

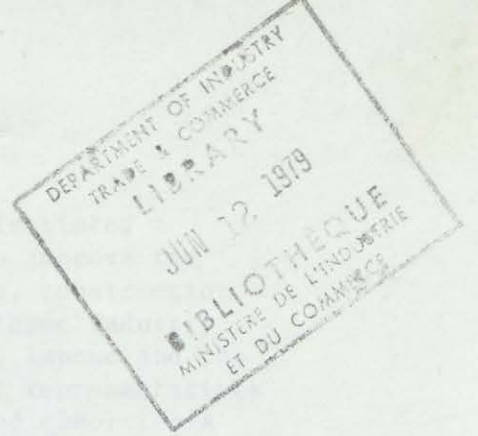
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RESPONSE OF THE FEDERAL  
GOVERNMENT TO THE  
RECOMMENDATIONS OF THE  
CONSULTATIVE TASK FORCE ON  
**THE CANADIAN PLASTICS  
PROCESSING INDUSTRY**



Government  
of Canada

Gouvernement  
du Canada



Canada

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May 1979

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## INTRODUCTION

In February 1978, Canada's First Ministers initiated a process of private sector consultations on measures to improve the performance of, and the outlook for, the manufacturing, construction and tourism sectors in the Canadian economy. Twenty-three industry task forces composed of representatives of management, labour and the academic community were formed. Provincial government representatives also participated. By August 1978, each task force had completed a series of meetings and submitted a report reflecting conditions in their industry to the Federal and Provincial Ministers of Industry and to the public. These reports covered a broad range of themes and the recommendations contained in them are viewed by the federal government as important elements in the development of future industrial policies.

Following the work of the industry sector task forces, an Overview Committee was established consisting of five representatives from the Canadian Labour Congress, five from the business community, one from the academic community and a chairman from the private sector. This group worked from the task force reports, identified common viewpoints, and presented policy recommendations applicable both to the economy generally and to specific industries. The Overview Committee presented its report to Governments in October 1978.

In reviewing the prospects for industrial growth over the next number of years, the reports prepared by the industry task forces and the Overview Committee addressed two objectives in particular. The first, was to improve the competitiveness and productivity of Canadian industry. The second was to create long-term employment.

In assessing these reports, and the Government's responses, a number of themes emerge which are of particular importance and which might be viewed as providing a framework for the recommendations of business and labour as well as the responses of the federal government. These themes focus on measures to increase industrial competitiveness, especially by building on comparative advantage, the support of regional economic development goals and the enhancement of Government, business and labour cooperation.

While the substance of what has emerged from the task force and Overview Committee reports is of utmost importance, the Government believes that the emerging process of Government/private sector consultation is of equal value. In this regard, the federal government views the results of these consultations as a significant framework for evaluating existing policies and programs and for designing new ones.

As part of its commitment to the consultative process, the Government has undertaken to respond to the recommendations of each of the 23 task forces and to those of the Overview Committee. An initial Government response was released in November 1978 entitled "Action for Industrial Growth - A First Response". A specific response to the task force recommendations with respect to taxation measures was included in the Budget Papers of November 16, 1978. On February 21, 1979, the Government released its response to the forty-six recommendations made by the Overview Committee. The Government agreed with and outlined measures in relation to the overwhelming majority of these recommendations. This document, Response of the Federal Government to the Recommendations of the Consultative Task Force on the Canadian Plastics Industry, constitutes one of the twenty-three detailed federal government responses paralleling the task force reports and should be viewed as part of the ongoing consultative process.

It is recognized that the implementation of policy initiatives indicated in these responses will, in many cases, take some time and that a few other policy issues have yet to be fully addressed. The Government will, therefore, be continuing to respond to the industry task force reports. The Government also believes that continuing consultations between business, labour and Government on specific industry sector problems are a vital part of this further work. Finally, the Government recognized that in responding to the recommendations, not all participants of each task force will be satisfied. In a number of instances, dissenting reports were submitted along with or after completion of the task force report. The Government is committed to addressing all recommendations contained in these reports.

GOVERNMENT RESPONSE TO TASK FORCE RECOMMENDATIONS - AN OVERVIEW

The Consultative Task Force on Plastics Processing defined its objective as developing a responsible, prosperous, internationally competitive plastics processing industry in Canada. To achieve this it made recommendations to: - improve its cost competitiveness by rectifying structural disadvantages, reducing input costs, maintaining trade protection and reducing taxation; improve its available market through export assistance and government purchasing practices; reduce the burden of government involvement; improve policy formation amongst federal departments as well as between federal and provincial governments; encourage an adequate level of technology; and improve the availability of statistical and management information.

