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RESPONSE OF THE FEDERAL
GOVERNMENT TO THE
RECOMMENDATIONS OF THE
CONSULTATIVE TASK FORCE ON
**THE CANADIAN FOOD AND
BEVERAGE INDUSTRY**



Government
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Canada

RESPONSE OF THE FEDERAL GOVERNMENT
TO THE RECOMMENDATIONS OF THE
CONSULTATIVE TASK FORCE
ON THE
CANADIAN FOOD AND BEVERAGE INDUSTRY

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INTRODUCTION

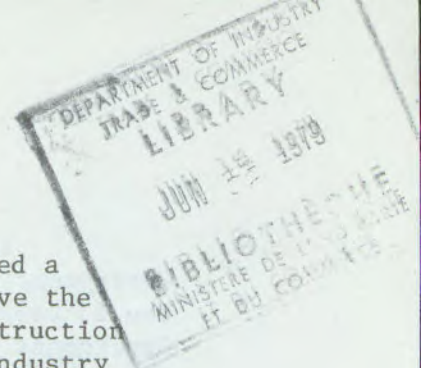
In February 1978, Canada's First Ministers initiated a process of private sector consultations on measures to improve the performance of, and the outlook for, the manufacturing, construction and tourism sectors in the Canadian economy. Twenty-three industry task forces composed of representatives of 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 Food and Beverage 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.

PART I

GOVERNMENT RESPONSE TO TASK FORCE RECOMMENDATIONS - AN OVERVIEW

The task force advanced recommendations under seven main heads: input costs; productivity; labour relations and legislation; incentives and taxation; government regulations; marketing boards and competition policy.

As the detailed responses will demonstrate, the Government has responded to many of the task force's recommendations in the context of its response to horizontal policy issues which were also raised by other task forces.

The Government accepts that it must keep its policies and regulations under review with respect to their effects on input costs. It has announced specific actions regarding energy, transportation and environmental pollution related costs. The Government welcomes industry's commitment to increase productivity, scale and rationalization and has announced specific actions for industrial adjustment and development and investment tax credit measures to assist the industry.

The Government welcomes the private sector's initiative to focus on productivity as a priority consideration. Current and future Government policies and actions as outlined in the responses will treat productivity as a major factor in their design and implementation.

The Government has noted that there was a wide measure of agreement within the task force with respect to the issues in the area of labour relations and legislation. Many of these issues were also addressed by the Overview Committee. In particular, the Overview Committee urged provincial governments to harmonize labour legislation, training programs and certification practices and have established a business-labour committee to make recommendations in these areas. Federal and provincial Ministers of trade and industry have indicated their willingness to participate in an inter-governmental task force of labour and industry Ministers to prepare proposals for harmonization of labour market practices and legislation for consideration by First Ministers in 1979.

A number of further recommendations concerning labour relations were arrived at with which the task force labour representatives were unable to concur. These recommendations were reviewed by the Overview Committee. Overview Committee referred these issues in labour relations to the private sector committee of business and labour mentioned above. This Committee will make a report to First Ministers.

The Government has responded to the issues raised with respect to incentives and taxation. In particular, the federal government has improved the investment tax credit for R & D. Federal and provincial Ministers of industry have agreed that a coordinated federal-provincial industrial adjustment policy is required and have undertaken to participate in the development of such a policy. Labour and business will also participate in the review of this policy. Some issues raised by the task force are very complex and will require further study by governments.

While the Government cannot accept the recommendation for a moratorium on Government regulation it will direct individual departments to implement consultation at the problem definition stage. First Ministers have commissioned the Economic Council to undertake a thorough study of the burden of Government regulation on industry. The food processing, distribution and retailing sectors will be specifically studied as a part of the overall study. It is expected that the Council will present its report to First Ministers in 1980.

While the task force recognized that marketing boards have a useful role to play in the sale of commodities, it expressed grave concern over the functions and practices of some boards. The Government, after appropriate consultation with provincial governments, decided that a study of marketing board activities should be undertaken in order to identify ways and means to improve their functioning. It is expected that the study being undertaken by the Economic Council of Canada as part of its major study of Government regulation will meet this need. The Minister of Agriculture has announced new guidelines for the National Farm Products Marketing Council which should help meet industry's concerns with respect to the supply management boards which are under the jurisdiction of the NFPMC.

With respect to competition policy, the Government rejects the recommendation that Bill C-13 be dropped. The Government is considering task force recommendations on competition policy in its formulation of potential future competition legislation.

The Government welcomes the wide measure of agreement achieved by the task force which included a diverse range of industries. It also welcomes the initiatives the task force recommended the industry itself should undertake and will provide all possible assistance.

PART II

DETAILED RESPONSE TO TASK FORCE RECOMMENDATIONS

INPUT COSTS

1. Recommendation

In the light of the industry's limited growth prospects, industry and Governments should jointly review existing and forthcoming Government policies and regulations affecting the industry's operating environment to ensure that they will have a positive rather than adverse effect upon the future efficiency and competitiveness of the industry.

Government Response (Agree in principle)

There is a wide range of industry/Government fora available for this process and it is not felt that any new bureaucratic mechanisms need be established to accomplish it. The Deputy Ministers Committee on Food Policy (Interdepartmental committee of federal departments concerned with food policy) seeks to ensure that the activities of the consultative fora are coordinated.

