FROM COMMON SENSE TO BOLD AMBITION

MOVING CANADA FORWARD ON THE GLOBAL STAGE

CANADIAN COUNCIL OF CHIEF EXECUTIVES
SUBMISSION TO THE
COMPETITION POLICY REVIEW PANEL

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EXECUTIVE SUMMARY

The federal government asked the Competition Policy Review Panel for advice on two specific issues: foreign investment and competition policy. These issues can only be addressed as part of an integrated competitiveness strategy to make Canada a compelling place ***in which*** and ***from which*** to do business globally.

To be a location of choice for high-value corporate operations including head offices and research, Canada must compete on three levels: people, ideas and money. This submission draws on two CCCE projects, one looking at takeovers and head offices and the other at Canada's strengths and weaknesses as a location for innovation.

While Canada must equip itself to deal with an evolving global investment market, the fact remains that our country has prospered because of its openness to the world. In forging its competitiveness strategy, Canada must look outward with confidence rather than inward in fear. The best defence against any potential loss of economic sovereignty is a strong competitive offence.

An effective competitiveness strategy necessarily includes many elements. These include: education and training; immigration; cities and communities; internal trade; smart regulation; intellectual property rights; personal and corporate taxation at both the federal and provincial levels; transportation and border infrastructure; Canada-United States relations and trade and foreign policy. On all of these issues, we know broadly what needs to be done. Our challenge as a country is to get on with the job.

In making its recommendations, the CCCE urges the Panel to be bold and ambitious. Economic competitiveness is linked inextricably with other issues including social justice and the environment. The Panel should not hesitate to frame recommendations that bring together our great economic, social and environmental aspirations as a country.

The Panel's responsibilities do not end with the filing of its report. In addition to its recommendations, the Panel should put forward a formal process for monitoring their implementation.

Canada has the natural, intellectual and financial resources to build on its impressive history and to shine as an example to the world of a dynamic and open economy founded within a vibrant, multicultural society. As business leaders, we are committed to driving forward the progress of our enterprises and of our country, and achieving the goal articulated by the CCCE in 2000: that of making our country "*the best place in the world in which to live, to work, to invest and to grow*."

INTRODUCTION

The appointment in 2007 of the *Competition Policy Review Panel* was prompted by a global wave of mergers and acquisitions that included the foreign takeovers of several major Canadian enterprises. In its initial discussion paper, the Panel asked Canadians for views on two specific issues related to takeovers: foreign investment and competition policy. The Panel recognized, however, that it could not possibly address these issues in isolation. The *Canadian Council of Chief Executives* (CCCE) agrees that the essential question is how to change the broad framework of public policy to encourage Canadians to invest in business growth at home and abroad and to enable our country to compete globally for talent, innovation and capital -- which we have described more bluntly as people, ideas and money.

CASTING ASIDE COMPLACENCY

How governments shape the business environment has a huge influence on the wellbeing of all Canadians, but strengthening Canada's competitiveness is not a job for governments alone. Canada is home to successful enterprises in many sectors of the economy, companies that have seized global opportunities, have driven the growth of high-quality jobs in Canadian communities and have created considerable wealth for Canadian investors, including the pension plans that ensure a sound future for millions of working families.

As a group, however, Canadian businesses have been too slow to invest in research and to adopt leading-edge technologies. Far too few Canadian companies have taken on the challenge of selling goods and services abroad, or of making investments and building relationships internationally. Too often, Canadian entrepreneurs have sold promising ventures on the cusp of greatness that Canadian investors have seen as more risky and less valuable than have venture capitalists and corporate buyers from abroad. And too many business leaders -- like too many Canadians in all walks of life -- have been captured by a culture of complacency, by a sense that good is good enough.

It is all too easy for Canadians to feel complacent. After all, Canada has enjoyed 16 consecutive years of economic growth. Governments have been running surpluses, paying down debt and cutting taxes even as they raise public spending to record levels. Unemployment remains at three-decade lows. Inflation has been tamed and the currency is strong, enabling interest rates to remain low. Some Canadians ask, with all this good news, why change?

