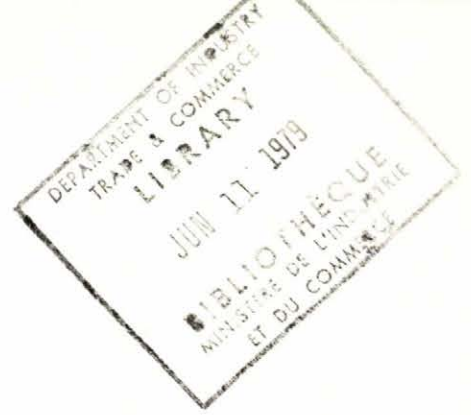


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**RESPONSE OF THE FEDERAL  
GOVERNMENT TO THE  
RECOMMENDATIONS OF THE  
CONSULTATIVE TASK FORCE ON  
THE CANADIAN ELECTRICAL  
INDUSTRY**



*Canada*

RESPONSE OF THE FEDERAL GOVERNMENT  
TO THE RECOMMENDATIONS OF THE  
CONSULTATIVE TASK FORCE  
ON THE  
CANADIAN ELECTRICAL INDUSTRY

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 and territorial 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 Electrical 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 achieved a high degree of consensus about the major issues facing the electrical products industry and the initiatives required of both the public and private sectors. With respect to the recommendations for Government action, the most striking theme in the report was the emphasis placed upon efforts to improve the competitive position of the industry. This aggressive approach came through particularly in the sections on the MTN and trade practices, export marketing and financing, productivity and rationalization, where the task force indicated that if the climate were right the industry would be in a much better position to meet international competition. The recommendations in the above-mentioned sections generally focussed upon measures to create a general business climate conducive to healthy economic growth and substantial investment.

The second theme of the task force was the implications arising from the industry's role as a producer and consumer of a major domestic energy source. The sections on energy policy and provincial procurement practices pointed out the benefits the industry can offer to Canada in terms of industrial strength and energy availability. The related recommendations urged further efforts by Governments to integrate their policies in this area both in relation to those of other Governments and to policies for other energy forms.

Government initiatives in recent months have improved the Canadian economic climate, although the pressure of fiscal restraint has not permitted as much stimulus as the task force called for. The November 16, 1978 budget provided additional incentives for investment, most notably increases in the investment and R & D tax credits, and their indefinite extension beyond 1980. These measures will have the effect of strengthening corporate balance sheets, and encouraging investment in new facilities and new technology. These measures, along with the greater policy emphasis placed on industrial R & D mean that the stimulus will be relatively greater for industries such as the electrical products sector which must upgrade their technological capabilities in order to stay competitive.

The Government's trade export and adjustment policies substantially follow the directions called for by the task force. Canada's MTN policy of seeking gradual tariff cuts, accompanied by meaningful non-tariff barrier reductions is the strategy recommended by the task force. In the area of industrial development and adjustment, last fall the Government announced several new or expanded programs, including \$300 million in total new cash outlays in support of economic development, expanded loan guarantees, grants and insurances, and a special panel to consider industry requests for adjustment assistance.

All of these measures will place funds in the hands of firms and will facilitate innovation, modernization and reorganization of firms to meet the challenges of the 1980's. The electrical industry, as an active exporter of manufactured goods should benefit from Government initiatives with respect to export financing assistance. Export Development Corporation budget ceilings have been raised from \$1 billion to \$2.5 billion, and a commitment has been made to review the totality of Canada's export financing efforts.

Existing federal energy policy, as set out in the policy document, "An Energy Strategy for Canada" is compatible with the thrust of the task force's recommendations. The policy statement foresees a growing role for electrical energy, based on its substitution for other fuel sources.

The federal government recognizes, as does the task force, the important role to be played in this field by provincial governments and their hydro electric utilities. Federal and provincial governments are working together to develop an inventory of energy sources, and to project the related energy demand trends. Of course the federal government will continue to permit the export of electricity surplus to domestic needs. In the area of procurement policy, where provincial utilities are a critically important factor, the federal government has begun cooperative work with provincial governments to develop means of using and coordinating procurement policy more effectively to promote industrial development.

With respect to government procurement, the federal government has announced several measures that together constitute a "National Purchasing Policy". The central elements of this policy include a new Source Development Fund designed to help Canadian firms manufacture products not currently produced here, and a Purchase Review System which will ensure early consultation between industry and Government regarding larger Government purchases.

The recommendations of the report on employee relations and availability of skilled manpower make it clear that relations between management and labour in this sector are such that action even on some of the complex and contentious issues could be achieved more easily than perhaps in other sectors. The wide diversity of views within the private sector on some of these issues means that federal efforts to address them are dependent upon careful and continuing discussion among the concerned parties. The federal government has developed an "Employment Strategy for the 1980's" which focusses upon means of improving the supply of skilled labour through more and better training efforts and through improvements in mobility programs.

The individual recommendations of the task force are discussed in the next section of this paper. They have been grouped in some cases and are followed by a Government statement which responds to the thrust of the recommendation.

PART II

DETAILED RESPONSE TO TASK FORCE RECOMMENDATIONS

ENERGY POLICY

1. Recommendation

All of Canada's energy capabilities (including fuels, delivery systems, plant, expertise and manufacturing ability) must be treated by policy as one resource, and directed to produce maximum benefit for the country. Market forces alone will not create the energy supply and mix needed by Canada. Energy is the key to Canada's survival as a trading nation. It must be mobilized for future self-reliance, as a base for industrial health and growth and as our counter to cheap foreign labour in the production of international trade goods.

2. Recommendation

The Canadian Government should recognize electricity as the dominant energy form of the future, as Canada's energy bridge over the next decade, and as a strategic Canadian industry.