In its response to task force recommendations the Government is proposing actions to reduce input costs. For example, with respect to energy costs, the federal government has reaffirmed that, in the course of increasing Canadian energy prices toward international levels, its intention is to pursue a policy whereby Canadian oil and gas prices would not exceed those in the U.S. The Minister of Transport has reaffirmed the government's intention as a general policy to allow freight rates to be established by market forces and when additional expenditures are required to meet socio-economic objectives these should be met by governments. The Department of Environment is reviewing the implementation strategies of its regulations and will develop environment priorities which would allow compliance schedules to vary according to priority requirements. The Minister of Finance announced in his budget of November 16, 1978, that the fast write-off of outlays for pollution control equipment, due to expire at the end of 1979, will be extended indefinitely.

The Economic Council of Canada (ECC) following the February 1978 Conference of First Ministers, has undertaken a major study on the burden of Government regulation with respect to its cost effects on industry.

2. Recommendation

Industry should take all possible steps to increase productivity, scale and rationalization which, in part, may compensate for higher input costs and assist in improving its competitive position. Governments need to facilitate an environment which encourages industry to make the substantial and long-term investment commitments necessary to attain these objectives.

Government Response (Agree)

This recommendation proposes action by both industry and Government.

The federal government is taking steps to encourage substantial and long-term investment and encourages other levels of Government to make the same commitment. This is demonstrated by a wide range of programs. The Minister of Finance announced in his budget of November 16, 1978 that the investment tax credit is being extended indefinitely and the rates of credit are being increased from the current five, seven and one half and 10 per cent to new levels of seven, 10 and 20 per cent. The higher rates apply to designated slower-growth areas. Other measures to enhance the investment climate include the Initiatives for Industrial Adjustment and Development announced by the Minister of Industry, Trade and Commerce on October 13, 1978, and the Measures to Assist Small Business announced by the Minister of State for Small Business on May 23, 1978.

The Budget Measures of last November, were designed to strengthen the Government's commitment. In his budget speech the Minister of Finance stated that he was taking action "to encourage investment to respond to the needs of sectors and regions and to keep our costs competitive, while reducing our cash requirements from the present high level".

A loan reinsurance program, designed specifically to encourage and facilitate long-term loans by financial institutions to smaller businesses with assets between \$1 million and \$25 million, was announced by the President of the Board of Economic Development Ministers on March 8, 1979.

3. Recommendation

- Governments should review industry requirements for some form of adjustment assistance to assist in restructuring operations to meet changing competitive conditions, including those that may arise from the Multilateral Trade Negotiations in the GATT.
- Other Canadian manufacturing industries from which the industry purchases inputs should be stimulated to make a similar adjustment to increase efficiency and competitiveness either by an improved investment environment or specific adjustment assistance measures.

Government Response (Agree)

The Government accepts this recommendation. The Minister of Industry, Trade and Commerce announced an expanded program of Initiatives for Industrial Adjustment and Development on October 13, 1978. These included some special additional MTN-related initiatives to provide funds for restructuring proposals for firms which may be affected by the MTN:

- a) Industry restructuring to meet future opportunities including those arising from the MTN: the Enterprise Development Program's (EDP) loan guarantee ceiling is increased from \$350 million to \$1 billion, with special emphasis on small and medium firms.
 - b) Innovation Systems: under EDP, the annual budget for grants to encourage high risk research, design and development increase from \$25 to \$60 million and the EDP cost-sharing ratio changed to 75 per cent of direct costs from 50 per cent of total costs.
 - c) Promotion of Rationalization: to facilitate rationalization, \$20 million will be made available for 100 per cent loan guarantees to forestall bankruptcies until viable takeovers can be arranged and \$4 million will be made available for consulting studies to promote mergers, and a risk reducing insurance mechanism will be implemented to encourage mergers and acquisitions.
 - d) MTN Related Restructuring: to finance restructuring necessitated by injury arising from the multilateral trade negotiations, new instruments will be added to EDP: \$20 million for 100 per cent loan insurance annually, \$5 million per year in direct loans, and \$2 million per year in consulting services.
 - e) MTN Panel: to ensure ready access to EDP, companies requiring adjustment assistance due to the MTN will have access to a specialized panel of the Enterprise Development Board.
 - f) Business Services Industries: business services industries which invest in intellectual assets are to be included under EDP innovation and adjustment assistance on the same basis as goods producing industries.
4. Recommendation

A review of the effect of supply management policies on the availability and cost of primary agricultural inputs as they impact on the input costs of the industry should be undertaken by Government.

Government Response (Agree)

The federal government, after appropriate consultation with provincial governments, in recognition of the large number of marketing boards under their jurisdiction, will ensure that a study is undertaken of marketing board activities, including the impact on the efficiency and competitive position of the primary and processing sectors, in order to identify ways and means to improve the functioning of marketing boards. (See also response to recommendations of the task force with respect to Marketing Boards).

PRODUCTIVITY

5. Recommendation

- It is considered that the achievement of substantial increases in the productivity of all resources by the industry will be crucial to its future viability and growth. Productivity should consequently be treated as an area for priority consideration and effort by industry, labour and Government.
- Productivity incentives should be given greater emphasis in the allocation of financial resources among incentive programs.