Canada has done many things right, but today's success flows from a decade of tough choices made in the course of slashing government deficits, fighting inflation and adapting to free trade. Even as Canadians have prospered from those choices, the rest of the world has continued to evolve. The rise of new powers such as China and India is transforming patterns of trade and investment worldwide and driving up global demand and prices for energy and natural resources. At the same time, the Canadian dollar has been rising rapidly even as Canada's largest export market, the United States, shows signs of weakening. The result is intense new competitive pressures on Canadian companies in every industry. Canada simply cannot rest on the laurels of the 1990s without putting in peril the future quality of life of all Canadians.

Canada faces a threefold challenge. It must develop and attract people with the motivation, talent and skills to perform high-value work such as that done in corporate head offices. It must provide a superb environment in which to conduct research, adopt new productivity-enhancing technologies and move ideas from laboratories into the market. Above all, Canada must be a compellingly attractive place in which both Canadian and foreign investors can build and run global enterprises.

COMPETING FOR TALENT

The concerns that led to the appointment of the Panel were focused on the impact of changes in the nationality of ownership of Canadian-based enterprises. The implication of the "hollowing out" argument is that when foreign investors take over a Canadian company, its head office and all its related benefits may disappear or be severely diminished.

As a CEO-based organization, the CCCE believes strongly that head offices matter. As centres for corporate decision-making, they create clusters of well-paid jobs both directly and in related service industries. They are drivers of innovation both within their companies and through business relationships and research partnerships. They provide a focus for business investment in communities, providing private-sector leadership for charitable causes, education, health care and cultural activities. They also play a crucial role in the growth of other companies, whether by spinning off operations, providing capital to new ventures or simply offering opportunities for local enterprises to move onto a larger stage at home and abroad.

However, the concepts of "head office" and "head-office jobs" are not necessarily related to where a company's shares are owned. Many wholly-owned subsidiaries of multinational enterprises have robust head-office operations in Canada. Such operations do far more than simply service customers or manage operations in Canada. Often, they provide leadership for North American and global mandates or functions within the parent corporation. Similarly, the international growth of Canadian companies tends to lead to the recruitment of a more diverse management cadre and the establishment of major centres of decision-making activity outside Canada.

Indeed, head office activity increasingly is dispersed across different locations in more than one country. Even when there is no change in control, Canadian-based and foreign-owned multinationals evaluate on a continuing basis where it makes most sense to carry out various head-office and high-skill activities. This creates both risks and opportunities for Canadian communities. While the takeover of a Canadian company by a foreign enterprise undoubtedly leads to a change in corporate culture and shifts ultimate responsibility for strategic decisions to people in other countries, the key challenge for Canada is to compete for high-end corporate functions regardless of where a company's shareholders live.

In 2007, the CCCE conducted a survey of member chief executives on issues related to mergers and acquisitions. This focused on key drivers of head-office activity, including the decisions made by both corporations and individuals. The survey showed clearly that tax rates, both corporate and personal, play a central role, but other factors also are important.

Aside from taxes, the two key determinants of head-office location are proximity to operations and proximity to customers. In order to manage operations and serve customers, top executives must travel a great deal. If Canada is to be successful in attracting more head-office jobs with international responsibilities, companies must be confident that their executives will be able to travel quickly to operations, customers and investors across North America and beyond. This reinforces the need for more than just good airports and efficient transportation links. Canada must do everything it can to keep the Canada-United States border moving smoothly. It also must establish compelling advantages in other areas sufficient to offset whatever border risks cannot be eliminated.

Companies will establish new operations only in communities where they can find the necessary talent or to which they can persuade such people to move. To make its communities attractive places to invest, Canada must continue to develop its supply of skilled people. Governments must act on their responsibility to make the most of Canada's human potential, ensuring that every young Canadian finishes secondary school and moves on to some form of post-secondary learning. This requires a particular focus on at-risk youth, notably in Aboriginal communities, as well as more determined efforts to reduce the barriers encountered by new immigrants who bring talent, qualifications and experience to the Canadian labour force.

