and China, will present a seismic shift in global economic geography that presents both new opportunities and new challenges for BC and for Canada. It is our ability to be competitive that will determine whether these changes become opportunities or challenges.

In order to maintain and enhance competitiveness a greater focus on productivity across all sectors of the economy, all regions of the province and all size of business is essential. Only through maintaining and repeatedly renewing our strong enterprise base can we build a foundation for sustainable growth.

“The province has made very good progress on the bulk of the Progress Board's inter-provincial economic indicators, but a watchful eye is warranted with respect to BC's export performance and its at best mediocre productivity track-record. Enhancing BC's competitiveness through improving productivity and export-oriented economic diversification is important for long-term gains in individual standards of living.”²⁴

Productivity, often defined as the value of output per hour worked, is a measure of the efficiency with which goods and services are produced. It is the key long term determinant of a jurisdiction's living standards and competitiveness. Productivity is not about working harder, but about working smarter through better management practices and organizational design, through better use of technology and through better levels of education and skills. In many advanced economies, particularly in Europe, strong productivity growth has led to reduced average working hours. By making wage growth consistent with enterprise competitiveness and profitability, productivity growth allows growing returns to all sections of society.

While the province is undergoing a period of significant economic growth a discussion about a somewhat amorphous concept such as productivity is difficult to have. Yet no

²⁴ BC Progress Board, 2005 Annual Benchmarking Report – Vol 1, External Performance Review

matter how difficult, unless we address this issue we simply cannot build a foundation for long term sustainable economic growth and prosperity.

Productivity is the single largest challenge facing the province. During the 1990's BC had productivity gains similar to those at the national level, however since then BC has fallen significantly behind the national average. BC's productivity record during the last decade and a half has been less than stellar. This trend has continued with BC's ranking slipped to sixth place among the provinces. Real GDP per hour worked in BC was \$31.40, well below the national average (\$33.70). Only Manitoba and the Atlantic provinces (excluding Newfoundland) had lower overall productivity levels²⁵.

While the economy is booming the basis of this activity is cyclical in nature, based on a strong commodity markets and a hot construction sector. This means that the province is relying heavily on an increase in labour and capital; these are not the foundation of long term productivity growth.

BC is not alone in facing a productivity shortfall, the problem is being felt across Canada. In 2002, Canadian productivity was about 17% below that of the United States. This gap was large enough to explain entirely why the standard of living of Canadians in 2002 (measured in terms of real GDP per capita) was 15.4% below that of our American counterparts. This translated into an annual income gap of C\$6,287 per capita (at purchasing power parity)²⁶.

It is critical to the province and the country that growth originates in improvements in our ability to produce goods and services. These improvements would build an economic foundation that is more competitive and will improve the living standards of the province.

The Chamber believes that the provinces lower overall productivity reflects factors such as the rising importance of lower-productivity service industries, and the extent to which the economy depends on the business sector to supply goods and services also play a pivotal role in determining overall productivity levels.

With its origin based in the industrial and structural nature of the economy the solutions to the productivity challenge are not short term in nature but must form an integral part of The Councils recommendations. The remainder of The Chamber's submission will provide recommendations that address the challenges laid out above; these will focus on;

- ❖ Ensuring a competitive taxation regime
- ❖ A streamlined and efficient regulatory system
- ❖ Invest in technology, innovation and infrastructure
- ❖ Ensure a skilled and educated workforce
- ❖ Building a strong export base

²⁵ Business Indicators, September 2005 – Probing the Productivity Puzzle, Government of British Columbia

²⁶ The Canadian Chamber of Commerce policy statement - Innovation and Rate of Growth in Productivity in Canada,

Solid Fiscal and Government policy

The government must be commended for its continued commitment to fiscal responsibility, to its focus on reducing taxes, balancing the budget and eliminating costly regulation. The actions taken by government in this regard have laid the necessary foundations for the positive economic news we outlined earlier.

Government has a critical role to play in enabling us to remain competitive as a jurisdiction. The government must provide a framework for the business community to have the confidence and certainty that they require to plan and invest for the long term. Key to achieving this must be to set a broad framework of stable public finances and a growth promoting public policy framework.

Since the province has moved to a situation of structural surpluses The Chamber has been a strong voice of caution regarding the inevitable calls for a substantial increase in government spending. While The Chamber understands and accepts that the government has a responsibility to ensure adequate funding of the key social programs cherished by British Columbians it is imperative that these programs be funded in a way that protects the long term sustainability of programs such as health and education..

Government Spending

The Chamber supports the concept and process of the provincial government's extensive Core Services review. This review examined every program and service and re- evaluated their purpose according to the following criteria.

- public interest test
- affordability test
- effectiveness and Role of government test
- efficiency test
- accountability

The government has taken difficult and painful decisions to create a competitive business climate, promote customer service and sound fiscal management. It is our belief that these measures will make BC better able to take full advantage of economic renewal as it unfolds.

Therefore, The Chamber believes that any new program spending should meet those criteria listed above to ensure open and accountable decision-making and to avoid future difficulty with unsustainable program spending.

THE CHAMBER RECOMMENDS

That since these criteria may be subject to arbitrary redefinition over time, we encourage the government to create explicit links between ministry's three and five year strategic plans and core service definitions.

As a part of the explicit links, we encourage the government to require that programs be evaluated on measurable and pre-determined outcome based criteria. Whenever a program misses its targets, there should be an automatic review of the program, its objectives and goals.

Managing Provincial Debt

Key to ensuring long term growth and prosperity will be addressing the debt burden for future generations. Although the government must be commended for its sound fiscal management, which has seen BC's rating outlook upgraded²⁷, the level of taxpayer supported debt remains a concern.

The key with debt is that it be affordable. As with any business or household, can we afford what we borrow? The key measurement here is taxpayer supporter debt to GDP. This covers the amount of debt that is ours as taxpayers in relation to the amount of money the province earns from economy activity. In short as the economy grows so will provincial revenue, this enables the province to afford to borrow more.

Table 1.21 Provincial Debt Summary ¹

(\$ millions unless otherwise indicated)	2005/06		Budget Estimate 2006/07	Plan 2007/08	Plan 2008/09
	September Update	Updated Forecast			
Taxpayer-supported debt					
Provincial government direct operating debt	12,871	11,859	10,982	10,512	9,877
Other taxpayer-supported debt (mainly capital)					
Education ²	7,305	7,280	7,765	8,455	8,935
Health ²	2,566	2,590	3,041	3,436	3,805
Highways and public transit	4,848	4,937	5,457	5,971	6,553
Other ³	684	752	638	679	699
Total other taxpayer-supported debt	15,403	15,559	16,901	18,541	19,992
Total taxpayer-supported debt	28,274	27,418	27,883	29,053	29,869
Self-supported commercial Crown corporations debt	7,336	7,165	7,857	8,572	9,531
Total debt before forecast allowance	35,610	34,583	35,740	37,625	39,400
Forecast allowance ⁴	300	300	850	550	400
Total provincial debt	35,910	34,883	36,590	38,175	39,800
Debt as a per cent of GDP					
Taxpayer-supported	17.1%	16.4%	15.8%	15.7%	15.4%
Total provincial	21.8%	20.9%	20.7%	20.6%	20.6%
Taxpayer-supported debt per capita (\$)	6,667	6,444	6,480	6,668	6,770
Taxpayer-supported interest bite (cents per dollar of revenue)	5.0	4.6	4.9	5.2	5.4

¹ Debt is after deduction of sinking funds and unamortized discounts, and excludes accrued interest. Government direct and fiscal agency accrued interest is reported in the government's accounts as an accounts payable.

² Includes debt and guarantees incurred by the government on behalf of school districts, universities, colleges and health authorities/hospital societies (SUCH), and debt directly incurred by these entities.

³ Includes taxpayer-supported Crown corporations and agencies, other fiscal agency loans, student assistance loan guarantees, loan guarantees to agricultural producers, guarantees issued under economic development and home mortgage assistance programs, and loan guarantee provisions.

⁴ Reflects the operating statement forecast allowance for each year (amounts are not cumulative). Since it is unknown as to which agency would require this debt, the borrowing allowance is shown as a separate item over the plan.

Source: Budget 2006, Government of BC

²⁷ Standard and Poor and Moody's Investor Services both upgraded BC's debt rating

The important thing to note is the correct measures are going the right way, down. Both the taxpayer supported debt to GDP and the total debt to GDP ratio is set to fall, with taxpayer supported set to fall from 17.1% this year to 15.8% by 2007 and total debt to GDP set to fall from 21.8% to 20.9% in 2007.

The other important measure is taxpayer supported operating debt. In short what do we borrow to pay our ongoing bills. This is a nice downward trend, falling from 9.3% in 2004/5 to 6.1% by 2007/8.

However this is not the full story regarding debt. The debt to GDP ratios outlined above are dependent on the health of the economy, while GDP is growing at a healthy rate the province can afford to carry more debt but. However this does not tell the story regarding what debt burden will the province pass on to future generations, this is demonstrated by the total provincial debt burden.

The two debt measures that are heading in the wrong direction are taxpayer supported debt and the total provincial debt burden. While this is a concern it is not yet a worry.

Budget 2006 reaffirmed the government's commitment to a significant capital infrastructure investment program. This investment is necessary to address a significant investment deficit that is the result of a long history of underinvestment in capital infrastructure such as post-secondary institutions, transportation and health facilities. In short this is the equivalent of increasing the mortgage to pay for an extension. This is an increase in what we owe but it is for one time, necessary investment that is an investment in our future.

The focus for The Chamber will be to ensure that the correct debt measurements continue to go in the correct direction. It is neither advisable nor realistic (despite what Alberta may say) to think BC could, or should, have zero debt. There is a need for investment across the province - the key is to ensure that we can afford what we borrow.

With this in mind we will continue to focus on what projects are to be financed by debt. While it is acceptable to borrow to build, this does not give the government carte blanche to spend on every project that catches a bureaucrat's eye. The Finance Minister's announcement that departments have been ordered to lay out their 10 year capital plans; these will then be reviewed to determine what is affordable. It is critical that the plans approved by the government ensure a return on investment commensurate to the commitment by the public purse.