Government Response (Agree in part)

The federal government welcomes the recommendation that productivity should be treated as an area for priority consideration and effort by industry, labour and Government and regards the achievement of productivity increases as an important objective. Productivity Improvement Projects are an integral part of the Enterprise Development Program.

While the government agrees that productivity should be a major consideration in the allocation of financial resources among incentive programs, industry should recognize that in the delivery of incentive programs, the government must also take into account a wide range of public interest objectives such as regional development, energy conservation and environmental protection.

6. Recommendation

More specifically, it is recommended that:

- a) An industry supported program, including the possible relocation and employment of professionals from the public education sector, should be established to encourage the development of training skills to manage contemporary technology in the industrial sector. The upgrading of industry production, marketing and management techniques also should be encouraged in a similar manner.

Government Response (Agree in principle)

The government welcomes the industry's initiative advanced in this recommendation.

The Department of Industry, Trade and Commerce is reviewing the adequacy of management training programs in the light of needs identified by the task forces and recommend options for the better delivery of financial assistance to industry-based associations or other appropriate industry groups for the improved development, coordination, and dissemination of management training programs.

The Department of Industry, Trade and Commerce will co-operate with industry, where appropriate, to establish sector-specific education committees to develop further industrial management capability.

The Agriculture, Fisheries and Food Products Branch would be pleased to explore with the industry the potential for an industrial R & D/productivity centre.

6. Recommendation

- b) Industry and governments should co-operate to provide incentives for the design and installation of automated systems using improved process control, with the aim of increasing yield and reducing quality variance. Specialist expertise could be made available on a cost sharing basis or direct subsidy basis.
- c) Industry and Governments should develop a program to encourage or support process simplification through redesign.

Government Response (Agree in principle)

The work implied in these recommendations could be undertaken by centres of excellence, some of which are already established such as the Centre de Recherches en Sciences Appliquées à l'Alimentation of the University of Quebec in Montreal and the Canadian Food Products Development Centre of the Manitoba Research Council in Winnipeg. These centres are partially funded by the Department of Industry, Trade and Commerce.

The Government intends to expand its program of assisting in the creation of industrial research and innovation centres to aid industry, particularly small business and private inventors in the commercial exploitation of new technologies.

The Agriculture, Fisheries and Food Products Branch would like to explore this concept further in discussions with the industry.

6. Recommendation

- d) Trade associations and other private sector groups should investigate i) the opportunities for co-operation including sub-contracting arrangements, between large and small companies and ii) the potential for co-operation between small firms including combining certain processes to achieve larger production runs.
- e) There should be further investigation by industry groups of the feasibility of centralized distribution and/or warehousing depots for the use of smaller manufacturing firms.

Government Response (Industry action)

While these two recommendations require industry action, the Government has provided a program which could assist. In his announcement of Initiatives for Industrial Adjustment and Development of October 13, 1978, the Minister of Industry, Trade and Commerce announced that his Department will establish a nation-wide series of private sector consulting councils, big firms helping small firms, along the lines of the successful Hamilton-Wentworth Business Council. The estimated financial allocations are \$125,000 in 1980/81 and \$500,000 annually thereafter.

Both of the above recommendations would be highly appropriate for the work programs of these councils.

6. Recommendation

- f) Government training program assistance should be extended to cover specific training requirements outside Canada when not available domestically.

Government Response (Under review)

The Adult Occupational Training Act is currently interpreted as precluding the CEIC from supporting training outside Canada. Consideration is being given, however, to amending this legislation to allow the CEIC to support such training where such training is not available domestically and is necessary to meet the Canadian economy's skill needs.

6. Recommendation

- g) Liberal licensing arrangements, trademarks and patent regulations should be maintained to allow the transfer of intellectual property to smaller firms.

Government Response (Agree)

The federal government accepts this recommendation.

LABOUR RELATIONS AND LEGISLATION

7. Recommendation

Financial success of private industry is essential to economic growth, prosperity, and in the interests of employees. It is crucial that governments keep in mind the value of the profit motive and maintain a positive rather than negative attitude to earnings by capital.

Government Response (Agree)

The federal government fully accepts the premises underlying this recommendation. The Government's policy paper The Way Ahead stressed that the Government considered the marketplace to be the best means of allocating resources. First Ministers are committed to reducing the role of government and encouraging the private sector to provide the engine for economic growth. First Ministers have accepted that economic growth must be the first priority of economic policy.

8. Recommendation

Emotionalism in the work place can give rise to problems which in many instances far outweigh the original causes of dispute. Unions, management and governments should explore, as one solution, training and development programs on the techniques of managing and communicating for union stewards and firstline supervisors.

Government Response (Agree)

In the development of its employment strategy for the 1980's, the Canada Employment and Immigration Commission will examine the scope for expanding its programs for training firstline supervisors and journeymen/teachers.

The Department of Labour has already initiated a labour education program including union stewards. Under this program the major unions have agreed, in return for federal contributions, to establish one or more labour education centres. The centres are designed to enable labour officers, potential labour leaders and members to acquire a comprehensive knowledge and understanding of the goals, policies and responsibilities of the Canadian labour movement in the context of the economic, political and social framework of Canada. Independent unions may also apply for federal assistance to develop labour education programs. Depending upon a union's program, courses may be offered in subjects such as labour economics, labour law, arbitration, job evaluation, occupational safety and health, union counselling.

