



**Certified
Management
Accountants**

**Enhancing Canada's Productivity
and Competitiveness**

**Submission to the
Competition Policy Review Panel**

by

CMA Canada

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WHO WE ARE

The Society of Management Accountants of Canada (CMA Canada) is pleased to participate in the public consultations regarding Canada's competition policies and its framework for foreign investment policy launched by the Competition Policy Review Panel (the Panel).

CMA Canada is the Canadian governing body that grants a professional designation in strategic management accounting. It is responsible for standards-setting, accreditation and the continuing professional development of Certified Management Accountants (CMAs), regulating its members under the authorization of provincial legislation. CMA Canada represents more than 38,000 CMAs and 10,000 CMA Candidates. Our members range from senior level managers in the public and private sectors to sole practitioners operating as business consultants and auditors.

Working in organizations of all sizes, CMAs provide an integrating perspective to business decision-making, applying best management practices in strategic planning, finance, operations, sales and marketing, information technology, and human resources to identify new market opportunities, ensure corporate accountability, and help organizations maintain a long-term competitive advantage.

INTRODUCTION

The work undertaken by the Panel is timely and important. It is imperative that Canada's core economic framework policies be examined periodically and, where necessary, adjusted to ensure that these policies reflect the realities of a global competitive environment and establish a policy environment in which Canadian enterprises can succeed.

CMA Canada has long advocated public policy measures aimed at enhancing Canada's productivity record because we believe that productivity growth is paramount to improving the living standards of Canadians. One of the core objectives of our economic framework policies must be to improve the lives of Canadians. We were pleased, therefore, that the Panel stated that its "fundamental task ... is to provide recommendations to the Government of Canada on how to enhance Canadian productivity and competitiveness."

The global economy is undergoing a profound transformation, influenced by low-cost and high-quality offshore labour pools, soaring energy demand and costs, and complex non-tariff barriers erected in many countries. The impact of the rapid rise in the Canadian dollar is also presenting new challenges for Canadian businesses.

INTRODUCTION (continued)

At the root of the tectonic shifts in the global economy is the movement of massive amounts of investment capital across national borders. Where these investments flow, both inward and outward bound, will determine whether Canada becomes a relevant participant in the fiercely competitive global economy. Canada's relative place in this world will be determined, in large measure, by the policy response of the Government of Canada. Once the policy framework is set, it will then be up to Canada's private sector managers and board directors to improve our competitiveness in the world.

Enhancing Productivity and Competitiveness

The Panel's consultation document entitled *Sharpening Canada's Competitive Edge* presents a sound thematic framework for dealing with competition and investment policies. Moreover, it poses a series of important, and complex, questions. In this submission, we respond to the broad themes of the consultation document with a focus on policy measures that would (a) enhance Canada as an environment from which our enterprises can emerge and prosper globally, and (b) make Canada a preferred location for the capital, talent and innovation that are at the foundation of modern economies.

CMA Canada believes that the single biggest economic question to be addressed today is how to bring Canada's productivity growth back, at a minimum, to pre-2000 levels. Providing the right answer to this question is the key to improving the standard of living enjoyed by Canadians. In order to respond to this question adequately, we submit that the Government of Canada should focus on what the OECD describes as the "drivers of productivity growth: human capital, physical capital, and innovation."¹ Accordingly, our recommended policy prescriptions are organized into these three categories.

1. Human Capital

Education and training play an essential role in driving productivity gains. As Kevin Lynch has written, "Not many investments produce such large economic payoffs as education."² CMA Canada is an organization focused on advanced learning and skills development; we are deeply involved in attracting and recruiting foreign professionals and top-tier business school students. Accordingly, we emphasize investments in human capital.

¹ *Canada's Success is No Accident, And It Isn't a Given*, Kevin Lynch, [Policy Options, April-May 2006](#), page 12.

² *Ibid*, page 14.

1. Human Capital (continued)

1.1 Attract Talented Students to Canada

The best and brightest post-secondary students from around the world must be attracted to study in Canada. Budget 2007 provided \$2 million over two years to launch an international education marketing campaign, promoting Canada as an academic destination of choice. While this measure has sound policy intent, more can, and must, be done to increase Canada's pool of people devoted to top-level research and innovation. Moreover, while Canada currently participates in a Canada-U.S. Fulbright Program, we propose that a Canadian-branded scholarship program be developed to attract top foreign students.

CMA Canada recommends that the Government of Canada endow a scholarship program aimed specifically at attracting top students to study in Canada. This recommendation envisions the federal government creating a scholarship program available to top students at all levels of post-secondary education from around the world. It would be similar to other internationally recognizable scholarships such as Fulbright and Rhodes. The aim is to encourage the most talented students to attend Canadian universities and add their innovation, talent, and intelligence to Canadian-based research.

