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



Government  
of Canada

Gouvernement  
du Canada



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in Canada

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RESPONSE OF THE FEDERAL GOVERNMENT

TO THE RECOMMENDATIONS OF THE

CONSULTATIVE TASK FORCE

ON THE

CANADIAN URBAN TRANSPORTATION EQUIPMENT INDUSTRY

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## INTRODUCTION

In February 1978, Canada's First Ministers initiated a process of private sector consultations on measures to improve the performance of, and the outlook for, the manufacturing, construction and tourism sectors in the Canadian economy. Twenty-three industry task forces composed of representatives of management, labour and the academic community were formed. Provincial 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 Urban Transportation Equipment 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 Urban Transportation Industry Task Force was established as one of only two committees (the other being Ocean Industries) dealing with sectors which are not classified under the Standard Industrial Classification system (SIC). In both these sectors, an emerging market offers significant opportunities for industrial development.

The recommendations made by the task force cover a wide variety of matters. Some of these call for unilateral federal action in the short term, while others relate to long-term policies affecting or influenced by a number of Governments. The federal response must therefore vary from immediate decision in respect of specific recommendations to the registration of points made for consideration in the ongoing policy formulation processes. Additionally, action already taken has in some areas resulted in a positive response to the requests made.

As an example, federal readiness to commit research and development funding on a long-term basis has been demonstrated by recent changes in the Enterprise Development Program and in the provision of additional tax incentives. The establishment of a firm scientific and technological base for Canadian industrial activity is a primary aim of the Government, and resulting commitments such as the use of procurement in support of industrial R & D and the creation of innovation centres will stimulate R & D.

Other matters in which the federal government has been able to react unilaterally and positively include those related to representation vis-à-vis "Buy-America" legislation, clarification and promulgation of program objectives and guidelines, and preparation for the establishment of an industry advisory committee. Those recommendations which impact on matters outside federal jurisdiction have been communicated to the appropriate governments.

The task force proposals relating to on-going policy formulation processes have been noted for early consideration. Such consideration will entail intergovernmental consultation and examination of comments made by labour representatives in those areas in which labour did not support the views expressed by the task force and submitted its views in the Canadian Labour Congress report.

Detailed comments on individual recommendations follow.

PART II

DETAILED RESPONSE TO TASK FORCE RECOMMENDATIONS

DOMESTIC MARKET (3.1)

1. Recommendation

- a) The Government of Canada, in agreement with the provinces, establish and implement a national urban transportation policy, thus supporting the development and implementation of urban transportation systems in Canada.
- b) As an essential element of the policy, the Government of Canada provide low-cost loans to the provinces and municipalities in support of domestic urban transportation system implementation projects. Consideration should be given to establishment of a national urban development bank to accomplish this recommendation.

Government Response (Disagree)

The provision of urban transportation facilities is a matter within provincial and municipal rather than federal jurisdiction. However, the federal government has stated its intention to provide financial assistance in this area, as outlined in the response to the next recommendation.

2. Recommendation

The federal government undertake a program of capital grant support for specific limited demonstrations or development programs of urban transit equipment or systems so as to aid Canadian municipalities in their implementation of transit programs.

Government Response (Under review)

In October 1977, the Minister of Transport announced a five-year Urban Transportation Assistance Program to commence in April 1978. A total of \$230 million is allocated to the program, and expenditures for 1978-79 will be in the order of \$11 million. The objectives of the program are to improve the efficiency of the urban transportation system, improve standards of urban environmental quality and land use, conserve energy, and improve safety at railway crossings. It is recognized that the bulk of funding available under the terms of this program has already been earmarked by provincial governments for planned railway relocation or grade crossing projects. Relevant proposals from the provinces are being considered by the federal government. Other provincial programs are also being considered.