The federal government recognizes the importance of the plastics industry as a vital link in the chain from oil and gas to petrochemicals to thousands of end uses for plastics such as components for industry or finished products for the consumer. It is a high growth industry that has provided numerous opportunities for Canadian entrepreneurship and is predominantly Canadian owned. A strong and viable plastics industry is considered important for the achievement of Canada's social and economic development goals and the Government has taken substantive action in addressing the recommendations of the task force.

In response to this and other task forces' recommendations, the Government has reaffirmed its belief that the principle actors in the Canadian economy must be the individual firm and its labour force and that the route to economic prosperity is via the market system. It has also endorsed the principle that the stimulation of economic growth and job creation are among Canada's first priorities. To achieve these it is important to foster an environment of understanding in which more effective consultation can take place among labour, business and Government.

In response to the issues related to cost competitiveness, the Government is in agreement in principle with the task force recommendations that would permit rationalization and reduce fragmentation as well as those designed to achieve compensation levels which would facilitate overall cost competitiveness. The Canadian Employment and Immigration Commission is developing means of giving greater emphasis to industrial training and of increasing the flexibility of the Canada Manpower Mobility Program. The Government is prepared to work toward achieving competitive compensation levels between industries in Canada and the United States and to contribute to this objective will exercise restraint in public service compensation levels and hiring in order to avoid leading the private sector. The tax system contains several notable measures that reduce the costs of investment. Tax rates on Canadian manufacturing income are generally lower than those in the United States. The recent budget added to these incentives.

With regard to the GATT negotiations, the Government has carefully considered the views of the task force in formulating its negotiating position. The Government is in agreement with proposals aimed at enlarging the market available to Canadian producers through plans to increase its export promotional efforts to help the industry and by establishing mechanisms to ensure government procurement is used effectively to promote industrial development, consistent with Canada's international obligations.

The coordination and duplication of programs are of great concern to the federal and provincial governments. In November, the First Ministers made a reduction in the duplication of services a priority measure. Currently, the federal and provincial governments are identifying areas where duplication could be eliminated. The federal government is prepared to work closely with the provinces to ensure proper coordination of effort and to reduce the cost burden that Government imposes on industry. Specific action is already underway in the field of environmental protection and where agreement can be reached, the responsibility for the enforcement of environmental regulations will be transferred to the provincial governments. At the federal level, the Board of Economic Development Ministers has been created to coordinate the activities of the various federal departments.

The Government is in agreement with recommendations aimed at raising the quality and quantity of R & D carried out in Canada, particularly by industry, and a variety of measures including tax incentives, has already been announced to help achieve this objective.

While the Government was able to agree with some recommendations related to taxation, including requests for an increase in the investment tax credit, certain recommendations have not been acted upon. The Government is of the view that the present tax structure already makes an important contribution to the relative competitiveness of industry in Canada with United States and that a sufficient case for additional tax cuts and adoption of inflation accounting or value added tax has not yet been made.

In the overall consultative process, labour had made representations regarding certain issues covered in the report of the task force. These views have been taken into account in formulating a government response.

The individual recommendations of the task force and the Government's responses to them are provided on the following pages.

DETAILED RESPONSE TO TASK FORCE RECOMMENDATIONS

STRUCTURAL DISADVANTAGES

1. Recommendation

The Federal Department of Industry, Trade and Commerce under its existing Enterprise Development Program should provide financial assistance for studies leading to consolidations and should also provide financial assistance to companies involved in the implementation of the results of the studies.

Government Response (Agree)

On October 13, 1978, the Hon. Jack Horner announced major extensions to the Enterprise Development Program (EDP) including a merger and acquisition package. The EDP may now provide funds to share the cost of merger studies, special support to maintain firms on the verge of bankruptcy when a viable merger is possible, and special co-insurance to limit the risk to acquiring firms. The focus of these extensions is to promote viable mergers which would not otherwise take place.

2. Recommendation

To reduce fragmentation in the industry and improve capacity utilization, DREE and individual provincial governments should provide financial support for new plastics processing facilities only after careful assessment of the implication such capacity will have on existing operations both within a province and within Canada, and if the marketplace requires new capacity.

