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Canadian
Manufacturers &
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Manufacturiers et
Exportateurs du
Canada



Canadian
Services
Coalition



CERTIFIED
GENERAL
ACCOUNTANTS
COMPTABLES
GÉNÉRAUX
ACCREDITÉS

Hon. James Moore, P.C., M.P.
Minister of Industry
C.D. Howe Building
235 Queen Street
Ottawa, Ontario K1A 0H5

October 18, 2013

Dear Minister Moore:

The services sector is an important and growing sector of the Canadian economy, increasing from 65% of Canada's GDP in 2000 to 70% in 2012. It is a major driver of employment and economic wealth for Canadians with approximately 3 out of 4 Canadians employed in the services sector. (Source: DFATD website)

Public policy that enables the growth of services industries, including the substantial service components embedded in manufacturing is critical to ensuring Canada's ongoing economic strength. Unfortunately, according to the Department of Foreign Affairs, Trade and Development, Canada ranks a mediocre 18th in services exports – leaving a tremendous opportunity for growth.

Given the dominant role services plays in Canada, it is critical that it be accurately measured. Today this is not the case. The substantial value of cross border trade in services through foreign affiliates, online trade and the movement of service providers is largely embedded in other statistics or not collected at all.

This is creating an environment where policy makers are reliant on anecdotal evidence rather than hard statistics. While anecdotal evidence can be helpful for illustrating business realities, they tend to primarily come from single, larger companies and are almost void of small business examples - an important component of the Canadian economy.

These are serious information gaps for Canadian policy makers, especially trade negotiators, who are working to improve market access abroad for Canadian businesses of all sizes. Success in these negotiations has the potential to fundamentally alter the Canadian economy.

The efforts of Canadian trade negotiators to collect the data necessary for robust agreements that are in the national best interest are being undermined by three factors:

- Sharing of information

Data supplied by Statistics Canada to other parties, including within government, cannot lead directly or indirectly to the identification of individual companies. Canada's small samples sizes matched with country specific inquiries can lead to DFATD being unable to attain the core information it requires from Statistics Canada.

- Missing Foreign Affiliate Data

It is essential that Canada start collecting data on the operations of Canadian multinationals outside of Canada and foreign multinationals working inside of Canada. This data can have a substantive impact on services numbers. For example, Sweden found that services sales were "60 percent higher when service-focused subsidiaries are included in the analysis".¹ The current data gap in Canada means our policy makers are attempting to support our economy with limited, and potentially incomplete, data.

- International Cooperation is Essential

Trade data has limited usefulness if it isn't directly comparable to other countries. The OECD and the WTO are working on creating an agreement on how to capture more services data in a manner that will allow for international comparisons. We strongly encourage our government to continue to invest in this effort.

The lack of data sharing leaves Canada in the dark:

E.g. If a single Canadian firm's sales to Ecuador dominated Canada's engineering exports, Statistics Canada will only provide DFATD with aggregate commercial services data (i.e. all services). Should a foreign government seek a trade reservation on engineering services, trade negotiators will have no hard data to determine if this is in Canada's best interests.

Due to the limited Canadian data, DFATD has to make-do by relying on publicly available US government data on foreign affiliates – having better Canadian data will allow for better policy choices

Recommendations:

It is clear that Canada must take steps to improve its overall understanding of today's modern economy – including the growing services sector. This change in policy must occur at every level and across all of government.

To improve the collection, analysis and availability of services data, we recommend the following affordable and much needed first steps:

¹ Everybody is in Services, pg. 25 <http://www.kommers.se/Documents/dokumentarkiv/publikationer/2012/skriftserien/report-everybody-is-in-services.pdf>

1. Undertake a review within Statistics Canada to find a way for essential, anonymous data to be shared with Canadian trade negotiators that respects the need for business confidentiality.
2. Ensure that Statistics Canada has the resources and direction to give the proper prioritization to the services sector. At a minimum, Statistics Canada should implement additional questions to their surveys to allow the collection of data on all Canadian multinationals working abroad and foreign multinationals operating in Canada. Such additions should bear in mind the current reporting duties for Canadian businesses and should be designed in such a manner to minimize the overall reporting burden. With careful planning, this additional information could be collected for approximately \$1M per year.
3. The Deputy Minister of Industry Canada and Chief Statistician should hold a small roundtable with a core group of Canadian associations, think tanks and academics on what needs to be done to ensure Statistics Canada data collection and reporting better reflects Canada's 21st century economy.
4. Play a key role in the OECD's ongoing efforts in building the needed framework for comparative services statistical data collection.