### 3. Recommendation

The federal and provincial governments should ensure that if provincial or federal funds are being allocated to an urban transit project, the equipment and services for implementing such projects have the optimum amount of Canadian content (at present a draft bill is before the U.S. Congress that would provide equivalent legislative requirements for U.S. transit properties). Such action should not be applied in such a way as to inhibit export activity.

#### Government Response (Under review)

Provincial and federal procurement policies and practices are under discussion in the context of federal/provincial meetings of industry Ministers in order to explore the scope for co-operation in procurement practices to encourage industrial development.

Additionally, consideration is being given to developing means to make better use of Canadian supply capabilities in public and private purchasing activity in line with industrial development objectives and international obligations including:

- i) development of a Canadian source list on a computerized basis for broad distribution domestically, to Canadian government offices overseas and to selected foreign purchasing entities;
- ii) for large purchases, public and private, establishment of a government-industry consultative review mechanism to maximize opportunities for competitive Canadian-based suppliers to bid on domestic and foreign purchases.

### RESEARCH AND DEVELOPMENT (3.2)

#### 4. Recommendation

The Government of Canada provide a minimum of \$25 million per annum (e.g. five per cent of estimated Canadian annual capital expenditures on urban transportation equipment) for the research and development of concepts, systems and equipment to meet Canadian urban transportation needs. As part of this program, industry should be encouraged to make specific proposals for research, product development and marketing activities aimed at improved products and systems for domestic and export markets.

#### Government Response (Agree in part)

Review of federal policies and commitments in this area is an ongoing process, and an interdepartmental committee will review task force recommendations in considering, on a priority basis, mechanisms to provide increased support to industry for high technology activities, particularly applied research and development and engineering. Some specific measures have already been implemented as discussed in the next response.



The Government has moved a long way within the income tax system in recognition of the need for more industrial R & D in Canada. This was also identified as a common theme in other industry task force reports.

A 100 per cent write-off of R & D expenditures by taxpayers has been in place for many years. The March 1977 budget introduced measures to extend the investment tax credit to both current and capital expenditures on R & D. In the April 1978 budget, a new 50 per cent additional deduction was provided for firms increasing their R & D activity. Because of the availability of the investment tax credit for R & D, such activities will benefit fully from the enrichment of the investment tax credit proposed by the Minister of Finance in the November 1978 budget. At the same time, the Minister proposed a special R & D tax credit of 25 per cent available for small business corporations in all parts of the country.

The Government agrees that R & D tax incentives should be on a long-term basis. The 100 per cent write-off has no termination date. The 50 per cent deduction for incremental R & D is in place for ten years. The November budget extended the tax credit for R & D indefinitely.

#### 5. Recommendation

Government R & D support programs and procurement policies (price and quality comparable) should encourage projects and the use of products of companies located in Canada with significant innovation, optimum Canadian content and substantial export potential.

#### Government Response (Agree)

Science and technology have long played an essential part in Canada's development and are likely to influence our future in an even more dramatic way. The Government recognizes this fact and is convinced that a vigorous and farsighted Canadian research effort is vital. In light of this, the Government has announced its intention to strive for a significant increase in the share of national resources devoted to R & D and has set a target for national expenditures on R & D of 1.5 per cent of GNP to be reached by 1983. The Government will be looking to the private sector to take every opportunity to increase its effort in this important area.

The federal government has recently announced new long-term policies and immediate measures aimed at increasing the level of R & D. The thrust of these measures has been to increase the level of R & D performance by the private sector, particularly by Canadian industry. The Government's policies have further been aimed at encouraging Canadian industry to take advantage of the results of research conducted by university and government scientists. Its recent initiatives include:

A. Expansion of the Contracting Out Policy

Under this policy, departments are encouraged to look to the private sector for meeting their science and technology requirements rather than performing them in-house.

B. Tax Measures

Recent federal budgets have included important new tax incentives for industrial research and development. These measures are the following:

March 1977 Budget

Investment tax credit for current and capital R & D expenditures of 5 to 10 per cent depending on the region.

