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TOWARDS COMPETITIVENESS: INITIATIVES AND PROGRESS

**A STATUS REPORT ON GOVERNMENT ACTION
IN RESPONSE TO THE REPORT OF THE
1991 NATIONAL SERVICES CONFERENCE**



Industry, Science and
Technology Canada

Industrie, Sciences et
Technologie Canada



External Affairs and
International Trade Canada

Affaires extérieures et
Commerce extérieur Canada

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Table of Contents

Foreword

v

Meeting the Challenge

1

A Key to Canada's Competitiveness

How to Read this Report

2

Cross-Cutting Issues

3

A Competitive Domestic Market

5

Trading Smarter

8

Financing Growth and Technology

11

Conclusion

12

Foreword

Over the past few months, Canada's future prosperity has emerged as a major topic of discussion and debate. Across the country, Canadians have been engaged in a broad dialogue on the steps we need to take to ensure our prosperity, in the 1990s and beyond. A steering group led by private sector representatives has been hard at work, assembling views and recommendations from sectoral and community consultations. This effort will culminate in September, with the publication of a prosperity action plan for Canada.

The 1991 National Services Conference was an important element of this consultative process. Over 300 representatives of private companies, business associations, and other service industry stakeholders met in six regional workshops to discuss the competitiveness of Canada's service sector. Conference participants highlighted key competitiveness issues facing service industries, and brought forward specific suggestions for action by the private and public sectors.

In virtually every regional workshop, participants asked for a status report on government initiatives to promote competitiveness. The summary which follows, prepared by Industry, Science and Technology Canada in co-operation with other federal departments, is a direct response to this request. It describes steps that the government has taken, in partnership with industry and other stakeholders, to address the important issues raised at the National Services Conference.

I trust that this status report will be useful to conference participants, and to all others with an interest in service industry competitiveness. I am also pleased to report that the government will be building on the consultation and action on service industries that began last year. National Services Month, scheduled for November, 1992, will provide new opportunities for all with an interest in the future of the service sector to continue to work together to build our competitiveness.

This work on the service sector is just part of our continuing efforts to work with all sectors and stakeholders to build a stronger economy. In particular, the consultations under the Prosperity Initiative have generated a wide variety of reports and recommendations covering all sectors of the economy, including services. We will be following up on these recommendations, and I urge you to continue sharing ideas and suggestions that will help us build on the progress that we have made.



Michael H. Wilson
Minister of Industry, Science and Technology
and Minister for International Trade
August 1992

MEETING THE CHALLENGE

National Services Month was launched in November, 1991 as an opportunity for dialogue between the federal government and members of the service sector. The Month was sponsored by the Minister of Industry, Science and Technology and Minister for International Trade to draw attention to the global competitive challenges facing service industries, and highlight the importance of services to Canada's overall competitiveness.

During National Services Month, over 300 business representatives from coast to coast met in a series of conferences to examine the competitive challenges facing service industries, from domestic markets and finance to international trade. In the report of the 1991 National Services Conference, *Towards Competitiveness*, the Canadian Association of Service Industries (CASI) reflected the urgency that participants attached to issues of competitiveness in a global economy.

Towards Competitiveness called on the federal government to issue a six-month update to conference participants, describing the specific steps that had been taken to implement their call to action. This status report describes the work that has been done since then. In some areas, the report presents information on initiatives that were already in progress when the National Services Conference took place. In fields like industry development and international trade, readers will see that a number of activities have been strengthened over the past six months. There is a great deal more to be done. Yet it is clear that the federal government and Canada's service industries have built a broad and productive partnership, aimed at augmenting the

competitiveness of one of the key sectors in the national economy.

This report should be seen as an initial step in an ongoing dialogue between government and the private sector. Future efforts will be based on a shared commitment to ensuring Canada's prosperity and competitiveness for generations to come. Discussions to date will also be of significant value as the Prosperity Initiative continues to take shape over the summer months. A national action plan will be presented this fall, at the initiative of the private sector steering group that has led the Prosperity Initiative. The government will respond to this action plan later in the year.

