

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

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Members of the Consultative Task Force on the Electronics Industry	

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 Electronics 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

There was a high degree of consensus within the task force of the major issues of importance to the Canadian Electronics industry and areas for government action. With respect to the recommendations for government action, The Task Force Report emphasized the importance of establishing a package of complimentary measures which would produce a significant jump in the level of support provided to the industry. This kind of support was seen as necessary both to enable the industry to take advantage of the very promising opportunities in electronics markets and to counter the extensive support being given to the industry in other countries. The policy package recommended by the task force was designed to address three major issues: maintenance of technological strength, adequacy of financing and access to markets. These reflect the risks and rapid pace of technological change and the importance of public procurement. A section on systems electronics pointed out the particular promise and importance of this sector and proposed a number of additional measures to promote its development.

The concern of the federal government to promote the development and competitiveness of Canadian industry, and particularly high technology sectors such as electronics, is evident in a number of initiatives that were undertaken in the final months of 1978. In the area of technology, the key note for the Government's efforts has been the announcement by the Minister of State for Science and Technology of a Cabinet commitment to a policy objective of increasing R & D expenditures. This commitment was given substantive support through the increases in the R & D tax credit announced in the November, 1978 budget, and the strengthening and broadening of support for innovation through the Enterprise Development Program. The increase in the investment and R & D tax credits and a number of other smaller tax changes announced in the budget were also designed to place additional funds in the hands of domestic firms, while respecting the tight fiscal constraints under which the Government currently is operating.

As well, several government initiatives testify to its heightened awareness of the industrial development role that can be played by procurement policy. The announcement by the Minister of State for Science and Technology in June, 1978 contained a commitment to increase the contracting out of R & D, encourage further the commercial exploitation of technology developed in Government labs and aggregate procurements across departments and over time in order to increase their industrial development benefits. A procurement review mechanism at the federal level is being established to consider the industrial implications of important government procurements, and the federal and provincial governments have begun co-operative work on ways of making the procurement policies and practices of governments more harmonious and supportive of Canadian industry, consistent with Canada's international obligations.

The federal government agrees with the task force that the electronics sector has a vital, catalytic role to play in increasing the technological sophistication and the competitiveness of Canadian industry. In recognition of this, the Government has announced a national development policy for the electronics industry through which the Government will make available \$50 million in assistance for the electronics industry over the next three years. \$10 million is allocated for the current fiscal year. The measures are intended to help industry respond vigorously and positively to the challenges and opportunities arising from the explosive growth in electronics. The key feature of the policy is direct financial assistance to the electronics industry. Other measures include use of the Government's purchasing power to enhance the performance of the industry in Canada and a number of projects in the telecommunications area - TELIDON, fibre optics and mobile radio. A decision has been made to source the Anik - D satellite from SPAR Aerospace Products Ltd. and to share some of the additional developmental costs incurred.

The financial assistance will comprise two program elements. The first, an expansion and modification of the ITC Enterprise Development Program, will assist electronics firms to carry out large scale projects that will increase electronics production or research and development activities. The second, which will encourage the increased application and production of microelectronic devices in Canada, will be developed in consultation with industry to ensure measures which meet the varied but particular needs of firms.

Changes in procurement policy to benefit the electronics industry will involve the federal government taking new factors into account in its purchasing procedures. The Government recently announced measures to use its purchasing power more effectively to promote Canadian industrial development. The Anik - D procurement will create 580 jobs at SPAR and will help ensure that Canada gains a share of the world market for communication satellites. A number of projects in communications technology such as TELIDON and, fibre optics should bring technological and market benefits to Canadian firms active in these areas.

The individual recommendations of the task force are reproduced 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

TECHNOLOGY

1. Recommendation

- i) R & D incentives to be part of a national industrial development program to be formulated by the federal Cabinet. Primary ministerial responsibility to be assigned to the Minister, Department of Industry, Trade and Commerce (ITC). Other Ministers to ensure that their departments act in a co-ordinated way in support of the national program.
- ii) The Cabinet to approve specific objectives for the R & D incentives, against which progress can be evaluated. The long-term nature of R & D and innovative processes to be considered in setting these goals and in formulating and committing policies and programs.
- iii) The Minister, ITC, establish guidelines for the application of R & D incentives, concentrating on industries with present or potential international competitive strength, usually reflecting a strong market base, in the interest of selecting those R & D opportunities where success is most likely and brings the greatest economic benefits.