Government Response (Agree in principle)

The Deputy Minister of Industry, Trade and Commerce met with representatives of EEMAC in June, 1978 to discuss with them their brief on energy policy, which made points similar to these two recommendations concerning the appropriate energy mix and the role of electrical energy within that mix. It was agreed that the Government would examine some of the implications arising from these energy policy recommendations of the electrical industry, consult with other interested federal departments and subsequently discuss the issue further with representatives of the electrical industry. This work is under way, and further informal discussions have taken place with some industry representatives to clarify or expand upon some of the concerns of the industry.

In response to the energy crisis, the federal government has developed a national energy policy. This energy policy as set out in "An Energy Strategy for Canada: Policies for Self-Reliance" has nine policy elements including (i) appropriate energy pricing (ii) energy conservation (iii) increased exploration and development (iv) increased resource information (v) interfuel substitution (vi) new delivery systems (vii) emergency preparedness (viii) increased research and development and (ix) greater Canadian content and participation. The policy statement acknowledges the potential of electricity and envisions a growing role for electrical power within the total energy mix.



3. Recommendation

An energy policy must begin with an inventory of Canada's regional energy resources, from which a joint and overall assessment can be made of how the total can be used to the best economic advantage of both the regions and the nation. A timetable would then be established to bring these resources on stream in a way that would create an orderly flow of capital and extend the life of our non-renewable resources.

Government Response (Agree in part)

The federal government is developing in cooperation with provincial governments an inventory of Canada's energy resources. A reasonably complete inventory of present and potential sources of hydroelectric and coal energy already has been developed. Provincial governments have plans which outline the sequence in which additional electrical operating capacity will be added. However the size of investments these additions will require means that decisions on the timing will depend on the growth of demand. Similarly, the size of investments required, the need to consult with provincial governments, the volatility of international energy markets, and the possibilities for substitution among energy forms would make the development of a national timetable for the development of all energy sources very difficult.

4. Recommendation

With due regard for the importance of conservation as an immediate step, the electrical utilities should be encouraged to promote the use of electricity as a substitute for oil and gas in order to minimize Canada's dependence on imported oil, and to make fuller use of our present under-utilized manufacturing capacity.

Government Response (Agree in principle)

Electrical utilities are largely owned and controlled by provincial governments, so that decisions concerning such a change in policy must be undertaken by those Governments. The federal government supports a policy of conservation, but recognizes the potential for shifts in the use of energy sources if not all suppliers of energy emphasize the importance of conservation of energy. Regular consultation between the federal and provincial governments takes place with respect to conservation and other energy policy issues.

5. Recommendation

The industries and utilities that support generation of electricity are "world scale" and provide a major opportunity to export finished product (electricity) to the United States and thus redress our growing balance of payment situation. In light of these strengths and the priority to the upgrading of Canada's natural resources, it is recommended that the Government reassess its policy on the export of electrical power.

Government Response (Agree in part)

There currently is no federal policy of prohibiting the export of electrical power. Indeed, some provincial utilities export substantial amounts of electrical power to the United States. The role of the National Energy Board is to review applications for the export of energy in light of the implications for the Canadian economy. A policy to promote actively exports of electrical power would have to be decided by provincial governments and their hydro electric power utilities.

MULTILATERAL TRADE NEGOTIATIONS

6. Recommendation

At the MTN, Canada should seek to delay the reduction of Canadian tariffs until it is demonstrated that relevant NTB's have, in fact, been removed.

The key elements required to effectively remove NTB's are:

- (a) a specific documentation of which practices are permitted under the regulations, and which are not;
- (b) a sufficient transparency in each business practice (e.g. the publishing of certain details related to winning bid awards) to ensure all participants that the regulations are being complied with; and
- (c) a provision for dispute settlement on a basis that does not disrupt the normal routine of business, but rather deals with repeated, deliberate breaches of the regulations.

7. Recommendation

Industry and Government should develop a contingency plan now in the event of non-removal of existing NTB's or the introduction of new NTB's by foreign countries.

Government Response (Agree in principle)

With respect to tariff reductions emanating from the MTN, the Government has stated that the phasing-in of tariff reductions, likely over an extended period, will not be initiated until the other major participants in the MTN have enacted the necessary domestic legislation respecting the agreements reached on non-tariff barriers.

A primary objective of the Government in the Multilateral Trade Negotiations has been the reduction or elimination of non-tariff trade barriers. The views of the task force have, in this regard, been brought to the attention of the Canadian Co-ordinator for the MTN. As regards (b) and (c) relating to Government procurement policies, a code is being developed in the MTN which would permit foreign suppliers to compete on the same basis as domestic suppliers for purchases by Government entities. Negotiations with respect to the rules, including the question of "transparency," i.e., information to be made available on actual procurements, are well advanced and measures to ensure adequate surveillance and to provide for settlements of disputes are being pursued.

In respect of recommendation 7, work is at an advanced stage in the trade negotiations aimed at improving and strengthening the general surveillance and dispute settlement provisions of the GATT. Together with the mechanisms being developed in the various codes on non-tariff barriers, these should significantly benefit Canadian exporters by narrowing the scope for other countries to erode improved terms of access to their markets resulting from the MTN.

8. Recommendation

Foreign company-government offers to Canadian purchasers (utilities or major projects) sometimes include concessional financing (e.g. firm prices) that Canadian companies cannot match. The federal government should consider a Domestic Financing Corporation, similar to the EDC, to assure that Canadian manufacturers are not at a disadvantage in their own country.

Government Response (Disagree)

Few cases of business being lost by Canadian suppliers, due to financing cost differentials, have been brought to the attention of the Government. Foreign financing terms, however, can sometimes be more attractive than those available in Canada as a result of differences in national capital market structures and monetary and foreign exchange policies. When foreign commercial financing is made available on terms more favourable than domestic terms but in line with rates in the exporting country, Canadian suppliers do have an option to arrange through financial intermediaries, commercial financing on comparable terms although exchange rate considerations would need to be weighed. In certain very limited cases, however, the more favourable financial terms offered by foreign suppliers may arise from the provision of official Government export credit which is made available at a rate below the commercial rate of the country and might therefore be considered a form of subsidy.