Towards Competitiveness is one of many submissions that the steering group has received from a wide range of industries and interest groups. Other information sources include the reports of sectoral consultation groups on business services, tourism, and construction and capital projects, all of which were submitted to the Minister of Industry, Science and Technology and Minister for International Trade. The steering group has also received consultation reports from other federal ministries whose policies affect service industries, including Finance, Transport, Employment and Immigration, and Communications.

Industry, Science and Technology Canada (ISTC) has also decided to build on its existing partnership with the service sector by again designating November, 1992 as National Services Month. The federal government will take this opportunity to share information, take stock of progress, and commit to further action together with the provinces and territories, CASI, and other service industry associations and stakeholders.

A KEY TO CANADA'S COMPETITIVENESS

Participants in the 1991 National Services Conference called for a concerted national effort to help the service industries achieve their full potential as one cornerstone of a competitive Canadian economy.

Service industries are the giant of the Canadian economy. They represent 66% of gross domestic product (GDP), and are responsible for more than 71% of the employment across the country. Business services, including engineering, design, consulting, commercial education and training, financial services, communications and transportation, make up more than 40% of all services. They account for much of the growth in Canadian industry, and for an increasing share of total exports.

Business services also provide the tools and expertise that enable other industry sectors to meet the

growing challenge of international competition. The companies in this field serve as agents of technology diffusion, enabling other firms to adjust their competitive strategies and develop new approaches to technology, human resources, production, distribution, organization and management. They are the key to the introduction of continuous innovation and life-long learning in the Canadian workplace, thus helping to position their clients at the cutting edge of organizational and managerial practice. As well, service firms involved in financial services, distribution and communications provide the essential links that support broader Canadian participation in the global economy.

The bottom line is that Canada must develop and maintain a world-class service sector, or lose its competitive edge in all areas of the global marketplace, from agriculture to advanced manufacturing.

HOW TO READ THIS REPORT

The 1991 National Services Conference focussed on three themes:

- Establishing a competitive domestic market;
- Trading smarter; and
- Financing growth and technology.

There were also a number of cross-cutting themes that emerged from the discussion in all three workshop streams. These topics included life-long learning, the

promotion of service industries, the need for a coordinated national strategy for the service sector, and the appropriate roles of government and the private sector.

Towards Competitiveness, the proceedings of the 1991 National Services Conference, addressed each of these themes in a separate section. This status report reproduces the relevant passages of the proceedings, then highlights major areas of progress over the past six months.

CROSS-CUTTING ISSUES

Extract from the 1991 National Services Conference Report

The following issues were raised consistently across all three discussion streams, and therefore should be taken as "top of mind" concerns:

- The need for improved education and training programs was emphasized in virtually every discussion stream in every community. Participants argued for national standards and greater emphasis on the three Rs, business and entrepreneurial skills, and curricula that promote competitiveness and a willingness to take risks. In several communities, participants said business should be more involved in developing school curricula. Learning was also identified as a lifelong process, with many participants calling for: improved apprenticeship and co-op education programs; in-service training; better links between technical schools and professional associations; and improved support for part-time learners. World leadership in education and training were targeted as keystones to success, though no group felt that added funding was the sole answer.
- Several participants felt Canada must attempt to emulate the success of Japan and other Pacific Rim countries by adopting similar approaches to education, training, industrial development and long-term planning.

Others cited the individualism inherent in North American culture as a better starting point for success. This dichotomy is interpreted as a call for

an integrated national strategy that serves to prioritize resources and objectives. Consistent with this strategy is the need for Canadian governments to ensure that the effects of tax and regulatory policies on competitiveness are adequately evaluated.

- There was broad support for the promotion and support of service industries as career opportunities and as a vital element of economic growth. The service industries in general, and CASI in particular, must take responsibility for delivering their message to government. CASI was urged to work with government to promote a better understanding of the challenges faced by service industries, and to take steps to build public awareness of the vitality and importance of the sector.
- There was a strong undercurrent that the private sector must take the lead in developing a vision of where it wants to go in the 1990s and beyond, and take effective action to ensure the vision is realized. Partnering of business, labour, government, educational and other service sector stakeholders was seen as critical to success.

The role of government is seen to be to support the private sector and to be actively engaged in removing barriers to competitiveness within Canada, and negotiating improved access for Canadian companies trading abroad.