A Competitive Taxation Regime is Essential

The government is to be commended for its track record in reducing the taxation burden on individuals and businesses across the province. The multiplicity of taxes and administration thereof which confront businesses add unnecessarily to the cost of doing business in a disproportionate ratio to some other jurisdictions. They do this in a number of ways. The first is through the direct costs of taxes, be they personal taxes meaning businesses in BC have to pay higher wages than their competitors to attract the talent, or business taxes that go straight to the bottom line or the proliferation of fees and licenses that businesses face in BC today. This problem will be compounded because the downloading of expenses to municipalities could lead to new fees and taxes. This would be in addition to the already high level of the tax burden carried by business at the expense of residential taxpayers.

A second is the indirect addition of administrative costs. The use of private business as a conduit to collect taxes from the consumer has generally been viewed by government as a politically expedient source of additional revenue. However, some of these administrative costs cannot be passed on to the consumer by the business operator because of market forces.

The Chamber believes the provincial government should recognize that it is essential that industries ability to compete in world markets not be impaired either through undue, or disproportionate, business or personal taxation or government imposed competitive handicaps which would contribute to significant increases in operating costs. Such costs place all industries at a disadvantage relative to competitors in competing jurisdictions.

Businesses are particularly sensitive to tax rates as many businesses are now extremely mobile. It is relatively easy for businesses and individuals to shift province or country, as such BC's tax system must become a competitive advantage

Major Provincial Tax Rates, 2005

		BC	AB	ON	QC ²⁸	SK	MB	NB	NS	PE	NL
Personal Income Tax											
Statutory rate range											
- lowest rate	(%)	6.05	10.00	6.05	16.0	11.0	10.90	9.68	8.79	9.8	10.57
- highest rate	(%)	14.70	10.00	11.16	24.0	15.0	17.40	17.84	17.50	16.7	18.02
Surtax	(%)	--	--	20/36	--	--	--	--	10.0	10.0	9.0
Corporate Income Tax (in addition to the federal rate of 22.12%²⁹)											
General rate	(%)	12.0	11.5	14.0	8.9	17.0	15.0	13.0	16.0	16.0	14.0
M&P rate	(%)	12.0	11.5	12.0	8.9	10-17	15.0	13.0	16.0	0.0	5.0
Small business											
- rate	(%)	4.5	3.0	5.5	8.9	5.0	5.0	2.0	5.0	6.5	5.0
- threshold	(\$000)	400	400	400	n/a	300	400	450	300	300	300
Capital tax											

²⁸ Quebec residents receive an abatement of 16.5% of basic federal tax in lieu of federal cash transfers to Quebec for several social programs and the Quebec financial institutions capital tax includes the base rate of 1.2% and a compensatory rate of 0.25%

²⁹ This includes the federal surtax of 1.12%

General	(max %)	--	--	0.30	0.60	0.60	0.50	0.30	0.30	--	--
Financial inst	(max %)	3.0	--	0.90	1.45 ³⁰	3.25	3.0	3.0	4.0	5.0	4.0
Provincial Sales Tax											
Retail Sales Tax	(%)	7.0	--	8.0	7.5 ³¹	7.0	7.0	8.0	8.0	10.0	8.0

As the table shows on many of the key tax measures BC fares very well compared to other jurisdictions, however there are a number of areas that require considerable work before we can lay claim to having the truly competitive taxation regime, these are;

Provincial Sales Tax

The BC Chamber was pleased to see that the provincial government lived up to its promise by lowering the Provincial Sales Tax from 7.5% back to 7% last year. Lowering the sales tax puts disposable income into the hands of consumers and encourages spending across the province in a wide range of products and services.

While BC has the joint lowest sales tax of any province that levies a sales tax we are far behind Alberta who have eliminated sales tax altogether. The BC Chamber feels a structured program to reduce sales tax should be a high priority for the government for a number of reasons.

The Chamber has always advocated for a taxation system that allows more of an individuals earnings to remain in their pockets as an incentive to drive savings while also ensuring that individuals are attracted to the province by a tax system that is competitive with our nearest competing jurisdiction by ensuring that the income they earn can be used to better their standard of living.

While it is true that much of the above can also be driven by reducing personal income tax a further lowering of the sales tax by 0.5% per year reduction in the PST would also go a long way towards helping the many communities along the BC Alberta border who are facing the significant challenge of trying to stem cross border shopping trips that take significant money out of the local economy.

THE CHAMBER RECOMMENDS

That the provincial government, on the expectation of a continued operating surplus, reduces the PST by a further 0.5% per annum with a long term goal of 4.5% PST.

Harmonization

The federal government levies the Goods and Services Tax (GST) on most property and services supplied in Canada. The province of BC levies the Social Service Tax (SST) on most goods and services supplied in BC. Most businesses operating in BC are required to collect, record, report and remit GST and SST on taxable sales of goods and services. Each government has its own audit processes, with the related necessity to maintain and store records.

This imposition of two levels of tax creates significant and unnecessary costs for businesses in BC. These are costs that, unlike the taxes themselves, add nothing to government revenues.

The federal government has indicated willingness and a desire to enter into agreements with the provinces to harmonize the GST with provincial sales taxes. To date, the provincial government in BC, more for political than economic or revenue generation reasons, has rejected the federal initiatives towards harmonization.

THE CHAMBER RECOMMENDS

That the government commit itself to moving quickly to reaching agreement with the federal government for the full harmonization of the SST and the GST, including the harmonization of the collection, reporting and remission of the GST and SST and the related audits.

Property Transfer Tax

We have witnessed a resurgence in the residential housing industry that has significantly boosted economic activity in regions across the province; however it would be wrong to assume that this will continue indefinitely. Government must be proactive in stimulating continued activity in the residential construction sector.

BC is one of the few jurisdictions to charge a capital tax against the purchase of residential homes, namely the property Transfer Tax. While the provincial governments has taken steps to phase-out, or eliminate, capital taxes such as the Corporate Capital Tax, the PTT still exists

THE CHAMBER RECOMMENDS

That the provincial government either immediately eliminate or implement a program to phase out the Property Transfer Tax in order to boost the residential construction industry and to eliminate a purely capital tax.

Inequities in the tax system

Financial Institutions Capital Tax

Capital tax is a particularly onerous form of taxation as it plays a direct role in hampering investment, for BC to levy this tax on financial institutions is particularly challenging as it is these institutions that in many cases provide the investment decisions so vital to the expansion of the economy.

The Chamber has been a strong advocate for the encouragement of BC as an international finance centre as an important new area of economic activity that will bring significant new investment to the province along with highly paid professionals jobs. With this in mind The Chamber was a strong supporter of the government's announcement in the

2004 budget of changes to the International Financial Business Tax Refund program as an important initiative in convincing the international finance community that we are a viable location for investment. However the continuation of a capital tax on large financial institutions ensures that the province will find it increasingly difficult to take advantage of the opportunities presented by this sector and will also ensure that decisions regarding inward investment will continue to be made outside the province and will therefore not favour BC.

THE CHAMBER RECOMMENDS

That the government abolish the 3% capital tax on financial institutions as an impediment to BC's ability to remain competitive through the attraction of foreign investment and capital.

PST on Legal Fees

In BC legal fees are the only professional fees that are subject to the provincial sales tax. This is both discriminatory and unfair. This puts both the legal profession and Canadian business that access the legal system at a distinct competitive disadvantage to other jurisdictions.

The discriminatory nature of this tax was highlighted recently in a Supreme Court decision which ruled PST on legal fees are unconstitutional if charged to low income individuals. As a result of this ruling the Ministry of Provincial Revenue has confirmed that BC lawyers should exempt low-income clients from payment of the 7 % social service tax on bills for legal services to low-income clients, and has now issued guidelines in that respect.

THE CHAMBER RECOMMENDS

That the government should amend the Social Services Tax Act to remove the 7% PST on legal fees in BC.

The Chamber has been pleased to see the provincial governments focus on ensuring a competitive taxation regime. This focus must continue through measures to address the level of tax paid by individuals and businesses as well as continued progress on the Small Business Threshold to improve the ability of SME's to invest and grow their business.

Regulation

The effectiveness and quality of regulation and the institutions that enforce them are a major determinant of a country's prosperity. Well designed and efficiently enforced business regulation improves the functioning of markets (by facilitating market entry and exit) and achieves 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, by inhibiting the entry of new players or

the actions of existing players, damage consumer choice, increase costs and reduce technological diffusion and firm level innovation.

In addition to red tape many of the costs of regulation are less visible. Regulation can result in higher prices and costs, a reduction in consumer choice and a reduction in flexibility and innovation. In the USA the total gross cost of federal regulation alone has been estimated at almost 8% of GDP³²

In this context, The Chamber believes that governments has an impressive record in reducing the regulatory burden faced by BC business by cutting 154,000 regulatory requirements since June 2001; a total reduction of 40.31%.³³

Despite this progress this does not go far enough. The Chamber believes that there are a number of other policy directions that BC could utilize to ensure it achieves a more business friendly regulatory and policy development climate.

Adverse Impact of Government Policy Development Process

Too frequently, governments at all levels make regulations pertaining to business without considering the total cost of compliance. Or they initiate arbitrary changes to legislation without due consideration to the impact on the business community. We do not deny the necessity for certain regulations. However, some demands on business made by government can be a deterrent to the establishment of new enterprises and the operation of existing enterprises.

As we move towards the next phase of regulatory reform The Chamber sees a system of “Smart” regulatory reform where the emphasis will be more on addressing particularly onerous or costly regulations rather than a simple numeric reduction. To achieve this goal the public and business must have access to information that is readily available and current. For example, the federal government has published its regulations on its website, The Chamber sees no reason the provincial government does not do this also.