Many other factors influence the decisions of companies and individuals with respect to head-office location. One of the most nebulous and yet potentially most important for Canada is that of social attitudes. Successful people who can live and work wherever they want will tend to settle in communities in which they feel welcome. Similarly, the members of increasingly diverse management teams at global corporations will prefer to live in communities in which they all can feel at home -- making Canada's multicultural society a significant competitive advantage.

COMPETING FOR INNOVATION

The process of innovation is critical to Canada's future prosperity. Innovation involves far more than investment in research. It involves a relentless search for new ways of working as well as the development and deployment of new products and processes. It takes place in many forms and in the public and private sectors alike.

Canada has a strong record of public investment in research through government granting councils and other means of funding colleges and universities. The country's record of business expenditure on research and development (BERD), on the other hand, is mediocre by global standards, despite tax credits for research that are portrayed as among the most generous in the world.

Microeconomic research has established beyond any doubt that exposure to international competition is a critical driver of business innovation. Both foreign-owned corporations and Canadian-owned enterprises operating internationally are more innovative, invest more in research, achieve higher levels of productivity and engage in more partnerships with academia than the Canadian business community as a whole. Exposure to global ideas and openness to global competition clearly go hand-in-hand as drivers of business innovation.

We need to know more, though, about two specific issues related to business innovation. First, what are the key factors in Canada that encourage private-sector innovation, and what factors prevent greater investment? Second, when companies operating internationally do invest in innovation, what determines whether they make such investments in Canada or elsewhere?

To address these questions and provide guidance on the most effective policy levers for accelerating business innovation, the CCCE in 2007 launched a joint research project with Industry Canada. The first phase of this project consisted of a survey of CCCE members. The survey also was sent to members of Canada's Research-Based Pharmaceutical Companies (Rx&D) to ensure solid coverage of this research-intensive sector.

Of the 66 CEOs who participated in the survey, fully 86 percent said that innovation is either "very important" or "critical" to their business strategies. Reflecting that importance, the companies they lead spend on average 6 percent of their revenues on research and development. R&D, however, is only one of several sources of innovation for these companies. Others, in order of importance, include: creating an environment that encourages and rewards creativity; enhancing customer support and services; re-engineering business processes; improving production processes; and building relationships with other firms and organizations to increase their exposure to new ideas and approaches.

The survey findings strongly support the conclusion that open markets and exposure to international competition are key drivers of business spending on innovation. Among the CEOs who took part in the survey, the most common reason cited for investing in innovation was the desire to seize new opportunities to grow their business, followed by the need to stay ahead of competitors and to respond to demand from customers for new or improved goods and services. Reducing costs, meeting regulatory standards or keeping pace with changes introduced by suppliers were rated as less significant drivers.

The survey asked CEOs to identify the most important factor that inhibits their companies' ability to be more innovative. By a wide margin, the most common response was that regulations or other government policies reduce the return they can expect to make from such investment. Of somewhat less importance, but still significant as barriers to innovation, were difficulties in recruiting and retaining highly qualified people, insufficient government support and tax policies that make such investment unattractive. Least significant as barriers to innovation were difficulties in securing the necessary financial resources, uncertain returns and the need to focus on short-term profit.

A similar message came through when respondents were asked to name Canada's key strengths and weaknesses as a location for R&D investment. The overwhelming strength cited by CEOs was the quality of Canadian talent, followed by Canada's high quality of life and the overall strength of the Canadian economy. Canada's two greatest weaknesses were seen as its intellectual property regime and its regulatory environment -- and these two factors also were rated as the most important in influencing company decisions about where to carry out research and development activities. Respondents cited other important areas of weakness as well, notably the tax treatment of research expenditures.

The result is stark. When asked about their companies' intentions over the next three years, most CEOs said their investment in innovation in Canada would likely remain flat. And most of the companies that do plan to increase innovation spending significantly say they will make those investments outside Canada.