Canada is endeavouring in the MTN to achieve a satisfactory subsidy/countervail arrangement to deal with the use by foreign exporters of subsidized official financing, to the detriment of domestic suppliers.

A general direct response, such as the formation of a public sector financial institution, is not considered appropriate, given the limited number of reported cases of business lost due to financing differentials. However, case by case consideration will be given to assistance measures to offset any financing differentials which might result in the loss of significant business by Canadian suppliers.

9. Recommendation

The federal government should carefully re-examine the position of the Canadian manufacturer relative to foreign competitors on the matter of dumping, following which a joint industry-government effort should be made (perhaps through the Electrical and Electronic Consultative Committee) to develop appropriate policy and procedures. Fundamental points in a revised policy should include:

- . The objective of the anti-dumping procedures should be to prevent dumping in so far as possible.
- . The time element in the finding of dumping and of injury should be as short as possible.
- . The cost to the Canadian company in demonstrating that injury has taken place should be minimized. A mechanism should be developed such that if injury is proved the Canadian company is recompensed for the cost of the action.
- . The definition of "injury" should not make it unreasonably difficult to establish that injury has taken place.
- . Governments should require an affidavit from the foreign supplier that the goods are not being dumped.
- . Governments should have a commitment not to purchase foreign goods at dumped prices.
- . The federal government should not overrule the Tribunal as in the recent case of steel.

Government Response (Agree)

The Government is committed to taking expeditious action on injurious imports consistent with Canada's international rights and obligations. Efforts in this area include:

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

The Government would welcome the submission of specific views or suggestions in this regard.

The decision by the Government to temporarily delay the application of the Anti-Dumping Tribunal's determination in respect of steel was an exceptional case in view of the particular circumstances facing the construction industry in adjusting to higher steel prices.

10. Recommendation

Canada should work toward neutralizing the United States DISC program.

Government Response (Agree in principle)

Under changes applying to natural resource products and introducing restrictions to limit benefits to incremental export sales, DISC benefits were substantially curtailed in 1975 and 1976. The Government recognized that the DISC could influence investment decisions and distort trade flows. Accordingly, action was taken to counteract the possible damaging effects of DISC on the Canadian economy by introducing the manufacturing and processing deduction, thereby reducing the effective income tax rate for manufacturers, and adopting a two-year write off for manufacturing and processing machinery and equipment. Internationally, Canada joined with other countries in the GATT taking the position that the DISC (as an export subsidy of a type prohibited by the GATT) should be terminated. The anticipated successful conclusion of a Code on Subsidies/Countervail in the MTN will achieve an improved international discipline over the granting of subsidies that affect trade, including those associated with activities such as DISC.

11. Recommendation

Canada should work toward eliminating the advantage held by the United States on the matter of the definition of "injury" for countervail purposes.

Government Response (Agree)

A major Canadian objective in the MTN is the conclusion of a satisfactory arrangement on subsidies/countervail which would, inter alia, require the U.S. to bring its countervailing legislation into line with the provisions of the GATT, i.e. by requiring a determination of actual or threatened material injury to U.S. producers before countervailing duties may be applied.

12. Recommendation

Other countries recognize the economic benefit derived from a healthy electrical industry, and support home manufacturers through local purchasing. Federal and provincial governments should make every effort to assure that the Canadian economy reaps similar benefits for Canadian industry by either assuring access to foreign markets or by devices designed to assure Canadian manufacturers a "fair" chance in the Canadian market.

Government Response (Agree in principle)

A principal objective of the Government in the MTN is to obtain improved and assured access to foreign markets for a wide range of domestically-produced products. At the same time, the Government has a number of mechanisms, in addition to the tariff such as anti-dumping, countervail, and other safeguard techniques, which can be employed, consistent with Canada's international rights and obligations, to prevent or minimize injury from unfair competition.

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.

13. Recommendation

The federal government should assure that the lowering of Canadian tariffs does not put Third World countries in a preferred position in the Canadian market. Some Third World countries, using aid granted by Canada (or other countries) for industrial development are becoming an increasing threat to Canadian manufacturers.

Government Response (Agree in part)

It is the policy of Canada and other industrialized members of the GATT to provide preferential access to their markets for Third World countries and therefore by definition to give them an advantage over other exporting nations. It is expected that, in the context of the current MTN, preferential access will be maintained or expanded for developing countries but that a more effective means to prevent imports from these countries disrupting domestic markets also will be adopted.

14. Recommendation

Adjustment policies and plans should be developed at the earliest possible date, that is, before the tariff reductions come into effect.

15. Each sub-sector will have its peculiar problems and will need to work out specific impacts in order to develop appropriate adjustment programs.
16. Adjustment programs must be aimed at making the sub-sectors genuinely competitive with the new level of competition. Such assistance should not be based on an indefinite "support" program.
17. Adjustment programs, to the extent possible, should be based on economic considerations and not political considerations.
18. Adjustment programs must recognize the impact on employees, on companies, and on communities.

Government Response (Agree in part)

In recent months, the Government has taken several steps to provide the climate and assistance required by business to make successful adjustments to the approaching changes in the world trading environment and other developments.

In September, the Minister of Finance announced \$300 million in total new cash outlays in support of economic development, including \$235 million for manufacturing and major capital projects. In addition, the Minister of Industry, Trade and Commerce announced a package of measures to facilitate innovation, modernization, and reorganization of firms to help meet the challenges of the 1980's. Included were an expansion of loan guarantees from \$350 million to \$1 billion, expanded grants under more generous terms and a specialized panel of the Enterprise Development Program to consider requests for adjustment assistance from companies affected by the outcome of the negotiations. Furthermore, the Minister announced a six-point program on October 3 to be used as a framework for upgrading the competitive position of the private sector. The six main policy directions were:

- 1) Continued constraints on the growth of Government and Government intervention.
- 2) The establishment of framework policies which are conducive to growth.
- 3) Government efforts to ensure the necessary economic infrastructure such as transportation facilities is in place.
- 4) Revision, reorientation and substantially greater support for manpower training programs.
- 5) The specific industrial support programs and services referred to above.
- 6) A program to increase markedly Canadian R & D expenditures.