Risk Based Approach to Regulatory Enforcement in the UK

The UK Hampton Report has identified risk assessment as a method of reducing administrative burdens for business. A risk based approach argues that scarce resources should not be used to inspect, request or assess data from companies that are low risk or that are operating within inherently safe regulatory regimes. Such a system would involve the removal of general requests for information from industry and replace them with more targeted enforcement mechanisms. The UK’ s risk based approach is expected to reduce the number of forms regulators send out by 25 per cent and the need for inspections by up to a third. The Hampton Report suggests that risk assessment should be applied across the regulatory system

SOURCE: Hampton Review of Regulatory Inspection and Enforcement, HM Treasury, UK

³² Source – “Regulation in a Regional Economy” Michael J Sullivan, Idecon Public Policy Lecture, 15 September 2005

³³ BC Regulatory Reform Initiative, Quarterly progress Report, February 2006

The operation of government is a public activity. Public policies ought to be shared with all members of the public, who are the customers and owners of the government.

This process of public dialogue cannot stop with a simple printing of a list of government regulations, government must be proactive in developing a mechanism for providing qualitative analysis through the publication of regulatory indicators to better measure the cumulative administrative and compliance cost on business, and SME's in particular, from regulation.

The focus of this process must be a move towards a 'risk based' approach to regulatory enforcement to replace general requests for information from industry with more targeted enforcements as outlined by the Hampton Review outlined above.

Frequently, public policies, regulations and laws are created without notice to many affected parties. If an agreed method of considering and introducing proposed changes to these items were struck so that affected parties could provide input at an early stage, public policies may gain greater public acceptance and government operations may become better run.

THE CHAMBER RECOMMENDS:

1. business and the public should be given access to information that is readily available and current regarding cost and impact of regulations. For example, the federal government has published its regulations on its website, The Chamber sees no reason the provincial government does not do this also.
2. government must be proactive in developing a mechanism for providing qualitative analysis through the publication of regulatory indicators to better measure the cumulative administrative and compliance cost on business, and SME's in particular, from regulation.
3. that governments strengthen their programs that review existing legislation and regulations pertaining to business and eliminate those measures which result in an unnecessary cost to small business (and ultimately the consumer); and
4. government continue to provide ample notice of intention to modify its laws, regulations and policies, not just to interest groups, but to the public generally as a matter of practice.

Education and Skills

Getting the most from our Education System

BC business and industry can become and remain competitive only by the continued investment in, and maintenance of, the highest standards in the development of human capital. These standards must effectively meet international levels of competitiveness reflecting the changing needs of the world economic activity to keep BC business and industry competitive for the future.

The Chamber believes that the provincial education system from kindergarten to elementary, secondary and post-secondary levels must provide equal opportunity for all students to develop to the maximum of their potential. As the needs of society, and our economy, change so too must the educational system.

The Chamber believes that the elementary and secondary school system must continue to stress basic educational skills, at least equal to leading world standards in the prescribed criteria. The system must also include critical and creative thinking, the ability to analyse and the skill to communicate. It must introduce students to the new educational technologies and provide means for students to become computer literate. At present the education system does not achieve these stated goals.

The Chamber believes that the fault lies in the disconnect between the curriculum and the business community. The business community have been consistent in their call for a review of the curriculum to ensure that the skills being provided to students prepare themselves for the world of work. Programs such as the Conference Board of Canada's "Employability Skills 2000+" should become a key component of the school curriculum. This program provides school children with the basic skill requirements all entrants to the workforce are expected to develop and can also be further developed as you progress through the world of work.

The Chamber congratulates the government on recognising that there are challenges inherent in the school system and their commitment to work with stakeholder groups to address these through the creation of the Learning Roundtable. Having said that the roundtable will not succeed unless it includes all stakeholders, particularly the small business sector that represents 98% of all businesses in BC and employs a million people

The purpose of the education system is to prepare students for later life yet our members are telling us that the system is failing to provide students with even basic employment skills such as basic numeracy and literacy skills.

Education is the single most important investment in the future economic prosperity of the province, to not have the business community, the providers of that economic prosperity, represented at the roundtable will ensure that it will not fulfill its primary function as future generations will remain ill prepared for the world of work.

Career, vocational and post-secondary programs should afford students the opportunity to become involved in and be acquainted with a variety of work and entrepreneurial environments. This requires a closer liaison and open partnerships between business, industry and the school system.

In keeping with the ideal of an educational system which encourages and assists lifelong learning that keeps an individual up to date in their chosen field, educational programs should afford opportunities for those who are basically or functionally illiterate, including those who face the challenge of acquiring English as a second language, and those who seek a career in a non-academic field.

BC vocational programs must prepare students to meet the challenges of the local, national and international workplace with the new skills required to compete and make both the student and the BC economy strong and flexible now and in the future.

BC colleges and universities (both public and private), and our private and non-profit trainers, can ensure the quality of their graduates only by the maintenance of high levels of academic excellence.

For these students the business community has a critical role to play through such mechanisms as Co-operative Education programs, if the correct structure is put in place to encourage their participation. A province-wide co-op infrastructure is already well established. Co-operative Education programs exist in every region of BC, and are currently offered in 23 post-secondary institutions.

In 2000/01, private employers created approximately 5,600 co-op placements in BC for BC post-secondary students. In 2004, that number had declined more than 25 per cent to approximately 4,100. During that same period, the provinces of Quebec, Ontario, and Manitoba recognized the need to stimulate the employment/economy cycle by initiating co-op tax credits to private employers to employ and train students.

The Chamber recommends that the provincial government introduce a co-op tax credit to BC business employers equal to 15% of wages paid to qualified co-op students for work placements, with tax credits capped at \$1,500 per student for each co-op work placement. Based on 4,100 co-op placements in 2004, the maximum annual cost of this proposal to the government would be approximately \$6 million.

THE CHAMBER RECOMMENDS

1. The Conference Board of Canada's Employability Skills 2000+ should be formally adopted by secondary and post-secondary institutions and their respective Ministries, to be the basis for curriculum in all programs at these education levels.
2. That the provincial government designate a place at the education roundtable for a representative of the small business community

3. Many small businesses identified the need for more relevant and accessible training by schools and post-secondary institutions. Small business and industry groups should be encouraged to build stronger linkages between business and education.

Skills Shortage and the Coming Demographic Timebomb

Last year in our presentation to the Select Standing Committee on Finance and Government Services Pre-Budget Consultations The Chamber said;

“BC is at a skills crossroad. The aging of our workforce along with ever increasing global competition has meant that growth in the province is being directly threatened by a looming skills shortage, a problem that will be exacerbated by the significant projects associated with 2010.”

This is now significantly behind the eight ball on this issue. We have passed the crossroads (heading in the wrong direction), growth in the province is now being directly affected. In short the skills shortage is no longer looming it is here.

The fact that we are already experiencing a skills shortage will be seriously exacerbated by the coming “demographic timebomb.” This phenomenon is one being faced by countries around the world as declining birth rates and longer life spans will result in a “greying” of the population.

In the case of BC the current population of British Columbia is approximately 2.2 million. The age cohorts indicating the largest population increase through 2008 include (in order of percentage increase) 55-64, 45-54 and 65+. The lowest increase is identified as the 0-14 age group. This has profound impact on our future workforce and the utilization and future support of social programs³⁴.

A report produced for the Canadian Alliance of Sector Councils in February 2003, underscores how this situation is expected to have a profound effect on our local labour market. The study outlines how, for a number of years, Canada’s birth rate has been falling rapidly and, in the year 2000, stood at an all time low of 1.5 children per woman. It suggests that by the year 2026, one in five Canadians will be 65 years of age or older – up from one in eight in 2001. As such, it has been projected that, over the next ten years, the number of Canadian workers aged 55 to 64 will increase by more than 50 percent. Significant skilled labour shortages are to be expected when these baby boomers begin to exit the labour market as they turn 65³⁵.

³⁴ An Overview of Labour Market and Skill Shortage Issues in BC and Canada – BC Ministry of Advanced Education, June 2001

³⁵ The Aging Workforce and Human Resources Development Implications for Sector Councils, a report prepared for The Alliance of Sector Councils by R.A. Malatest & Associates Ltd., February 2003.

The demographic reality will present significant challenges for the economy as economic growth is challenged by the lack of workers, particularly in the run up to 2010.

It has been estimated that the labour demands for the period 2003-2015 include:

- ❖ **Base employment growth** in BC will be 913,000 job openings, consisting of almost 350,000 new jobs and almost 560,000 replacement job openings from attrition.
- ❖ The 2010 Games and three concurrent projects will generate **incremental growth** of almost 132,000 person years of employment in BC during 2003-2015.
- ❖ **Base growth plus incremental growth** will be 913,000 job openings (new and replacement) and 131,799 person years of employment, for a total of 1,045,085 opportunities³⁶.

These issues have particularly serious implications for our rural communities, since many of the businesses that represent the backbone of local economies are SME's that lack the capacity to deal with the impending labour shortage. Compounding the problem is the fact that a large number of small business owners, themselves, will soon be retiring. Small businesses represent almost 98% of the total number of businesses in British Columbia – they employed 952,900 people in 2002, which represents 47 percent of the total employment in the province. Of the province's 347,900 small businesses, 52% are owned by entrepreneurs over the age of 45. Twenty two percent are over the age of 55. A special breed of skilled workers will soon be required to take over the reins of these businesses as their current owners move out of the workforce.

The Chamber feels that the current situation requires a coordinated response from all stakeholders that focuses on two key areas;

1. Increase the skills base of the workforce
2. Increase the number of workers in the economy

Increase the skills base of the workforce

In order to garner a better understanding of the nature and scope of the skills shortage, particularly as it relates to regions outside the Lower Mainland and the Capital Region The Chamber, in partnership with the Community Futures Development Association of BC instituted the "BC Skills Force Initiative"³⁷.

This project was designed to serve as a mechanism to engage BC's small business community across the entire province (excluding Greater Vancouver and the Capital Region) through a two stage proactive process³⁸ involving 24 focus group sessions as well as a telephone survey which contacted over 3,557 small businesses. The goal was to

³⁶ Planning for Gold - Maximizing 2010 Related Employment & Skills Opportunities in BC, The 2010 Human Resource Planning Committee

³⁷ Visit <http://bcskillsforce.com>

³⁸ Phase 1 covered Southern BC, including Vancouver Island. Phase 2 covered Northern BC

obtain detailed information from business at the ground level on the nature and scope of the skills shortage.