Government Response (Agree)

The Government shares this concern and DREE devotes a great deal of effort to ensure that during the course of project evaluations, every effort is made to eliminate the possibility of creating fragmentation and/or overcapacity within an industrial sector. For example, the analysis of each project includes an assessment of such factors as viability, industrial sensitivity, environmental impact and the potential economic impact of the project concerned. It is also important to note that substantial consultation takes place with other federal departments throughout the process of evaluating applications on all major incentives projects and on smaller ones in sensitive industries or with resource or environmental concerns. Provincial governments are also consulted on projects considered for their regions. A thorough assessment is made, therefore, of the potential impact of incentives assistance on existing industries, markets and sectors likely to be affected. Every effort is made to ensure that the project being evaluated responds to a growth opportunity and would not simply displace existing production.



3. Recommendation

Legislation in Canada should not be overly burdensome in pursuit of consumer protection so as to be a significant impediment to the pursuit of needed industry rationalization. Care should be taken with respect to competition legislation and subsequent regulations to ensure that Canadian industry and eventually the consumer do not suffer through impediments to the development of an efficient industry. In this respect, recommendations from industry sectors and the Canadian Manufacturers' Association should be very carefully considered. Current laws already provide a formidable barrier to industry rationalization activity, despite the assistance of the federal government.

Government Response (Agree in principle)

The merger provisions of Bill C-13 are designed to resolve any conflict between the objectives of effective competition and that of increased efficiency in favour of the efficiency goal. An addition to Bill C-13 makes explicit provision for specialization agreements.

LABOUR AND MANPOWER

4. Recommendation

Governments, management, and labor should pursue policies aimed at achieving parity of labor and manpower costs in Canada and the United States.

Government Response (Agree in principle)

The role of government in the collective bargaining process in the private sector is generally limited to the provision of services and the enforcement of the rules of the process. The outcome of negotiations rests with the major participants, business and labour.

The Government would concur with the substance of the recommendation that labour costs should not be substantially different from those of our major trading partners. To assist in maintaining competitive manpower costs between Canada and the United States, the Departments of Labour and Finance, and Statistics Canada, in consultation with the Economic Council and other interested departments, will devise a mechanism to permit the improved collection, analysis and publication of compensation trends, disaggregated by industry sectors, as a means of enabling comparability of such trends across sectors and with similar trends in the United States and report as soon as possible.

5. Recommendation

To assist in achieving this goal, wage settlements in the public sector, and particularly essential service groups, should not lead, but should follow settlements in the private sector and be based on an index of recent private sector wage settlements.

6. Recommendation

Governments should actively publicize wage settlements achieved in the public sector which meet current targets.

Government Response (5 and 6 - Agree)

The Government has introduced legislation which would link compensation levels in the public sector with those of the private sector. This legislation is intended to not only ensure equivalence in private and public sector wages, but also to protect public sector wages from lagging behind the private sector in a way which would be disadvantageous to public servants. In defining wage settlements in the public sector, the Government will continue to rely primarily on collective bargaining. In addition, current government practice is to publish all wage settlements negotiated under collective bargaining in the public sector. These are issued in the form of a press release which is made available to the media and any private sector group that expresses an interest.

7. Recommendation

Governments should ensure that the levels of minimum wages in Canada are consistent with representative levels in the United States.

Government Response (Agree in Principle)

Labour's view on this matter suggests the focus should not be a comparison level of the minimum wage but rather on the quality of life such a wage would support. The Government agrees that one of the major objectives of a minimum wage is directed towards quality of life and that an exact comparison is not possible. At the same time for those sectors under federal jurisdiction, the federal government is sensitive to the historical relationship between the level of minimum wages and average industrial wages and their impact on the competitive relationship between labour and manpower costs in Canada and the United States.

8. Recommendation

Unemployment benefits in Canada should not be more generous than those provided in the United States, and should not be a significant disincentive to seeking employment.

Government Response (Agree in part)

The Government cannot see any rationale for limiting the level of Unemployment Benefits to those provided in the United States. Canadian legislation relating to unemployment benefits must be designed to correspond to the economic and social preferences of Canadians, bearing in mind the need for overall competitiveness of Canadian industry. However, the Government, after hearing views from many parties including those of labour which were opposed to U.I. amendments, has introduced amendments to the Unemployment Insurance Program. These changes to the U.I. Act (Bill C-14) included five measures intended both to reduce the disincentives to work and to encourage workers to establish more stable work patterns and develop longer work attachments to the labour force. These changes are: higher entrance requirements for individuals with repeat claims in a 52-week period, additional entrance requirements for new entrants and re-entrants to the labour force, an increase in minimum insurability, (20 hours of work per week will now be needed for such work to be insurable), a reduction of weekly benefit rate of 60 per cent of average insurable earnings, and a recovery of a portion of U.I. benefits from high income claimants.