In addition to the expanded training programs referred to in (4) above, the Government recognizes the impact of adjustment on employees and communities, and plans to address these in several ways, including:

- i) a new Special Response Component of Canada Works to permit the federal government to respond quickly to local crisis situations by providing funding for temporary job creation or assistance leading to permanent job creation;
- ii) an expanded Manpower Consultative Service, to encourage companies and unions jointly to plan and implement manpower adjustments;
- iii) the introduction of increased flexibility into the Canada Manpower Mobility Program to permit its use in specific situations of employment dislocation or expansion;



- iv) the introduction of a Portable Wage Subsidy, to be "carried" by employees who are laid off as a result of industrial employment dislocations, to facilitate their re-employment elsewhere;
- v) the development of a new computerized National Job Bank which will help match supply and demand geographically and support mobility.

## REGIONAL DEVELOPMENT

### 19. Recommendation

Development priorities and opportunities should be discussed in the first instance with manufacturers who are already established in Canada or who have developed a market here for their products sufficient to support a viable manufacturing facility.

20. While recognizing the fundamental importance of regional development and a more balanced distribution of manufacturing activity in Canada, application of DREE and other financial assistance should be predicated on long-term prospects and a realistic feasibility analysis which evaluates all relevant criteria. Such analyses should be reviewed by industry experts and adjusted where necessary before being used to encourage new investment.

### Government Response (Agree)

As a general response to all of the recommendations proposed by the task force on regional development, it should be noted that a review of regional development issues is being conducted by the Government and that ITC has presented in detail all of the concerns raised by the task force.

With respect to the first recommendation, DREE has a very wide range of contacts with individual firms and industry associations. In the evaluation of applications for incentive assistance industry knowledge of other government departments generally, both federal and provincial, is also frequently referred to. Meetings with associations, and the review of industry association briefs to Government have taken place fairly frequently either bilaterally or in coordination with other federal departments. Such exchanges contribute to a continuous process of program review within our department, by which the effects of proposed program changes receive extensive consideration.

DREE financial assistance is currently predicated upon the long-term economic development of regions. Much of the funding is directed towards the provision of infrastructure and economic development studies or projects. The establishment of regional development programs is done on an interdepartmental basis with the benefit of extensive socio-economic analysis. This does not preclude the important contribution that the private sector might make in this regard and this will be considered by the review.

21. Recommendation

The desirability of DREE assistance for a project should be assessed in the light of various criteria including security of employment extent of import replacement, technology content (particularly if new), export opportunities and prospects for growth.

Government Response (Agree)

Each application for assistance under the Regional Development Incentives Program is considered on its own merit and is assessed according to eligibility criteria which apply equally to all projects. In addition to basic eligibility criteria such as location, industrial coverage, need for an incentive and absence of prior commitment, assessment of each application must also take into account such factors as industrial sensitivity, viability in terms of management capability, financing, profitability, technology, labour force and availability of materials, as well as its potential impact on the environment of the region concerned. A greater focus on import replacement and export orientation is being pursued within the limits of the GATT.

22. Recommendation

Co-operation should be sought by Government agencies and industry from provincially-owned utilities for guidance on market opportunities and import replacement strategies.

Government Response (Agree)

Preliminary discussions have taken place between the federal government and provincially owned utilities and industry on means by which more equipment could be sourced from Canadian manufacturers. These discussions will continue with these parties and the provincial governments.

23. Recommendation

Encouragement should be given to studies which assess the economic feasibility and consequences of moving entire plants to new locations. In the interests of avoiding fragmentation, DREE should drop its requirement that when a new investment by a domestic firm is being assisted, that firm may not close existing capacity. Some further measure may have to be considered in this respect to assist companies and communities to minimize effects of dislocation and to encourage a positive adjustment.

Government Response (Disagree)

The purpose of the DREE requirement is to ensure that a new facility funded by the department for the purpose of job creation does not simply have the effect of displacing jobs from one geographic location to another.

PROVINCIAL UTILITIES PROCUREMENT POLICIES

24. Recommendation

Provincial governments should extend any existing purchasing preferences to the full range of products made by a firm and not just to those items made within the province. The provinces should commit themselves to studying the ways of extending this application of preference to cover sub-sectors or groups of producers of a common product.

25. First Ministers should recognize the significant ill-effects of uncontrolled interprovincial competition for industrial development. High priority should therefore be placed on the identification of an equitable formula for sharing the benefits of manufacturing activity and the development of mechanisms to facilitate and encourage support of Canadian manufacturing regardless of provincial location. These might include an equalization fund or offset arrangement, for example.

Government Response (Agree in part)

There was a discussion by Industry Ministers in November, 1978 of the impact fragmented purchasing policies have on the economic performance of some industries, and the potential for procurement policies to be used to promote stronger, more competitive industrial development. First Ministers agreed to the recommendation of Industry Ministers that a committee of officials be established to consider the issue of procurement policy and particularly to develop a list of products where there would appear to be scope for and benefit in some sort of federal-provincial cooperation in their sourcing.

26. Recommendation

All utilities must be encouraged to recognize the economic benefits of placing orders for electrical equipment within Canada and to exercise a preference for Canadian-made products.

Provincial utilities should be encouraged to make it a condition of bids, or at least to require written confirmation from bidders, that prices quoted are not below fair market value in their country of origin and are not based on government subsidies as to cost or risk coverage.

Government Response (Agree in principle)

Again, as noted above, the great majority of electric utilities in Canada are provincial crown corporations. Accordingly, it is the prerogative and responsibility of provincial governments to establish the policy guidelines for these companies. The agreement of First Ministers to the establishment of a federal-provincial working group on procurement policy is an encouraging sign that provincial governments are willing to consider the national impact of their procurement decisions as well as the strictly provincial implications.