To say we were unpleasantly surprised by the results would not be an understatement. Some of the more worrying results were;

- Approximately 50% of the employers stated that they currently have vacant positions
- 34% of respondents reported that they had job vacancies in “difficult to fill positions”
- Employers have to take what workers they can rather than what they want

In short the survey told us that the skills shortage is the number one concern facing businesses across the province. What the report also states is that the solution to this must be a partnership between government, business and educators. The business community has begun to address many of the issues within its remit but without immediate government action there will be profoundly negative repercussions for the provincial economy.

This is not to imply that the government has not taken action over the past year. Indeed the government is to be commended for its announcement in Budget 2006 of the allocation of \$90 million over three years for new tax credits for training as well as the continued support of the Industry Training Authority (ITA).

However this does not go nearly far enough.

To ensure that SME's are provided the necessary tools government should provide innovative public policies and flexible solutions in order to allow businesses to provide the necessary training and skills development opportunities.

The BC Skills Force Initiative raised some interesting recommendations that provide an action plan for business, government and educators.

Creation of a Small Business Skills Advisory Group

The business community expressed an interest and a willingness to provide input into the development and delivery of work skills programs and services, but did not feel they had a way of doing so.

Provincial and regional Small Business Skills Advisory Groups should be established to facilitate consultation between the small business community, government, education/training institutions, and business service providers on labour and skills issues.

Raising Awareness of Program and Services

Organizations responsible for the delivery of a wide variety of labour market programs need to better coordinate their communication efforts with local community-based

organizations such as The Chambers of Commerce, Community Futures Development Corporations and other local business associations.

On-the-Job Training

Small business employers need to develop greater capacity to deliver effective on-the-job training for their employees. Government needs to play a greater role in helping to provide small businesses with progressive and effective tools to stimulate their investment in training.

Small businesses will work in partnership with industry/trade associations and educational institutions to ensure that the most effective training models and delivery methods are used to achieve maximum results.

Trades Labour Shortages

Representatives from business, government and education need to come together to ensure that an adequate supply of well-trained trades workers are graduating from the training institutions that are located in regional centres across the province.

The technical training that is required to complete apprenticeship programs needs to be made available at locations that are more readily accessible and with schedules that are more flexible to individuals who are working in small businesses located in B.C.'s rural communities.

Greater Diversity in the Workplace

Small business employers can address some of the impacts of skills shortages on their operations by expanding their recruitment practices to target underutilized sources of labour. Employers need to develop strategies for increasing the labour force participation of immigrants, Aboriginals, persons with disabilities and older workers in their operations.

Small business employers need to realize that the skills and experience of older workers are of great value and they should begin exploring various forms of phased or partial retirement and flexible working in order to both recruit and retain them.

Human Resource Management

B.C.'s small business employers need to build greater capacity to develop and implement effective recruitment, training and compensation strategies in order to ensure that they are employing the proper techniques and developing the innovative packages that will allow them to attract and retain skilled workers.

Bolstering Immigration

The federal and provincial governments can facilitate the hiring of immigrant workers by streamlining and eliminating some of the barriers that exist in the immigration process for foreign skilled workers.

Succession Planning

Government should invest in the development of programs and services that are targeted at assisting businesses in creating and implementing effective succession plans.

THE CHAMBER RECOMMENDS

1. Consider specific actions or strategies which address the main reasons for shortages and turnover identified by survey respondents – particularly the lack of qualified staff (i.e. strategies that generate a greater supply), problems in attracting people in certain careers, compensation incentives, and seasonal work.
2. Encourage education, training and employment service providers to include life skills, “soft skills,” and other “essential” skills in their programs.
3. Use the results of this survey – particularly the impact of skill shortages, high turnover and aging workforce on small businesses – to promote the need for businesses and sectors to develop strategies to address these pressures. For example, the results show that small businesses feel a definite impact on production levels and customer service from skill shortages and staff turnover.
4. Promote small business human resource planning and ownership succession planning as a strategic tool for companies to get on top of these problems and for developing proactive strategies for addressing skill gaps.
5. While overall, almost half of the small businesses reported they used in-house training, just over one-third of micro businesses did so. While training is not a panacea, work needs to continue on promoting the business case (i.e. return on investment) for training among very small businesses, and to develop tools and assistance that will help such companies use training to their advantages in offsetting skill shortages and turnover.
6. The small business sector has a significant degree of interest in apprenticeship training – particularly in certain regions and sectors. This should be capitalized upon and more information could be provided to small businesses in rural regions on what the Industry Training Authority is doing and how it can help smaller businesses participate in such training. For example, do the small businesses know much about the Secondary School Apprenticeship Program, the Accelerated Credit Enrolment in Industry Training Program, or new industry training programs developed through the ITA?
7. The survey found a very low level of usage of and interest in strategies or assistance involving hiring older workers and immigrants. Since these are promoted widely by various government agencies and other groups in certain parts of the province, it would be useful to find out the reasons for the lack of interest. Is it an awareness issue, a perception issue or some other factor?

Increase the number of workers in the economy

The demographic challenge facing BC over the coming years will necessitate looking outside the province for the workers the economy will need to meet the demand.

The market for these new workers will come from interprovincial migration and then from international immigration.

Interprovincial Migration

BC has turned the corner regarding its ability to attract workers from other parts of the country. In 2004 BC saw 7,080 more people move to BC than left³⁹. These increases are modest compared to the peaks of the late 1980's and early 1990's where immigration peaked at 77,7116 in 1994⁴⁰ but are a welcome change from the period 1998 to 2000 when BC posted a net interprovincial loss of 44,717 people.

This increase is driven by the strong economy and the low unemployment rate in BC compared to other provinces. With this in mind this positive growth is at risk if the economic climate in BC relative to other provinces slows or declines.

The fact that mobility within Canada is relatively simple and that the basis of interprovincial migration tends to be economic in nature means a change from net inflow to net outflow can be swift and as has been shown in previous years the flow of migrants to BC from other parts of the country will remain intrinsically linked to the growth of the economy. To ensure we continue to attract the immigrants we need The Chamber urges the government to identify the opportunities presented by economic conditions in other provinces and target a campaign of recruitment to those sectors that match the skills needs of the province.

While interprovincial migration will remain a good source of immigrants while the economy continues to perform well the primary source of immigrants will be international migration.

International Migration

The Chamber realizes that one of the difficulties with the focusing on attracting international migrants to BC is that responsibility for immigration policy is determined by the federal government and as such is often unresponsive to the needs of the province.

While BC has received its fair share of immigrants through the current system at around 15-16% of new immigrants⁴¹ this is simply a fair share of a too small pie. One of the goals set by the federal government as part of its Innovation Strategy is to “ensure that Canada receives the skilled immigrants it needs and helps immigrants to achieve their full potential in the Canadian labour market and society⁴².” While The Chamber fully agrees

³⁹ Stats Canada

⁴⁰ BC Stats, BC Migration – Outlook for 2005 – March 2005

⁴¹ *ibid*

⁴² www.innovationstrategy.gc.ca

with this goal, we have serious concerns regarding the government's ability to deliver on this goal both in terms of the capacity of the government but more importantly through the structures currently put in place to process application.

Immigration services abroad are provided through a network of approximately 80 offices in Canadian Embassies, High Commissions and Consulates. The visa offices may process applications differently depending on the application and the visa office. The length of time it takes to process an application can also be different in each mission or visa office. The reality is that we resource visa offices in different countries to varying extents, the effect of which is to slow down immigration from some countries while speeding up immigration from others. Approximately 50% of cases emanating from Africa and Asia are processed in thirty-three months, while it takes twelve months from Europe and twenty-one months from the Western Hemisphere. In some cases, the wait can be up to five years or more, depending on the location.

The massive backlog of unprocessed visa applications has rendered the federal system sclerotic. Estimated at up to 120,000 in 2003, and not getting any smaller, this backlog is responsible for the lengthy wait times at the various overseas offices. Such delays have created an unofficial quota system by discouraging residents in certain countries from applying to Canada.

Also putting Canada at the bottom of the list for hotly sought-after immigrants are policies that force the holders of temporary work visas (immigrants who have entered the country legally and are currently working) to leave the country in order to apply for permanent residency status. The European Union allows workers with five years of service to stay on a permanent basis, without having to leave and return.

If Canada is to have a viable immigration policy, it needs a system that gives potential immigrants assurance that their applications will be processed in an efficient manner within a reasonable and predictable period of time. Otherwise, they will look to other countries.

Foreign Credential Assessment and Recognition

One of the most challenging aspects of the immigration system is the need to ensure that those immigrants entering the workforce have their credentials recognized and are afforded the opportunity to contribute to the economy to a level commensurate to their ability. The Chamber sees the way to achieve this as the development of a fast-track foreign credential assessment and recognition service in BC. While we must ensure that we keep our home grown talent, it is equally important that our immigration system enhances our chances of attracting individuals with the skill sets Canadian industries require. At issue is the nature of our future population demographic, and our ability to improve productivity relative to other modern economies. By 2015 it is estimated that 100% of the growth in our labour force will be derived through immigration. A recent study by Statistics Canada revealed that by 2017, around 50% of the population in our three major urban centres will consist of visible minorities, many of who will be newly settled immigrants.

Many skilled immigrants that come to BC are finding it difficult to obtain employment in the profession or trade in which they hold foreign credentials because such credentials are not

recognized by Canadian employers and/or professional associations. This presents a significant obstacle to attracting skilled immigrants and undermines our competitiveness. Furthermore, faced with having to incur costs to repeat their studies or undertake additional training, some simply give up, resulting in productivity loss to our province.

According to a study by the Conference Board of Canada, an estimated 500,000 Canadians were under-employed and could earn an additional \$5 billion per year, and could contribute to the economy if their education and skills were formally recognized. Another study by Jeffrey Reitz of the University of Toronto found that the under utilization of immigrant skills represents an earnings deficit of \$15 billion in 1996 dollars.