9. Recommendation

The federal government should consider redirecting unemployment insurance funds towards assisting companies to hire unemployed people in order to train them as tradesmen.

Government Response (Agree in principle)

The federal government has already adopted policies in this direction. Provisions for the developmental uses of U.I. funds for job creation, work sharing and institutional training were incorporated in the U.I. Act in 1977. Thus, in its 1979-80 Employment Strategy, the CEIC will use an estimated \$40 million in U.I. funds to support the Job Experience Training Program. Under this program, the CEIC will subsidize, for a maximum of 26 weeks' work experience, up to 50 per cent of the hourly wage of recent school-leavers hired into newly created positions. A further \$154 million was also approved for institutional training, and an additional expenditure of up to \$8 million will be channelled towards pilot projects to test the feasibility of the developmental uses of U.I. funds for purposes of job creation and work sharing.

10. Recommendation

Management, labour and governments should continue to meet jointly as long as such meetings are deemed worthwhile, in order to analyze and consider solutions to the apparent disparity with the U.S. in plant working schedules, and the problems anticipated by the industry in obtaining an adequate supply of suitable manpower.

Government Response (Agree in part)

The federal government has created a multipartite National Advisory Council, including extensive private sector participation, to advise the Minister of Employment and Immigration on the formulation of labour market policies and programs. With regard to labour relations issues, the Minister of Labour is prepared, at the request of the parties, to assist them in establishing some appropriate consultative body to consider such issues.

The federal government strongly endorses an increased private sector role in manpower planning and training programs. In its 1979-80 Employment Strategy, the Government has announced a new policy of direct support to critical trades skills training in "key" high-level trades. \$20 million is allotted for such training in 1979-80, with a proposed expansion to \$40 million per annum in the 1980's.

The federal government is also taking steps to provide greater incentives to both firms and individuals to participate in industrial training. As part of its support for critical trade skills training, for example, the Government is exploring means of increasing its overall support for such training and concentrating this support in the critical early years of training when firms' costs and trainee dropouts are highest. The Government is also examining means of streamlining its delivery of industrial training, in the expectation that reduced administrative burden for participating firms will be a further training incentive for them.

Submissions were received from labour which sought the establishment of uniform standards and the interchangeability of workers between provinces. Although, tradesmen's qualifications, labour training standards and proficiency requirements are provincial responsibilities, federal and provincial Ministers of Industry have urged the First Ministers to address the need for greater harmonization of labour legislation and trade certification practices across Canada and to direct that specific initiatives be undertaken to this end. In this connection, through the interprovincial "Red Seal" program there is coordination of provincial certification standards in many trades.

CAPITAL RELATED COSTS

11. Recommendation

Maintain the current accelerated depreciation provisions for processing industries.

Government Response

The accelerated capital cost allowance for manufacturing and processing equipment has been extended indefinitely.

12. Recommendation

Increase the investment tax credit to 15 per cent without impairment of the capital base for depreciation purposes.

Government Response (Agree in part)

The November 16 Budget announced the indefinite extension of the investment tax credit in support of industrial expansion and modernization beyond its scheduled expiry date of June 30, 1980.

In addition, the basic rate will be raised from five to seven per cent. In most DREE designated areas the rate will be raised to 10 per cent. In the Atlantic provinces and the Gaspé it will be raised to 20 per cent. The issue of the effect of the credit in reducing the Capital Cost Allowance (CCA) base was raised by several task forces. A basic principle of the tax system is that deductions are related to the actual cost incurred by taxpayers. The credit is equivalent in its effects to a reduction in the price of eligible property by the rate of credit. With regard to this recommendation, the Minister of Finance, in his budget papers noted that:

"Several sectoral reports suggested that the effective rate of the investment tax credit be raised by removing the requirement that the credit received reduce the CCA base. The rates of investment tax credit have been chosen with regard to the degree of incentive provided and Government revenue requirements. The reduction of the CCA base by the credit received has been recognized in the choice of rates and is desirable in order to provide neutral treatment of longer- and shorter-lived assets. In the United States, where the credit is not deducted from the capital cost allowance base, a similar result is achieved by giving only partial credits to assets with a life of less than seven years. The more appropriate method of enhancing the value of the credit is through increasing the credit rates directly, as proposed in this budget."