Progress To Date

The federal government has recognized and welcomed private sector input on key competitiveness issues, including life-long learning, promotion of service industries, development of a national strategy, and the respective roles of government and the private sector. The scope of this partnership was demonstrated when the private sector was invited to take the lead in developing 16 sectoral action plans under the Prosperity Initiative. The government is committed to ensuring continuous improvement in the programs and policies that will enable service industries to grow, prosper and compete on the international scene. Major elements of this supportive environment include:

- More effective regulation;
- Supportive treatment of intellectual property;
- Improved transportation and communication infrastructure;
- More efficient government procurement practices;
- Supportive regional development policies;
- More effective assistance for trade development;
- Improved access to foreign markets;
- Reduction of barriers to domestic competition;
- Broader co-operation between government and specific service industry sectors.

Several of the competitive issues in this list are the subject of legislation administered by Consumer and

Corporate Affairs Canada. Competition laws, for example, ensure the vigorous rivalry in domestic markets that is necessary to stimulate improvements in quality and productivity. Such improvements, in turn, are essential to international competitiveness. Intellectual property laws, on the other hand, ensure support and recognition for the creativity that underlies technological innovation.

Co-operation with specific service industries has been a major focus at ISTC, where staff officers work with private sector clients to identify emerging competitiveness issues and seek appropriate solutions. Current activities include:

- Establishment of a forum involving business, government and academic institutions, in an effort to develop action options for the geomatics sector;
- A number of specific design initiatives, including development of a policy framework for design in Canada, and sponsorship of seminars for suppliers of design services;
- Efforts to stimulate domestic and international markets for industrial engineering consulting;
- A commercial education and training initiative, to help Canadian suppliers meet growing demand at home and abroad;
- An initiative to promote advanced management practices and effective approaches to conflict resolution within the construction industry;
- Support for intensive research on the competitiveness issues in the retail distribution sector, as well as specific efforts to promote research networks and exchanges;
- A co-operative effort with the newly-established Canadian Professional Logistics Institute, to develop a Canadian logistics strategy to match the efforts of Japan, Europe and the United States;
- Development of a guide to Canadian expertise in systems integration to help promote the industry in domestic and international markets;
- Efforts to develop the export capability of the health care services industry, beginning with a comprehensive study of export potential.

Similar partnerships are under way at the regional level:

- The Canadian Centre for Marine Communication has received support from the Atlantic Canada Opportunities Agency (ACOA), Communications Canada, and the Marine Institute for a project to speed up the adoption of new systems and services in marine telecommunication.
- Federal and provincial governments have joined industry in supporting the Atlantic Canada Grading Authority, an effort to establish a standardized grading system for tourism facilities across Atlantic Canada.

- ACOA has funded the Atlantic Geomatics Alliance in its attempts to develop advanced products and services that will be competitive on a global scale.
- In Quebec, the financial support programs of the Federal Office of Regional Development (Quebec) encourage the international competitiveness of service industries in several areas, notably including fashion design, high technology, and scientific research.

Virtually every workshop group in each regional session of the National Services Conference stressed the need for improved education and training. ISTC recognizes that an effective response to this important national issue will require the combined efforts of federal, provincial and territorial governments, educational institutions, business and labour. Employment and Immigration Canada (EIC) took a major step in this area with the introduction of the Canadian Labour Force Development Strategy in 1989. This initiative recognized the need to promote private sector training and promote competitiveness through state-of-the-art human resource planning. It also established the Canadian Labour Force Development Board, a private sector partnership organization that provides a forum for business, labour and educational institutions to advise the government on human resource and training priorities.

It is believed that two of the Board's priority issues — the development of national and industry occupational training standards, and promotion of increased private sector expenditure on training — will be addressed most effectively through sectoral initiatives. The Labour Force Development Strategy is addressing these concerns through a series of human resource sector studies, leading to the establishment of sectoral skills councils. The councils involve managers and employees in implementing the specific recommendations for their sector, including private sector involvement in ongoing training, development of occupational standards, and improved communication with educational institutions. Sectoral councils have been proposed for a number of specific service industries.

