Budget 2017/18 Submission

On behalf of the Alberta Chambers of Commerce (ACC) federation, we respectfully submit recommendations to the Minister of Finance to inform the 2017-2018 Federal Budget. These recommendations reflect the priorities and concerns of the ACC and the 126 community chambers of our federation who represent over 24,000 businesses in the Province of Alberta.

The ACC is unique in Canada in that every community chamber in Alberta is a member of the provincial federation as well as the Canadian Chamber of Commerce.

Overview

Alberta's business community, especially its critical oil and gas sector, has faced a turbulent year. Oil prices have remained low, resulting in prolonged reductions in employment activity in one of Canada's leading economic drivers. An unprecedented fire exasperated the slow-down by devastating Fort McMurray, the hub of the once vibrant oil sands region. Finally, uncertainty in trade opportunities caused by delayed pipeline construction approval and a proposed moratorium on tanker traffic on British Columbia's northern coast have left Alberta business concerned about opportunities for growth in the coming years.

Within this context, the Government of Canada must enable opportunities for Alberta's and Canada's business community by providing the leadership the private sector needs to remain resilient and return to optimism.

As the Government considers its policies to position Canada for long-term prosperity and a return to economic stability, the ACC presents the following recommendations for consideration. These priorities support responsible national economic development, focusing on four strategic policy areas:

- Strengthen Canada's fiscal competitiveness and tax environment;
- Reduce barriers to trade and invest in critical infrastructure;
- Implement an innovation agenda that aligns with private sector success factors;
- Adopt a proactive approach to policy design and implementation.

Strengthen Canada's Fiscal Competitiveness and Tax Environment

Even as it makes strategic investments in infrastructure, it is imperative the Government apply the highest level of discipline to both its capital and operational expenditures to return Canada to a net-positive fiscal balance. Budget 2016 projected a combined deficit of $113.2 billion between 2016 and 2021 and no pathway to balance. Yet, achieving a position of fiscal balance enables a greater range of policy measures like tax reduction. It can also ease pressures that restrict economic growth by allowing the Government to reduce the national debt. Debt servicing alone will amount to $25.7 billion in 2016-17 or 1.3% of GDP and is projected to grow to $35.5 billion and 1.5% of GDP by 2020-21. The dramatic need for additional supports for unemployed workers is a clear example of why fiscal strength and flexibility is important. With Alberta's unemployment doubling from a low of 4.3% in 2014 to a high of 8.6% in 2016, maintaining a balanced budget would position the Government to effectively address critical emerging issues such as Albertan's need for Employment Insurance over the past year. While dramatic change will be needed to reverse this course and implement an accountable plan returning the nation to fiscal balance, it is vital that the Government show strong fiscal leadership in making this important adjustment.

Reducing the compliance burden the tax system currently imposes on business and individuals would be another pillar of forward thinking fiscal leadership. Considerable time and money are required by businesses to navigate through Canada's Tax Code to achieve compliance. Analysis by the Fraser

Institute shows that the number of tax credits offered by the Government increased by 22% between 2000 and 2011 and the amount of effort required to effectively navigate the Code has significantly increased[1]. Tax compliance currently restricts Canada's competitiveness as a place to conduct business by creating unnecessary limitations on the time and resources that, in particular, small businesses have to invest in growing, diversifying, accessing new markets and creating jobs. Reducing complexity will result in improved productivity, investment attraction, and succession planning for small businesses.

Leadership is also needed to effectively harmonize Canada's financial markets. Financial markets play a strong role in attracting investment and Alberta's unique securities regulation has been a primary enabler of the province's, and subsequently Canada's, economic growth. While the Government of Canada may continue to develop the cooperative national securities system amongst a number of provinces and territories, it is essential that the Capital Markets Regulatory Authority also continue to participate in and support the previously established and robust Passport System. This will ensure specialized capital markets such as Alberta's have the ability to respond to their unique regional needs while harmonizing regulations with the newly established entity to reduce complexities for investors and provide effective capital oversight.