In the overall consultative process, various labour representations expressed the view that increased tax advantages provided to companies should be tied to equity participation in those companies. However, mandatory equity participation by Government can be a deterrent to private investment. Recent tax advantages accorded industry are directed to the encouragement of additional investment which should result in greater productivity and ultimate benefits from increased jobs. The Government sees in this greater investment more advantages for the economy than would be obtained by exchanging tax advantages for an equity position for government.

TARIFFS AND TRADE

13. Recommendation

The federal government should place plastic products on the list of products exempt from full formula cuts at the current GATT negotiations, and should pursue retention of the existing tariff. If this cannot be achieved, a moderate cut in the existing Canadian tariff is the maximum to which Canada should agree.

Government Response (Under review)

The Government has given careful consideration to the views put forward by the Plastics Processing Industry, to the Canadian Trade and Tariffs Committee and in the Task Force Report, in developing its position for the multilateral trade negotiations.

14. Recommendation

Further investigation should be undertaken to define reports by industry of "harassment" at the border when exporting to the U.S. The investigation should be followed up appropriately to help eliminate such problems.

Government Response (Agree)

Incidences of border "harassment" should be reported expeditiously to the Department of Industry, Trade and Commerce as one of the ongoing activities of the Department is to investigate such reports promptly with a view to taking appropriate action.

15. Recommendation

The burden of proving injury during hearings of the Anti-Dumping Tribunal is very heavy for most Canadian companies and should be reduced. Swifter and more aggressive use of such measures as anti-dumping and countervail would improve their effectiveness and reduce the need for their application.

Government Response (Agree)

The Government is committed to taking expeditious action on injurious imports compatible with our international rights and obligations. Specifically, its efforts in this area include:

- a) improved execution of the significant positive measures already taken by Finance, the Anti-Dumping Tribunal and Revenue Canada in anti-dumping and countervail legislation;
- b) continued development by Finance, Revenue Canada and Industry, Trade and Commerce of more efficient domestic procedures and administration of regulations/legislation dealing with injurious imports, taking into account changes resulting from the MTN.

The submission of specific views or proposals regarding the procedures would be welcome.

## TAXATION

### 16. Recommendation

Governments should be prepared to reduce the tax on corporate profits to about 35 per cent. If the impact on government revenue from this measure is too severe, other offsetting tax measures should be looked at to reduce the loss in government revenue, such as an increase in the federal sales tax.

#### Government Response (Disagree)

The Budget Papers released November 16 indicate that the federal government recognizes the important contribution the corporate tax structure makes to the relative competitiveness of industry in Canada and the United States. In these papers, it is estimated that as a percentage of corporation pre-tax profits, the effective tax rates for manufacturing in Canada are generally lower than those in the United States.

The November budget did provide additional tax reductions for corporations by, for example, raising the rate of the investment tax credit and extending it indefinitely. The major fiscal measure was the reduction in the federal sales tax from 12 to nine per cent. The Government believes that the major immediate challenge is to hold onto the gains that have been made in Canada's competitive position. A primary thrust of the budget was thus to put downward pressure on prices and costs.

### 17. Recommendation

Governments and business, assisted by the accounting profession, should continue to examine the desirability and feasibility of incorporating inflation accounting into the tax system. Until the inflation accounting question is resolved, the federal government should tie the three per cent inventory tax credit to the implicit price deflator on an annual basis.

### 18. Recommendation

If Recommendation 17 is not acceptable, then it is recommended that a L.I.F.O. inventory valuation system be introduced for tax purposes only. The final resolution of this area would also have to await agreement in the matter of inflation accounting, but in the interim period this would be of assistance.

Government Response (17. Agree in part)  
(18. Disagree)

The Government will continue to support the development of appropriate inflation accounting systems in the private sector because of the importance of accurate information on business operations for the efficient operation of the economy, and the possibility that the existence of such information would allow a fairer distribution of the total corporation tax burden among sectors.

The Government does recognize the distortions that arise from use of historic cost accounting in an inflationary environment. It has come to be generally accepted that inflation not only leads to an overstatement of profit because of first-in first-out inventory and historic cost depreciation accounting, but also to an understatement of profit because accounting conventions overstate the real cost of corporation borrowing during an inflationary period.

When the implications of debt financing are recognized, along with the full implication of accelerated capital cost allowances, the investment tax credit and the three per cent inventory adjustment, the over-all level of Canadian corporation taxation does not differ greatly from what it would be under a comprehensive system of inflation accounting. Again, the need to maintain tax system stability indicates caution in any early movement to a comprehensive system of inflation accounting. There would also be many considerations in such a move related, for example, to the changes in tax burden on particular sectors in both directions that would result, to tax complexity, to the interaction between the corporate and personal tax, and to the harmonization of Canada's tax system with that in other countries.

