

CANADIAN BUSINESS AGENDA



April-May 2007

A monthly update from the Canadian Chamber of Commerce on policy issues affecting Canada's business sector

The Canadian Chamber of Commerce has been Canada's Voice of Business™ since 1925. Through our network of local chambers of commerce and boards of trade, at least one in every federal riding, we represent over 170,000 businesses. The Canadian Business Agenda is designed to keep you informed of business issues on a monthly basis. Please contact us on any issue in this newsletter that is of interest to you or your constituents.

Chamber Weighs in on Interest Deductibility and Foreign Affiliates

Recently, on behalf of our members, the Canadian Chamber wrote to Finance Minister Jim Flaherty to express views and concerns on the recent proposal in *Budget 2007* to effectively disallow an interest deduction for a Canadian resident corporation on money borrowed to acquire shares of a foreign affiliate.

The Canadian Chamber believes this proposed shift in policy represents a dramatic and negative change from Canada's existing system, which the Department of Finance has historically defended.

The Canadian Chamber believes that the proposal in *Budget 2007* will increase the after-tax cost of borrowing to invest in foreign affiliates, thus serving as a disincentive to invest abroad, thereby eroding the competitiveness of Canadian resident corporations. Moreover, in a small, open economy such as Canada's, if a company has reached its capacity in the local market – i.e. reached a level where it cannot expand further in the Canadian marketplace – it will now be penalized for borrowing in Canada to expand abroad. This also assumes that Canadian companies will have the ability to borrow outside of Canada. This will not be the case for some companies, thereby crippling their ability to expand.

In addition, companies that manufacture products in Canada whose principal inputs include imported raw materials from their foreign affiliates will be forced to source inputs elsewhere from more costly suppliers if they cannot acquire or finance production facilities in offshore locations. This will increase

their cost of production.

Budget 2007 estimates that this measure will generate \$10 million in federal revenue in fiscal 2007–08 and \$40 million in fiscal 2008–09, an estimate that appears extremely low. Based on feedback the Canadian Chamber has received from members, there is a growing sense that the tax impact now is at least \$1 billion per year and could be as large as \$2 billion.

The full letter may be found on the Canadian Chamber's Web site at www.chamber.ca/cmslib/general/070412Flaherty.pdf. For further information contact Tina Kremmidas, Assistant Vice President & Senior Economist, (416) 868-6415, x222, tkremmidas@chamber.ca.

Chamber Reaction to Government's GHG Plan

Last week's release of *Regulatory Framework for Industrial Air Emissions* brings some additional regulatory certainty for Canadian companies as to what will be expected of them over the short, medium and long term. In addition, this plan takes into account a number of recommendations put forth by the Canadian Chamber of Commerce with regard to this important issue.

Here is some of the initial reaction to the plan from the Canadian Chamber's perspective.

- ◆ Intensity-based targets for greenhouse gases do not discriminate against companies that are expanding and will encourage companies to focus on improving productivity and energy efficiency.
- ◆ The Plan includes flexibility mechanisms such as access to emissions trading and offsets to ensure that mandated reductions can be achieved in the most cost-effective manner.
- ◆ The longer-term timeline of 2020 allows some time for the development and implementation of new technologies such as carbon capture and storage.
- ◆ Developing standards for efficiency rather than banning by product type allows for innovation

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within existing products (such as improved efficiency incandescent bulbs) and for the development of new technologies.

- ◆ We are pleased that support for equivalency agreements is included for those provinces/territories that develop compatible regulatory regimes.

The Canadian Chamber of Commerce looks forward to taking part in consultations, as announced by the government, to discuss targets to be set in the plan, going forward.

Single Securities Regulator Would Benefit SMEs in Canada

New and detailed research has found that Canada's current securities regulatory structure is not SME-friendly. Research done by the Canadian Bankers Association (CBA) has found that the decentralized securities regulation within Canada is having a negative impact on all firms trying to raise capital.

Some of the findings of the CBA's research include:

- ◆ Filing in 13 jurisdictions rather than one almost doubles the regulatory costs of doing business
- ◆ The costs go up as the size of the securities offering increases – and as capital is raised in multiple jurisdictions
- ◆ Each additional jurisdiction increases offering expenses by approximately 7%.

The CBA analyzed the System for Electronic Document Analysis and Retrieval (SEDAR) database (a filing system developed for the Canadian Securities Administrators) between January 2002 and May 2006 and ultimately focused on 299 offerings, primarily small and medium-sized firms.

The Canadian Chamber of Commerce has long advocated for a single securities regulator in Canada and we will continue to do so. We encourage MPs to work with their provincial government counterparts to make this happen as it is clearly having a costly impact on businesses in all jurisdictions.

A full copy of the research report can be found at www.cba.ca/en/content/general/2007%20%20Securities%20regulators%20SME%20Research%20Report.pdf.

Canadian Chamber Highlights Canada-U.S. Issues in Appearance before International Trade Committee

Cliff Sosnow, Co-Chair of the International Affairs Committee, and Brian Zeiler-Kligman, Policy Analyst, International, appeared before the House of Commons Standing Committee on International Trade last week on behalf of the Canadian Chamber of Commerce. The

International Trade Committee invited the Canadian Chamber to be among its first witnesses in its study of Canada-U.S. trade and investment issues and the Security and Prosperity Partnership (SPP).

The Canadian Chamber strongly advocated the need for further work to be done on developing a border contingency plan; improvements to border infrastructure (in particular the Detroit-Windsor crossing, the Bellevue International Terminal and the Lacolle/Champlain crossing; regulatory cooperation with the U.S.; and improvements in Canada's intellectual property regime.

For more information, contact Brian Zeiler-Kligman, (613) 238-4000, x225, bzeiler-kligman@chamber.ca.

Canada & India:

Boosting Economic Ties and Cutting Barriers

The Canadian Chamber of Commerce has just released this major paper, looking at ways to deal with some of the barriers inhibiting greater Canada-India economic interaction.

All MPs will receive this document shortly or it is available now on the Chamber's Web site at www.chamber.ca.

Dates to Watch

May 7 – The Canadian Chamber will appear before the House Industry Committee on the negative effects of counterfeiting and piracy. The Chamber's Intellectual Property Committee Chair Lee Webster will speak on behalf of the Chamber.

May 28 – *Montreal* The Canadian Chamber of Commerce, in partnership with the Federation of Chambers of Commerce of Quebec and the Board of Trade of Metropolitan Montreal, is pleased to present “*Keys to Prosperity in Québec*”. This event, developed on the recently-published report from the TD Bank “*Converting Quebec's Strengths into Prosperity*” will seek solutions and provide participants with the occasion to debate concepts thus providing the partnering chambers with the occasion to adjust their lobbying efforts as necessary. Note that this event will be conducted in French; for more information visit www.chamber.ca

June 7- Gatineau, International Trade Day

Bringing together policy professionals from business and government to discuss current issues and priorities in international trade and economic policy, the day provides participants with a better understanding of the current trade-related policy issues facing Canada. For more information visit www.chamber.ca.

For more information on the Canadian Chamber of Commerce & our policy initiatives, consult our Web site at www.chamber.ca or contact Chris Gray, cgray@chamber.ca (613) 238-4000, x251



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