Additionally, the Department of Labour will sponsor consultations between management and union representatives on questions related to collective bargaining where particular sectors exhibit an interest in such consultations. The Minister of Labour will also explore the establishing of an appropriate consultative body with a mandate to discuss and make recommendations on labour relations issues.

9. Recommendation

Strikes should occur only after approval by a majority vote of all those concerned taken by secret ballot conducted under the supervision of an outside third party.

Government Response (Under review)

This item is one of the issues which the Labour Relations Committee, established by the "Overview Committee", has agreed to study. The findings of the study will be presented to First Ministers.

10. Recommendation

Federal and provincial governments should make every effort to standardize labour legislation and resolve related jurisdictional problems.

Government Response (Agree)

At their meeting on November 7, 1978, the federal and provincial Ministers of Trade and Industry reviewed the report of the Overview Committee. The Overview Committee urged provincial governments to harmonize labour legislation, training programs and certification practices. Industry Ministers indicated their willingness to participate in an intergovernmental task force of Labour and Industry Ministers to prepare proposals for harmonization of labour market practices and legislation for consideration by First Ministers in 1979. Furthermore, through the interprovincial "Red Seal" program there is coordination of provincial certification standards in many trades.

11. Recommendation

Industry, labour and Government should continue to explore the potential that exists for the improvement in the quality of working life.

Government Response (Agree)

This is an important consideration which needs to be under constant review. The federal government tries to address this issue through its Quality of Working Life program (QWL). This program involves close collaboration with industry and labour in respect of QWL projects.

12. Recommendation

A number of further recommendations were arrived at with which the task force labour representatives were unable to concur. These are as follows:

- a) Bargaining rights should only be granted if a union obtains majority support of the employees through a government-supervised secret ballot.

- b) A party should be able to launch a prosecution when it believes the labour law has been violated, without having to seek leave to prosecute from the Canada Labour Relations Board.
- c) The law should provide automatic penalties for unlawful strikes, such as loss of pay for individuals and loss of dues for the union. Automatic penalties, also related to the pay of employees affected, should be imposed on the employer where an illegal lockout occurs.
- d) Picketing rules should be codified so that the parties to the dispute, other employees, the public, the media and the law enforcement agencies are informed of all persons involved in or affected by a strike or lockout.

Government Response (Under review)

The government does not wish to respond at this time. These issues will be first dealt with by the private sector committee which was established by labour and business to study labour relations in Canada and report to First Ministers. The establishment of this committee is an initiative of the Overview Committee. The Government response to these will be formulated after this committee has had a chance to study the issues.

INCENTIVES AND TAXATION

13. Recommendation

With respect to taxation it is recommended that:

- a) The use of income tax legislation to provide incentives for research and development be extended and revised so that significant expenditures will result. Under present legislation, qualifying expenditures are overly restrictive while residual benefits are, to a large extent, taxed away through other sections of the Income Tax Act.

Government Response (Agree in part)

Research and development (R & D) is vitally important to the structure of the Canadian economy over the medium-term. The task force and the Overview Committee have drawn further attention to Canada's R & D needs.

The Government has taken tax action in the past two budgets to ensure that our R & D effort will act to enhance economic performance. Under the present income tax system, current and capital expenditures on R & D qualify for a 100 per cent write-off in the year they are made with indefinite carry forward of unused amounts. Since 1977, R & D has qualified for the investment tax credit. Eligible expenditures include those of a capital nature,

such as buildings and equipment, as well as current expenditures such as salaries of research personnel. The April 10, 1978, federal budget permitted a firm to claim an additional 50 per cent deduction for R & D expenditures that exceed its average expenditures on R & D for the previous three years. This deduction is to apply for a period of 10 years.

The November 16, 1978, budget proposes a special measure for R & D expenditures undertaken by small, Canadian-controlled private corporations that qualify for the low rate of corporation tax. These firms will receive an investment tax credit of 25 per cent on all their R & D expenditures. This special incentive for small business R & D will be available throughout Canada.

The budget also doubles the basic federal investment tax credit for R & D from five per cent of expenditures to 10 per cent for all other businesses. Thus the basic rate of credit will be higher for R & D than for other investments. This rate will apply to R & D investments in all of Canada except for the Atlantic Provinces and the Gaspé region of Quebec. In these areas, R & D expenditures will qualify for a credit of 20 per cent.

These measures reinforce the Government's commitment to increasing the relative importance of R & D in the Canadian economy. Total value of additional federal tax incentives for R & D (over and above the benefits of the basic 100 per cent write-off) now exceeds \$100 million per annum.

13. Recommendation

- b) Provisions of the Income Tax Act which relate to "undistributed income" and "the valuation of business assets" in connection with the sale or transfer from one owner to another, should be simplified further to remove those regulations which frustrate appropriate consolidations.

Government Response (Agree in part)

The Government in its March 1977 budget introduced significant changes to facilitate appropriate consolidations. These changes have been received very favourably by the business community at large. While the government continues to look for ways to simplify the legislation further, the scope for major changes in this area is generally perceived to be limited.

13. Recommendation

- c) Within a corporate group which can demonstrate a major degree of common (equity) interests, provisions in the Income Tax Act should be changed to allow losses in one (or more) of its companies to be offset against other profitable operations.