Government Response (Agree in part)

The national development policy for the electronics industry represents a commitment by the federal government to support the development of the electronics industry. The policy comprises a package of industrial financial support measures, procurement policy changes, procurement within Canada of the Anik - D satellites and government project initiatives. The central importance of R & D to the industry and the need to integrate R & D incentives with other forms of support is acknowledged primarily through the two financial assistance programs. These will provide financial assistance for major R & D projects and for research, development and design projects relating to the production and application of microelectronic devices.

International competitive potential is considered in reviewing applications for assistance under the Enterprise Development Program (EDP) and the Defense Industry Productivity Program (DIP) and commercial viability is the dominant consideration in the EDP. The Government will keep under review the extent to which existing incentives meet the need of a high technology industry such as electronics.

In November, 1978, the Minister of State for Science and Technology convened a Federal/Provincial Conference on Industrial Research and Development. Among the topics discussed was the desirability of establishing national R & D goals, in consultation with business, taking into account provincial priorities. It was

agree that this concept deserved further examination and it is currently the subject of a more detailed examination between the Ministry and each province.

2. Recommendation

R & D incentives to be developed and applied within the national industrial development program. Specific recommendations for government action include:

- Establish an R & D tax rebate equal to 25 per cent of all R & D expenditures, both present and incremental, in lieu of the present five per cent tax credit. This tax rebate to be capable of being carried forward for five years.
- Reduce income taxes on profits from new businesses or products resulting from R & D innovation.

Government Response (Agree in part)

The response to the sectoral task force contained in the November 16 Budget Papers noted:

"The federal government shares the goal of increasing Canada's R & D effort with emphasis on development and use in Canada. To this end, significant income tax incentives for those engaging in any level of R & D expenditure have been combined with additional incentives for those increasing their R & D expenditures.

Current and capital expenditures on R & D qualify for a 100 per cent write-off in the year they are made. Since 1977, R & D expenditures have qualified for the investment tax credit. This budget proposes that the basic rate of investment tax credit for R & D be doubled from five to 10 per cent. The rate of credit will be set at 20 per cent in the Atlantic provinces and the Gaspé.

The budget contains a special provision to encourage R & D by small Canadian businesses. Such businesses qualifying for the low rate of corporation tax will get an investment tax credit of 25 per cent on all their R & D expenditures in excess of their average levels for the preceding three years."

These measures combine to offset up to 80 per cent of costs associated with research and development.

3. Recommendation

Strengthen existing mechanism of R & D support to enable substantial funding of R & D activities in selected industry segments, particularly for those with export potential and for small businesses.

Government Response (Agree)

The Minister of Industry, Trade and Commerce has announced a strengthening and broadening of EDP support for innovation. The annual budget for grants to encourage high risk research, design and development increases from \$25 to \$60 million and the EDP cost sharing ratio increased to 75% of direct costs. The co-operative program of work with provincial governments on national R & D goals, referred to above, should provide the kind of information and analysis needed to make R & D funding more selective.

The recently announced national development policy for the electronics industry also will be an important new source of funds for the support of industrial R & D. The major projects fund will provide financial assistance for major R & d projects, while the program to encourage the development and use of microelectronic devices will be able to fund R & D projects related to the design and manufacture of integrated circuits, and their application in other products.

4. Recommendation

Support university research activities, selectively and consistently, and encourage universities to do more applied research in collaboration with industry.

Government Response (Agree in principle)

There are already programs to promote technological interchange, such as the STEP-EX and Mini IRAP programs run by the National Research Council which encourage universities to do applied research in collaboration with industry. In addition to these mechanisms, the Minister of State for Science and Technology has announced the Government's plan to establish innovation centres at universities to aid industry, particularly small businesses and private inventors in the commercial exploitation of new technologies.

5. Recommendation

The Minister, ITC, to establish vehicles to maintain the momentum of the R & D incentives and to monitor and report their progress and effectiveness to the Cabinet.

The R & D incentives to be complemented by other programs included in the national industrial development program which will increase likelihood of success.

Government Response (Agree in principle)

The Government will monitor the effectiveness of R & D incentives for all industry on a continuing basis.