THE CHAMBER RECOMMENDS

That the appropriate level of government;

1. Overhaul our permanent immigration system to ensure that it promptly provides entry to people with the skills required in our economy.
2. Immediately allocate the necessary resources in offices abroad to process immigration applications more efficiently and effectively.
3. Review overall training strategy to ensure that visa officers receive sufficient and appropriate training and have the necessary tools and means to assess immigration applications more effectively and efficiently.
4. Adopt a quality assurance framework to ensure consistency in decision-making when selecting immigrants.
5. Review and adjust the points required for skilled worker immigrant candidates to allow improved access to immigration to Canada.
6. initiate the development of a fast-track foreign credential assessment and recognition service for BC; and
7. work with professional and trade associations, educators, and immigrant service organizations to implement the service.

Infrastructure

A thriving business community, seeking to take advantage of opportunities available in a global economy, is dependent on modern and reliable infrastructure that includes telecommunications, energy and transport networks.

It has long been accepted that good transportation infrastructure is essential for the efficient and cost effective movement of goods and people and that a well developed energy infrastructure delivers a reliable, secure and competitively priced supply of energy. In addition, all economies depend on the provision of essential infrastructure such as water supply and waste management.

However, as knowledge and innovation become the basis for competitiveness in the new knowledge economy, technological infrastructure that supports research activities and the rollout of information and communications technology (ICT) will become increasingly important.

Transportation

The establishment of long-term integrated provincial and national transportation strategies is essential to our economic and social development. These strategies must recognise the inter-relationships and inter-dependencies which exist between all modes of transportation and their attendant infrastructures: airlines, highways (and the concomitant bus lines and trucking systems), pipelines, railways, urban transportation (including both passengers and freight handling systems), coastal shipping (including ferry systems), and transportation links to facilitate resource opportunities.

In developing a transportation strategy, the designers must:

1. be cognisant of the need for efficient competition both within and between various transportation sectors;
2. recognise that government policy should regulate the competitive market aspect of transportation only to ensure that the competition is fair and in the public interest. Every effort must be made not to single out any one particular mode of transportation as the sole means of achieving government policy; and
3. recognise that transportation is a key to regional economic development.

If the strategy recognises these three factors, it will allow all modes to have an equal opportunity to find their most effective role in the over-all system. Historically, we have tended to concentrate on one mode as the principal means of achieving government policy. This, in turn, has tended to exclude or at least retard other forms of transportation which have played and can play an important role in our economic and social development.

If financial assistance must be provided in order to achieve an economic or social objective, then it should be provided to the parties directly concerned with the

achievement of the objective. This would enable the parties - industry or government - to purchase land transportation from the mode offering the best deal in a truly commercial and competitive environment.

The economics of transportation will be a key element in determining the magnitude of future economic expansion and our competitiveness in both the domestic and export markets. Recognition must be given to this important role. Both the federal and provincial governments must recognise the absolute necessity of integrated long-term planning as opposed to a system which functions on the basis of short-term plans based on political expediency.

THE CHAMBER RECOMMENDS

1. that recognition should be given to the necessity for an integrated approach to transportation planning and regional plans which are based upon an assessment of future municipal, provincial and federal economic expansion;
2. that planning should be coordinated under the Ministry of Transportation, with the key objective of formulating a provincial transportation policy coordinated with appropriate municipal, provincial and federal government agencies and other interested bodies; and
3. that the purpose should be to develop the most appropriate, equitable, efficient and effective transportation system, which will provide an optimum level of service at the lowest capital investment, operating and maintenance costs.

The Chamber is concerned that transportation, provincially and nationally, lacks broad policy goals and objectives. Since transportation - air, land and water-borne - is so critical to the economic and social development of Canada in general and BC in particular, it is essential that decisions and policies be made in recognition of long-term growth and needs projections and the most effective and efficient use of one or more modes of transport.

The provincial government should also develop policy to coordinate and harmonise the operations of all carriers engaged in transportation within the province by aircraft, marine vessels, motor vehicles, pipelines and railways.

The Ministry of Transportation should be responsible for all transportation modes and ensure planning and development of all transportation routes are properly coordinated to affect the highest level of efficiency and economic development in the province.

Energy

The development of energy resources must be for the primary purpose of establishing a secure supply of energy for provincial benefits. The provincial government is also encouraged to create the climate for open competition in the energy market and must

continue to address the structure and framework of British Columbia's electric sector to ensure electric infrastructure will support the ability of British Columbia to be self sufficient while creating export opportunities and supporting the economic competitiveness of the Province.

One element of this policy framework that would clearly support a diverse energy portfolio would be access to BC Hydro's reservoir storage infrastructure. To date, reservoir storage has been the sole domain of BC Hydro and PowerEx. BC Hydro should provide a 'shaping service', using reservoir storage, to developers of intermittent resources (such as wind) that require shaping to make their product more viable. The Chamber supports the Province directing BC Hydro to submit such a proposal to the BCUC for approval during 2006.

Power Transmission Plan

BC Transmission Corporation must expand the province's high voltage power line system. As it exists today it is a major constraint to growth.

The immense natural resource development potential in northwest BC, north of Highway 16 is not being realized in part due to the fact that it is not serviced by the provincial electricity grid. As discussed previously, there are several potential mines that could be developed in the Northwest part of the Province if integrated and economic electric service was available. The potential direct and indirect investment in the Province is measured in the billions and would provide jobs, tax revenues, income and related social benefits. As the BC Hydro-owned transmission system presently terminates at Meziadin Junction and according to BC Hydro's load interconnection tariff rules, the mining proponents would be required to pay for the entire transmission system from Meziadin Junction to Iskut or Dease Lake, whichever terminus might ultimately be selected. The mines cannot afford this cost and The Chamber believes the Province should cost-share this transmission infrastructure given the relatively low capital cost (estimates range from \$200-300 million) compared to the multi-billions of dollars of economic activity that such a transmission line would likely create.

Today we have several Independent Power Projects in the planning stage as well as several mines. In order that the transmission to and from projects in northwest BC is achieved in a cost effective and timely manner BC Transmission Corporation needs to immediately integrate their plans for the north with producers and consumers soon to come on stream.

THE CHAMBER RECOMMENDS

That the Minister of Energy, Mines and Petroleum Resources, in conjunction with the BC Transmission Corporation, initiate a comprehensive power transmission plan that will expedite projects being developed today and provide for future development of northwest and all of BC

Resource Access Roads and Infrastructure

BC has developed and grown on the strength of our natural resources. In order to continue growing we will need to continue to facilitate access to and development of our considerable resources. Access to resources is the first step. Access from a permitting and regulatory perspective is being addressed, what we need is physical access, and infrastructure.

In areas where no infrastructure exists the BC government needs to approach this lack of access as an investment in our future.

THE CHAMBER RECOMMENDS

That the provincial government invest in resource roads and infrastructure where a proven payback exists in the form of resource development.

Site C Development

In March and April 2004 BC Hydro filed its “Integrated Resource Plan and Resource and Expenditure Plan” with the BC Utilities Commission. Both are important plans for the continued security of electricity supply in BC.

Among the proposed resource additions is Site C on the Peace River. It would add 900 MW capacity and 4800 GWh energy, an 8% to 9% increase over today’s installed capacity.

The need for immediate supply-side additions is irrefutable. BC’s appetite for electricity will grow over the next 20 years. In the aggregate, both BC Hydro and Aquila Networks Canada (now FortisBC) are forecasting an increase of 30% to 35% by 2022/23.

Today BC is importing over 10% of the energy required to meet provincial demand and that figure will grow in the near-term.

Standing still only gets us farther behind. There is no question that Site C should be developed.

It will be 9 to 10 years before Site C can be commissioned. In the meantime, BC’s energy and capacity deficit continues to grow which will be exacerbated by the Province’s current and forecasted strong rates of economic growth. Burrard Thermal is likely to be mothballed within the next 8-10 years which will remove one source, albeit a very expensive source, of generation from the grid which only enhances the need for Site C to be undertaken.

BC has all its eggs in one basket – 90% of our electricity production is hydraulic. In extended periods of low precipitation reservoirs are incapable of providing the flows

required to meet provincial demand. As a result, British Columbians are exposed to market purchases, and price volatility.

In 2002 the BC Energy Task Force report pointed out that Hydro maintains a very thin margin for risk – 7% to 8% contingency for unforeseen events, compared to 10% to 15% in other jurisdictions. With “drought” conditions affecting reservoirs throughout the Pacific Northwest, and no alternative domestic supply, BC’s security of supply is clearly at risk. Hydro itself expects that in 2007/08 its ability to meet domestic peak requirements will be overtaken by demand growth.

BC needs supply side expansion and diversification now and an enhanced planning process to ensure the Province can achieve energy and capacity self sufficiency over the longer term.

THE CHAMBER RECOMMENDS

That the provincial government:

1. support the development of Site C on the Peace River and furthermore that Site C be designed, developed, constructed and financed by private investors and preferably individual British Columbians through an initial public offering of shares;
2. establish an electricity market facilitator, with a mandate to take a long-term view of the electricity industry’s economic potential, to be developed and funded by private investors, in exchange for building long-term security of supply for British Columbians; and
3. urgently move toward fuel diversification in the electricity industry, particularly production by means of coal and coal-bed methane with appropriate environmental standards.

Importance of Telecommunication Infrastructure all Regions of the Province

Broadband is a term that describes what are referred to as "advanced services", that is data transmission rates significantly higher than those that can be sent through ordinary, high quality voice circuits (i.e. 56KB). While there is no generally accepted definition, it is agreed that a speed of 1.5MB/sec (download) should be considered the minimum standard.

Broadband network (Internet) access has a direct relationship to a community’s socioeconomic health. Rural, remote, First Nations and coastal communities in British Columbia - especially those undergoing transition from a resource-base economy - are at risk of further malaise without provision of the enabling technology enjoyed by larger urban communities for education, health, and economic revitalization. Broadband represents an unprecedented opportunity for advancement and not working to develop this new infrastructure creates the risk of non-urban falling ever further behind in the race to develop a modern knowledge-base economy in British Columbia.