Government Response (Agree in part)

In the Budget Papers of November 16, 1978, the Minister of Finance responded to the issue of consolidated tax returns. The budget papers note that "it should be recognized that in a majority of cases companies can utilize losses within present tax laws. The provisions for consolidated tax returns are generally very complex and would require significant amendments to the Income Tax Act.

"A system of consolidated tax returns would allow considerable flexibility for corporations under common control to transfer losses, and thereby tax deductions, within the corporation group. In Canada, there are some significant variations in the rates of federal and provincial taxes applicable to corporation income. Strong incentives would arise to create a number of corporation entities to take advantage of the flexibility provided by consolidation to minimize tax liabilities. This could result in substantial loss in tax revenues.

"Any system of consolidation which attempted to deal with this major problem would likely be very complex. This is at a time when the government is attempting to simplify the body of technical rules applying to business. However, the existing situation does produce some undesirable results and attempts are being made to develop reasonable solutions."

13. Recommendation

- d) The effects of high effective personal tax rates on Canadian employment costs should be ascertained, and consideration given to reducing excessive impact using measures which will encourage economic development in other fields.

Government Response (Agree in part)

In the Budget Papers of November 16, 1978, it was noted that the Government has already introduced significant personal tax cuts. Automatic indexing is a unique feature of Canada's tax system resulting in substantial automatic annual reductions in personal income tax levels. The budget of November 16, 1978, further reduces personal taxes on employees by increasing the employment expense deduction. The study of the U.S. and Canadian tax systems, contained in the budget material, shows that personal tax levels in Canada are lower than in the United States in a majority of cases. That study also shows that, through the dividend tax credit and other measures, Canada's tax treatment of personal investment income is also favourable.

The potential effects of taxation in decreasing personal initiative must always be kept in mind in framing budgetary policy. Responding to such concerns must also take into account the equity and complexity of the tax system and whether the revenue foregone could be more productively directed to other areas.

14. Recommendation

With respect to incentive programs it is recommended that:

- a) To increase their effectiveness, Federal and Provincial Government Incentive Programs should be harmonized to reduce their numbers, complexity and overlap. Accountability practices such as project follow-up and annual cost benefit analysis should be made to function in each program area. Communication regarding program availability and results should be improved.

Government Response (Agree in principle)

Federal departments and agencies continually consult with the provinces and industry on this subject. However, it is recognized that Federal/Provincial Consultation could be improved and efforts will continue toward that objective.

The Auditor-General and the Comptroller-General are taking measures to improve financial accountability practices.

At the Federal-Provincial Conference of Ministers of Industry on November 7, 1978, the Ministers agreed that a coordinated federal-provincial industrial adjustment policy was required and undertook to participate in the development of such a policy.

The Federal Provincial Relations Office has been charged with the responsibility of identifying and removing areas of program overlap with the provinces. To this end, they are requiring that each department with functional program responsibility undertake a review of its activities in light of provincial involvement and negotiate an end to any overlap that may be identified.

In addition, the Board of Economic Development Ministers is preparing an inventory of federal industrial incentive programs as a first step towards fulfilling its mandate to harmonize and rationalize such programs.

14. Recommendation

- b) Grant programs, such as the Regional Development Incentives Act administered by DREE, should be altered so that assistance is given on the terms of a negotiated loan (at reduced rates or free of interest), repayment being extendable only under certain conditions. This would tend to constrain requests for projects which would proceed without support, and more properly discipline those which require it.

Government Response (Under review)

The Government does not agree with the recommendation that its program of grants to industry should be altered in favour of loans. One of the lessons of regional policy in Canada and many other countries is that compared with alternative mechanisms, incentive grants have proved to be an effective instrument in stimulating investment and job-creation in slow-growth areas. Among the advantages of grants are that they provide direct cash flow and that the cost to the taxpayer is visible and clearly understood.

The value of loan assistance is, however, appreciated in the Department of Regional Economic Expansion.

The Regional Development Incentives Program already offers a variety of assistance options, including:

- 1) non-repayable development grants;
- 2) specifically repayable development incentives;
- 3) provisionally repayable development incentives (repayable if a project achieves a certain level of profitability or other objectives specified in the offer and accepted by the applicant); and
- 4) loan guarantees.

The type of incentive offered in each case depends upon the nature of the project and its particular requirements. Greater use of loan assistance is being considered by DREE but it must be recognized that care has to be taken to avoid unnecessary competition with existing private and public lending institutions.

14. Recommendation

- c) Before any assistance is given to projects which increase capacity in this industry, the impact on existing investment should be taken into consideration to a greater extent than is now being done.

Government Response (Agree in principle)

The Government is concerned with the issue of overcapacity. For this reason, among others, it is the policy of the Department of Regional Economic Expansion to discuss possible initiatives with affected parties except where such discussions are not considered feasible or would compromise confidential business information. Careful monitoring and continuous consultations with the Department of Industry, Trade and Commerce in the project evaluation process mean that the incidence of overcapacity due to the incentives policy is increasingly rare. Each project for which a grant is sought is examined to ensure that it responds to a growth opportunity and does not simply displace existing production. For major government-assisted industrial projects, extensive consultations among departments and other groups take place before decisions are reached.