19. Recommendation

Maintain the current level of taxation for small business.

Government Response (Agree)

Incorporated Canadian small business enjoys very favourable tax treatment. Canadian-controlled private corporations qualify for a federal tax rate of 15 per cent on the first \$150,000 of annual business earnings (10 per cent for small manufacturing firms). These tax rates compare with the 36 per cent federal tax rate (30 per cent for manufacturing) which applies to corporations not qualifying as small businesses. Since 1972, the Government has tripled the annual amount of income eligible for the small business tax rate. The low tax rate applies as long as the small corporation's retained business income is less than \$750,000. Once this limit is reached, the small business can continue to qualify for the low tax rate by paying dividends to shareholders.



Last summer the Government introduced other measures for small business. They included a deferral on up to \$200,000 of capital gains when small family businesses are transferred from parents to children or grandchildren. Capital losses on investments in Canadian-controlled private companies were made deductible against income from other sources without limit, compared with the \$2,000 limit for other investments. Small manufacturers with sales under \$50,000 were exempted from federal sales tax.

## 20. Recommendation

Examine the feasibility of incorporating the most desirable features of the proposed Toronto-Dominion inverted value-added tax system into the existing corporate tax system.

### Government Response (Disagree)

A move to a value-added tax system would amount to a reform of the tax structure. It would introduce new uncertainties in the tax system at a time when the tax stability is an important goal. Changes of a far-reaching nature need to be resisted to ensure an appropriate tax environment for economic growth and development.

If such a move were made, significant considerations would arise. For example, it would be necessary to ensure that such a structure were equitable in its treatment of corporate source income as opposed to other income, of relatively capital- and labour-intensive firms, of operations with different degrees of vertical integration, and in its acceptability to our trading partners. Such a structure could well preclude certain incentives that are rightly part of the current income tax system. Any partial substitution of a VAT for income taxes in only some sectors would pose further problems if the new system and the existing corporate income tax were to be integrated in a reasonable fashion.

## MARKET GROWTH

## 21. Recommendation

Governments should actively support measures which are supportive of the "Medium Term Recovery Path" indicating an annual growth in Canadian GNE through 1981 of 5.5 per cent in the February, 1978 Department of Finance projections and targets for Canada's economy.

### Government Response (Agree)

Preliminary data indicate that the growth of the gross national product for 1978 in constant dollars was 3.4 per cent. The November 16, 1978 Budget Speech provides further elaboration of the Government's view of the general economic situation and outlook, the progress which has been made in improving the fundamentals as a

basis for sustained growth in the 1980's and the improving environment for Canadian manufacturing.

22. Recommendation

The federal Department of Industry, Trade and Commerce should provide funding through departmental programs to study and support the establishing of export consortia in the plastics processing sector.

Government Response (Agree)

The federal Department of Industry, Trade and Commerce is currently working closely with The Society of the Plastics Industry to examine the feasibility and desirability of establishing export consortia. Funding assistance is available for eligible export consortia.

23. Recommendation

The Department of Industry, Trade and Commerce and the industry through The Society of the Plastics Industry should jointly examine ways and means to promote greater export of plastic products by individual companies through existing or possibly new programs.

Government Response (Agree)

The department and the industry association are examining additional means to promote greater exports by individual Canadian companies. In addition, this department has established an Export Promotion Review Committee composed of business representatives from all provinces and members from the labour and academic communities. Its purpose is to assess the adequacy, accessibility and relevance of departmental export promotion services, to strengthen the consultative process pertaining to export performance, to optimize the export potentials identified in the task force reports, and to better coordinate export promotion activities undertaken by federal and provincial governments. The Committee is expected to submit its recommendations to federal and provincial Trade Ministers by December of this year.

24. Recommendation

Governments through their purchasing departments should implement a "Buy Canadian" policy at least as strong as those existing in the United States. This policy should be extended by installing a strong awareness of the importance and desirability of buying Canadian-made products, both at the level of the prime contractor and at the level of the sub-contractor or supplier to the prime contractor.

25. Recommendation

Existing regulations of government procurement departments should be carefully reviewed to ensure that legitimate business expenses, including selling expenses and finance charges, are allowed as costs in negotiated contracts.

26. Recommendation

Government departments and agencies should make efforts to develop Canadian sources where none exist.