COMPETING FOR CAPITAL

The recent CCCE member survey on mergers and acquisitions confirmed that tax policy is the single most important consideration when companies decide where to invest and where to locate head offices. The tax burden is not considered in isolation, but tax rates play a critical role in determining both whether a given investment will be made and where it will be made.

Recognizing this fact, successive Canadian federal governments have steadily and significantly reduced the statutory corporate income tax rate.

The October 2007 Economic Statement took an important and welcome further step by promising additional reductions that by 2012 would lower Canada's federal rate to 15 percent. Five years ago, the CCCE proposed that Canada aim for a statutory corporate income tax rate advantage of at least 10 percentage points over the United States, and barring further tax cuts in that country, the 2007 Economic Statement will deliver an advantage of 12 percentage points in the statutory rate and 9 percentage points in the marginal rate on new business investment.

Achieving and maintaining a major tax advantage over the United States is critical to Canada's ability to attract investment in operations that serve the North American and global markets. The United States is the larger economy. All other things being equal, that makes it an easier place to raise money at a lower cost and with access to a greater pool of talent.

The urgency of Canadian action increased dramatically as a result of the terrorist attacks of September 11, 2001. The continuing United States obsession with security means that the Canada-United States border is seen as a much more serious barrier to the efficient movement of goods and people. The CCCE has worked relentlessly to encourage joint action to improve security and to reduce border delays and costs. In particular, it encouraged the creation of the *Security and Prosperity Partnership of North America* (SPP) in 2005 and the formation of the *North American Competitiveness Council* (NACC) in 2006. The CCCE acts as the Canadian secretariat to this trilateral private-sector advisory body, and in its first year, the NACC made 51 recommendations for concrete actions to improve border management, reduce regulatory barriers and enhance cooperation on energy issues.

Despite these ongoing efforts, border delays remain serious and create additional incentives for Canadian and international companies alike to locate head-office functions south of the Canada-United States border. To be seen as the preferred location for investment in North America, Canada must offer compelling advantages on other fronts.

While Canada is headed for a significant advantage over the United States, its effective rates on business investment remain much higher than the average across the industrialized world. Canada is especially uncompetitive in the service sector, where only the United States has a higher marginal effective rate on new investment. Sweden, for instance, has a much higher overall tax burden than Canada, but its effective tax rate on capital is 42 percent lower than Canada's -- and its rate in the services sector is less than half of that in our country. What is more, other countries are not standing still and will continue to cut their corporate tax rates in the years ahead.

Lower corporate tax rates are the easiest and lowest-cost way to compete for investment. Indeed, capital is so mobile internationally that lower rates often produce higher revenue for governments as companies expand and become more profitable and as international enterprises seek to maximize their ability to recognize revenues in lower-tax jurisdictions. Ireland, with a tax rate roughly one third of Canada's, collects almost the same amount of tax revenue as a share of Gross Domestic Product. Canada has seen federal corporate tax revenue rise in every year since it began cutting corporate tax rates at the beginning of the decade.

Canada has made major progress that goes beyond the statutory corporate rate, by reducing capital taxes at the federal and provincial levels and by accelerating capital cost allowance rates for manufacturing machinery and equipment, albeit temporarily. It took an important step forward by negotiating a change to the Canada-United States tax treaty eliminating withholding tax on cross-border payments of interest. But it also has taken serious steps backward, notably through the ill-advised and counter-productive provision in the 2007 federal budget's International Tax Fairness Initiative to eliminate deductibility of interest on money borrowed in Canada for investment abroad.

Provincial governments have a critical role to play in the competition for capital. It is time for them to step up to the plate and do their share in forging a compelling Canadian advantage on the corporate tax front. They must eliminate their remaining capital taxes as quickly as possible. They should reduce provincial corporate income tax rates. And, most important, provinces that still charge retail sales taxes on business inputs should convert to value-added taxes, preferably harmonized with the federal Goods and Services Tax.