To position Canada globally as a fiscal leader with an attractive tax environment, the ACC recommends the Government of Canada:

1. Annually target for balanced (or conditions permitting, surplus) budgets, subject to recessionary conditions (two consecutive quarters of negative economic growth as measured by Canada's gross domestic product) indicating a requirement for deficit spending to stimulate economic activity;

2. Confine program spending to core areas of federal responsibility and limit growth in program spending to a maximum of national population growth plus inflation;

3. Undertake a comprehensive review of the Government of Canada fiscal structure, including in particular all taxing statutes to identify and ensure implementation of simplified tax legislation and decrease compliance costs. The review should include a comprehensive review of all aspects of taxation relating to determination of tax characters, timing and calculations, including in particular examination of the hundreds of exemptions, deductions, rebates, deferrals, and/or credits that are part of the federal tax system to determine which ones are inefficient or wasteful and can be eliminated. Going forward, the Government should include provisions for regular reviews and updates in order to ensure the resulting simplified system remaining flexible.

[1] Vaillancourt, F., Roy, M., and Lammam, C. (April 2015). *Measuring Tax Complexity in Canada*. Fraser Research Bulletin. Retrieved November 8, 2016 from https://www.fraserinstitute.org/sites/default/files/measuring-tax-complexity-in-canada.pdf

4. Work with the province, territories, and the newly developed Capital Market Regulatory Authority to continue to advance Canada's Passport Agreement, build on securities passport improvements that have already been made, and move towards national harmonization by way of a well-designed, well monitored, nationwide passport system for securities regulation that includes all provinces and territories.

Reduce Barriers to Trade and Invest in Critical Infrastructure

Canada's largest opportunity for economic growth lies in the reduction of barriers to trade and investing in critical infrastructure that supports the movement of Canadian goods to new markets. The Federal Government has shown great leadership on advancing a renewed Agreement on Internal Trade and ratifying the Canadian-European Trade Agreement. Manitoba's recent entry into the New West Partnership is an example of the benefits that follow with strong leadership on reducing trade barriers.

Ensuring robust tidewater access for primary exports is particularly relevant to Canadians at this time in the context of expanding our capacity to trade, securing optimal prices for exports and diversifying access to foreign and domestic markets. In his letter introducing the National Energy Board's recent release of Canada's Energy Future 2016: Energy Supply and Demand Production to 2040, Chair and CEO C. Peter Watson notes:

"… the development of future energy infrastructure directly impacts export prices, future production growth, and the overall Canadian economy. While Canada has no influence on global commodity prices, it does have control over the ability to access new markets for our exports and receive the full value in the global marketplace, whatever future global prices may be."

Achieving multiple points of tidewater access will depend on the building, expansion or repurposing of pipelines and port facilities to implement the robust pipeline infrastructure critical to a successful economic development platform that will support long-term prosperity, and safety, for Canadians. Currently, 75% of Canadian exports being sold to the United States, of which 22% are non-renewable resources. This concentration of trade is, in no small part, due to an infrastructure gap that limits moving resources, particularly oil and gas, to new markets in Asia, Europe, and beyond. While projects such as Keystone Pipeline may again become a tangible opportunity for exporting Canadian products, overcoming the dependency on a single market must remain a top priority for Canada.

The tools are available for federal legislators to overcome the obstacles resulting in land-locked export products and barriers to investment. Overcoming these obstacles is critical: the three largest Canadian pipeline projects, representing a combined total of $25.3 billion in private sector investment and over $50 billion in federal tax revenues, continue to be stalled by federal regulatory reviews and decision-makers. Acknowledging the recently initiated review of the National Energy Board (NEB), it is important that this review establishes Canada as a leader in providing timeliness, clarity and certainty for Canadians and investors as was stated by the Alberta Chambers of Commerce in its presentation to the Senate Committee on Transport and Communication earlier this year. As part of the review, and to support improved confidence in the NEB process, the Federal Government should consider adopting best practices that have been introduced in other recent trade orientated initiatives.

One example would be to apply the negative list approach introduced in the renewed Agreement on Internal Trade to the Ministerial approval process of projects. Under the current NEB processes, projects receiving NEB approval must then receive Ministerial approval. This current process undermines the expertise and authority of the National Energy Board and subsequently Canadians' confidence in the NEB. The process also results in unnecessary delays to project implementation, job creation, and increased trade. Kinder Morgan's Trans Mountain pipeline is a clear example of these unnecessary delays: it was approved by the NEB on May 19, 2016 with 157 conditions, but a ministerial decision on the project will not be announced until December 19 of this year. Applying a negative list approach in the NEB processes would mean that projects approved by the NEB would be able to start immediately, without unnecessary delays to investment and job creation, unless the Minister actively intervened in the project's approval. Taking this approach would also result in improved transparency for Canadians and certainty for investors.