Sincerely,

The Canadian Chamber of Commerce
The Canadian Council of Chief Executives
The Canadian Life and Health Assurance Association
Canadian Manufactures and Exporters
The Canadian Services Coalition
Certified General Accountants

C.C.:

Mr. John Knubley, Deputy Minister, Industry Canada
Mr. Simon Kennedy, Deputy Minister, Foreign Affairs and International Trade Canada
Dr André Downs, Chief Economist, Foreign Affairs and International Trade Canada

Minister of Industry



Ministre de l'Industrie

Ottawa, Canada K1A 0H5

DEC 20 2013

Ms. Leah Littlepage
Director
Canadian Services Coalition
360 Albert Street, Suite 420
Ottawa, Ontario K1R 7X7

Dear Ms. Littlepage:

Thank you for your letter of October 18, 2013, co-signed by other member organizations of the services sector, regarding the availability of detailed statistical information relating to internationalization and globalization. I appreciate receiving your organization's views on this matter.

In a rapidly evolving global economy, understanding the nature of trade in services as well as the value added in international trade in the context of global production; having measures of the activities of foreign affiliates; and recognizing the increased need for analysis at the micro level all constitute important policy data needs.

I can assure you that Statistics Canada recognizes the issues that you have raised and is taking steps to address some of your concerns. As you may know, the Agency recently upgraded and broadened its methodology and coverage for international trade in services. These improvements to the data were released at the time of the last comprehensive revisions on October 1, 2012. Similarly, the content and coverage of foreign direct investment surveys have been upgraded. These were released on May 9, 2012.

With respect to the activities of foreign affiliates, Statistics Canada has undertaken work to develop new data sets that address some of the identified data gaps, such as trade in services and trade by foreign affiliates. In 2014, the Agency will release an expanded data set on activities of Canadian foreign affiliates, which will include a number of new variables in addition to sales and employment. In 2015, Statistics Canada is planning to release information on the activities of foreign affiliates operating in Canada.

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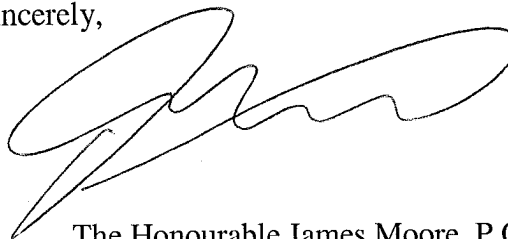
Canada

I would note that Statistics Canada is very involved and contributes to the work of the relevant international agencies, such as the Organisation for Economic Co-operation and Development, the World Trade Organization and the International Monetary Fund. With respect to the issue of manufacturing services that you raised, Statistics Canada is participating in an international task force geared to more accurately measure global production in official statistics. This task force has established a committee that is assessing the incidence and impacts of cross-border processing services; the global distribution activities of domestic firms that take place outside of Canada; and the growth of factoryless goods producers. Furthermore, I wish to underline that Statistics Canada has been among the leaders in advocating for more comparable data and actively participating in forums to advance data development in areas related to those that you have identified.

In closing, with respect to your recommendation to hold a round table discussion, I support this idea. As you have suggested in your letter, it is critical that our statistical system evolve in step with changes in the economic environment. As such, I have asked the Deputy Minister of Industry and the Chief Statistician of Canada to schedule a round table discussion with your organization, and the other organizations, and to report back to me on the issues you have raised. I have also asked them to keep me apprised of these issues as we move forward.

Once again, thank you for bringing these issues to my attention.

Sincerely,

A handwritten signature in black ink, appearing to be 'James Moore', with a large, sweeping loop at the end.

The Honourable James Moore, P.C., M.P.

c.c.: Mr. John Knubley, Deputy Minister, Industry Canada
Mr. Wayne R. Smith, Chief Statistician of Canada

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