April 1978 Budget

A special allowance of 50 per cent on any increase in R & D spending over the previous 3-year average. This deduction is in addition to the basic immediate write-off that has been in place for some years. As a result, firms can write off up to 150 per cent of eligible R & D expenditures.

November 1978 Budget

Indefinite extension of the investment tax credit as applied to R & D, and an enrichment of the credit to 10 per cent or 20 per cent depending on the region, and to 25 per cent for all small Canadian-controlled business.

C. Other Programs and Policies

On June 1st of this year, the Minister of State for Science and Technology announced, on behalf of the Government, important new measures for stimulating research and development in Canada. These included:

- the commitment to use federal government procurement to stimulate industrial research and industrial development in Canada;
- new incentives to encourage job creation for scientists and technicians in industry;
- expansion of the National Research Council (NRC) Program of Industry-Laboratory Projects (PILP);
- creation of industrial innovation centres to aid industry;
- assistance in the development of regional centres of excellence; and
- increased funding for university research into areas of national concern.

In addition, the federal government has initiated federal-provincial discussions at the Ministerial level on research and development, as an indication of the strong priority given to this subject. The Minister of Industry, Trade and Commerce has also recently announced a generous enhancement to the innovation component of the Enterprise Development Program (EDP).

6. Recommendation

The objectives and guidelines of the Enterprise Development Program be clarified and promulgated to Canadian industry.

Government Response (Agree)

Major changes to the Enterprise Development Program (EDP) have recently been announced by the Minister of Industry, Trade and Commerce, and have been publicized to Canadian industry.

These include such items as:

- a) increasing the EDP loan guarantee ceiling;
- b) increasing the innovation budget of the EDP and changing the cost-sharing ratio to 75 per cent of direct costs.

As well as providing new money and expanded or new services, the criteria for support has been broadened to better respond to the needs of small and medium-sized business in Canada.

The Government has recognized that information on programs and criteria for administration have not always been communicated effectively to industry. The recent publication, Assistance to Business in Canada, responds to this concern by presenting the whole range of government programs in one document.

7. Recommendation

Commitments by all levels of Government to R & D funding should be on a long-term basis (at least five years) to ensure program continuity.

Government Response (Agree)

The Government accepts the recommendation concerning the need for long-term support for R & D. For example, the November budget extends R & D tax credits indefinitely. (See Recommendation 3.2 (5)).

CENTRALIZED DEVELOPMENT SERVICES (3.3)

8. Recommendation

The Government of Canada commit funding to and participate in the planning and control of test facilities available to all Canadian companies. The availability of the Urban Transportation Test Centre at Kingston as a nucleus for such activity should be investigated.

Government Response (Under review)

The Government is examining current support to sector oriented industrial R & D/productivity centres, and will consider this recommendation in the context of this review.

9. Recommendation

The UTTC facilities be made available to Canadian companies for system and equipment testing and marketing.

Government Response (Noted)

This recommendation is for consideration by the Government of Ontario.

COST AND PRODUCTIVITY (3.4)

10. Recommendation

Governments, in considering new steps in taxation or social legislation, bear in mind the impact on manufacturing costs and do not take steps that contribute to increasing these over and above those of our major competitors.

Government Response (Agree in principle)

General taxation policy is to allow only actual costs realized to be deductible for income tax purposes. The Government also believes that it is generally not desirable to use the tax system to subsidize exports. To do so risks retaliation from other countries which could be injurious to Canada. Any measure of this nature would be inconsistent with the form and spirit of the multilateral trade negotiations (MTN). The Export Development Corporation administers facilities for export credits, export credit insurance and guarantees, and private financing of exports. This appears to be a more appropriate means of dealing with export derived losses.

The Government considers the need to maintain the gains made in our competitive position as our most immediate challenge. The study, The Tax Systems of Canada and the United States, released with the November 1978 Budget by the Minister of Finance, showed that Canadian taxes on business are in general fully competitive with those in the U.S.

