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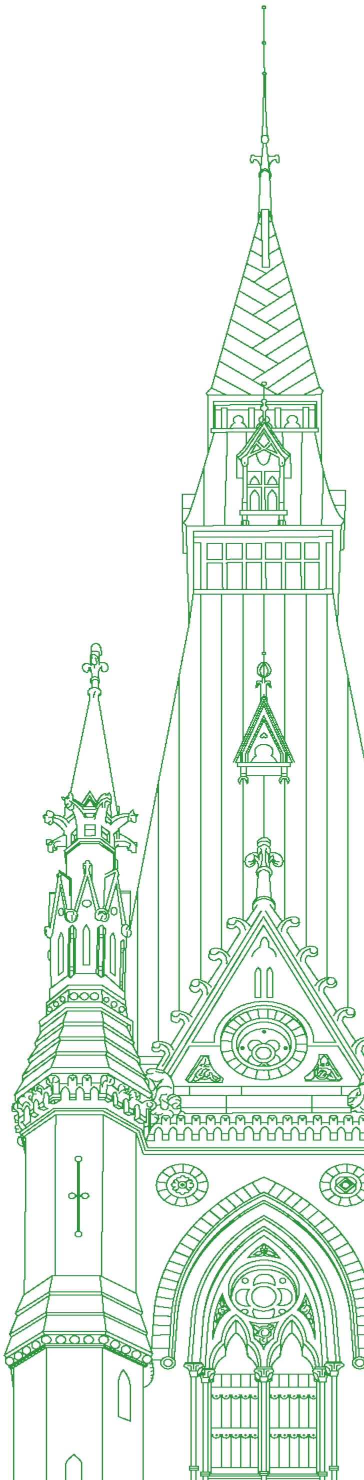

Chair: Ben Carr

# Standing Committee on Industry and Technology

**Monday, November 17, 2025**

● (1100)

[*Translation*]

**The Chair (Ben Carr (Winnipeg South Centre, Lib.)):** Good morning, everyone.

[*English*]

I hope everybody had a wonderful constituency week. I know how valuable it is for us to get home to see our constituents and maybe even our families. Welcome back to Ottawa.

We're continuing our study on productivity here today. This is the 14th meeting of the Standing Committee on Industry and Technology.

[*Translation*]

All witnesses have completed the required connection tests in advance of the meeting.

[*English*]

I'll give a reminder to witnesses and colleagues that if your earpiece is plugged in but is not on your ear, please just place it down on the sticker in front of you to protect the health and well-being of our interpreters, who work so hard on our behalf.

Colleagues, we have two hours with witnesses today, in two separate panels.

Appearing virtually with us today is Professor Michael Veall, who is the director of the productivity partnership project. From Food, Health and Consumer Products of Canada, we have Michael Graydon, the chief executive officer, and from the Information and Communications Technology Council, we have Namir Anani, president and chief executive officer.

Gentlemen, each of you will have up to five minutes for your introductory remarks. If you start to see me erratically waving, it probably means that we're getting close to time, and I'd ask that you do your best to summarize.

We'll enter into a pre-allotted amount of time, based on the proportion of seats distributed across the table from political parties represented.

With that, Mr. Veall, I'll turn the floor over to you for up to five minutes for your introductory remarks.

[*Translation*]

**Michael R. Veall (Professor, As an Individual):** Thank you, Mr. Chair.

[*English*]

I am grateful for the invitation.

By way of introduction, for 13 years I've been director of a research project called the productivity partnership, which has promoted the analysis of Canadian productivity data at the firm and workplace level.

Being a politician is one of the hardest jobs in the world. Thank you for doing it. I've appeared before parliamentary committees before, and I understand there is partisanship. I am thankful to live in a country where partisanship is allowed, but I am no expert in short-term politics. I hope to add my two cents to your reflections on the long-term direction of the nation.

Perhaps most importantly, concern for productivity needs to permeate every aspect of government to promote a higher standard of living and to pay for government programs. For brevity, I'm going to be very presumptuous and simply state a few things that I think Canada should and shouldn't do. There will be no silver bullets.