The existing first generation, limited capacity broadband solution (either DSL or cable broadband services) does not scale well in non-urban areas as solutions to the first mile problem. There is the need for the consolidation and deployment of public resources and particularly for the Provincial and Federal governments to support coastal and rural communities in their efforts to realize these opportunities. It is possible for non-urban areas to achieve an unprecedented degree of economic growth through local management and coordination of community broadband resources.

A possible method of creating broadband connectivity will be some form of privately deployed wireless "first mile" service which interfaces customer equipment to a terrestrial fibre optic back-bone deployed through established BC Hydro rights of way. Power lines interfere with electrons in copper wire, but leave photons in fibre optic cables unaffected.

THE CHAMBER RECOMMENDS:

That the Provincial government ensures:

1. that a regional strategy for deployment, management and support of coordinated community-owned broadband infrastructure be implemented;
2. that the province extend service to other communities, particularly First Nations.
3. that this provincial network be managed to allow an aggregated demand model at a local level. Common benefits from such aggregation include lower cost, adoption of common standards, efficiency and reduced risk of obsolescence through outsourcing to network providers;
4. that current resources and facilities be considered as a support and enabler of regional infrastructure development;
5. that BC Government Crown Lands, Forests, and Rights of Way be considered as an enabler and support to Broadband deployment throughout the Province; and

Capital Investment

The Chamber agrees that there is a need for investment across the province. As such The Chamber does not believe that it is realistic to think that BC can, or even should, be debt free (despite what Alberta may say).

Budget 2006 reaffirmed the government's commitment to a significant capital infrastructure investment program. While this investment is necessary to address a significant investment deficit that is the result of a long history of underinvestment in capital infrastructure such as post-secondary institutions, transportation and health facilities, the focus for The Chamber will be to ensure that these projects are developed and implemented in a cost effective, affordable manner.

While it is acceptable to borrow to build, this does not give the government carte blanche to spend on every project that catches a bureaucrat's eye. The Finance Minister announced that departments have been ordered to lay out their 10 year capital plans; these

will then be reviewed to determine what is affordable. This is an important initiative and one The Chamber and its members will be following closely.

The infrastructure needs of the province are immense. Simply put, public sector budgets cannot meet all of our needs, so governments must take every opportunity to open projects to private sector investors. The private sector has been able to play a significant role in providing financing, managerial and technical expertise to transport projects around the world.

In recent years, private sector companies have effectively competed in bidding for concessions to build and operate various transportation projects, including roads, ports, railways, and airports. Many such projects, in both urban and rural areas, have been commercially viable, and have benefited society by increasing the quality of services or reducing prices, allowing governments to focus material and human resources in other areas.

The Chamber will continue to urge the government to focus on areas where a return on investment exists in the sense of economic growth as an essential element in determining which projects are financed. This is particularly important for communities outside the Lower Mainland where local economies have developed and grown on the strength of our natural resources. In order to continue growing we will need to facilitate access to and development of our considerable resources. Access to resources is the first step. Access from a permitting and regulatory perspective is being addressed, what we need is physical access, and infrastructure.

The Chamber recommends that in areas where no infrastructure exists the BC government needs to approach this lack of access as an investment in our future.

We would also urge the government to enhance its use of P3's, or Public Private Partnerships. The key to P3's is their ability to transfer some of the cost of capital investment along with some of the risk to the private sector. If done properly (and following best practices from around the world there is no reason to believe BC could not become a world leader) P3s are a merger between the government and the private sector over a project involving a publicly owned commodity, with both sides sharing the risks and the benefits.

There is always a knee jerk reaction to P3s as a privatisation of public commodities and as a way of lining the pockets of private business. However the question must be, is it right to saddle our children with an increasing debt burden or is it better to pay as we go?

Analysis and Transparency of Capital Spending Prioritization

Notwithstanding the significant investment undertaken by the provincial government to date, it is not clear that the decision processes used to allocate public investment are adequate to address the challenges of the future, particularly as future investment choices may be more difficult once obvious projects, such as the inter urban motorways, are

completed. There are two key areas in the current system where The Chamber believes that opportunities for improvement exist:

First, the analysis underpinning the allocation of finance for public investment needs to be expanded. Good economic analysis is necessary to accurately compare the potential Benefits and costs from different infrastructure projects, ensuring the projects that offer the greatest social and economic returns are prioritized. More emphasis is required to ensure that the full social costs are incorporated, that capital and operating costs are not underestimated and that large projects are disaggregated and assessed at an appropriate level. It should be made clear that economic analysis need not result in this prioritization favouring narrow economic returns over broader social benefits; rather, it should constitute the use of best practice evaluation techniques to assess the degree to which particular projects and types of infrastructure contribute to economic, social, regional and broader political objectives. Better economic analysis is needed for both allocations within individual government departments when prioritizing specific projects, e.g. which road to invest in, as well for the allocation of funding across Government departments with responsibility for different infrastructure areas, e.g. whether to invest in roads or research infrastructure. Additional expertise may be required within government to undertake this work.

Second, greater transparency is required. Even where quality analysis is already carried out, it is not always clear how this analysis translates into actual allocations for infrastructure investment. These evaluations and appraisals by individual government departments and their agencies should have a common methodology across departments, to the greatest extent possible, and they should be published so that it is possible to assess their standard on an ongoing basis. Transparency adds accountability to the process and provides incentives for the production of good quality analysis. It goes without saying that in any democratic society, value judgments on the right balance between different political, social and economic objectives from investment in infrastructure are the prerogative of elected politicians. At the same time, much of the current system for allocating public capital expenditure is characterized by negotiation and lobbying. This creates a nontransparent zone where the potential exists for considerations other than stated and agreed economic and political objectives to determine allocations.

A Diverse Economic Base

In the past, the province has been heavily dependent upon a few key industries for its economic prosperity, namely agriculture, energy, forestry, mining and tourism. These industries still supply the greatest portion of the province's income, and employment, but our economic potential will be enhanced through the continued growth of our emerging industries such as high technology and film, and through further diversification. The health of these industries in turn affects the many varied business enterprises which directly or indirectly rely on them for income, and has a major impact on the tax dollars available to fund government services and social programs.

The large sums of new investment capital required for expansion and for replacement of old plants and equipment and for the development of these new industries will not be made available from domestic or international sources unless certain conditions exist. Government must be prepared to ensure that prudent business people are able to realise a reasonable return on investment in relation to risk after payment of taxes, and investors have reasonable assurances that the legislative and regulatory ground rules will not be changed to the detriment of the investor after his or her funds have been committed.

It is essential that efforts continue in the development of secondary industries in BC to further process our primary products and to manufacture more of the products used in BC, increasing our capacity to export such products. At the same time, efforts should continue to further enhance the service sector of the BC economy.

The Chamber believes that the provincial government should continue to direct its efforts and resources to the stimulation of economic conditions which encourage business investment through the following:

1. provincial, corporate and personal income tax policies that are competitive with other provinces and international trading partners and which encourage long term investment;
2. achievement of a common labour and management goal of improved productivity in and competitive position of BC industry;
3. reduction of the proportion of gross provincial output consumed by government services; and
4. consolidation of small business development programs and maintenance of clear legislation, rules and regulations relating to those programs.

The Chamber believes that strong and sustainable economic growth will only be achievable if we can attract high levels of investment. To attract this investment B.C must build on its existing strengths while focusing on attracting large companies to locate in the province. The Chamber recognizes that the province has had some success in this area with 2004 seeing a 3.7% climb in the number of businesses with 50 or more employees.

While the governments focus should be to encourage the development of these businesses in BC the reality is that the many of these new companies will need to be either US or international. To attract these companies we need to utilize the comparative advantages we hold as a province; our position as the Gateway to Asia Pacific; our integral part of the North American market, the only pacific province, and our pro-enterprise Government policies in such as taxation, education, international trade and regulation. Fast export growth from multinational companies and a growing cohort of successful indigenous exporters; combined with rising provincial confidence and low interest rates, will form a sustainable basis for consumer and business confidence that will further enhance our economic growth.

The experience in many jurisdictions is that it is in the nature of large national economies that as some exporting sectors decline due to competition from other locations, others will emerge to replace them. However this is not the case with small, regional resource based economies like B.C. When key resource sectors in regional economies go into decline, there is no guarantee that they will be replaced by other economic activities that offer opportunities for productivity growth and wealth creation. This is why it is important for small regional economies to pay particular attention to the health of their exporting sectors.

Fast growth and low unemployment in the Irish economy is currently being sustained by a combination of fast growth in domestic spending by households and Government on personal services and housing, as well as through success in export markets. The resulting sense of economic buoyancy creates a risk of political and business complacency to the challenges being faced by many of our exporters. Debt financed growth in consumption and construction cannot support an expansion in employment and incomes indefinitely. In the long run, a dynamic and competitive export sector will be the platform on which the rest of our economy is built.

A dynamic, productive economy requires high levels of entry by viable new businesses. Government, working with its public, private and voluntary sector partners, can do much to help start-up businesses to address and overcome early hurdles and barriers to success through the provision of high quality information, advice and support.

Well designed and targeted business support can enhance the survival and growth prospects of both new and existing businesses, with the potential for high growth. Implementation plans and a framework for evaluation to ensure businesses have access to high quality, focused coaching.

A structured program of support including elements on investment readiness, innovation, market understanding, workforce skills, and leadership and strategic management.

The province needs more businesses with both the vision and the capacity to grow. Growing a business is not easy. Some private sector support is available but government needs to address knowledge and information gaps where they exist.

The province must ensure that they facilitate a dynamic and flexible financial market that reflects the funding needs of small business. This will begin to address the fact that some businesses, particularly start-ups and those lacking a track record have significant challenges in accessing finance. Further to this challenge, businesses that have high growth potential are often unable to raise the relatively modest amounts of equity finance required to meet their growth ambitions.