FOREIGN INVESTMENT POLICY

Globalization and the liberalization of trade and investment have been immensely positive for Canada. Our people are global citizens. Our enterprises are global in their activities and ambitions. We sell more to the world than we buy. We invest more money abroad than we attract from other countries. We earn more from our global investments than we pay to foreigners. Clearly, the best way to handle the challenges of globalization is to seize its opportunities.

To grow globally, to achieve the kind of scale necessary to be a top-ranked player in any industry, Canadian companies need to attract shareholders from around the world. And to prosper as a country, we need to ensure that companies controlled elsewhere see Canada as an ideal location from which to serve customers, not just within our borders but throughout North America and around the world.

However, Canada is not alone in its concerns about the wave of international merger and acquisition activity and its potential impact on domestic head offices and jobs. The United States, the European Union, Germany, France, Russia, India, China, Japan, and others, have taken steps recently to strengthen the rules and regulations that apply to foreign acquisitions in "strategic sectors" or that involve industries deemed vital to national security. Governments also are using informal barriers to limit foreign investment, such as declaring that certain industries are off-limits or that particular companies are untouchable.

Canada moved decisively to project a more welcoming attitude to foreign investment when it abolished the Foreign Investment Review Act in 1985 and replaced it with the Investment Canada Act. While the right to review foreign investment through a "net benefit" test remains, no foreign investment proposal has been rejected since the new Act took effect.

While this record reflects the fact that most foreign investment is highly beneficial to Canada's economy, Canada clearly must enable itself to deal effectively with the realities of a rapidly evolving global marketplace. In particular, we must recognize and deal with the fact that even Canada's largest corporations are potential takeover targets. And we must arm ourselves with the policy tools necessary to address transactions involving an increasingly diverse range of international investors.

One class of investor that is attracting widespread concern consists of the large pools of money controlled directly by governments. These funds are huge and increasingly powerful players in global markets. The largest such fund, the Abu Dhabi Investment Authority, controls an estimated $875 billion in assets, an amount that exceeds the combined market capitalization of the stock markets of Austria, Belgium, Denmark, Finland, Greece and Ireland. The world's six largest sovereign funds have combined assets estimated by *BusinessWeek* at US$2.2 trillion, greater than the combined market capitalization of all the companies on the Toronto Stock Exchange.

The growth of sovereign funds has provided important benefits. They offer a plentiful and readily accessible source of investment capital at relatively low costs. Some of these funds, such as Norway's Government Pension Fund, also operate with high standards of transparency and corporate governance. Many others do not, and are run through governance structures and with a lack of transparency that permit political goals to supercede economic considerations. When such a fund offers to take over a major enterprise in another country, is its primary interest the potential financial return, or is it seeking control of strategic resources or otherwise acting as an instrument of its country's foreign policy?

The CCCE's member survey on issues related to mergers and acquisitions revealed mixed feelings on the broad question of whether Canada needs new restrictions on foreign investment, but seven out of ten respondents favoured a specific provision for review of investment proposals that might affect national security, and more than four out of five agreed on the need for additional scrutiny of takeovers by foreign state-owned investors.

The federal government recently announced new guidelines for review of investments by foreign state-controlled entities. These guidelines enhance the review process but in a careful and balanced way consistent with Canada's international obligations and without requiring changes to the Investment Canada Act. The government simply has clarified the questions that it will ask in assessing the "net benefit" of investment proposals from foreign state-controlled entities -- the very investors most likely to attract concerns with respect to national security. The CCCE supports the government's approach.

Canada should project a welcoming attitude supported by clear rules and a transparent process, and we should not impose any new measures on investors from other countries that we are not prepared to see imposed on Canadian investors abroad. At the same time, we must equip ourselves to deal with the inevitable complexities and anomalies within an evolving global marketplace. Transactions that could have a material impact on the future security and well-being of Canadians deserve careful scrutiny and considered judgment. The process of deciding what ultimately will be in the best interests of Canadians has been and necessarily must remain a political judgment, one for which elected representatives must be accountable.