First, Canada needs to act with urgency, but let's not panic. By the measures I judge most reliable, Canada is doing about the same as our comparator countries, except the U.S. While Canada must do better, some of the story is that the U.S. has exceptionally fast measured productivity growth compared to almost all other countries.

Second, as an example of panic to avoid, let's not mess with the international investment of pension plans, especially the Canada pension plan, a success story. While it's important that Canada improve its overall investment climate, when the U.S. government subsidizes a specific industry, that is not a reason for the Canadian government to subsidize that same industry, at least in the long term. The U.S. is big; taking it on directly is seldom in Canada's interest.

Third, the U.S., and not just President Trump, is likely to continue to create conditions such that firms that want to sell in the U.S. will consolidate their operations in the U.S. That makes it harder for Canadian plants to operate at scale. Knocking down interprovincial barriers remains vital to making the Canadian market as big as possible.

Fourth, tariffs on imports increase prices in Canada. Use tariffs as sparingly as possible.

Fifth, and probably a non-starter, GST/HST is the most efficient tax Canada has, because it encourages saving and hence investment. Increase it and lower other taxes.

Sixth, some think we should not worry about greenhouse gas goals. This is a more complex issue than I can cover here. On one hand, Canada needs at least to postpone the electric vehicle mandate as an especially expensive CO2 reduction method, but also, if we do too poorly in meeting our Paris Agreement targets, it may affect our ability to form trading relationships with other countries to diversify our trade.

Seventh, if we want to grow GDP per person, we would do better by focusing on fewer and more highly skilled immigrants. We also do better if all of us work until older ages. While some of that is happening, Canada is still one of the few countries in the world that has not raised the age of receipt of public pensions, even as, wonderfully, life expectancy continues to rise.

Finally, eighth, as a more targeted point, government needs to continue to become more productive and make its interactions with Canadians more productive. An example would be to speed the arrival of automatic personal income tax returns for as large a percentage of the population as possible.

Thank you very much for your attention.

● (1105)

**The Chair:** Thank you very much, Mr. Veall.

Mr. Graydon, we'll go to you next for up to five minutes.

**Michael Graydon (Chief Executive Officer, Food, Health and Consumer Products of Canada):** Thank you, Mr. Chair and honourable members. I appreciate the opportunity to appear before you today.

FHCP members make about 80% of the everyday goods sold in grocery stores and pharmacies from coast to coast to coast. We employ more than 350,000 Canadians in nearly 10,000 facilities, making us Canada's largest manufacturing employer. However, despite being the largest manufacturer employer in Canada, we're rarely part of the national conversation about manufacturing competitiveness. That, I think, is a missed opportunity.

Studies by organizations such as the C.D. Howe Institute show that business investment per worker in Canada is only about half of what is invested per worker in the United States. That gap reflects the higher operating costs, regulatory drag and uncertainty that discourage investment and innovation.

According to the Canadian Federation of Independent Business, companies spend more than $51 billion a year meeting regulatory requirements. Much of that burden stems from Canada's outdated regulatory system. It is often too prescriptive and has not kept pace with advances in science and technology. Most consumer, health and packaged food products must be reformulated for the Canadian market, even when they are already approved by trusted jurisdictions. This duplication drives costs, delays innovation and prevents Canadian facilities from achieving the scale needed to compete internationally. Regulation should reward innovation rather than create duplication.

Within these challenges, though, lies enormous opportunity. About 55% of the products found in the centre aisles of grocery stores are now imported, mostly from the United States, even though many of these goods were once made here in Canada. Over time, manufacturing capacity has quietly migrated south as companies consolidated production and captured efficiencies in markets with lower costs and faster approvals. The capability still exists, but the investment environment does not encourage expansion.

We are not an industry in crisis, but we are approaching a tipping point. The slow erosion of capacity we have seen over decades is becoming harder to reverse, and each year that passes makes recovery more costly and less likely. A recent FHCP member study found that 23% of our members expect to remove products from the Canadian marketplace within the next two years because the cost of doing business here has become unsustainable.