14. Recommendation

- d) Governments should consult with industry associations and firms in the design of exciting, specific programs to enhance productivity (see recommendations under "Productivity") and, where practical, to encourage development of export products and markets. The possibility of tax incentives should be considered in the design of these programs.

Government Response (Agree in principle)

At the Federal-Provincial Conference of Ministers of Industry on November 7, 1978, the Ministers noted the recognition by the Overview Committee that public policy decision-making must remain in the hands of governments and that a consultative mechanism as such could not share this responsibility. To assist this process, however, the committee recommended that consultations on specific issues be an ongoing process. Industry Ministers agreed that a continuation of the consultative process is essential.

The Minister of Industry, Trade and Commerce recently announced the establishment of a committee of prominent businessmen to assess the adequacy, accessibility and relevance of government export promotion services and to examine the interface between these and other related government programs. In the case of agriculture-based products, a joint task force of the Department of Industry, Trade and Commerce and Agriculture has embarked on a number of specific projects designed to improve Canada's capability to capitalize on export market opportunities. The private sector is being consulted on these projects.

14. Recommendation

- e) "Higher value-added" products should receive at least as much, or even proportionally more support than is given to their commodity components which are exported from Canada.

Government Response (Agree in part)

In its export support programs the Government encourages resource upgrading whenever it is of economic benefit to Canada.

GOVERNMENT REGULATIONS

It is considered that the current regulations under which the industry operates should be streamlined and that all new regulations should be subjected to a consultative process at the problem definition phase and undergo cost-benefit analysis before they are put in place. To allow time to streamline the framework of regulations and to establish the consultative process and cost-benefit analysis procedures, a temporary moratorium should be placed on new regulations. Specifically, it is recommended that:

15. Recommendation

Regarding changes in regulations, or new regulations:

- a) A consultative forum should be established which would require the federal and provincial civil service to consult those industries and other sectors of society affected as soon as a perceived problem has been identified and prior to the time when regulations have been prepared.

Government Response (Agree)

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.

15. Recommendation

- b) The federal government's cost-benefit regulatory review system announced December 14, 1977, should be broadened to encompass all new regulations of any consequence. It should be a clear requirement of the review process that the cost of new regulations be clearly identified and reasonably quantified in economic terms. Cost-benefit analysis should also be undertaken prior to introduction of provincial regulations.
- c) In accordance with the Second Report of the Standing Joint Committee of the Senate and the House of Commons on Regulations and other Statutory Instruments it is recommended that "no subordinate legislation (regulation) should come into effect before it is published" and that "all subordinate legislation (regulation) should be registered (and) published".
- d) The delegation of regulation making authority by legislators should be halted. Furthermore, no new regulatory body should be created whose decisions cannot be appealed in a court of law.

16. Recommendation

Regarding streamlining of the existing regulatory framework:

The existing regulatory framework of the food and beverage sector should be reviewed with the objectives of eliminating trivial, redundant and irrelevant regulations, and simplifying and making less costly the procedures involved in implementing them. It is suggested that this review, which should take no longer than 18 months, be co-ordinated by the various regulation making authorities who should consult the various food and beverage industry associations and companies. Every effort should be made to:

- a) Standardize regulations between provinces.

Government Response (Agree in principle)

At the request of First Ministers, the Economic Council is examining the rationale for regulation, alternatives to regulation, implementation procedures across government departments and levels of government, and will publicize its findings. This will include a study of Agricultural Marketing Boards and food processing and distribution.

The Department of Consumer and Corporate Affairs, in consultation with other concerned departments, has set out an interim work program on regulatory review for federal departments. This will:

- a) assess the applicability of Socio-Economic Impact Analysis (SEIA) to existing regulations;
- b) design a framework for internal policy review of existing regulatory activity where the SEIA approach may not be appropriate;
- c) suggest those federal regulatory activities where evaluation along the lines of a) and b) should be undertaken immediately;
- d) recommend a centralized structure reporting that ensures such review take place;
- e) suggest how the problems created by the shared nature of certain regulatory activity among federal departments and among federal and provincial governments should be resolved.

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.

16. Recommendation

- b) In each region of the country, reduce to as small a number as possible the points of contact between business and all governments. It is also important that industry associations represent the interests of their membership more effectively by ensuring greater consensus among their members. This is particularly relevant for small business which has limited resources for dealing with governments.

Government Response (Agree)

This recommendation is divided between Government and industry actions. There is no complete answer to the request that in each region points of contact between business and all governments be reduced to as small a number as possible because of jurisdictions established under the constitution and acts of Parliament. However, the federal government has made moves to coordinate its points of contact between business and governments. On one hand, the deliberate decentralization of many federal departments has eased the accessibility of Government officials to businessmen. On the other hand, the representatives of federal departments in regional centres have developed formal and informal liaison arrangements in order to coordinate the delivery of programs and services to the public and to facilitate cooperation with the provinces. It should be borne in mind that contact points can only direct enquiries and cannot themselves provide definitive answers.

More recently, the Board of Economic Development Ministers has undertaken to establish Regional Business Centres. These will be offices located in regional centres that will have the capability to supply information to business on all federal government programs. In addition, these centres will be able to supply the names of regional or Ottawa contacts should the businessman wish to avail himself of any such program.

16. Recommendation

- c) Continue efforts to co-ordinate and simplify the amount of paperwork associated with regulations.