Such intervention must be the exception, not the rule. In general, governments should encourage markets to work, while strengthening the ability of Canadian enterprises to pursue ambitious global strategies. For example, the use of multiple-voting shares has proven to be critical in enabling many Canadian entrepreneurs to develop and stick to successful strategies for long-term growth, and governments certainly should do nothing to restrict this practice. Similarly, while the "widely held" rule that governs Canada's largest financial institutions may to some extent limit their access to global capital, it has ensured continued Canadian control as they pursue international opportunities. Especially in sectors that have no restrictions on investment, governments should strengthen the legal power of boards of directors to make reasonable judgments about the long-term benefits to shareholders of rejecting takeover bids in favour of independent growth.

COMPETITION POLICY

The current wave of global consolidation is driven in part by companies' desire to serve customers efficiently in markets around the world. In many sectors, the leading global companies are now far larger than anyone had imagined possible even a generation ago.

This has critical implications for Canadian consumers and for competition policy. Canada's competition policy framework was designed at a time when Canada's economy was far less open to international trade and investment. It focuses on the number of Canadian competitors in a given industry, and the Competition Bureau generally has taken the view that consolidation tends to lead to a loss of competition and therefore higher prices or poorer service for consumers.

Even as the process of consolidation has accelerated globally, the application of Canadian competition policy has appeared to reflect a bias against domestic mergers and acquisitions. The inevitable result has been a series of foreign takeovers. The critical flaw here lies less in the letter of Canada's competition law than in the process of its application. In practice, very few mergers and acquisitions come for adjudication by the Competition Tribunal. Instead, proposals go through a closed-door process of negotiation with government officials. While other countries use a similar process, the results in Canada suggest an ongoing suspicion of domestic merger proposals that has given and continues to give a significant advantage to foreign bidders over potential domestic partners when large Canadian enterprises are put into play.

If Canada is to remain home base for large companies, it must ensure that it is an attractive base for companies that seek to compete globally. By the same token, Canadian companies that aspire to be global leaders must achieve scale far beyond what is possible within the Canadian marketplace. Canada's competition framework needs to focus much more clearly on the global nature of the marketplace in which Canadian consumers and companies now find themselves. As long as Canadian customers have full and open access to global suppliers, Canadian competition policy should not discourage or be seen as discouraging Canadian companies from seeking greater scale through domestic combinations.

AN INTEGRATED COMPETITIVENESS STRATEGY

How Canada approaches foreign investment and competition policy is important, but these issues cannot be considered in isolation. To serve fully the interest of Canadians, they must be part of an integrated competitiveness strategy to make Canada a compellingly attractive place ***in which*** and ***from which*** to do business globally. ***In forging this strategy, Canada must look outward with confidence rather than inward in fear. Put simply, the best defence against any potential loss of economic sovereignty is a strong competitive offence.***

No one measure can magically move Canada to the top of the global heap. Any successful strategy must combine many elements. The CCCE laid out key elements of such a strategy in its 2006 paper, *From Bronze to Gold: A Blueprint for Canadian Leadership in a Transforming World*. The federal government took a similar approach in the *Advantage Canada* strategy it adopted more than a year ago.

The blunt fact is that most of what Canada needs to do is well understood. There is a broad consensus within the business community on these issues, and the same prescriptions have been put forward so many times that it can be tempting to take them for granted and move on to other ideas. But the major drivers of competitiveness have not changed. To summarize, Canada needs to move forward in the following areas:

1. **Education.** While responsibility for education is largely provincial, the challenge of strengthening Canada's human resources is critical to the success of the country as a whole. Governments must work together more effectively to ensure that every Canadian can achieve his or her full potential through access to high-quality education and training at every stage in life.

2. **Immigration.** Strong flows of immigration from every corner of the world have been the key to Canada's economic success and the foundation of our vibrant multicultural society. As demographics drive growing labour shortages in Canada and across the industrialized world, our country must move more aggressively to target key sources of potential immigrants and to enable employers to recruit from abroad with a minimum of cost and delay. All levels of government, together with business, academia and community organizations, must ensure that immigrants are able to put their full knowledge and skills to good use as quickly as possible.