Canada's agri-food sector recorded a $60-billion trade surplus last year, but our full potential is diluted by fragmented interprovincial trade and logistics bottlenecks. Our ports and rail corridors remain choke points for manufactured goods, and the rail system's duopoly leaves producers vulnerable when disruptions occur. Budget 2025 makes an important start by committing new investments in trade and transport infrastructure, but to turn that promise into real-world gains, those dollars must flow into increased port capacity, freight rail competition and logistics systems that support Canadian manufacturing. Addressing these challenges is essential to boosting productivity and reliability across the economy.

Medium-sized manufacturers face distinct hurdles in scaling up. They carry enterprise-sized regulatory and compliance burdens but SME-sized access to capital. Recent global research shows that while Canada has hundreds of promising agri-food start-ups, mid-sized firms are falling behind global peers in technological adoption because public investment support has not kept pace. Without targeted help, Canada will miss the productivity gains our competitors are realizing through automation and advanced manufacturing.

Tax policy must play a central role. Budget 2025's new productivity superdeduction and enhanced capital cost allowance are significant steps in the right direction. Together, they make Canada's cumulative manufacturing tax incentives slightly more competitive than those in the United States. These measures will help de-risk capital investment decisions and encourage companies to modernize and expand here at home.

If government can continue to reduce the barriers, modernize regulation, upgrade infrastructure and sustain a competitive tax environment, Canada can begin to repatriate lost manufacturing. Converting even part of the 55% of imported centre-store goods into domestically produced products would create thousands of new jobs, strengthen regional supply chains and drive productivity growth in creating a level of food sovereignty that we have not experienced for many years.

● (1110)

This is a window of opportunity for Canada to translate its innovation and trade strengths into long-term leadership, but that window will not last forever.

Thank you.

**The Chair:** Thank you very much, Mr. Graydon.

Mr. Anani, you have five minutes.

**Namir Anani (President and Chief Executive Officer, Information and Communications Technology Council):** Good morning.

Thank you, Mr. Chair and honourable members. Thank you for the opportunity to appear before the committee today to discuss one of the most pressing economic challenges facing Canada: our ongoing productivity gap and the need to boost national competitiveness.

[*Translation*]

Members of the committee, at a time when the global economy is rapidly changing, it's essential for Canada to fully affirm its potential and its leadership.

● (1115)

[*English*]

These remarks reflect the role of my organization, the Information and Communications Technology Council, as a centre of expertise for the digital economy through our research, policy and capacity-building programs.

According to the OECD, Canadian labour productivity is less than in nearly every other G7 economy, and the gap continues to widen. My remarks today focus on practical steps to boost productivity, strengthen innovation, and support workers and businesses across Canada.

To close this gap, Canada needs a cohesive productivity and competitiveness strategy that focuses on five key pillars.

First is the adoption of accelerated technology: Incentivize investment in digital infrastructure, automation, robotics and data-driven innovation, including through strategic government and industry programs such as defence spending. Use government procurement and funding to create national demand pull for digital, backed by enhanced investment tax credits that lower the cost of upgrading operations, and accelerate the depreciation for digital and green equipment so that firms can write off tech investments faster, improve cash flow and modernize more easily.

In parallel, support the transfer and scaling of digital best practices from leading adopters to lagging sectors to speed the spread of proven solutions and lift overall productivity. Certainly, the federal budget goes a long way toward achieving those with the productivity superdeduction.

Second is skills and workforce readiness. Talent is the cornerstone of any high-performing economy and the driving force behind innovation and global competitiveness. Achieving this will require scalable upskilling initiatives, stronger partnerships between industry and academia, and inclusive pathways.

Equally important is building AI literacy and digital acumen early in education, ensuring that future generations are prepared to lead in an increasingly technology-driven world. The federal government, through its budget, has put some steps forward to achieve that agenda.

Third is commercialization as a driver of competitiveness. Canada ranks among global leaders in R and D quality and early-stage innovation, but we still struggle to turn these strengths into market-ready products and globally competitive firms. Boosting competitiveness requires a sharper focus on commercialization, IP retention and scale-up, backed by a program similar to the U.S. government's small business innovation research program; a refined SR and ED regime that rewards commercialization and Canadian-held IP; a national scale-up fund for later-stage growth; targeted tax credits for digital and clean-tech adoption; and mission-driven procurement in areas like health, defence and clean infrastructure to create demand for homegrown innovation.