Another pillar of leadership to support responsible economic development would be to evenly apply appropriate and effective fiscal measures that support private capital investment. A great example of this is the use of the accelerated capital cost allowance (ACCA) to incent investment on the basis that investors are able to recover their risk capital earlier in the process as a result of a deferral of some of the tax burden on the revenue that is generated as a result of the investment. The use of ACCA for the manufacturing industry is a good example of such federal support, and this approach should be applied across all sectors to attract investment. An ACCA previously existed for conventional oil and gas, as well as oil sands production, but was phased out in 2007. Prior to the ACCA's phase-out, private investment had brought over $150 billion in investment to Alberta's oil sands. Given current market conditions, reintroducing an ACCA for oil and gas projects, as well as processing and value-add petrochemical spin-offs, could stimulate investment and position Canada`s energy sector to again drive economic growth and generate jobs.

The Government has committed to undertaking the largest public infrastructure investment in Canadian history. The investments made in this watermark infrastructure plan will have a direct and long-term impact on Canada's capacity for economic growth. While almost any infrastructure spending will create jobs in the short-term, long-term prosperity is best supported by infrastructure that more easily facilitates trade and improves Canada's attractiveness for private and foreign investors. Priority should be given to economically enabling projects, defined through clear and accountable metrics, to ensure that Canadians receive the best long-term return on accompanying debt for this plan. The infrastructure plan for delivering these investments should, in particular, identify a national transportation/utility corridor system. Securing land for these corridors will help create clear logistical pathways for Canadian exporters, reduce land-use conflicts and environmental impacts, and enable Canada's infrastructure to remain sustainable and economically viable in the long term.

To support economic development that expands Canada's trade capacity and competitiveness, the ACC recommends the Government of Canada:

1. Facilitate the development of new market access for Canada's energy resources and value added products, by supporting development of energy transportation infrastructure, including pipelines and, where it makes sense rail, as well as ports;
2. Reinstate the accelerated capital cost allowance for oil sands and other energy related projects and extend the allowance to include resource processing investment, including integrated upgraders, merchant upgraders and petrochemical industrial products;
3. Increase funding for municipal projects through the Building Canada Fund and with provincial/ territorial and municipal governments, promote the viability of P3 projects for infrastructure initiatives in urban centres and where different levels of government funding are required;
4. Develop a national transportation/utility corridor plan linking all urban centres and regions in Canada, and support a comprehensive transportation and utility system;

Establish an Innovation Agenda that Harnesses Private Sector Opportunities

In Budget 2016, the Government of Canada announced new programs to support the growth of innovation in Canada, however, these programs were predominantly focused on supporting public-based research and post-secondary institutions. While $2 billion was committed for post-secondary institutions to enhance innovation, supports for business-based research and innovation received relatively little attention. The Industry Research Assistance Program (IRAP) was increased by only $50 million while the Scientific Research and Experimental Development (SR&ED) Tax Credit was not increased at all.

The need for greater levels of innovation is well documented and Alberta's chamber network has made representation to the Senate recently on the challenges facing both innovation in Canada and the export capacity of Small and Medium-Sized Enterprises. The Canadian Chamber of Commerce recent report "Generation Innovation: The Talent Canada Needs for the New Economy" also highlights many of the concrete steps need to enhance the work of innovative companies who are seeking to develop new marketable products, as well as the supporting talent development required to accelerate business growth[2].

In addition to supporting direct private-sector research, dedicated procurement funding should be earmarked for innovative new products that require proving. As a large consumer of products, the Government has a unique opportunity to further support the development of cutting-edge technology by being an early buyer of new products. Across the country, Canada has innovation networks and industry clusters and sectors that could be positioned for growth given improved strategies. In many

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[2] The Canadian Chamber of Commerce. (November 2016). *Generation Innovation: The Talent Canada Needs for the New Economy*. Retrieved November 17, 2016 from http://chamber.ca/download.aspx?t=0&pid=5ae7b120-4aab-e611-b794-005056a00b05

sectors, such as manufacturing or food processing, Canada's competitive advantage lies in its access to a highly skilled workforce and its ability to integrate technology into businesses' production processes. By reallocating the current innovation agenda, and Federal Government leadership in developing efficient and effective supporting networks and innovation clusters, Canada can position itself as a true global leader in innovation, technology, and economic growth.