3. **Communities that work.** Canada is increasingly an urban country, and immigration is concentrated in our largest cities. These cities in turn are critical engines of growth for the country as a whole. Federal and provincial governments must work together to ensure that cities have access to the tax room and authority they need to shape their future as magnets for the global talent that in turn drives innovation and wealth creation.

4. **An economic union that works.** The free flow of goods, services, people and investment within Canada is essential to the competitiveness of our economy. Federal and provincial governments must take significant steps forward in three areas. They must ensure that Canadians will be able to work without restriction anywhere in Canada no later than the stated goal of April 2009. They must move quickly toward a single regulator for securities markets. And they must add to the Agreement on Internal Trade an effective and binding dispute resolution process. The federal government should reinforce efforts to improve labour mobility through reform of the Employment Insurance system.

5. **Smart regulation.** The *External Advisory Committee on Smart Regulation* in 2005 laid out a comprehensive framework for making Canada's regulatory processes faster, cheaper, more transparent, more effective and more predictable, but progress remains frustratingly slow. The federal government should follow through on its commitment to reduce the administrative burden of its regulation by 20 percent. All levels of government must move to reduce costs and delays within their power and overlap and duplication between jurisdictions -- especially in areas such as environmental regulation that affect both the quality of life and competitiveness of the country as a whole. Canada must build on the recently agreed North American Regulatory Cooperation Framework and move quickly to eliminate unnecessary but costly regulatory differences between Canada and the United States. It also should encourage the development of global standards.

6. **Intellectual property rights.** Strong protection of intellectual property rights is a key driver of innovation. The CCCE strongly welcomes the federal government's commitment to a robust

framework for intellectual property rights, to address the risks posed by counterfeit goods to consumer health and safety and to encourage both more private-sector investment in research and the more rapid movement of new discoveries into commercial applications at home and abroad.

7. **Personal taxation.** Lower-income Canadians face some of the highest marginal tax rates. Cutting these rates and reducing the clawback of benefits is vital to encourage Canadians to find work and to invest in the ongoing education and training that will enable them to get ahead. To compete for global talent, Canada also must reduce its top marginal rate, currently the second highest among G7 countries. The federal government should enhance the tax treatment of both capital gains and dividends, notably by making the dividend tax credit refundable to pension plans and RRSPs. It should increase RRSP contribution limits and also create a tax-prepaid retirement savings plan that would provide no deductions on contributions but allow tax-free withdrawals in retirement. More generally, future tax changes should shift the tax burden away from investment, savings and income and toward consumption.

8. **Federal corporate taxation.** The federal government has made very important progress in reducing the statutory corporate income tax rate, but should consider reductions beyond the 15 percent rate now set for 2012. In the short term, it should take targeted measures to encourage innovation and offset the rapid rise in the Canadian dollar, including improvements to the Scientific Research and Experimental Development tax credit and extension of the accelerated write-off provisions for manufacturers. The CCCE welcomes the recent appointment of an *Advisory Panel on Canada's*

System of International Taxation to consider ways to make Canada more competitive globally, and urges the federal government to reconsider the provisions of the 2007 Anti-Tax Haven Initiative affecting the deductibility of interest on money borrowed in Canada for investment abroad.

9. **Provincial taxation.** Provinces that have not already done so should eliminate their remaining capital taxes as quickly as possible. Provinces also should cut their corporate income tax rates to meet the federal challenge of a combined federal-provincial rate of 25 percent or less. Most importantly in the short term, provinces that still charge retail sales taxes on business inputs should convert to value-added taxes, preferably harmonized with the federal Goods and Services Tax.

10. **Transportation and border infrastructure.** Efficient transportation links are vital to the movement of goods into, out of and through Canada. This requires continued strong investment in air and marine port facilities, border crossing points and internal transportation links.