27. Recommendation

Governments should urge other groups, including the Canadian Manufacturers' Association, the resource industries, the transportation sector, retailers and others to implement strong "Buy Canadian" policies in their business dealings.

Government Response (24. Agree in part)  
(25. Under review)  
(26. Agree in principle)  
(27. Agree)

The federal government recently announced a series of measures which together constitute a "National Purchasing Policy". The steps include a new Source Development Fund of \$25 million for its first year of operation. The Fund will provide the extra money needed to help Canadian firms develop products, particularly high technology items, not currently manufactured in Canada. Because of "best-value-for-money" requirements in the Government's purchasing, it has been difficult to pay the extra costs involved in developing Canadian products as sources of supply. The Source Development Fund addresses this problem.

Tied to the Fund is a new "Purchase Review System", which provides for early consultation with industry and increased coordination within the federal government with respect to planning of the Government's larger purchases. Other measures in the policy include increased profit rates for Government suppliers who contribute to industrial development goals such as increased employment, investment, and regional growth. The Government will also increase the value of contracts let in high unemployment areas; the membership of the Canadian Government Specifications Board, now an internal Government body, will be broadened to include representatives from all levels of Government, business, labour and consumer groups; a continued drive to involve Canadian firms in Government sub-contracting, especially small business and firms in high technology areas; and a determined effort to coordinate the purchasing policies of the federal and provincial governments to maximize the impact of governmental purchases on the Canadian economy.

The Department of Industry, Trade and Commerce will implement a coordinated approach to identifying potential domestic markets currently being met by imports and to assisting Canadian manufacturers to improve their domestic marketing practices. The department launched a "Shop Canadian" campaign in 1978 as an example for the private sector to follow.

The federal government is currently reviewing existing regulations to determine if there are additional legitimate business expenses which should be allowed as costs in negotiated contracts.

## REGULATIONS

### 28. Recommendation

Governments should give careful consideration to both the costs and benefits before introducing new safety, environmental, and health-related legislation.

### 29. Recommendation

All new health and toxicological legislation covering the manufacturing industry should be carefully scrutinized by knowledgeable representatives of industry, labor and the medical and scientific communities.

### 30. Recommendation

Provincial governments should assess legislation for consistency both nationally and in some cases internationally, to ensure that any inconsistencies are fully justified in an economic sense.

### 31. Recommendation

Regulations stemming from legislation should be scrutinized in a manner consistent with recommendations 28 to 30.

Government Response (28. Agree)  
(29. Agree in principle)  
(30. Provincial)  
(31. Agree in principle)

The federal government instituted a new program (August 1, 1978) whereby socio-economic impact analysis is applied to major new and revised health, safety and fairness regulations; this analysis is open to public scrutiny prior to the implementation of the related regulations. In addition, Industry Ministers agreed to recommend that all governments conduct a review of key regulatory activity, consider the feasibility of undertaking and making publicly available benefit/cost analysis before implementing major new social regulations, and consult collectively to remove overlap in a manner consistent with their respective jurisdictional authority.

In response to the Overview Committee, the federal government has noted that it is conscious of the difficulties underlying labour's concern regarding the serious limitations in utilizing cost-benefit analysis in determining the adequacy of certain regulations. Significant difficulties do exist in assigning quantitative values that reflect a broad societal consensus. The Government is committed therefore to making such studies publicly available prior to implementing regulatory change that might arise from them. This will give interested parties a chance to publicly question the values so assigned.

Furthermore, the Department of the Environment is examining current relationships with provinces to determine improvements in these arrangements to respond to the concerns of industry regarding overlap, and to move federal government policy towards provincial responsibility for the implementation of federal environmental protection regulations.

The Department of Consumer and Corporate Affairs, in collaboration with the Board of Economic Development Ministers, is establishing an interim work program of regulatory review for federal departments prior to the Economic Council's extensive review of government regulations. The Board of Economic Development Ministers will also ensure that the federal government is able to respond in a timely manner to the recommendations arising from the review by the Economic Council.

After new legislation is introduced, opportunities exist for scrutiny by the private sector and for its views to be considered through the normal procedures of the parliamentary system. In order to ensure consultation on the regulations arising from legislation, the Treasury Board will direct individual departments to implement consultation at the problem definition stage with interested parties on proposed new safety, health and fairness regulations where such consultation does not at present take place and where an emergency or unusual circumstance does not exist.

### 32. Recommendation

Governments should ensure, by legislation if necessary, that manufacturers be held liable only for defects or results which they can reasonably be expected to foresee.