Once top academic talent has been recognized and developed, ensuring that the talent is able to live and work in Canada is essential. Therefore, in conjunction with this scholarship program, enhancements to immigration policy should be made to encourage gifted foreign students to remain in Canada following completion of their studies. Specifically, CMA Canada believes that the current Post-Graduation Work Permit Program should be reassessed. Currently, foreign students can receive a work permit for up to two years after graduation from a Canadian university or college, or one year if the student remains in Toronto, Montreal or Vancouver. CMA Canada proposes that a new program be created to provide talented foreign students who are able to find gainful employment in the Canadian workforce a longer-term work permit to allow the Canadian economy to reap the benefit of the government's investment.

1. Human Capital (continued)

1.2 Focus on Basic Skills

Productivity can be improved by bringing the low-productivity segment of the workforce closer to the median.³ This requires a focus on basic literacy and numeracy skills. 40 per cent of working Canadians lack the literacy skills needed to participate in a knowledge economy, yet employer investment in essential skills training accounts for only 2.2 percent of all training spending.⁴ Addressing this gap can have considerable positive consequences. A C.D. Howe Institute report found "... a 1 per cent increase in the literacy measure in a country will generate in the long run an increase in labour productivity above 2 per cent."⁵ The relationship between human capital and productivity is robust; poor literacy skills act as a drag on growth.

CMA Canada recognizes the labour force training issues related to federal-provincial jurisdiction. Nevertheless, the fundamental importance of basic skills training to Canada's productivity performance should drive a cooperative approach between the federal and provincial governments to promote the acquisition of basic skills by adults currently in the labour force.

CMA Canada recommends, therefore, that a wide range of training policy instruments be considered, including investing directly in basic literacy and numeracy programs, and providing a tax credit for training expenditures as an incentive to encourage businesses to invest in raising basic skill levels. In order to attract business of all sizes to participate, the proposed tax credit should be refundable when no tax is payable, up to a reasonable annual limit per employee.

2. Physical Capital

Investing in information and communications technologies (ICT) in the workplace has a significant impact on productivity growth.⁶

³ *From Productivity to Well-Being: Keep the Focus on Basic Skills*, Pierre Fortin, [International Productivity Monitor, Number 11, Fall 2005](#).

⁴ *Connecting The Dots...Linking Training Investment to Business Outcomes and the Economy*, Allan Bailey, Canadian Council on Learning, April 2007, page 6.

⁵ *Public Investment in Skills: Are Canadian Governments Doing Enough?*, Serge Coulombe and Jean-Francois Tremblay, [C.D. Howe Institute Commentary, No. 217, October 2005](#), page 8.

⁶ *Lessons for Canada from International Productivity Experience*, Andrew Sharpe, [International Productivity Monitor, Number 14, Spring 2007](#), page 24.

2. Physical Capital (continued)

A 2005 study by the Centre for the Study of Living Standards suggests that Canada's poor productivity performance over the past several years can be attributed in part to "... a substantial shortfall in the growth of ICT capital stock relative to what is necessary in order to catch up to the level of technology employed by U.S. industries..."⁷. When ICT investment per worker is examined, Canadian investment was 48.4 per cent of that in the U.S. in 2004.⁸

One key factor in this ICT investment gap is the small average firm size in Canada relative to other countries, particularly the U.S.⁹ As Andrew Sharpe of the Centre for the Study of Living Standards noted, small and medium-sized firms invest considerably less in ICT than large firms.¹⁰ Sharpe also concluded that significant productivity gains may be obtained from the appropriate introduction of ICT.

Although there are several policy instruments that could be introduced to encourage greater investment in, and adoption of, ICT by Canadian businesses, we propose the following two measures for consideration:

2.1 ICT Adoption Tax Credit

The adoption of ICT, particularly by small and medium-sized enterprises (SMEs), which account for 65 per cent of all private sector employment, should be stimulated. One important measure for doing so was recommended by the Telecommunications Policy Review Panel. This Review Panel was formed in April 2005 to examine Canada's telecommunications policy framework and make recommendations to modernize that framework to ensure Canada has a strong telecom industry that is achieving the goals established by the *Telecommunications Act*. In March 2006, the Review Panel released its report with 127 recommendations on ways to improve Canada's telecommunication policy.

CMA Canada believes that Recommendation 7-5 of the Telecommunications Policy Review Panel, to introduce an ICT adoption tax credit targeted at SMEs, should be accepted and adopted in its entirety.¹¹ For the convenience of the Panel, this recommendation is set out immediately below:

⁷ *An Analysis of the Labour Productivity Growth Slowdown in Canada since 2000*, Someshwar Rao, Andrew Sharpe, Jeremy Smith, *International Productivity Monitor*, Number 10, Spring 2005.