11. **Canada-United States relations.** The Security and Prosperity Partnership of North America (SPP) has been an effective vehicle for improving the competitiveness of companies across the continent. Canada should continue to lead in this trilateral initiative, while also making stronger bilateral efforts to reduce costs and delays at the Canada-United States border.

12. **Trade and foreign policy.** While recognizing the paramount need to ensure the smooth flow of goods and people within North America, Canada must be more aggressive in improving market

access and strengthening trade and investment relationships around the world. It should pursue arrangements such as foreign investment protection and promotion agreements, tax agreements, science and technology agreements, regulatory cooperation agreements and air services agreements. Key targets for such efforts should include China, India, Japan, South Korea and the European Union. This will require further financial resources to be committed to the government's Global Commerce Strategy.

Some of these policy priorities are specific; others are broad. Some can be achieved quickly; others will take longer. Some would have a modest effect on particular decisions at the margins; others would have a sweeping impact across all sectors of the economy. But all of these policies matter. Progress on any of them would move Canada in the right direction. Progress on all of them would have a dramatic impact on Canada's ability to compete for investment, to attract head-office jobs and to foster a dynamic, innovative and competitive economy that is critical to the future wellbeing of Canadians. **We know broadly what needs to be done. Our challenge as a country is to get on with the job.**

FROM COMMON SENSE TO BOLD AMBITION

Your challenge as a Panel is not just to make recommendations both on the specific issues of foreign investment and competition policy and on the broader issue of competitiveness. You have an important opportunity to inspire Canadians and their governments to move forward decisively. We encourage you to bring to bear both common sense about the basics of what must be done and bold ambition for our country's future. This will require both passionate conviction and a compelling prescription that knits together all of our great challenges as a country.

For example, we as business leaders have highlighted the critical role of corporate tax policy as the single most potent tool for attracting foreign investment, driving innovation and fostering the growth of head offices and high-quality jobs in Canadian communities. But we also recognize that corporate tax policy does not exist in a vacuum.

Economic competitiveness is linked inextricably with other issues including social justice and the environment. The Panel should not hesitate to frame recommendations that bring together our great economic, social and environmental aspirations as a country.

On the tax front, for instance, what Canada really needs is a far-reaching and comprehensive reform of the way governments raise revenue. We need corporate tax reform to make Canada the most attractive place in the world in which to invest and to do business. But we also need personal tax reform that will deliver real improvements in the quality of life of Canada's least fortunate and give all Canadians real rewards for investing their time and effort in work and learning. And we need to integrate the reform of both corporate and personal taxes with our efforts as a country to address the crucial issue of climate change and ensuring the environmentally sustainable growth of our economy. The panel must not shy away from thinking big about integrated approaches to the great challenges of our time.

We will conclude with one observation about the path forward: the Panel's responsibilities do not end with the filing of its report. As demonstrated by the sluggish pace of action on so many competitiveness priorities in years past, bringing forward recommendations clearly will not enough to achieve the kind of progress Canadians need. In addition to the recommendations it makes on the substance of policies related to competitiveness, the Panel therefore should put forward a formal process for monitoring the implementation of its recommendations. In the absence of such an institutional process, Panel members should make clear their intention to follow up on their recommendations and to issue regular public reports on what governments and business are and are not doing to implement the Panel's recommendations.

The policy choices made by governments matter a great deal in determining what kind of work we and our children will be doing in the decades ahead. But in a competitive world in which people, ideas and money move with incredible speed, our destiny ultimately is our own responsibility. We can choose to enjoy comfortable lives by deploying our skills in the services of others, or we can seize the opportunities created by an open global economy and take the risks necessary to prosper as entrepreneurs and owners.

Canada has the natural, intellectual and financial resources to build on its impressive history and to shine as an example to the world of a dynamic and open economy founded within a vibrant, multicultural society. As business leaders, we are committed to driving forward the progress of our enterprises and of our country, and achieving the goal articulated by the CCCE in 2000: that of making our country "*the best place in the world in which to live, to work, to invest and to grow*."