6. Recommendation

Continue to emphasize Contracting Out policy for R & D.

Government Response (Agree)

The Government is committed to the expansion of the contracting out of R & D. In addition, the unsolicited proposals program stood at \$12 million last year, has \$13.5 million this year and is proposing a budget of \$15 million for 1979/80.

7. Recommendation

Trade agreements to open selected export markets, or to locate R & D activities in Canada (the latter in the case of non-Canadian companies), in return for foreign entry into selected Canadian markets.

Government Response (Agree in principle)

The Government has been concentrating its efforts regarding trade liberalization in the Multilateral Trade Negotiations which are expected to conclude in mid-1979. The Government will consider other possible approaches in light of the MTN results.

In March 1978, the Foreign Investment Review Agency announced the implementation of new guidelines requiring assessment of the potential significant benefit to Canada in the area of research and technology development of applications involving both acquisitions and the establishment of new businesses.

8. Recommendation

The Cabinet and the Ministers to support the R & D incentives program by encouraging:

- Provincial government co-operation.
- Political and business climates that are perceived as encouraging and rewarding successful R & D and innovation.
- Economic, social and academic incentives which develop, attract to and retain in Canada, high technology and other knowledge workers and enterprises.

Government Response (Agree)

At several federal-provincial meetings of Ministers which took place in November the issue of R & D was discussed. Ministers agreed that R & D performance and support was a priority concern and made a commitment to review further the adequacy of present initiatives and consider new initiatives which might be proposed.

FINANCING

9. Recommendation

- i) Exemption from the capital gains tax for the electronics sector along with realistic phasing-out procedures for carry forward of losses for taxpayers with capital losses. This exemption to be related to treasury stock only and be conditional on the investment being held by the original investor for a period of time appropriate to achieving the purpose of the original investment.
- ii) Permit loss flow-throughs to investors in newly incorporated private companies such that the losses earned by a new company in its starting years could be prorated through to the investors to be used in computing their personal tax situation. A similar provision is available in the United States and is known as the "Chapter S" measure.
- iii) The creation of a capital instrument to provide tax-free income for a period of years with no erosion of the original capital invested. It could include the following features:
 - An unsecured loan with the maximum interest rate being the bank prime rate.
 - After a 10 year period, redeemable at face value or convertible into share equity of the corporation at a nominal amount of extra investment.
 - Subordinated to all other indebtedness of the corporation.
 - Repayments and interest to be considered as a recovery of capital for the investor to a maximum of the initial investment and as a deduction from income for the corporation.
 - Provision for any losses to be written off against other income.

Government Response (Agree in part)

The national development policy for the electronics industry will partly address some of the concerns in the financing recommendations. The program to support major projects will be a mechanism through which the Government can provide substantial sums of money for important new ventures or projects. This will help to ease the burden of debt for companies which hope to grow rapidly through these projects. As well, for small and new firms in the area of microelectronics it would be possible through the microelectronics support program to provide "seed capital" to entrepreneurs to establish independent design and custom production houses in Canada.

With respect to the details of the recommendations, the federal government believes that tax equity and revenue considerations require the inclusion of capital gains to income for tax purposes. It is thus not prepared to eliminate the tax on this income source. Substantial reductions in tax on capital gains would add greatly to the complexity of the tax system by re-opening a significant gap between the tax treatment of this income source and distributions from corporations in the form of dividends. This would necessitate reintroduction of rules to avoid tax abuse and thus act to negate the 1977 tax changes which simplified the corporate tax structure in the area of surplus stripping and corporate reorganizations.

To minimize the effect on incentives, the introduction of taxation of capital gains in 1972 included only one-half of gains on income and was accompanied by significant reductions in the marginal tax rates on higher incomes and by the elimination of federal estate and gift taxes.

Recent budgets have provided for tax-free inter-generational rollovers of capital gains in small business and have liberalized the deductibility of capital losses against other income. Capital gains are also eligible for the \$1,000 investment income deduction.

The federal government has put in place more effective methods to encourage private investment that avoid the serious repercussions of removal of tax on capital gains.

The response to the sectoral task forces contained in the November 16 Budget Papers noted the increasing strength of equity financing due in part to recent budgetary changes where it stated:

"In common with the other industrialized countries, Canada has experienced a period of business uncertainty with a corresponding weakness in the markets for equity financing. There have been signs of significant improvement in equity markets this year, including the relative strong performance of Canadian stock markets.