⁸ *Ibid.*

⁹ Dirk Pilat, *Canada's Productivity Performance in International Perspective*. *International Productivity Monitor*, Number 10, Spring 2005.

¹⁰ Andrew Sharpe, page 6.

¹¹ *Telecommunications Policy Review Panel Final Report, 2006*, page 7-37.

2. Physical Capital

2.1 ICT Adoption Tax Credit (continued)

Recommendation 7-5

The federal government should introduce an ICT adoption tax credit targeted at small and medium-sized enterprises and having the following features:

- a. It should apply to investments in ICT assets and to complementary expenses related to ICT adoption,
- b. It should define ICT assets broadly as including computers, communications equipment, software and computerized manufacturing equipment,
- c. Complementary expenditures related to the effective adoption of ICTs such as costs related to ICT training, organization changes and process re-engineering necessary for ICT adoption should be eligible for the tax credit,
- d. In order to increase its effectiveness and reduce the associated tax expenditures, the ICT adoption tax credit should apply only to incremental ICT adoption costs, and
- e. The credit should be fully refundable when no tax is payable.

2.2 Harmonize Provincial Sales Taxes with the GST

ICT adoption by Canadian business enterprises would be encouraged further by eliminating the application of provincial retail sales taxes on ICT expenditures. Eliminating retail sales taxes on business inputs and capital goods, as is the case with the GST, would reduce the cost of ICT investment. CMA Canada is pleased that the Economic Statement released on October 30, 2007 by the Minister of Finance affirmed the federal government's willingness to work with the five provinces that still have retail sales taxes to help facilitate the transition to provincial value-added taxes harmonized with the GST. This commitment was also made in Budget 2007. CMA Canada encourages the federal government to vigorously pursue this commitment.

3. Innovation

Innovation – or doing things smarter – is reinforced by investments in human and physical capital, and by measures to encourage competition and protect intellectual property rights. Although it is not the whole story, research and development intensity (R&D/GDP) is crucial for innovation and productivity growth.¹² While there are numerous measures that could be implemented to encourage greater innovation by Canadian businesses, CMA Canada believes the following two measures are particularly desirable:

3.1 Improve SR&ED Tax Credits

The Scientific Research and Experimental Development (SR&ED) tax credit is the federal government's flagship program that encourages the business community to perform research and development in Canada. The number of corporations earning SR&ED tax credits exceeded 19,600 in 2004, with a large majority of claimants being small and medium-sized businesses.

The SR&ED tax credit benefited from changes announced in Budget 2006, namely to raise the taxable income for full refundability claimants from \$300,000 to \$400,000, and to extend the carry-forward period for unused tax credits from 10 to 20 years. Despite these positive changes, Canada continues to under-perform in business research and development. We firmly believe the program must be enhanced to ensure that Canada is poised to receive new investment capital, as well as better lever the impact of the tax credits' spill-over benefits into other sectors of the economy. Adjusting the tax credit would drive greater innovation in Canada.

The Government of Canada launched a public consultation in 2007 regarding the SR&ED tax credit. CMA Canada participated in that consultation process. In our submission we noted the marketplace realities that make the SR&ED tax credit less attractive than it appears to be. The following examples highlight some of the challenges faced by the business community as its leaders consider whether to invest in research and development in Canada:

- a. Although the tax credit program is generous from the perspective of nominal tax rates, the reality is that many companies do not have sufficient taxable income to take immediate advantage of the tax credits. Consequently they accumulate pools of earned but unclaimed tax credits.

¹² Sharpe, page 27.

3. Innovation

3.1 Improve SR&ED Tax Credits (continued)

- b. In its testimony presented in 2007 to the House of Commons Standing Committee on Finance, the SR&ED Tax Credit Coalition, which consists of major companies from across Canada representing virtually every sector of the economy, indicated that its members have accumulated SR&ED credits well in excess of \$2 billion. The aggregate number of banked credits is much larger. These banked tax credits do not attract any additional investments in Canada, do not lead to a new technological breakthrough, and do not create a single new job in the country.
- c. Business decision makers will heavily discount the tax credits to reflect the time lag between the research and development investment and the use of the tax credit. This discounted value has a negative impact on investment decisions because it is uncertain whether the credits will ever be claimed.
- d. After-tax costs of R&D spending increase if companies are unable to use their tax credits at the time they make their investments. The practical consequence is to make Canada a less attractive place to make R&D investments than those countries where companies can immediately access R&D incentives. This can also have a direct impact on a company's ability to raise new capital.
- e. Companies with large accumulated pools of unused tax credits can be attractive takeover targets because the acquirer can use the credits to, at least in part, help finance the acquisition. The reality is often that foreign-based enterprises become the unintended beneficiaries of taxpayer-funded incentives.