28. Recommendation

Where foreign purchases cannot be avoided, offset arrangements should be made part of the procurement package.

Government Response (Agree in principle)

The policy of the federal government in recent years clearly has been to seek offsetting industrial benefits if it proves necessary to place a major contract with a foreign supplier. In several major defence contracts such as the Long Range Patrol Aircraft and the New Fighter Acquisition, part of the evaluation of the different offers focussed on the industrial benefits that would accrue to Canada. A speech by the Minister of Defence, on October 5 strongly supported the use of offsets and referred at some length to the federal policy on compensating industrial benefits, noting that the policy is to use purchasing to support R & D and reinforce our export program.

EXPORT MARKETING AND FINANCING

29. Recommendation

ITC should continue the Program for Export Market Development with periodic review and updating, taking into account the rising costs of marketing work in most countries as a result of the decline in the value of the Canadian dollar.

Government Response (Agree)

The effectiveness of the Program for Export Market Development has been recognized by the Government and, as with all programs, is the subject of internal review and updating. Approval has recently been announced to extend the program to include aspects of sustained market development initiatives by companies and to now include the U.S. as a country eligible for market identification assistance. In recognition of the increasing cost of marketing, the per diem allowed was increased from \$70 to \$85 per day as of April 1978 and it is to be increased at the rate of \$5 per year for the next three years. In addition, the Minister of ITC announced on October 16, 1978 the formation of a committee of businessmen and labour to review the support provided by governments to Canadian exports. This review is to include recommendations for change and improvement and report to federal and provincial trade ministers by June 30, 1979.

30. Recommendation

EDC should reconsider its policy of making a profit at the expense of Canadian competitiveness on foreign bids under these circumstances. In cases where Canadian bids are competitive in all other aspects, EDC should provide, on a timely basis, financial packages that are competitive in interest rates and in terms, including protection against inflation. EDC financial capacity to support export offers should be increased.

31. Contrary to the current philosophy in government, tied aid can be justified and should be emphasized. It should be a fundamental guideline of Canada's aid policy to use Canadian consultants, Canadian specifications and Canadian products.
32. ITC, EDC, and CIDA should collaborate to optimize financing programs in support of domestic manufacturers' exports (e.g. through blended rate financing) and to select aid projects which, in a practical way, match the particular skills of Canada's manufacturing industry with the needs of developing countries.
33. The Government should continue to press for a stronger international agreement limiting the provision of concessional financing to developed countries. Recognizing that this is a partial solution, the government should monitor the level of financing coming into Canada, with a view to neutralizing its effect when it is used to finance products which compete directly with Canadian products.

Government Response (Agree in part)

The Government has made a commitment to review all its efforts in support of exports. This review will encompass questions such as EDC financing terms, tied aid and blended rate financing. If the EDC is shown to be less competitive than the export financing practices of other countries, with Canadian companies losing business as a result, the cost/benefit of matching other countries systems consistent with our international obligations will be examined. The federal government is participating with other OECD countries in an international agreement on export credit terms. EDC budget ceilings have been increased significantly for next year from \$1 billion to \$2.5 billion. The Government will consider whether opportunities exist for the effective use of tied aid and blended rate financing, consistent with overall aid strategy and the government's approach to industry.

FOREIGN OWNERSHIP

34. Recommendation

Business and Government should investigate further means by which the link between subsidiaries and parent companies can be used to benefit Canadian firms and to strengthen their performance.

Government Response (Agree in principle)

No commitment has been made by the Government to take any additional action on this recommendation. Efforts to date by ITC in this area will be continued, including moral suasion and the use of appropriate levers such as development incentives and Government procurement to promote the establishment of worldwide product mandates for Canadian subsidiaries.

35. Recommendation

To remove uncertainty, all companies should be measured against a code of business conduct related to Canadian economic and social priorities (e.g. the ITC Principles of International Business Conduct, or the OECD Guidelines) and firms which qualify should be treated equally by Governments irrespective of the nationality of their ownership or control.

Government Response (Agree)

Good corporate citizenship is expected of all firms, regardless of ownership. Foreign firms whose behaviour continues to meet the spirit of the Guidelines for International Business Conduct can expect to receive cooperation from Government.

PRODUCTIVITY

36. Recommendation

The federal government should amend corporate tax legislation to recognize and allow for the impact of inflation on corporate profits.

Government Response (Disagree)

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 overall 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.

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.

### 37. Recommendation

Increase the present investment incentive credit to 15 per cent of eligible capital expenditures as a direct reduction of corporate income taxes otherwise payable.

#### Government Response (Agree in part)

The recent federal budget proposed an increase in the investment tax credit from five to seven per cent, with larger increases in designated areas of slower growth: 20% in the Atlantic Provinces and the Gaspé and to 10% in other DREE-designated areas. A 7% rate of investment tax credit was made applicable to transportation equipment and the scheduled expiry date was extended indefinitely. It was estimated that the total impact of the investment tax credit changes would be to leave an additional \$500 million in the hands of business in the first full year of application. The newly extended and enriched investment tax credit and the two-year write-off for manufacturing and processing machinery and equipment, which has been permanent since 1975, provide an attractive environment in which to undertake modernization and expansion.

In the overall consultative process, various labour representatives 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.

38. Recommendation

Expand the investment incentive program to cover all capital expenditures in the industrial sector rather than limiting these, as at present, to expenditures for manufacturing plant and equipment only.

Government Response (Disagree)

These incentives are restricted to manufacturing and processing equipment because of the national priority attached to a strong manufacturing sector. It was not the intention of the measures to apply to non-manufacturing assets used either by firms principally engaged in manufacturing or by other firms. Indeed, it would not appear appropriate to provide for different tax treatment of the same asset, used for the same purpose, based on whether or not it was purchased by a firm principally engaged in manufacturing. To extend the incentives broadly would dilute their effectiveness as well as resulting in potentially large reductions in federal revenues.