Enhancing our Export Base

In addition to enhancing productivity growth for a small, open trading economy like BC to encourage economic prosperity will ultimately depend on our ability to sell goods and services to external markets. This in itself raises some very questions regarding the provincial economies ability to compete.

Despite increased competition, higher input and material costs and a rising dollar exports from BC rose in 2005 by 10% over 2004, this was despite losing 14,000 manufacturing jobs in 2005 alone.⁴³

British Columbia International Exports – by product (Annual Value of Exports to all countries, \$millions)

Products	2001	2002	2003	2004	2005
Lumber	6,624,493	6,395,031	5,355,515	6,927,622	6,324,741
Oil and Gas	2,744,920	1,902,944	2,851,203	2,511,642	3,807,800
Coal	1,430,579	1,372,481	1,450,202	1,576,986	2,991,724
Chemical Woodpulp	2,677,268	2,385,270	2,327,038	2,613,457	2,351,358
Copper Ore	457,757	348,970	421,881	583,002	975,527
Hydro-Electric Power	2,085,266	287,769	382,105	290,496	661,430
Newsprint	888,966	679,618	584,454	609,085	624,322
Aluminum	491,084	452,382	472,549	599,025	585,977
Wood in the Rough	418,446	567,147	501,849	470,414	585,469
Molybdenum	46,201	87,208	128,184	330,779	584,600
Particle Board	401,249	407,910	633,589	732,546	582,906
Windows, Doors and Other Prepared Wood Products	626,382	586,095	500,655	537,707	567,865
Uncoated Paper	582,849	627,788	556,540	563,499	531,699
Fresh or Chilled Fish	352,882	408,622	359,374	313,440	364,610
Electronic Circuits	279,535	189,139	240,657	308,731	357,948
Uncoated Paper	383,230	385,572	329,321	364,330	346,064
Zinc	236,332	311,255	319,539	375,555	312,029
Plywood	279,233	281,761	271,767	322,138	287,403
Plywood and Veneer	179,183	196,135	185,555	250,786	262,396

⁴³ Canadian Manufacturers and Exporters Media Advisory – Budget 2006 Doesn't Recognise Perfect Storm, February 21, 2006

Products	2001	2002	2003	2004	2005
Coated Paper	355,074	330,724	248,714	235,168	252,755
Printing Machinery	223,315	151,994	179,768	212,411	238,223
Motor Vehicle Parts	164,442	187,961	192,044	198,746	222,285
Semi-Chemical Woodpulp	259,038	292,661	322,195	305,573	205,234
Furniture	174,874	201,262	200,222	165,456	195,228
Frozen Fish	104,617	114,794	125,971	185,655	184,657
SUB-TOTAL	22,467,216	19,152,493	19,140,890	21,584,249	24,404,250
OTHERS	10,455,607	10,914,859	10,118,528	10,649,846	11,089,291
TOTAL (ALL PRODUCTS)	32,922,823	30,067,352	29,259,418	32,234,095	35,493,542

Source: Statistics Canada **Report Date: 26-Feb-2006**

As we look at the nature of the export base of BC it seems clear to The Chamber that we have been somewhat complacent in relying on the easy extraction of resources and at the same time subjected ourselves to the uncertainties of commodity markets. Our successful future economy hinges on developing a diverse export base that provides balance and security to our province.

BC needs to develop a strategy that focuses on the retention and attraction of industry and advanced manufacturing investment in BC as an enhancement of our export capability. A strategy is needed which will allow BC to grow on past successes and develop into one of the world's top sites for investment.

Efforts must be made to create a business environment that will:

- allow existing industrial and manufacturing firms to expand and improve their capacity to compete effectively;
- attract new operations to BC;
- encourage research and development; and
- encourage productivity.

As well, the provincial strategy must expand beyond the lower mainland to encourage development where there is capacity to absorb and foster new businesses.

Heartlands Economic Strategy

For too long the Heartlands have lagged behind the rest of the province in terms of economic performance and the standard of living afforded to its citizens. This situation is unacceptable and cannot be allowed to continue. As such The Chamber welcomed the government's announcement of its "Heartlands Economic Strategy" as an important step to revitalize the province of BC

The Heartlands Economic Strategy aims to support economic growth and job creation by building on measures already taken by government to revitalize the provincial economy

such as tax cuts, the reduction of bureaucracy and red tape and a more flexible labour market by:

- revitalizing the resource industries
- encouraging growth in new and emerging sectors
- building new partnerships with Aboriginal groups
- restoring BC's transportation infrastructure.

BC's Heartlands are well placed to deliver strong economic growth to business in the region and to the provincial economy as a whole. Not only do they represent 99% of BC's land base, they are also home to 41% of British Columbians and 37% of BC jobs. In addition to this the Heartlands generate 70% of BC's more than \$30 billion in annual exports to world markets.

In a province as vast and diverse as BC, a one-size-fits-all approach to economic development is not enough. To ensure all parts of the province realize their full potential government must look for ways to stimulate the economy on a region by region basis which is suitable for both the region and its resource base.

To fully appreciate the benefits that can be derived from the Heartlands Strategy the government must ensure that the regions are fully engaged and committed to the process. The government must ensure that the Heartlands have representation on bodies such as the Premier's Technology Council and also the Leading Edge Board, to ensure a coordinated approach to economic growth in the region is developed at all levels of government.

The vision encapsulated in the Heartlands Economic Strategy must be delivered in partnership with the regions, the government must ensure that all programs and initiatives follow the example of the Northern Medical Program and are offered in collaboration with local organizations and fully meet the regions' requirements in terms of skills and also stimulate economic growth.

The Chamber recommends that the government continue to take a strategic approach to economic growth in the province on a sector by sector, region by region basis to ensure that the full potential of every region of the province is unleashed and that this approach is developed and implemented in partnership with the regions.

The Chamber will focus on what we feel are the critical elements of addressing the challenge posed to the Council

Becoming Energy Self-Sufficient

The BC Chamber of Commerce supports the prudent development of British Columbia's vast energy and mineral resources in a manner that creates competitive advantages to the BC economy, creates export opportunities for energy and mineral developers, creates jobs and income to help support the Province's social fibre and which is undertaken in an

environmentally sustainable manner that directly considers the positions of stakeholders and First Nations across British Columbia.

British Columbia is blessed with significant renewable energy potential (wind, biomass, biogas, run-of-river hydro, geothermal, tidal sources, solar applications) yet very few renewable projects have been developed in the Province. The Chamber believes that the Province should create a climate within which British Columbia would become a renewable energy leader in North America and attract both renewables projects to be constructed and spawn support industries such as manufacturing plants and related value added services to build a presence in British Columbia.

The Chamber would note that the 2002 Energy Plan is one step in the process of continuing to develop a market framework that delivers self sufficiency for the Province and one that creates a climate that is attractive to private sector investors. The Chamber would note further that BC Hydro's decision to cancel the Duke Point project in June 2005 was not conducive to attracting private sector investors to build generation projects in the Province. Work remains to be done with respect to electric market reform in the Province. As noted previously, BC is blessed with significant renewables potential which have been largely untapped. The Chamber believes that BC could become a North American leader in the renewables sector under an effective policy framework.

Improving the Financing Environment for High potential Growth Firms

A number of measures are required to improve the financial environment for enterprise. More competition in the banking industry is needed, particularly in the provision of financial services to SME's. There is also a need to expand the venture capital market in BC. State support should be considered through mechanisms such as direct equity supports, enhanced tax incentives and the promotion of seed investment by 'angel' investors.

Improving Access to Small Business Venture Capital

BC has become a leader in Canada in improving access to venture capital for small business through the "Small Business Venture Capital Act" (SBVCA). Venture capital, in this context, describes private or public investment in start-up or early-stage companies. In an attempt to mobilize private capital, governments have in the past given tax incentives to persons investing in qualifying businesses. These incentives have played an important part in invigorating the provincial economy.

Under the SBVA (Section 29.1, 1) the Lieutenant Governor may prescribe, for any year, an amount to be known as the annual maximum venture capital tax credit. The annual maximum venture capital incentive is currently set at a total of \$20,000,000, which is distributed as follows:

- \$12,000,000 is available to any eligible business in BC.

- \$3,000,000 is available for investments in BC outside of Greater Vancouver and Victoria.
- \$5,000,000 is available for investments in BC in the commercial exploitation of interactive digital media product.

The current incentives allow for a 30% tax credit on monies invested in qualifying companies. The effect of the maximum therefore is to limit the funds invested, with incentives, into Venture Capital Corporations and Eligible Business Corporations to \$66,666,667 in any one year.

At the end of February 2004, several eligible businesses were advised that their applications for investment certificates (that would allow their investors to take advantage of the SBVCA incentives) had been declined. Although these businesses were advised that their applications would be carried over into the 2004 tax year, this overrun nevertheless demonstrates three things:

- The business investment climate in BC has picked up considerably.
- An increase in the amount prescribed as the annual maximum venture capital incentive would be appropriate at this time.
- The financing plans of several eligible businesses were disrupted or had to be curtailed due to this decision.

THE CHAMBER RECOMMENDS

That the provincial government:

1. increase the budget for the annual maximum venture capital incentive by an amount equal to the total amount requested for 2003; and
2. increase the budget for the annual maximum venture capital incentive for investments outside of Greater Vancouver and Victoria to ensure these areas receive their proportionate share.

Regional Science and Technology

It is a well known fact that the economic advantage Canada has in a global economy is through knowledge. The future of our knowledge in process efficiency and discovery of new knowledge enable us to outperform our competition even though global competition may have lower labour costs. Michael Porter and many other leading economists echo these sentiments in study after study.

The provincial government has put an emphasis on maintaining this advantage. The Premier has spent much time supporting the BC biotechnology and forest technology industries internationally. In addition, the continued support of the Premier's Technology Council has sent a clear message that technology is important to the province. In fact the Premier's web site states "*The Premier's Technology Council believes that with strong cooperation between the provincial government and private enterprise, BC will be one of the world's top 10 technology centres.*"

Over the last few years, the provincial government has made many changes to the science and technology support networks. Funding for a BC biotechnology group for international development has made a significant impact for that sector.