#### Government Response (Agree in principle)

The statutory and common law relating to this question, developed over centuries, appears to provide adequate defences for prudent and careful manufacturers, while also providing a vehicle to recover damages from those who may be careless or negligent. The Government is willing to give careful consideration to any particular difficulties experienced by industry or specific recommendations they may formulate in order to help ensure that a reasonable balance is maintained in these matters.

TECHNOLOGY AND INNOVATION

33. Recommendation

The federal Department of Industry, Trade and Commerce and The Society of the Plastics Industry should evaluate the desirability and feasibility of establishing a Plastics Institute in Canada.

Government Response (Agree)

The Society of the Plastics Industry is evaluating the desirability and feasibility of establishing a Plastics Institute and the Department of Industry, Trade and Commerce is prepared to consider proposals for financial assistance for such a project.

34. Recommendation

Governments should continue to encourage and support plastics processing technology exchange missions, particularly to Europe and the United States.

Government Response (Agree)

The federal government will continue to encourage plastics processing technology exchange missions and is prepared to provide support for such missions when appropriate.

35. Recommendation

Adequate stimulus to increase R & D activities should be maintained.

Government Response (Agree)

The federal government shares the goal of increasing Canada's R & D effort with emphasis on development and use in Canada. To this end, significant income tax incentives were included in recent budgets.

In the April 1978 Budget, a provision was included permitting 50 per cent of any increase in research expenditures (relative to the preceding three year average) to be written off; this is over and above the general provision that all R & D expenditures (operating as well as capital expenditures) may be fully written off in the year that they are incurred.

The November 1978 Budget raised the basic rate of investment tax credit for R & D expenditures from five to 10 per cent. The rate of credit was set at 20 per cent in the Atlantic provinces and the Gaspé, while small businesses qualifying for the reduced rate of corporate tax will get an investment tax credit of 25 per cent on all their R & D expenditures irrespective of location.

In addition, at the November 1978 Ministerial Conference on Industrial Research and Development there was full recognition of the need to further accelerate industrial R & D and the Ministry of State for Science and Technology was charged with the development of suitable proposals to achieve this objective.

STATISTICAL AND MANAGEMENT INFORMATION

36. Recommendation

The Society of the Plastics Industry, Statistics Canada, and the Department of Industry, Trade and Commerce should collaborate in an effort to improve the statistical data available to the sector. In addition, it should be determined whether a Plastics Institute or some existing organization would provide plastics processors with a source of management information.

Government Response (Agree)

The Departments of Industry, Trade and Commerce and Statistics Canada are collaborating with The Society of the Plastics Industry in an effort to improve the statistical data available and to assist in determining how plastics processors might improve their access to management information.

ANNEX I

LIST OF PARTICIPANTS IN CONSULTATIVE TASK FORCE  
ON THE CANADIAN PLASTICS PROCESSING INDUSTRY

CHAIRMAN A.G. Moreton  
President  
Esso Chemical Canada

SECRETARY A.E. LeNeveu  
Director General, Chemicals Branch  
Department of Industry, Trade and Commerce

MEMBERS

A. Bombardier  
President  
Roski Ltée

W.E. Lynes  
President  
Leco Industries Limited

D.J. Boomer  
Executive Vice-President & General Manager  
Consumers Glass Company Limited

P.J. McIvor  
Vice-President and General Manager  
Plax Canada Limited

W.V. Bowerman  
Technology Supply Branch  
Manitoba Department of Industry  
and Commerce

G. Rancourt  
Marketing Coordinator  
P.H.-Tech Inc.

B.A. Burgess  
Vice-President and General Manager  
Plasti-Fab Ltd.

H.C. Rowlinson  
Division Manager, Plastics  
Canadian Industries Limited

D.P. Dempster  
Industry Branch  
Ontario Ministry of Industry and Tourism

P.G. Szasz  
President  
Protective Plastics Limited

M.A. Eisenhauer  
President  
Atlantic Bridge Co. Ltd.

L.R. Tucker  
President  
Grandview Industries Limited

H. Gauthier  
Eastern Regional Coordinator  
Oil Chemical and Atomic Workers  
International Union

A. Vendette  
Office of Industry  
Quebec Department of Industry and  
Tourism

L.E. Love  
President  
Midland Industries Limited

W.R. Waters  
Faculty of Management Studies  
University of Toronto

OBSERVERS

E.R. Evason  
President  
The Society of the Plastics  
Industry of Canada

T.E. O'Leary  
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Prince Edward Island