The Industrial Adjustment Service is another EIC initiative that benefits the service sector. This body encourages sound human resource planning as a means of adjusting to economic, structural or technological change.

Meanwhile, the government is involved in a number of smaller initiatives to promote management training and human resource development. The Association of Consulting Engineers of Canada is proposing to develop a seminar series on marketing and alternative dispute resolution. The Entrepreneurship Awareness Program has launched a training initiative to enhance the business climate by developing a broader base of entrepreneurial skills and attitudes. The Atlantic Canada Opportunities Agency is supporting entrepreneurship training and skill development workshops on a regional basis, and promotes human resources development through its Technical People In Industry (TPI) Program.

A COMPETITIVE DOMESTIC MARKET

Extract from the 1991 National Services Conference Report

The following points summarize the discussion of Canada's domestic competitiveness:

- Competitiveness in the total domestic market was repeatedly cited as a prerequisite for successful international trade. Removal of all interprovincial barriers, including professional mobility standards, was a significant priority.

Participants in each locale called upon governments to adhere to a fixed timetable for elimination of interprovincial barriers to trade and professional qualifications. In one group, participants estimated that there are about 500 specific obstacles to internal trade within Canada.

There was a general feeling that free trade within Canada would help reduce duplication of government services and help to cut taxes. This point was consistently underlined as a priority, since interprovincial barriers to trade and mobility run counter to a national policy of global competitiveness and free trade.

- There was wide agreement that Canadian businesses are over-taxed and over-regulated, to the point that the process can make Canadian firms uncompetitive. Domestic policies must consider the international competitive environment when increasing the cost of doing business at home. In several communities, it was suggested that industries should be trusted to regulate their own practices in areas like training and environmental protection, possibly through existing business and professional associations. The shared responsibility for improving competitiveness of Canadian services and goods was seen to be the central issue.
- Some participants argued that government should discontinue its involvement in industrial promotion and let market forces sort the winners out from the losers. Several groups advocated government subsidies should be directed strictly to "sunrise" industries, with quality and productivity as the basic

criteria for support, implicitly allowing mature or "smoke-stack" industries to be influenced by market forces. If subsidies or incentives are to exist they should be higher up the "value chain" than at the commodity level. The example given was to move government support away from wheat into pasta (or baked goods). The same group stated that some form of protection might be appropriate for new businesses, until they are strong enough to compete in the open market. In another community, participants called for a three- to five-year tax holiday for new businesses.

- Governments must be much more aggressive in supporting the commercialization of public sector research. Too often, promising new technologies are reported in government studies — which are equally available to Canadian firms and their foreign competitors — but are not actively promoted to industry. One group called for the privatization of all public sector laboratories, including those located in hospitals, except for the most basic of research.

- Different groups expressed concern about government tendering practices:

In several communities, participants said tendering should be based on the quality and suitability of the product offered, rather than price, with contract value negotiated directly with the successful bidder. There was broad agreement that governments should contract out any service that can be performed by the private sector, as a means of building up commercial expertise that will eventually lead to export opportunities. Tendering should also be carried out in a more cost effective manner. One participant recalled a \$50,000 tender call for which 47 firms were invited to bid, and noted that the cost of pointless bidding reduces competitiveness.

- Some participants expressed concern about the quality of Canada's infrastructure, including transportation and telecommunications systems.

Progress To Date

The federal government recognizes the tremendous importance of the domestic market to Canada's service industries, and it has taken a number of steps to provide a supportive regulatory and policy environment.

- **Elimination of Interprovincial Trade Barriers:** The federal-provincial Committee of Ministers on Internal Trade has reached agreement in principle on a process for the elimination of all remaining barriers to

interprovincial trade. The process will ensure that standards, regulations, and administrative practices provide for the free movement of people, goods, services and capital within Canada. An intergovernmental agreement on more open government procurement of goods took effect on April 1, 1992, and the Committee is examining similar agreements for services and construction. Substantial work on these agreements will be completed over the next year.

- **Establishing a Competitive Tax Environment:** In recent years, taxation levels in Canada have kept pace with the trend in other developed countries. Among G-7 countries, Canada has the third-lowest tax burden as a percentage of GDP — lower than the United Kingdom, Italy, Germany and France, but higher than the United States and Japan.