To establish a more efficient and strategic innovation agenda, the ACC recommends the Government of Canada:

1. Refocus Canada's innovation agenda by ensuring that programs and initiatives that support innovation and research in businesses are prioritized in terms of funding and relevance;

2. Restore the Scientific Research and Experimental Design credit to pre-2012 levels and index with inflation;

3. Increase the importance of innovation in the public procurement evaluation criteria to assist the commercialization of new innovative products as defined by the OECD and by business. Where possible, the Government of Canada should act as first user and showcase in support of commercialization in domestic markets and export marketing;

4. Maintain a commitment to strengthening innovation networks and clusters by maintaining and increasing funds to support these clusters across Canada

5. Establish strategies for growth in industries and sectors, such as manufacturing and food processing, which have a high potential for growth based on Canada's competitive advantages.

6. Place at the heart of Canada's innovation strategy an approach based on training and attracting the best scientific, technical and strategic talents.

Adopt a Proactive Approach to Policy Design and Implementation

The ACC calls on the Government to be mindful of the cumulative effects or unintended consequences of public policy that impedes rather than enhances business resilience, innovation, and growth. Businesses are currently suffering from the layering effects of public policy arising from different levels of government; in Alberta, costs are growing under current and projected public policies such as a $15 per hour provincial minimum wage, newly introduced labour regulations, higher Canadian Pension Plan contributions, and a provincial carbon levy.

The effects of these measures cannot be viewed in isolation as policy makers seek to improve Canada's environmental performance or diversify the economy. This holds true for all major policy initiatives but is of critical importance to the proposed Federal carbon pricing requirements that were announced in fall, 2016. The Government's announcement on carbon pricing came without any concrete consultation with businesses or analysis on the economic impacts of a $50 per tonne price on carbon by 2022.

Considering only Alberta's impending carbon levy as a comparison, businesses and consumers can expect to pay an additional 38.3% more on natural gas starting January 1, 2017. If the Federal Government's carbon price requirements are realized, this number would increase to 95.7%[3].

Undoubtedly, these dramatic costs increases will impact businesses' economic models and present serious risks to business' growth and sustainability. The recent shift of government leadership in the United States creates an even further risk to the cost competitiveness of Canada's businesses. A reversal of carbon pricing policy in the United States, as promised by President-Elect Trump, will create an uneven playing field for Canadian businesses that are forced to compete against US firms who have access to lower-cost energy. SME's will be especially sensitive and vulnerable to these competitive threats. To avoid the unintended consequences to existing businesses and discourage investment in the Canadian economy, the ACC recommends that the Government conduct thorough consultation of regional business communities and sensitivity analysis' before implementing broad policy changes.

To support business' ability to proactively engage as partners in new public policy the ACC recommends:

1. Evaluate all proposed new policies applying a cost to business calculation, and where appropriate implement those policies in a staged manner, allowing businesses to adapt operations in advance in order to meet the desired outcomes in the most efficient manner;

2. Focus on outcome-based policies, with flexibility for businesses to choose how best to meet these outcomes;

3. Halt any advancement of a federally mandated carbon price until the completion of a cost-benefit analysis of the economic and distortive impacts of the proposed changes, taking into account the increased costs already in place in regions across Canada with similar policy;

4. Ensure all new revenues from climate policy collected by the Government of Canada are applied to research and development grants, renewable electricity incentives, education and awareness initiatives, energy efficiency rebates and significant tax relief, all of which must be made accessible to individuals and businesses;

5. Improve the efficiency and consistency throughout the regulatory review process for major natural resource projects, providing clarity regarding the associated timelines from the introduction to a final decision, to provide the needed certainty, predictability, and stability that encourages capital investment.

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[3] Calculated based on Alberta Tax and Revenues Administration's estimates of a $20 per tonne carbon levy. Retrieved November 17, 2016 from http://finance.alberta.ca/publications/tax_rebates/rates/carbon-levy-rates.html; Natural Gas Prices based on estimates from the Alberta Energy Regulator. Retrieved November 17, 2016 from https://www.aer.ca/data-and-publications/statistical-reports/natural-gas-prices

Summary

By demonstrating decisive leadership and taking action on strategic opportunities, the Government of Canada can exploit opportunities building on a strong economic development strategy. The 2017/2018 Federal Budget can provide resources and direction to act on these strategic opportunities with a common vision. Engaging the business community as meaningful partners in pursuit of long-term prosperity for Canadian's will further strengthen the results we can collectively achieve.