11. Recommendation

Provincial and federal governments address as a matter of priority the problem of the lack of available skilled labour. The committee understands that this is a common problem in a number of industry sectors and should be attacked on a national scale.

Government Response (Agree)

In the development of its employment strategy for the 1980's, the Government will:

- i) explore means by which greater emphasis can be given to on-site industrial training, consistent with training cost-effectiveness and high quality training;
- ii) continue to give priority to programs aimed at high-skilled training, including expanded apprenticeship programs;
- iii) investigate ways in which funding for apprenticeship programs can be used to address particular problems such as maintaining apprenticeship levels during periods of economic slack;
- iv) be prepared to respond to management and union proposals for joint investigation of alternative forms of industrial training that rely more heavily on private sector participation;
- v) examine the scope for expanding its programs for training first-line supervisors and journeymen/teachers;
- vi) increase the flexibility of the Canada Manpower Mobility Program.

A multipartite body has been created to advise on manpower and training policies. The new Employment and Immigration Advisory Council, which will be composed exclusively of non-governmental members, including representatives of both business and labour, will have the power to investigate issues it deems important and to make public its recommendations regarding employment and immigration policies. In addition, of course, the Employment and Immigration Commission itself is intended to provide for private sector input with one commissioner representing business and another representing labour.

In the employment field, the Government believes that the most effective approach to greater government/private sector co-operation will be to develop improved sectoral consultations and greater government/private sector cooperation at the provincial or area levels. It is the federal government's intention to recommend strongly that business and labour have direct inputs into the federal-provincial manpower planning bodies in each province (called "Manpower Needs Committees" in most provinces).

Specific government/industry co-operative manpower planning and problem-solving projects are under way in certain sectors (e.g. construction, machine tool manufacturing, shipbuilding and aerospace) and the Government is prepared to enter into other such arrangements wherever feasible.

The Minister of Employment and Immigration will request the new Employment and Immigration Advisory Council to:

- a) review the 23 industry sector task force reports and assess the responses affecting employment and immigration policies and programs; and
- b) recommend ways of improving government/business/labour consultation and co-operation in the employment field.

## 12. Recommendation

Federal and provincial governments work towards the elimination of needless diversity in equipment requirements and specifications throughout Canada and towards increased stability/continuity in the domestic market.

### Government Response (Agree)

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

Tied to the Fund is a new "Purchase Review System", which provides for early consultation with industry and increased co-ordination 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 trade. 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 co-ordinate the purchasing policies of the federal and provincial governments to maximize the impact of governmental purchases on the Canadian economy.

EXPORT MARKETING (3.5)

13. Recommendation

The Government of Canada strongly represent to the Government of the United States the need for sales of Canadian transit equipment in the U.S. to offset continuing sales of U.S. transit components in Canada.

Government Response (Agree)

Strong representations have been and are continuing to be made to the U.S. Government regarding the "Buy-America" provisions of the recently enacted Surface Transportation Assistance Act.

14. Recommendation

The Export Development Corporation:

- undertake and make available to Canadian companies on request periodic analyses of EDC competitive financing performance compared to other international financing agencies;
- provide equal consideration to small and large bids;
- provide, at the time that a request for bid is received from a potential customer, a precise commitment (if requested) as to the extent and cost of funding available;
- provide bid bond coverage on an expanded basis;
- expand its program of performance bond coverage to allow the holding of prime contract bonds by EDC and the placing of sub-contract bonds from suppliers;
- provide partial cost escalation insurance, including provision to cover (in part) changes in exchange rates.

Government Response (Under review)

The Government is addressing the issue of non-comparability of EDC terms and facilities and, 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, will examine the cost/benefit of matching other countries' systems consistent with our international obligations.

These recommendations will be considered during the study.