Taxation by all levels of government in Canada constitutes 35.3% of GDP, compared to 30.1% in the United States. However, this additional tax revenue helps reduce the private costs incurred by businesses and individuals, by supporting a broader range of services in health care, training and education. When these factors are equalized, the difference in relative taxation levels is less than 2% of GDP. Canada also provides substantially lower tax rates for small business over a wider range of incomes, and offers one of the most generous systems of R&D tax credits in the industrialized world.

The government recognizes that the level and structure of taxation can have an impact on the competitiveness of service industries. A number of recommendations are emerging from consultations around the Prosperity Initiative, some of which will have a direct bearing on the service sector. Each of these recommendations will be given full consideration.

- **Regulatory Review:** The process of regulatory review received a major boost in the federal budget of February 25, 1992. The Commons Standing Committee on Finance was mandated to study the impact of regulation on Canadian competitiveness and suggest ways of streamlining Canada's regulatory framework. The committee's report is expected in the fall, and will be followed by a series of departmental regulatory reviews. The first of this series, in the Departments of Agriculture, Transport, and Consumer and Corporate Affairs, have already begun.

The government has also joined with industry and academia to develop best practice guidelines for federal departments, under the aegis of a national Best Practices Committee. Work has also begun on *competitive impact analysis*, a policy development tool that will support regulations which stimulate industrial innovation and competitiveness.

- **Government Procurement and Contracting Out:** ISTC is examining the issue of quality-based selection in consultation with other federal departments. A form of quality-based selection is already being used in some circumstances, but the extra cost of this approach is an important constraint.

Supply & Services Canada has introduced the Open Bidding Service (OBS) to improve suppliers' access to government markets. Under this system, all requests for tenders above a minimum dollar value are advertised nationally on an electronic bulletin board. The OBS went online on June 1, 1992, and information exchange agreements with provincial procurement agencies and other federal departments will lead to an expanded system in the years ahead.

The Treasury Board Secretariat is developing policies on contracting out and common service organizations within the federal government. These policies will enable managers to provide more responsive, cost-effective support for program delivery. A costing guide will support greater emphasis on contracting out, while ensuring fairness for public sector employees.

- **Maintaining Competitive Transportation and Communication Systems:** A number of major reviews are under way to ensure that Canadian policy and regulatory frameworks reflect the need for competitive transportation services. These include the National Transportation Act Review, the Royal Commission on a National Passenger Transportation System, and renegotiation of the Canada/U.S. Bilateral Air Agreement.

In April, 1992, the First Ministers' Meeting on the Economy agreed on the need to upgrade the Canadian highway system. As well, Transport Canada is taking steps to enhance the competitiveness of Canada's container ports and related inter-modal transportation. Work is also under way to address the cross-border competitiveness of Canadian freight carriers.

In the House of Commons February 27, the Minister of Communications introduced legislation to encourage efficiency and excellence in the Canadian telecommunications system. This measure will increase Canada's competitiveness in international markets by eliminating domestic barriers and streamlining regulation of the telecommunications sector.

Communications Canada is leading a number of other initiatives to strengthen the communications sector, especially in the area of new media. Efforts are under way to establish a viable Canadian market for new media technology and products in education. Pilot projects have been established to test the transfer of information retrieval skills to communities, as part of a broader strategy to improve competitiveness through the use of electronic

information. And a national summit on information policy this December will examine the need for a Canadian response to the globalization of information-based services. A continuing review of spectrum allocation procedures and regulations will optimize the use of radio frequencies and meet increasing demand for space on the broadcast spectrum.

Communications Canada is also developing a strategy on information technology and telecommunications standards, producing an inventory of electronic databases to improve marketing of federal information holdings, and working in partnership with industry to implement Advanced Personal Communications systems.

- **Commercializing Public Sector Research:** Federal science and technology policy calls for increased co-operation between the public and private sectors, broader technical assistance to industry, and an expanded role for industry in commercializing the products of government research. The government sees its science and technology infrastructure, and particularly its laboratories, as a major source of new technologies that will help build the competitiveness of private industry. Federal departments and agencies operate about 200 laboratories across the country, with a total staff of about 33,000. These facilities are open for business, and are available to help private sector partners enhance their own technological capabilities.