CMA Canada recommends, therefore, that the Government of Canada enhance its support of research and development by extending the refundability provision currently available only to smaller businesses to claimants of all sizes. As an alternative, the government could permit larger claimants to apply the tax credit against other federal government levies such as EI premiums. CMA Canada recommends that this important change to the operation of the SR&ED tax credit be made available for credits earned in 2008 and every year thereafter. Claimants should also be permitted to use their accumulated but unused tax credits first to offset taxes applied in 2008 and in subsequent years, until the pool has been used up. Companies would thereby be able to draw down their existing pools of earned but unclaimed credits over time, with minimal impact on the federal government's treasury.

3. Innovation (continued)

3.2 Combat Counterfeiting and Piracy of Intellectual Property

Counterfeiting and piracy of intellectual property (IP) reduce tax revenues and blunt innovation. Protecting IP rights can promote innovation and must be encouraged.¹³

In the spring of 2007, both the House of Commons Standing Committee on Industry, Science and Technology and the House of Commons Standing Committee on Public Safety and National Security concluded major studies of counterfeiting and piracy in Canada. In their respective reports, the two committees reported major concerns with the impact of counterfeit and pirated goods and intellectual property on competitiveness and innovation in the Canadian economy, as well as on health and safety.¹⁴ The recommendations of the two parliamentary committees illustrated the important role the federal government should play in establishing a legal framework that vigorously protects copyrights and trademarks and strongly enforces intellectual property laws.

CMA Canada was pleased that the federal government issued a response to the two House Committee reports in the fall of 2007 that generally supported the recommendations. It is essential, however, that a firm commitment be made and that these recommendations be implemented as soon as possible. The recommendations, supported by CMA Canada, include the following:

- a. Make it a criminal offence to manufacture, reproduce, import, distribute and/or sell counterfeit and pirated goods and intellectual property.
- b. Make the manufacture, sale and distribution of fake labels of authenticity a Criminal Code offence.
- c. Amend the Proceeds of Crime Regulations to permit the seizure of income and property derived from copyright piracy.
- d. Introduce an administrative monetary penalty regime for the importation and exportation of counterfeit and pirated goods.
- e. Give authority to the Canada Border Services Agency (CBSA) to target, detain, seize, and destroy counterfeit and pirated goods.

¹³ *Ibid*, page 27.

¹⁴ *Counterfeit Goods in Canada – A Threat to Public Safety*, Report of the Standing Committee on Public Safety and National Security, 39th Parliament, 1st Session, May 2007; *Counterfeit and Piracy are Theft*, Report of the Standing Committee on Industry, Science and Technology, 39th Parliament, 1st Session, June 2007.

3. Innovation

3.2 Combat Counterfeiting and Piracy of Intellectual Property (continued)

- f. Establish a registration system that intellectual property owners can use to register their rights with the CBSA.
- g. Release information and samples to IP rights holders to help them exercise their civil remedies against counterfeiting and piracy.
- h. Ensure that adequate financial and human resources are available to Canadian border officials and law enforcement agencies to combat counterfeiting and piracy of intellectual property.

CONCLUSION

The work of the Panel is vitally important to helping set the course for the future success of Canada and Canadians in a highly competitive global economic environment. There are many policy instruments that could contribute to enhancing Canada as a country from which our enterprises can emerge and prosper globally, and to making Canada a preferred location for the capital, talent and innovation that are at the foundation of modern economies. These are key objectives in CMA Canada's focus on measures to enhance Canada's productivity performance.

In summary, CMA Canada recommends the following policy measures for consideration by the Panel:

1. Endow a scholarship program aimed specifically at attracting top students from around the world to study in Canada. In conjunction with this scholarship, enhancements to immigration policy should be made to encourage gifted foreign students to remain in Canada following completion of their studies.
2. Promote the acquisition of basic skills by adults currently in the labour force by examining a wide range of training policy instruments, including: (a) investing in basic literacy and numeracy programs; and (b) corporate tax credits for training expenditures.
3. Adopt Recommendation 7-5 of the Telecommunications Policy Review Panel to introduce an ICT adoption tax credit targeted at SMEs.
4. Vigorously pursue the commitment in Budget 2007 and the 2007 Economic Statement to encourage provinces with a sales tax regime to harmonize with the GST.
5. Change the SR&ED tax credit to extend the refundability provision currently available only to smaller businesses to all claimants.
6. Implement the recommendations of the House of Commons Public Safety Committee and the House of Commons Industry Committee to combat counterfeiting and piracy of intellectual property.