15. Recommendation

The Government of Canada provide a special tax incentive for high-risk exports of manufactured goods such as allowing an accelerated write-off of 'export derived losses' at-say-150 per cent of actual loss. (Note: the Committee is aware that other industries face similar export problems and does not qualify this recommendation to meet the needs of the urban transportation industry.)

Government Response (Noted)

In the recent budget, the Government pointed out that, for various reasons, it would not be desirable to develop a tax system which contains numerous incentives applicable to special sectors. However, there are situations in which special consideration is required and the Government will review these individually.

16. Recommendation

To permit Canadian companies to approach export markets on the same basis as that available to competitors, the Competition Act and the Combines Investigation Act be amended so that they do not apply to the conduct of export trade.

Government Response (Agree in principle)

Bill C-13, would amend the export arrangement provisions of the Combines Investigation Act to make them more permissive.

17. Recommendation

The Government of Canada ensure that consultants, in studies supported by the Canadian taxpayer, examine the availability of Canadian equipment during the development of requirement specifications.

The Department of Industry, Trade and Commerce and CIDA jointly establish a fund and screening procedures for gratuitous planning and concept studies in development countries.

CIDA publish bulletins to inform Canadian industry of opportunities associated with the use of CIDA funds.

The Department of Industry, Trade and Commerce develop a program for financial and legal coverage of public agencies providing services to industry groups engaging in international marketing.



Government Response (Under review)

The Government has established the Export Programs and Services Review Committee, which includes representatives of the provinces, business and labour to undertake a comprehensive review of Government policies, programs and practices bearing on export promotion activities by Canadian industry. This review will focus on information systems, use of public agency expertise, export incentives, consultant promotion of Canadian equipment and services, export consortium formation and support, the use of free consulting services as an export tool, and the question of federal/provincial co-ordination in export marketing.

18. Recommendation

All CIDA funds be tied.

Government Response (Under review)

The Government will 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 Government's broad approach to industry support.

COOPERATION (3.6)

19. Recommendation

- a) The Department of Industry, Trade and Commerce establish an Urban Transportation Equipment Industry Advisory Committee.
- b) Membership of the Committee should include representatives of industry, labour, provincial governments, transit operators and appropriate federal departments.
- c) The prime tasks of the Committee would be to provide a continuing forum for discussion of matters related to the industry and its markets, and to review progress made in implementing the recommendations presented in this report.

Government Response (Agree)

This recommendation is to be implemented by the Department of Industry, Trade and Commerce.

ANNEX I

LIST OF PARTICIPANTS IN CONSULTATIVE TASK FORCE  
ON THE CANADIAN URBAN TRANSPORTATION INDUSTRY

Chairman H. Valle, Chairman and Chief Executive Officer  
Energy and Transportation Group  
Bombardier-MLW Group

MEMBERS

W.L. Creighton  
President  
Brown Boveri Canada Limited

F.H. Ernst  
President and Chief Executive Officer  
B.G. Checo Incorporated

K.W. Foley  
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J. Gill  
United Automobile Workers

R. Gilmour  
Vice-President and General Manager  
Westinghouse Air Brake Division  
WABCO

N.A. Irwin  
Managing Director  
I.B.I. Group

D. Kershaw  
Coach Sales Manager  
General Motors, Diesel Division

M. Komar  
President  
Spaulding Fibre of Canada Ltd.

D.R. Moreira  
General Manager  
Canadian Car Division  
Hawker Siddeley Canada Ltd.

R. Richmond  
President and Chief Operating Officer  
SPAR Aerospace Products Ltd.

Prof. K. Ruppenthal  
Centre for Transportation Studies  
University of British Columbia

M. Rygus  
International Association of  
Machinists & Aerospace Workers

W.C. Tate  
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Garrett Manufacturing Limited.

Prof. S. Trachtenberg  
Faculty of Administrative Studies  
University of Manitoba

P. Warriar  
United Steel Workers

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