To some extent, this undoubtedly reflects the major changes that have been made in the tax treatment of businesses and their shareholders in the past few years. Of particular and direct importance to equity investors are the enhanced dividend gross-up and tax credit, the deferral of capital gains tax on inter-generational transfers of shares in small businesses and on dispositions of business property for relocation purposes and the opportunity to make a permanent election of capital gains treatment on most types of Canadian securities.

The tax changes referred to above along with other changes in corporation taxation provide attractive opportunities for equity investment in Canada. Indeed, income from capital is in many cases taxed at significantly lower rates than employment income."

In addition to these measures, the Government has shown an increasing concern to address the particular financing problems of small businesses. The subject of a small business equity financing mechanisms was first raised in the Government's small business strategy publication, "Perspectives." This was followed by a public discussion paper which was tabled in the House of Commons, May 24, 1978, by the Minister of State for Small Business. Consultations then ensued, with provinces, professional associations, and the private sector taking an active part. Sector task force representations on the question of equity availability are actively being considered.

MARKETS

10. Recommendation

A procurement policy should be established to have "chosen instruments" selected in specified areas where unique capabilities have been, or can be, developed. These areas would likely lie in the forefront of technological development where worthwhile opportunities exist for foreign market penetration.

The task force recognizes that this proposal will require some modification to the competitive procurement regulations and practices of Governments, and urges Governments to make appropriate exceptions in order to exploit worthwhile opportunities.

11. Support R & D with a Buy Canadian preference in selected industries.
12. A "Buy Canadian First" policy should be established in certain markets which would rely on a new concept of Canadian content related to the long-term industrial development impact it would have in Canada. A case in point would be the utilization of Canadian technological skills that would enhance corporate development momentum on a viable and sustainable basis.

A "Buy Canadian First" policy should be promoted through the various departments of both federal and provincial governments, and all departments should have as a stated aim the encouragement and development of domestic industry. This policy should also extend to Crown corporations and regulated utilities.

Policies should be adopted to encourage or, in the case of large contracts, require consultation among the various departments of the federal government to standardize and consolidate their requirements at an early point in time, with the stated aim of maximizing Canadian industrial involvement.

All levels of Government and regulated utilities should adopt a policy that would permit the payment, if necessary, of a premium to Canadian suppliers for procurements of goods or services that are deemed to have a major impact on the long-term development of an industry or the economy as a whole. It should be recognized that this premium may be substantial in the early stages. It should be regarded as an investment and would diminish over time.

Government Response (10 Under review, 11 & 12 Agree in Principle)

At the Industry Ministers meeting, November 7, 1978, a federal/provincial working group on the use of procurement policy as an industrial development tool was agreed to. The group is assessing the potential for co-operation between Governments including the potential for standardization and cooperation in the development of designs and specifications. This working group is expected to report back to First Ministers in 1979.

The federal government recently announced a series of measures which together constitute a "National Purchasing Policy". The steps include a new Source Development Fund funded at \$25 million over its first year of operation. The Fund will help the Government achieve the dual objectives of getting "best-value-for-money" in its purchases and promoting the development of Canadian industry as the major supplier of the Government's needs.

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 incentives to Government suppliers for contribution to specific economic goals; future increases in the value of Government contracts in high unemployment areas; an "opening-up" of the Canadian Government Specifications Board to include representation from all levels of Government, business, labour, and consumer groups; a continued drive to have sub-contract work from Government purchases done by Canadian firms, especially small businesses and in high-technology areas; and further work in the provinces to coordinate the purchasing policies of the federal and provincial governments to maximize industrial benefits.

The national development policy for the electronics industry includes a decision to use these new procurement measures to enhance the performance of the electronics industry as a matter of priority.

13. Recommendation

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

Government Response (Agree)

It clearly has been the practice of the federal government to seek industrial benefits if it proves necessary to source a major contract from a foreign supplier. Two recent examples of this are the negotiations relating to the procurement of long range patrol aircraft and the new fighter acquisition. The recently established procurement review mechanism will provide an

opportunity to identify and pre-plan the socio-economic implications of major procurements valued at between \$2 million and \$100 million. Procurements in excess of \$100 million are planned and effected through a dedicated committee.