TRADING SMARTER

Extract from the 1991 National Services Conference Report

Participants identified the following prerequisites to a stronger Canadian presence in global markets:

- Market intelligence was identified as a key requirement to be met by government, industry associations, or both. Participants in several communities stressed that governments' (i.e. federal and provincial) role should be to facilitate private sector access to international markets, rather than leading it. In addition to market information, it was suggested that governments could assist with information on local culture and business practices. As a strategic priority, market intelligence in the broadest sense may be one of the most important priorities if Canada is to innovate and find unoccupied market niches.
- Language and cultural sensitivity training were identified as important supports for international marketing efforts.
- The role of Canadian trade missions overseas was a matter of hot debate in several communities. Concern was expressed that the support received in different countries is inconsistent, ranging "from the sublime to the ridiculous". Some participants expressed concern about overlaps among the various federal and provincial trade offices, although others stressed the need to reflect regional interests and variations. In general, it was suggested that trade officers should be allowed to develop broader expertise and contacts in foreign countries, either by staying longer or signing up for return postings. There were also suggestions that overseas trade missions should involve the smallest possible number of government officials, so that more private firms can take part and more mission initiatives can be structured to support specific trade opportunities.
- There was a strong sense that federal support programs like the Program for Export Market Development (PEMD) should be reorganized to support winners only. A participant in Vancouver said he had excelled in Canada and moved into exports, only to find his former domestic competitors in the world market with federal assistance. Others said the federal government should either match the substantial support that international competitors receive from their own governments, or reduce taxes and regulation to a level comparable to other countries, once again reflecting the sense of shared responsibility.
- Participants in some communities called for better coordination of Canadian bids overseas, to avoid situations where five Canadian firms find themselves bidding against individual foreign competitors, or against consortia from other countries that are receiving concentrated support from their national governments.
- A number of participants said Canadian tax and regulatory regimes must become competitive with those in other countries if exporters are to survive.

There was agreement that, at present, high taxes are driving investment out of Canada. There are 157 Acts and regulations pertaining to foreign trade. One participant compared paperwork to the cholesterol that clogs arteries.
- It was suggested that federal immigration policy should be based on the education, skills, training, investment capital, and contacts in countries of origin that applicants are able to bring to Canada in order to maximize our human resources competence.
- Niche marketing, the formation of consortia and strategic alliances were generally identified as winning strategies for companies entering the global marketplace. In some groups, partnerships were considered particularly important for small and medium enterprises that lack the resources for sustained international marketing. Facilitating these arrangements could be a function.
- Participants discussed the need for greater investment in export ventures. While some were prepared to accept available international financing, others called for the formation of domestic capital pools.
- In some groups, there was a strong sense that the private sector should be prepared to hustle harder and invest more in order to succeed in international markets. To accomplish this objective, a more active communication program may be required, sponsored by trade associations and supported by government, to highlight both opportunities and successes.
- A need was seen to expand our traditional export market opportunities to potentially include tourism and even education as "products" or "services" that can be marketed abroad.

Progress To Date

The global economy presents special challenges for every sector of the Canadian economy, and service industries are no exception. Service sector entrepreneurs are ready, willing and able to seek out new export opportunities, and to take on stiff foreign competition in their own back yard. Successful marketing often depends on the ability to establish an overseas presence, in close proximity to foreign buyers. The federal government is strongly committed to supporting Canadian business operators who have the courage and creativity to look at new ways of doing business.