Development of such beneficial supports has not been received province wide. Funding of independent regional technology councils (with volunteer boards) that provide much needed resources to developing technology and networking opportunities for community technology development such as Premier Technology Council meetings, CEO Roundtables, exporting, and accessing capital etc have been reduced in support. Indeed last year alone the Councils received an average reduction of funding of 14%, and the Northwest Science and Innovation Society is running with no funding from the province. The result has been an inability of regional BC technology firms to add to the provincial technology sector.

A recent study, "Promoting Innovation & Commercialization of Scientific Research & Technological Advances in Rural BC," (also known as the PIC Report) was commissioned by Western Diversification. Among the recommendations was Technology Centre support being integral to the continued contribution of technology outside of the Lower Mainland.

The current situation is such that support for science and technology development through the province is not evenly proportioned. Regional councils were set up to allow local empowerment as well as enhance efficiency of use of taxpayer funds. Unfortunately, recent changes to BC Innovation Council and Leading Edge BC are centralizing the support without understanding of local needs. To that end proportional regional representation is needed to produce a truly provincial technology network.

THE CHAMBER RECOMMENDS

That the provincial government:

1. restore funding levels to each of the 6 Regional Councils to 1995 levels;
2. allocates proportional regional representation on the Premier's Technology Council;
3. have proportional regional representation on the board of directors of Leading Edge BC;
4. have proportional representation on the board of directors of the BC Innovation Council; and
5. amend the Small Business Venture Capital Act, allocating an additional minimum of \$7 million of tax credits annually, solely available to qualifying businesses that have head offices outside the Lower Mainland and Capital Regional District areas.

Industrial Investment Strategy

After a time of restrictive public policy BC is now taking steps to revitalize our forestry, mining, oil and gas industries. These initiatives will strengthen our economy in the resource area but we have not yet to develop policies that move BC beyond its vulnerability to the uncertainties of these markets. As well, resource extraction is now more productive resulting in fewer jobs.

BC needs to develop an industrial and manufacturing attraction and retention policy that will allow BC to be one of the top investment sites in the world for secondary manufacturing. We need to adapt the success stories of Ireland, Alberta and Quebec to our needs.

Efforts must be made to create a business environment that will:

- allow existing industrial and manufacturing firms to expand and improve their capacity to compete effectively;
- attract new operations to BC;
- encourage research and development; and
- encourage productivity.

Further, efforts should be made to attract this investment to the rural areas where there is capacity to absorb and foster new businesses.

THE CHAMBER RECOMMENDS

That the provincial government:

1. That the provincial government create the position of Minister of State for Industry and Advanced Manufacturing with special responsibility for identifying advanced manufacturing industry in BC and ensuring that special consideration be given to this important sector.
2. analyze and adopt investment strategies from other parts of the world that have proven successful in attracting and developing secondary manufacturing;
3. implement the best of these; and
4. utilizing these strategies work towards decentralizing investment into the rural areas.

BC'S National Competitive Disadvantage for Film Production

As BC looks to expand and diversify its economic activity by encouraging the growth of industries that offer opportunities to all regions of the province the film industry will continue to offer significant potential for growth as a vital element of a vibrant and diverse provincial economy.

At present the industry contributes a total of \$1.4 billion in production expenditure and had an overall economic impact estimated to be \$4.9 billion in 2003/04, while employing over 35,000 skilled workers, with British Columbians constituting 97% of the average film crew.

The future prosperity of the film industry is highly dependant on BC's competitiveness, both internationally and nationally. The industry is currently reviewing the need for significant reform to its practices to become as efficient as possible and to enhance its competitiveness in areas under their direct control such as labour, location costs, and service levels to ensure BC has a flourishing, competitive industry.

As part of this fundamental review The Chamber urges the government to address a discrepancy that currently exists in the application of the Social Services Tax as it relates to film production that places the industry in BC at a distinct competitive disadvantage to other competing Canadian jurisdictions.

- The current administrative position of the BC government with reference to the application of the social services tax (PST) to film production creates a competitive disadvantage in BC for the film production industry, in comparison to Ontario, Quebec and other competing jurisdictions;
 - o Ontario qualifies film production as manufacturing for purposes of calculating its retail sales tax.
 - o Alberta does not have PST and therefore the matter is not an issue in that province.
 - o Quebec has harmonized its sales tax (QST) with the federal GST. Its interpretation of the issue is consistent with that of the Federal government.
- The provincial government ensure that the for the purposes of calculating corporate tax the federal government considers film production to be a manufacturing process;
- “Bulletin IT-145R, Section 40”: *“Where a corporation is engaged in the production of motion picture films or programs on videotape, the activities which would qualify as manufacturing and processing would include preparation and editing of the script, manufacture of screen sets and props, acting, directing, lighting, camera work (filming), adding sound and colour effects, cutting, splicing and editing the exposed film and reproducing copies from the master negative or video tape.”*
- The BC Ministry of Finance continues to consider the production of film to be a service, which is inconsistent with the other jurisdictions referenced above.

THE CHAMBER RECOMMENDS

That the provincial government:

1. upon completion of the review, immediately make the changes to the tax credits permanent if found viable;
2. recognize film production in BC as a manufacturing process, consistent with the Federal government interpretation;
3. revise “Bulletin No. 076” issued by the Ministry of Finance and Corporate Relations (BC) on January 1987 and revised January 1991 to be consistent with the positions of the federal, Ontario and Quebec governments; and
4. remove the competitive disadvantage to BC in reference to film production by harmonizing our PST policies with other provincial jurisdictions.

Tourism Marketing and Development

While BC has all the resources and attractions that lend itself to a flourishing, world class year round tourism industry the industry has suffered like no other from the impact of 9/11, SARS, Avian Flu and BSE. Despite these setbacks the tourism industry is rebounding and is now the fastest growing sector of the economy, directly employing more than 115,000 people and generating over \$9 billion in revenue a year. Tourism is now also the third largest earner of export income.

The provincial government has recognized the huge untapped potential presented by tourism by challenged the industry to double provincial tourism revenues within the next 10 years. To facilitate the growth of the industry over the past year alone the government has committed significant resources towards tourism promotion and development. This has included;

- an effective doubling of Tourism BC’s budget with an extra \$25 million
- \$25 million one time grant for UBCM to use for local tourism promotion
- \$12 million one time grant to be divided equally between the 6 regional tourism organization
- \$2 million for the construction of a new gateway Visitor Info Centre in Osoyoos

The Chamber strongly encourages the government to continue to view tourism as a resource portfolio with an almost limitless potential for growth. However, while this funding is welcomed by our members The Chamber is concerned that funding being provided to numerous organizations rather than through Tourism BC is not the most productive use of resources. Without the clear strategic focus provided by Tourism BC there is a risk of overlap in the use of these funds which will detract from the most effective use of scarce resources.

International competition for tourist dollars has intensified as other provinces, states and countries have recognized the wealth generating opportunities of the tourism industry and

have increased competitive spending accordingly. We congratulate the government for the increase in funding provided to Tourism BC that has put BC on a competitive footing with other major jurisdictions.

However it is clear to The Chamber and its members that the continued success of Tourism BC and the industry will depend on this funding continuing to be provided in a stable manner which provides certainty and security to the industry. The Chamber believes that this was the original motivation behind the government's decision to enshrine Tourism BC's funding in a legislated 1.65% of the Hotel Tax. The Chamber also believes that this funding structure has worked well in providing the industry with the certainty needed to develop a long term vision for sustainable long term growth of the industry.

For Tourism BC to be able to fully utilize the additional resources provided and to reach the goal of doubling the size of the industry by 2015 the government must ensure that the current funding formula that has prove so successful is extended by increasing the current 1.65% of the Hotel tax to 3.3% and protecting this funding by enshrining it in legislation.

THE CHAMBER RECOMMENDS

That the provincial government:

1. immediately amend the hotel tax to allow no less than 3.3% of the funds collected in the 8% of the hotel tax be legislated to be allocated directly to Tourism BC; and
2. acknowledge the Tourism BC operating model and ensure that tourism funding is directed towards Tourism BC as the organization best placed to understand the needs of the industry

Conclusion

The Chamber realizes that we have laid out an ambitious plan. However, in the same way that the government now lays out 3 year budget plans The Chamber sees our plans as long term, we realize that they cannot all be achieved in the short term but the foundations can be laid and the principles can be adopted.

The growing interdependency between our country's economic dynamism and social development needs to be at the heart of our vision for the provinces future development and competitiveness. The ongoing success of our economy will depend on the competitive advantage offered by the health of our society and communities. Dynamic and inclusive communities, offering high quality of life and efficient public services, will become a magnet for mobile skilled people, capital and high value enterprise activities.

Fundamental to the delivery of a fairer and more sustainable economy and society will be the development of an Enterprise Culture which rewards innovation, creativity, and risk taking.

The discussion and recommendations in this submission have largely focused on the role of Government. Of course, many – if not most – of the actions needed to move BC to a more competitive stage of economic development is outside the direct remits of policy makers. Significant responsibilities lie in the hands of, among others, the managers of individual firms, educationalists, industry associations and trade unions. Strong enterprise led networks are needed to facilitate knowledge transfer, disseminate market knowledge, foster innovation, and to inform the research agenda and identify infrastructure needs specific to their sector. Irish managers need to build company capabilities in international sales and marketing, innovation and highly efficient provision of higher value goods and services. This will require increased business investments in R&D, skills, modern production and logistics technology and IT to develop and support more sustainable competitive advantages.

It is during times of strong economic growth that the provincial government must invest in the future economic prosperity of communities across the province. It is through the program we have in this submission; a program developed by local chambers of commerce, the backbone of your communities that we will ensure BC is able to deliver sustainable economic growth for a generation and beyond

We thank you for the opportunity to present our views to this committee. We would draw your attention to our 2005 Policy Manual, copies of which are available on our website, www.bcchamber.org