Government Response (Agree)

The federal government has established, for a fixed period, an office of the Controller of Paperburden charged with the responsibility for effecting an immediate reduction in the cost to business of supplying information to the federal government; for

assisting departments in measuring the paperburden they create; and, for establishing methods for control and reduction. The Controller of the Paperburden has to date announced new measures designed to save Canadian business an estimated \$100 million a year in paperwork costs. These efforts will be continued.

Recommendation

Process for new regulations and temporary moratorium:

- a) A basic principle should be adopted which would require that no new regulation be enacted (other than to deal with emergency situations) unless the above consultative and cost-benefit processes have been followed and it has been clearly demonstrated as a result that there is a need which requires the regulation. Further, it is recommended that for the next 18 months a moratorium (except in emergency situations) be placed on all new regulations to allow time for development of the consultative and review processes and for streamlining the existing regulatory framework.

Government Response (Agree in part)

The Government has already decided that no new regulations or major changes in existing regulations can be implemented in the health, safety and fairness areas without a full Socio-economic Impact Analysis (SEIA) being undertaken and being made available to interested private sector parties for their comment. The Government however cannot accept the concept of a moratorium on all regulations for 18 months.

MARKETING BOARDS

18. Recommendation

Legislation should be re-examined with a view to confining the role of marketing boards to a selling function.

Marketing boards should not be permitted to control the quantity of production and to fix the selling price. Control of either the quantity or price still allows ordinary forces of supply and demand to determine the uncontrolled variable, but control of both neutralizes ordinary market forces and substitutes for them decisions of the board.

To improve the international competitiveness of processed Canadian food products, marketing boards should consider negotiating a two-price system where appropriate.

Government Response (Under review)

Concerns which have been expressed regarding the effects of marketing board supply management and pricing activities are being addressed in several ways.

Government has approved in principle proposals for (i) widened representation on the National Farm Products Marketing Council, (ii) new terms of reference for the Council. These proposals have been designed to strengthen the Council's supervisory role and make its activities more visible to the public. These changes were announced January 4, 1979.

The two food-related industry sector task forces made several recommendations concerning marketing boards. The report A Climate for Growth: A First Set of Proposals in Response to the Industry Sector Consultations, approved by the Government and adopted by First Ministers, includes, among others, the statement that:

"The federal government, after appropriate consultation with provincial governments, in recognition of the large number of marketing boards under their jurisdiction, will undertake or commission a study of marketing board activities, including the impact on the efficiency and competitive position of the primary and processing sectors, in order to identify ways and means to improve the functioning of marketing boards."

The Economic Council of Canada, as part of its study of Government regulation, will examine the objectives, activities and powers of marketing boards in the context of other Government interventions in agriculture. First Ministers have endorsed the report containing the Council's proposals. It is expected that the Economic Council's study will meet the requirements of the study proposed above. The Steering Group on Food Policy will provide advice to the Council to ensure that its study takes into account the concerns raised by the task force.

21. Recommendation

The income instability problem of producers should be addressed separately and appropriate programs designed to deal with it outside the marketing board framework.

Government Response (Agree in part)

This subject will be addressed by the Economic Council study of the regulatory activities of marketing boards. The study will examine the objectives, activities and powers of marketing boards in the context of other government interventions in agriculture.

It should also be noted that proposed changes to the Agricultural Stabilization Act will contribute to the objective desired by the task force.

Federal and provincial Ministers of Agriculture, meeting on November 20, 1978, discussed these proposed changes.

A majority of provincial ministers agreed in principle to a new approach to stabilization programs. Basically, amendments to the Agricultural Stabilization Act proposed by the federal government would see farm prices supported in the following manner. Farmers' cash costs of production, plus 100 per cent of the average margin over the previous five years, would be guaranteed. The margin is the difference between average Canadian cash costs of production and average Canadian market prices.

The proposed stabilization changes would cover slaughter beef cattle, beef cow-calf, sheep, hogs, corn, soybeans and oats and barley produced outside the Canadian Wheat Board designated area. No change is being considered for the industrial milk and cream programs.

The financing of the new approach is similar to the federal Western Grain Stabilization Program. It allows for voluntary producer participation. Producers are expected to pay one-third of the actuarial program costs. The federal government will be responsible for the remaining two-thirds, plus administration costs.

The program would be offered on the condition that provincial governments and the federal government jointly agree to a timetable for withdrawal of their stabilization programs for the above-mentioned commodities.

Stabilization for commodities not named in the Act will be discussed in ongoing federal-provincial consultations. In the meantime, the present provisions for supporting these commodities through designation, will be continued.

The ministers recognized that a number of key issues still have to be resolved. These issues will be examined by a joint federal-provincial technical committee.

COMPETITION POLICY

22. Recommendation

It is considered that the existing Combines Investigation Act and the case law which has grown up as interpreting the Act represents satisfactory legislation and that Bill C-13 should consequently be dropped.

Government Response (Disagree)

The Government rejects the recommendation of the task force that Bill C-13 should be dropped.

23. Recommendation

If, however, the government is determined to proceed with the Bill, the following specific changes should be made to it:

The Competition Board should have its review powers severely restricted by creating a minimum threshold below which no review can take place. The criteria for review should be to deal only with matters which are of clear importance as a result of having a significant impact in limiting competition in Canadian markets.