- **Access to Foreign Markets:** Several aspects of the Canada/U.S. Free Trade Agreement, including relaxed provisions for temporary entry, make it easier for Canadian service industries to enter the U.S. market. The agreement extends virtually unrestricted access to Canadians and Americans in over 60 professions, including architecture, accounting, physiotherapy, graphic design, and dietetics, among others. Provisions on service access have also been discussed in negotiations toward the North American Free Trade Agreement (NAFTA). Meanwhile, Canada is taking part in international negotiations to liberalize multilateral trade in services through a new General Agreement on Trade in Services (GATS).
- **Better Market Intelligence:** External Affairs and International Trade Canada (EAITC) is planning a series of major initiatives to improve the level and quality of international market intelligence in the service sector.
 - * A series of market studies will look at emerging trends and market opportunities in specific countries and service sub-sectors. One recent study, entitled *Eastern U.S. Opportunities in the Environmental Sector for Canadian Consulting Engineers*, will be complemented by a series of seminars across Canada.
 - * Representatives of specific service industries will be invited to take part in trade missions to countries where significant market opportunities have been identified. At least one of the five missions that took place in the first half of 1992 was a direct result of the 1991 National Services Conference.
 - * Service industries will receive special emphasis in Marketplace '92, a major event that coincides with International Trade Month in October, in which Canadian trade commissioners travel across the country to discuss market opportunities in their host countries.
 - * The government will complete a survey of business opportunities in United Nations procurement, host a series of workshops on how

to win health sector projects with the World Bank, and prepare a leaflet on business opportunities with the U.N. Children's Fund (UNICEF).

- **Enhanced Support from Canadian Trade Missions:** External Affairs and International Trade Canada (EAITC) has taken a number of important steps in this area.
 - * The department has developed a training program for trade commissioners and commercial officers, describing the capabilities of Canadian service industries. An initial training session for U.S. trade commissioners and International Trade Centre officers took place in June, 1992.
 - * A series of export seminars has been developed to help small and medium-sized professional service firms tackle the U.S. market.
 - * Publications on specific service sub-sectors will be prepared and distributed to overseas trade missions, to help promote Canadian service firms. Three publications, on health products and services, ports, and airports were distributed in spring, 1992.
 - * A new evaluation process will enable Canadian businesses to provide feedback on the services they receive during visits to foreign trade missions.
 - * A matchmaking conference for trading houses and suppliers will be held in Atlantic Canada in early 1993, as one means of exposing Canadian businesses to global markets.
 - * The Program for Export Market Development (PEMD) continues to play an important role in supporting Canadian firms that have a proven record in international markets and are considered "export ready".
 - * EAITC is also studying the involvement of Canadian banks in export financing. The department has approached the Canadian Bankers' Association concerning a possible workshop series on trade finance issues of interest to service exporters and banks.
- **Coordination of Canadian Bids Overseas:** The government recognizes the importance of coordinating Canadian bids overseas to maximize their effectiveness. ISTC and EAITC, along with other federal departments and agencies, have encouraged Canadian firms to enter into consortia and strategic alliances that will strengthen their presence in the global market. The two departments will also be sponsoring a seminar series to encourage strategic alliances between medium-large and specialty firms bidding on international capital

projects. Major areas of emphasis will include construction, architecture, consulting engineering, banking and trading houses.

- **Attracting Skilled Immigrants:** For many years, Employment and Immigration Canada has helped service firms meet their requirements for highly trained workers whose skills are in short supply in Canada. Under the 1991-1995 Immigration Plan, the department will allow a larger number of skilled and business immigrants to enter Canada, and will take steps to match these individuals with regional labour market needs. EIC is also leading a broad-based consultation exercise to develop a process for

assessing and recognizing foreign credentials and qualifications.

- **Attracting Foreign Buyers to Canada:** Some services are "exported" by attracting the foreign buyer to Canada, thereby earning the same foreign exchange that would be earned through traditional exports. The federal government addresses this opportunity through an international marketing program that attracts tourists from selected foreign markets. As well, ISTC's sectoral initiative on commercial education and training has recognized the opportunity to deliver training services to foreign customers, both in Canada and overseas.

FINANCING GROWTH AND TECHNOLOGY

Extract from the 1991 National Services Conference Report

The need for financing in the service sector led to the following key discussion points:

- The need for more risk capital was a common denominator in all six communities. Concern was expressed that Canadian bankers and venture capitalists are seen to be risk-averse. In defence, one venture capitalist made a strong case that there aren't enough qualified applicants with sound business plans. Several participants criticized investment houses for shying away from software development and enterprises that are based on brain power rather than tangible assets. The bias in financial institutions toward physical goods is a definite handicap for service type industries, which is an interesting contradiction since financial institutions are themselves "brain power" service industries. Several participants said pension and RRSP funds should be more easily accessible for venture capital purposes.