14. Recommendation

In assessing the merits of foreign versus domestic procurements, the net economic benefit to the country should be recognized and applied.

Government Response (Agree in principle)

In view of the need for economy in Government, this recommendation can only be adopted in very general terms. Payment of premiums for Canadian content beyond the 10% level will be considered by an inter-departmental Procurement Review Committee being established at the federal level to assess socio-economic implications of significant federal procurements.

15. Recommendation

With respect to non-tariff barriers, reciprocal action must become part of Canadian commercial policy.

Government Response (Agree in principle)

The negotiation of multilateral codes of conduct, and other measures, to reduce the incidence of and provide greater discipline on the use of non-tariff barriers such as Government procurement and technical barriers is a major focus on the Multilateral Trade Negotiations. The concept of overall reciprocity is fundamental to the negotiations.

16. Recommendation

Procedures should be established to co-ordinate the procurement requirements of Crown corporations and regulated utilities at all levels of Government.

Government Response (Under review)

The Government has undertaken to examine the implications of extending the federal government's procurement policies to federal Crown corporations. Some federal Crown corporations already are using the federal Department of Supply & Services to source some of their requirements. The federal government also has proposed that this issue be discussed by the recently-established federal-provincial committee on procurement policy.

SYSTEMS ELECTRONICS

17. Recommendation

- i) All levels of Government, Crown corporations and regulated utilities make strong efforts to channel systems electronics projects through Canadian prime contractors;
- ii) Canadian ownership of electronics systems firms must be encouraged in order to progressively develop an indigenous capability in systems work.

Government Response (Agree in principle)

These recommendations relate to procurement policy, and more generally to the establishment of industrial goals. Consequently they are issues which must be addressed through continuing consultation and co-operation with provincial governments. With respect to the procurement of electronic systems through Canadian prime contractors, a federal procurement policy review committee has been established to consider such questions and propose appropriate policies to Ministers. It should be recalled that the Government policy to use Canadian-owned systems houses as prime contractors in the Patrol Frigate Program is in agreement with the thrust of the recommendations. As well, the Government has announced its intention to use Spar Aerospace as the prime contractor for the Anik - D satellites and to share with the company some of the additional developmental costs.

18. Recommendation

- i) Governments and industry should develop appropriate planning programs to ensure that key personnel of systems groups remain active between major projects.
- ii) The systems business may involve some manufacturing outside Canada and there should be adequate recognition by Governments of this fact.

Government Response (Agree in principle)

The Government recognises that it would not be desirable to follow a policy of self-sufficiency in the systems electronics business; nonetheless it shares with the industry a desire to see Canada's competence in this area strengthened and broadened as much as possible.

The Procurement Review Committee in its assessment of procurements judged to have significant socio-economic impact, will take particular note of those specific projects that involve systems electronics.

19. Recommendation

Governments should review their policies of insistence on fixed price software in systems contracts at least during initial phases of major projects.

Government Response (Agree in part)

The Government is now using more flexible tendering arrangements for medium to high risk software development projects. Low risk projects will continue to be tendered on a fixed cost basis.

OTHER CONCERNS

20. Recommendation

The task force considered the issue of foreign ownership and concluded that the important factor is not corporate ownership but corporate behaviour.

The task force recommended the publication of a set of guidelines for corporate behaviour as set out in Appendix "II" attached to its report.

Government Response (Under review)

The issue of foreign ownership is complex and difficult, and any changes in existing policy must be considered carefully for their implications for both Canadian- and foreign-owned firms in all industries. Good corporate behaviour is desirable in all firms, regardless of ownership.

21. Recommendation

With respect to regional development, the task force recommended:

- i) that the electronics industry be seen as a vehicle for specialized regional development;
- ii) that regional development policy with respect to the sector focus on the need to build on indigenous strengths and needs; and
- iii) that Governments not use grants or procurement policy to artificially induce regional electronics activity to achieve purely short-term employment creation objectives.

Government Response (Agree in principle)

The Government acknowledges the important contribution of the electronics industry to regional development. Like almost all the other industries in the manufacturing sector, the electronics industry is eligible for regional development incentive assistance. In offering assistance through RDIP and other incentive programs, the Government makes every effort to avoid contributing to fragmentation in the industry. An inherent objective underlying these efforts is to foster and encourage the development of the indigenous strengths of the industry.