39. Recommendation

Remove present provision by which capital costs of the acquired assets are reduced by the amount of the incentive for capital cost allowance purposes.

Government Response (Disagree)

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 Capital Cost Allowance 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 U.S., where the credit is not deducted from the capital cost allowance, 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. This was proposed in the November 16, 1978 budget by the Minister of Finance in which the following provisions were tabled:

- The basic investment tax credit for R & D will be doubled from 5 to 10 per cent. It will be doubled to 20 per cent in the Atlantic Provinces and the Gaspé.
- A special R & D tax credit of 25 per cent will apply for small business corporations in all parts in Canada.
- These R & D incentives are in addition to substantial new measures announced earlier this year, and reflect a broad concern of the industry Task Forces.



40. Recommendation

Reduce the period in which the cost of the eligible capital expenditures can be written off for tax purposes from two years to one year.

41. Shorten the period for write-offs for tax purposes of building investments to encourage expansion needed to support programs related to investment for productivity improvement.

Government Response (Disagree)

In November 16, 1978 budget, the Minister of Finance proposed an increase in the applicable rates of investment tax credit and extended the availability of the credit indefinitely. This will reduce the cost of capital investment for modernization and expansion in the same fashion as reducing the two year write-off period. The enhanced credit also applies to building investments. As noted in the budget papers comparing the tax systems of Canada and the limited studies, the current two-year write-off and the lower tax rate on manufacturing and processing profits provide a very favourable tax environment for manufacturing. In light of these facts, and the current federal fiscal position, the government cannot agree to this recommendation.

42. Recommendation

Recognize, within investment incentives definitions, the cost of restructuring within the industry for production efficiencies.

Government Response (Agree in part)

The recent budget, within the constraints of the current fiscal position, provided some additional investment encouragement. In addition, the Government has put in place a number of new and strengthened programs intended to improve the climate for business, and particularly to provide support for firms facing adjustment to changing conditions. For more detail of these initiatives, see the response above to trade policy recommendations 14 to 18.

RESEARCH AND DEVELOPMENT (R & D)

43. Recommendation

The present R & D tax incentives should be increased and applied to "base" as well as incremental expenditures. In addition to continuing to qualify for 100 per cent write-off as a normal expense, eligible R & D expenditures should qualify for an effective 25 per cent tax rebate. Existing programs for small and medium-size business should also be enhanced in order to equalize the opportunity of benefit.

Government Response (Agree in part)

Statements by several Ministers including the Minister of State for Science and Technology and the Ministers of Defense and Industry, Trade and Commerce have stressed that the federal government shares with industry the goal of increasing Canada's industrial R & D effort with emphasis on development and use in Canada. In addition to the policy measures announced by the Minister of State for Science and Technology on June 1, the recent budget proposed that the R & D tax credit be doubled from five to 10% and a 20% rate be established for the Atlantic Provinces and the Gaspé. Small Canadian businesses would be eligible for an investment tax credit of 25% on all R & D expenditures. The total tax value of these incentives plus the additional 50% special allowance for incremental R & D expenditures provided in the April, 1978 budget is over \$100 million annually. This is in addition to the regular 100% write-off and a variety of grant and subsidy programs.

44. Recommendation

The definition of R & D expenditures eligible for the above treatment should be broadened to cover expenses which are essential to: the development of new or improved products or processes (e.g. direct labour, direct material, subcontracts and consultants, overhead) including industrial design services and the costs of construction prototypes, pilot plants and special test equipment. In addition, the following preproduction expenses should be eligible for support where they are related directly to the commercial exploitation of the results of the development project: the preparation of production drawings, process data, reports, specifications, instructions and bills of material, and the design of production tooling, inspection and test equipment, and other non-recurring, preproduction activities of similar nature.

Government Response (Agree in part)

Recent speeches by several Ministers, particularly the June 1 announcement by the Minister of State for Science and Technology, have pointed out the importance the Government is placing on securing a higher level of applied research and development. Mr. Buchanan announced several measures intended to foster the application and commercial exploitation of new technological developments. In addition, government officials have been directed to develop on a priority basis mechanisms to provide increased support to industry for high technology activities, particularly applied R & D and engineering. Certain expenses, such as those for market research, quality control and routine testing, routine data collection, style changes, commercial production, do not qualify as R & D. The tax system must apply generally and, as a practical matter it would be difficult or impossible to distinguish "preproduction" costs associated with commercial style or other marketing changes. It is not the policy of the Government to provide tax incentives throughout the economy for the latter type of activities.

45. Recommendation

Canadian R & D incentive programs should have long-term continuity, recognizing the need to provide the time and stability for staff build-up and retention, as well as design and development, and the transition to manufacturing engineering and production. The federal government should commit itself to the support of these measures for a period of not less than 10 years.

Government Response (Agree in principle)

One of the difficulties with commitments to leave unchanged particular Government programs, is that the problems or issues they are intended to deal with change over time, affecting the relevance and effectiveness of the program. Thus, it is necessary to retain a measure of flexibility. Nonetheless, the Government has recognized the value of stability for business planning. Many of the ITC incentive programs have been in operation for over ten years and have no expiry date. The 100% write-off for R & D has been a permanent feature of the tax system. The 50% deduction for incremental R & D expenditures, which was introduced in the April 1978 budget, applies for a period of ten years. In the most recent budget, the Minister of Finance proposed that the investment tax credit, which provides important support for R & D, be extended indefinitely.

46. Recommendation

The Department of Industry, Trade and Commerce and the Department of Energy, Mines and Resources should establish, with appropriate representation from the provinces, a Task Force or Action Group to formulate policies and related programs, with the objective of facilitating electric power system interconnections and networks, utilizing and supporting the capability of Canadian manufacturers to design and produce the required equipment and systems. Such policies and programs should be designed in support of, and related to, the R & D programs.