Representatives of small and medium firms said it is virtually impossible to obtain equity capital through the stock markets. There was general concern that the time allowed for a return on risk capital is too short, and that investors need a longer-term vision. Perhaps this is an area where tax policy could be

created that would encourage risk investment and longer-term views. R&D or capital gains tax should be forgiven for firms, particularly smaller companies, that make a long-term investment in business development.

- A number of participants identified specific tax regulations that make it difficult to finance new initiatives. Depreciation rules for high technology equipment are unrealistic, given the pace at which technology becomes obsolete.
- Some groups said federal research and development tax credits should be simplified but retained. It was suggested that governments should not expect royalties on R&D that they fund, since there are spin-off benefits in the form of job creation and increased national competitiveness. Concern was expressed that federal officials reviewing research funding proposals must often waste time and money by commissioning studies to tell them what proponents are talking about. In Halifax, a participant related the response that Alexander Graham Bell was reputed to have received when he brought the telephone to a prospective financial backer: "If I buy it, who should I talk to?"

Progress To Date

The availability of financing, especially risk capital, is a major challenge to service industries, and a subject of ongoing discussion between the industry, the financial community and the government.

- **Financial Services and Venture Capital:** The Prosperity Initiative has included in-depth consultations between the Canadian financial community and the Department of Finance. This process has included an examination of the roles of government, financial institutions and securities markets in raising venture capital, and of any constraints that impede the flow of investment funding. The government has also taken specific steps to increase the pool of venture capital in Canada by broadening the tax regime for labour-sponsored venture capital funds, and empowering banks to establish specialized financing corporations.

More generally, financial institutions reform should also have a beneficial impact on the range and quality of financial services offered in Canada, by

allowing the various "pillars" of the financial sector to compete more directly.

As well, ISTC is attempting to address financing issues in specific service sectors. The department's Environmental Industry Sector Initiative will include a multi-year project to study the capital requirements of environmental service firms, identify concerns of the financial community in financing the sector, and organize a series of workshops to link capital users and suppliers.

- **Ensuring Realistic Depreciation Rates:** Depreciation rates have an important impact on calculations of taxable income, and should approximate the actual experience of Canadian businesses. The tax system currently provides a range of different rates, from 4% to 100% per year, to reflect the useful life of different types of equipment. The government would welcome any evidence that depreciation rates for high technology are inconsistent with actual experience.

- **Simplifying the Research and Development Tax Credit:** The February, 1992 budget committed \$230 million over five years to cover anticipated changes in this area, and the Department of Finance is consulting industry on ways of streamlining R&D provisions of the Income Tax Act. Possible reforms include a simpler framework for deducting overhead expenses incurred by firms involved in scientific research and development, and extended tax credits for equipment that is used less than 90% for R&D.
- **Policy on Intellectual Property from Government-Funded Research and Development:** Under a new Treasury Board policy, private contractors assume title to any intellectual property developed under

federal procurement contract. An implicit element of this policy is that the government will not seek royalties from this intellectual property. Similarly, grants and contributions to universities and industry are designed to leave the recipients with clear title to the intellectual property they produce, and there is no attempt to collect Crown royalties.

The government does retain ownership of intellectual property funded through intramural research and development, and may seek royalties when this property is licensed to the private sector for commercial application. In these circumstances, government departments and agencies seek appropriate royalties to meet cost recovery objectives, and generate funds for further research.

CONCLUSION

This status report demonstrates the breadth and depth of the partnership that has been established between the federal government and Canada's service industries. The government will continue this vitally important dialogue, as one contribution to the process of building a world-class service sector.

The highlights in this report show that a solid commitment can go a long way, and that a great deal can be achieved in a relatively short period of time. The government also recognizes that much remains to be done. We look forward to working closely with the

Canadian Association of Service Industries, and with other industry representatives, to address ongoing issues of mutual concern.

The Prosperity Initiative has provided an opportunity for a wide range of industry stakeholders, including the service industries, to identify priorities for further action. The government will respond to this initiative in the fall. In November, National Services Month will provide another opportunity to further the private and public efforts that are required to ensure the continued competitiveness of Canada's vital service industries.