Regional development policy is already very much oriented toward long term objectives. General Development Agreements, the mechanisms through which most regional development programming takes place, are of 10 years duration. It should also be noted that a large share of DREE's budget is directed towards socio-economic and industrial infrastructure investments which are a basis for permanent long-term development.

22. Recommendation

The task force would support a joint industry-labour-government initiative to undertake the following:

- i) an assessment of the available skills and future requirements of the industry;
- ii) an assessment of the capacity of the existing educational and training systems to meet those needs; and
- iii) an assessment of the adequacy of mobility within the skilled trades.

Government Response (Agree)

The Government is prepared to respond to management and labour joint proposals along these lines.

23. Recommendation

On Export Financing, the task force recommends:

- i) The Export Development Corporation be instructed to match financing terms and conditions to those quoted by the export credit agencies of other countries. In the case of interest rates, this may involve a subsidy where internationally quoted rates on Government supported export financing are below the cost of EDC borrowings.
- ii) The EDC be instructed to adjust its insurance terms to be fully competitive with those offered by other countries.

- iii) The establishment of a "Third Window" of export financing to Canadian capital projects for use in middle income countries which are too "rich" to justify zero per cent 50 year CIDA financing, but which cannot afford hard EDC financing. Alternatively, greater flexibility in CIDA policy in support of some portion of Canadian capital projects in developing countries, in conjunction with EDC financing of other parts of the same project, could achieve similar results.

Government Response (Under review)

The Government has undertaken a study to compare EDC terms and facilities with those offered by competitor countries. 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, departments will examine the cost/benefit of matching other countries systems consistent with our international obligations.

The Government will:

- a) undertake a study of methods to improve financing arrangements for offshore projects for which neither existing EDC nor CIDA instruments are appropriate.
- b) examine the impact of tying aid and consider whether opportunities exist for more effective use of tied aid, consistent with overall aid strategy and with the Governments' broad approach to industry support.

24. Recommendation

The task force urged the Government to pursue monetary and fiscal policies that will ensure that the exchange rate will continue to reflect Canada's true competitive position in world markets. In particular, care should be taken that substantial inflows of capital would not drive up the exchange rate to again place Canadian industry in a non-competitive position.

Government Response (Agree in part)

Canada has a floating exchange rate. The Minister of Finance has stated publicly on several occasions the intention of the government to pursue policies which will keep the value of the Canadian dollar at a level which reflects Canada's international competitiveness.

25 Recommendation

That tariff item 69605-1 be modified to prohibit duty-free importation of electronic instrumentation and test equipment for use by various non-profit research and scientific organization including hospitals and educational institutions.

Government Response (Under review)

The report of the Tariff Board on this issue was tabled in the House of Commons by the Minister of Finance on December 20. The Board recommended a substantial reduction in the scope of duty free entry under the item, that is, that free entry only apply to goods not available from domestic production. The recommendations are now under review by the Government. This review will take into consideration the views of the task force.

26. Recommendation

The recommendations of the Tariff Board (reference 150) for removal of tariffs on computers be taken into consideration in the development of Canada's position for the Multilateral Trade Negotiations.

Government Response (Agree)

The Canadian negotiators are aware of the Tariff Board recommendations that the tariff on computers be removed and have taken it into consideration as part of the Canadian position. It is hoped that the MTN will be concluded by mid-1979.

27. Recommendation

Consideration be given to the removal of the federal sales tax on data processing equipment.

Government Response (Disagree)

The November 1978 Budget reduced the federal sales tax from 12 to nine per cent, thus lowering the sales tax on computers.

As was noted in the Response to the sectoral task force contained in the Budget Papers, the Second Tier Committee recommended that special tax concessions to particular industries should be based upon a clearly-established rationale in pursuit of exceptional national priorities. To do otherwise would unnecessarily complicate the administration of taxation and would erode the government's tax base. In particular, the government is generally not of the view that it should significantly expand exemptions from the federal sales tax, at potentially large revenue costs. To do so would effectively convert the tax into a set of special excise taxes applicable to a limited number of products.

ANNEX I

MEMBERS OF THE CONSULTATIVE TASK FORCE ON THE ELECTRONICS INDUSTRY

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