Government Response (Agree in principle)

The generation and distribution of electrical power is largely the prerogative and responsibility of provincial governments and their utilities. While the federal government is willing to enter into discussions of the nature recommended by the task force, it is believed that the initiative for these should come from provincial governments. It should also be noted that at their recent meeting, First Ministers emphasized the value of regional cooperation in electric power matters and the potential importance of regional power grids in achieving greater utilization of hydroelectric resources.

EMPLOYEE RELATIONS AND AVAILABILITY OF SKILLED MANPOWER

47. Recommendation

Government, industry associations and labour unions must work co-operatively to develop information material on the factors that influence productivity, including the contribution of employees' positive attitudes and motivation to effective work and low absenteeism.

Government Response (Agree in principle)

The Government has not yet committed itself to work on new undertakings with the private sector to produce the information suggested. A number of departments are interested in the issue, however, and the results of their analysis are generally available to the public.

48. Recommendation

Industry management and labour unions, together and separately, must communicate with and involve workers in productivity improvement programs.

Government Response

Responsibility for the implementation of this recommendation lies with business and labour.

49. Recommendation

The Government sector should not lead industry in wage, salary and benefit increases.

Government Response (Agree)

The Government has introduced legislation which would not only ensure equivalence in private and public sector wages but also 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.

50. Recommendation

Federal and provincial labour legislation should be revised to provide secret ballots for strike votes.

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.

51. Recommendation

Industry and labour with the assistance, where necessary, of governments should develop a more flexible approach to apprenticeship training programs with a view to better balancing the needs of apprentices to complete their training and the needs of more senior skilled workers for protection against loss of jobs in periods of low activity.

52. Incentives should be developed to encourage entry into, and completion of, apprenticeship programs. This could be achieved through interprovincial harmonization of training and apprenticeship programs aided by a system of certificates which provide greater recognition of the skills possessed.

53. Recommendation

Industry, labour and Government should establish and support a training program for the electrical industry to set standards for certification of various trades. Demographic manpower projections should be made periodically to identify projected needs of the various skilled occupations.

54. Increase the size and scope of Government training programs; encourage greater on-the-job training; and establish a "co-operative" system of education at the level of the community college, technical school or CGEP whereby students would alternate between formal education and practical, shop-floor experience.
55. Provide a tax incentive for employers to upgrade the skills of their employees by offering a 150 per cent write-off against taxable income of expenses incurred in providing approved forms of worker training.

Government Response (Agree in part)

It should be noted that several of these recommendations call for initiatives on the part of the private sector. The federal government strongly endorses an increased private sector role in manpower planning and training programs. The Government supports a sectoral approach to the identification of training requirements and would be prepared to participate with sectoral groups in this respect.

The Government also is planning significant expansion of its on-site industrial training programs, as well as measures to stimulate apprenticeship training, which it supported to the extent of \$83 million in 1978-79. The 1979-80 Employment Strategy calls for an additional \$20 million for the Canada Manpower Industrial Training Program, \$20 million for the development of Critical Trade Skills Training (for key high-level blue collar skills) and \$30 million for the Canada Manpower Training Program for institutional training and trainee allowances.

The Government also plans to investigate means by which federal funds can be used to maintain training levels during periods of economic slack and to provide financial support to employers in the earliest years of training, when their training costs are highest. It will be prepared, furthermore, to explore with management and labour means of obtaining greater private sector participation in skill training, and will examine the scope for expanding programs for training first-line supervisors and journeymen/teachers. Finally, through the interprovincial "Red Seal" programs, there is co-ordination of provincial certification standards in many trades, thus contributing to the development of manpower supply in these occupations.

Employers may currently deduct immediately 100 per cent of the costs of upgrading the skills of their employees from their taxable income. The Government believes that the initiatives of CEIC are and will be more appropriate means of addressing manpower and apprenticeship needs than would a broadly-based tax incentive.

#### 56. Recommendation

As a means of improving mobility to fill short-term regional needs, mechanisms should be developed to recompense workers for extra costs of temporary dislocation.

#### Government Response (Under review)

The Canada Manpower Mobility Program (CMMP) provides financial travel assistance to workers moving to take temporary jobs lasting between eight weeks and nine months, and the Government is reviewing the CMMP program with a view to increasing its flexibility. In addition, a joint industry - labour task force on Construction Mobility, announced by the Minister of Employment and Immigration on September 26, 1978, has been established to examine problems associated with Manpower Mobility in this sector. The Government awaits with interest the findings of the task force which will likely be applicable in other industrial and occupational fields. The task force report is expected in the Fall.

RATIONALIZATION

57. Recommendation

Federal policies (e.g. DREE, FIRA, combines legislation) should encourage, or at least not interfere with, market forces tending to concentrate Canadian manufacturing.

Government Response (Agree in principle)

Bill C-13, the Government's recent proposal to amend competition legislation, incorporates efficiency considerations in the merger provisions and makes specific allowance for specialization agreements. To help ensure that the views of interest groups are heard in the application of future competition legislation the Government has undertaken to seek nominations for appointments to the Competition Board from business, labour, the legal and economic professions and consumer groups.

58. Recommendation

Provincial governments should be dissuaded from following purchasing practices which tend to fragment the industry.

Government Response (Agree in principle)

This is a matter of provincial responsibility. Please refer to responses to the recommendations on provincial procurement practices. (Recommendation No. 25).

59. Recommendation

R & D incentives and internationally competitive taxation and trade policies are required to make it attractive for multi-national companies to assign international product charters to Canadian operations.

Government Response (Agree in principle)

A general requirement to make Canada an attractive location for MNE's to place international product charters is a favourable environment for business. Previous sections on trade policy and research and development have outlined the extensive range of measures the Government has developed to establish a climate for growth. The attention of the task force is also drawn to a paper released by the Minister of Finance at the time of his November, 1978 budget. This comprehensive comparison of Canadian and U.S. tax systems shows that Canadian taxes on business are fully competitive with those in the U.S.