Government Response (Under review)

This recommendation suggests a minimum threshold below which review by the Competition Board could not take place. This suggested threshold of a "significant impact" is actually a lower threshold than is contained in most of the substantive provisions of the proposed legislation, Bill C-13. The monopolization, joint monopolization and specialization agreement provisions deal with situations in which there is "substantial control" of the market. The merger provisions require for purposes of review a threshold of 20 per cent of any market. The only provision of Bill C-13 that might be open to criticism in this regard, in that it might be invoked in cases not involving significant impact, is the provision on price differentiation. The test of this provision is whether price differentiation is likely to impede expansion of an efficient firm in a market. However, only the Advocate may bring a case before the board, and resource limitations will require him to screen out price differentiation cases not having significant impact.

24. Recommendation

Any Bill should provide for a full appeal on matters of fact and law to the courts as of right.

Government Response (Under review)

An appeal to the courts as of right on matters of fact and law would upset the purpose of establishing an expert tribunal since all decisions of importance would be made by the courts. It should be noted that Bill C-13 provides for the review by Governor in Council of decisions of the Board relating to mergers, monopolization, and specialization agreements. However, the concerns of the task force in this regard have been noted.

25. Recommendation

The provision entitling the Competition Board to intervene in cases of joint-monopolization and monopolization should be deleted.

Government Response (Under review)

The need for effective provisions on joint monopolization arises out of the fact that efficiency considerations dictate a highly concentrated structure in many Canadian industries, and the fact that the efficiency over-ride on the merger and specialization agreement provisions contemplates still higher levels of concentration. It is therefore important that the law be vigilant against abuses of market power.

The civil monopolization provisions were introduced as part of the shift away from criminal law. Civil law permits greater flexibility and greater account to be taken of the economic issues.

26. Recommendation

The powers of the Competition Board to intervene in an effort to "fine-tune" pricing decisions should be deleted.

Government Response (Under review)

This recommendation appears to refer to the price differentiation provisions of Bill C-13. The existing provisions of the Combines Act require that competitors be supplied at equal prices when they buy in equal quantities.

The proposed legislation makes provision, as a matter of civil law, for a challenge before the Competition Board of cases in which the advantage accorded a big buyer seems excessive. This provision is intended to apply only where price differentiation is likely to substantially impede the expansion of a firm that, but for the practice, would be a strong competitor in the market. Recognizing that this could promote undesirable price rigidity in the economy, a defence was drafted which provides that no order may be made if the price differentiation "is based on a reasonable assesemnt of the difference in the actual or anticipated cost of supplying customers in different quantities and under different terms and conditions of delivery".

It should be noted that this provision will be most helpful to small business.

27. Recommendation

The powers of the Competition-Advocate should be strictly prescribed to the end that his powers are controlled by the courts and the responsible Minister is clearly accountable for the actions of the Competition-Advocate.

Government Response (Under review)

The proposed legislation gives substantially the same powers to the Competition Advocate as the Director of Investigation and Research under the Combines Investigation Act has exercised for many years. Any improper use of their powers is subject to immediate correction by the courts. Neither the Director nor the Advocate are immediately accountable to the Minister for the conduct of inquiries since independence from the political process is required. Only the Attorney General may make the decision to prosecute following completion of an inquiry.

28. Recommendation

In view of the considerable doubt as to the constitutionality of the provisions providing for civil damage actions resulting from breaches of the Combines Act it seems premature to provide for class actions. The many abuses which have become evident, particularly in the United States, associated with class actions, such as the over-loading of the courts and the difficulty in managing class actions, should cause considerable concern. As a minimum, class actions should only be permitted if:

- i) contingency fees to lawyers are prohibited:
- ii) the actions are only allowed to proceed on the basis of an opt-in procedure requiring at least 51 per cent in number and value before a group of plaintiffs are entitled to claim they represent a specific group;
- iii) it is required that proof of individual damage be made before any obligation to pay on the part of the defendant arises.

Government Response (Under review)

The Government disagrees that the provision for class actions is premature. The civil damage action provisions have been part of the Combines Investigation Act for over two years and no constitutional test is yet before the courts. The question of contingency fees is a matter to be determined by the provinces. To require an opt-in procedure would destroy the viability of a class action as would the requirement of proof of individual damage before, rather than after, the defendant was found liable.

FUTURE CONSULTATION

29. Recommendation

The task force is very conscious of the usefulness of the dialogue between industry, labour and government initiated in this task force.

The continuation of this dialogue in an appropriate forum, and with the participation of representatives of other sectors of the Food System would contribute to a spirit of co-operation and a general awareness of the individual and group problems and opportunities which will shape the industry's future development.

Government Response (Agree)

At their meeting on November 7, 1978, Industry Ministers welcomed the Overview Committee's findings that there were a large number of issues relevant to the development of industry in Canada that business and labour members found they could agree on. Ministers were pleased to note the recognition by the Committee that public policy decision-making must remain in the hands of Governments and that a consultative process is essential.

The Government has considered various means for consultations between all sectors of the Food System and has accepted the following:

- meetings of the Steering Group on Food Policy with private sector interest groups
- national conferences
- specialized conferences
- solicitation of briefs for specific issues from the private sector
- publication of Discussion Papers on food policy issues
- encouragement for private sector initiatives.

ANNEX I

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