More specifically, the Government, in its regular operations, has and continues to encourage MNE's to allocate to their Canadian subsidiaries a specific product mandate or blend of activities which will make the Canadian operation more competitive internationally. Major efforts in this direction include the

discussion of corporate strategies with parents and affiliates, support for Canadian managements seeking greater autonomy and responsibility, the provision of financial incentives and a broad range of mechanisms to assist firms' export marketing efforts.

60. Recommendation

Government and industry should identify key projects with potential national scale, e.g. export of electricity, and should encourage these.

Government Response (Agree)

At the meeting of First Ministers in February, 1978 a number of major programs were identified as being ones which should be pursued aggressively. These included the development of heavy oils in Saskatchewan and the Gull Island power project in Newfoundland. The Government would welcome discussions with the electrical industry on any further major projects which the sector would like to undertake.

61. Recommendation

Industry should initiate identification of sub-sectors and/or products which would benefit from international rationalization where domestic rationalization alone cannot provide competitive economies of scale or the range of variety of product designs. Also, industry and government should undertake joint discussions with the United States regarding the possibility of a tariff-free continental market for them.

Government Response (Agree in part)

As the wording of the recommendation indicates, this is an area where business must take the first steps. The Government would be pleased to see rationalizations which would strengthen the competitive position of Canadian industry while maintaining a meaningful degree of competition in the domestic market. However, such initiatives must be based in the realities of the market place and therefore usually will originate with individual companies. Where duties remain following implementation of the MTN cuts, the Government will consider pursuing discussions with the U.S. to achieve further reductions in the remaining tariffs, as is appropriate.

MAJOR APPLIANCES

62. Recommendation

Tariff reductions on appliances resulting from the MTN must be phased in over a five to 10 year period and must not exceed 20 per cent of current rates.



Government Response (Agree in part)

These issues are being considered in the Multilateral Trade Negotiations which, it is expected, will conclude in mid-1979. The task forces views have been brought to the attention of Canadian co-ordinator for the MTN. As regards the phasing-in of tariff reductions resulting from the negotiations, a final decision has not been taken by the participants. The phase-in period receiving most attention however, is one of eight years.

63. Recommendation

Include dishwashers and room air conditioners (two high growth products) under the appliance tariff for duty purposes and which Canada supports.

Government Response (Under review)

Further work and analysis will be required on this recommendation to show that the added protection resulting from moving these appliances from the Machinery Tariff (15%) to the Appliance Tariff (20%) is justified.

64. Recommendation

Change the application of the federal manufacturers' sales tax so that imports do not derive a competitive advantage over Canadian manufactured appliances.

Government Response (Agree in part)

The Standing Committee of the House of Commons on Finance, Trade and Economic Affairs has already received a large number of submissions on the Report of the Commodity Tax Review Group. It is expected that the Committee, after it has finished its review, will make recommendations on the structure of Canada's commodity tax system. The Report recognizes that one of the major deficiencies of the current federal sales tax is the potential for differential tax treatment of competing domestic and imported products. The Report examines alternative modifications to the structure of the tax and makes many specific recommendations which directly address the concerns raised. The Government will decide on the appropriate course of action once it has heard the views of the Standing Committee.

65. Recommendation

Ensure that electrical code standards and energy conservation standards are effectively and realistically introduced and applied.

Government Response (Agree)

The Government will direct individual departments to implement consultation at the problem definition stage with interested parties on proposed new regulations or changes in existing regulations where such consultation does not at present take place.

SMALL APPLIANCES

66. Recommendation

The phase-in period for the lowering of tariffs must not be shortened as was done after the Kennedy Round. Sudden substantial drops will destroy the industry. Tariff cuts on small appliances should not exceed 20 per cent over five to ten years.

Government Response (Agree in part)

These issues are being considered in the Multilateral Trade Negotiations which, it is expected, will conclude in mid-1979. The task forces views have been brought to the attention of Canadian co-ordinator for the MTNs. As regards the phasing-in of tariff reductions resulting from the negotiations, a final decision has not been taken by the participants. The phase-in period receiving most attention however, is one of eight years.

67. Recommendation

A program whereby manufacturers can purchase parts and assemblies at favourable duty rates should be set up - this should be done by a credit system based on Canadian purchased parts and assemblies.

Government Response (Under review)

The effects of such a program would have to be studied carefully to ensure that whatever costs there were in the way of reduced production of parts and assemblies were more than compensated for by gains elsewhere. It should also be kept in mind that tariff reductions resulting from the MTN may permit such a rationalization without government intervention.

68. Recommendation

The current federal sales tax program should be revised, and those products which are imported should have sales tax levied at the same level of sale as manufactured products.

Government Response (Agree in part)

The Standing Committee of the House of Commons on Finance, Trade and Economic Affairs has already received a large number of submissions on the Report of the Commodity Tax Review Group. It

is expected that the Committee, after it has finished its review, will make recommendations on the structure of Canada's commodity tax system. The Report recognizes that one of the major serious deficiencies of the current federal sales tax is the potential for differential tax treatment of competing domestic and imported products. The Report examines alternative modifications to the structure of the tax and makes many specific recommendations which directly address the concerns raised. The Government will decide on the appropriate course of action once it has heard the views of the Standing Committee.

69. Recommendation

A major "Buy Canadian" program should be launched and run at least twice a year with Government sponsorship.

Government Response (Agree in part)

The Minister of Industry, Trade and Commerce announced a "Shop Canadian" program in the Spring of 1978. This program under the sponsorship of the Government involves direct advertising of the "Shop Canadian" message and the coordination of private sector and provincial initiatives in this regard.

ANNEX I

MEMBERS OF THE CONSULTATIVE TASK FORCE  
ON THE ELECTRICAL INDUSTRY

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