Innovation-ready regulations are fourth. Regulations shape innovation, and clear, predictable rules are key to long-term investment. A voluntary AI code of conduct is a good start, but in order to commit capital, expand operations and grow trade and FDI, businesses and investors also need certainty about what is acceptable. As the EU and countries like the U.K. move toward risk-based AI models with supervised sandboxes to safely test new technologies, Canada has an opportunity to evolve in a similar direction.

Fifth is competition for competitiveness. A more competitive domestic market is essential to boosting Canada's overall productivity and global competitiveness. Enhancing competitiveness to reduce barriers to entry, curb anti-competitive practices and encourage the formation of new firms would help drive innovation, lower costs and accelerate technology adoption. A more dynamic market environment will push firms to invest, innovate and adopt new technologies faster, strengthening Canada's position in a global value chain.

Finally, by moving decisively on these five pillars—accelerating technology adoption, investing in skills, scaling innovation, modernizing regulation and sharpening competition—Canada can unlock a new wave of growth, opportunities and shared prosperity. If we act with urgency and purpose, Canada can emerge as a world leader in innovation-driven, inclusive and resilient growth.

Thank you for the attention. I look forward to your questions.

**The Chair:** Thank you very much, witnesses, for your introductory testimony.

Mr. Guglielmin, the floor will be yours for six minutes, sir.

**Michael Guglielmin (Vaughan—Woodbridge, CPC):** Thank you, Mr. Chair.

Thank you, witnesses, for your testimony. Thanks for being here. It's a very important study. As we all know, Canada ranks among the lowest in the G7 countries for productivity.

A lot of the stakeholders I've spoken to recently talk about how hard it is to attract capital investment. I believe StatsCan had a report in September that said we have had the sharpest decline in our productivity in three years.

Mr. Graydon, I was wondering if you could please outline again for us the scale of your membership. How many jobs and facilities do they represent, and what share of the grocery market?

**Michael Graydon:** We have about 350,000 employees in manufacturing. There are almost 10,000 facilities across the country. Our members alone represent about 80% of the volume. This is a $114-billion industry. It is material in regard to its economic impact here in Canada.

**Michael Guglielmin:** Last month you appeared at the agriculture committee and agreed that single-use plastics policies and front-of-pack labelling together could add $15 billion of costs to your sector.

Are these policies acting as a tax, or at the very least an impediment to food manufacturing in Canada?

**Michael Graydon:** They are restricting capital investment, absolutely. It's part of that regulatory rigour that exists that just adds billions of dollars of costs.

We have provided government with some potential solutions, such as using digital labelling rather than having to go in and actually change physical labels on a regular basis. There are technological solutions to these issues, but regulations continue to change, and they come at us fairly rapidly as well.

● (1120)

**Michael Guglielmin:** What does that mean for grocery prices and for where your members choose to invest?

**Michael Graydon:** For grocery prices, unfortunately, some of the inflationary impact that you're seeing is an implication of the regulatory costs and the environment of the consolidated retail market in the grocery field.

We're going through quite a transition of recycling costs in this country. Close to $2 billion a year is now on the shoulders of manufacturers in taking on the responsibility of recycling in each jurisdiction or each municipality in the country. Those expenses weren't there two years ago. When you have billions after billions after billions, it's going to have a negative impact on affordability.

**Michael Guglielmin:** Does the single-use plastics ban risk disadvantaging Canadian exports? Would you say that it acts as a trade barrier?

**Michael Graydon:** It does, especially with the United States, which has no interest in single-use plastics.

We have a member that sells single-use juice containers. The American retailers and American consumers will not accept paper straws. Fortunately, the government has allowed us to produce plastic straws for the purposes of export only, so there's not an impact, but those are the sorts of situations. When our regulations aren't aligned with those of our largest trading partner, the implications can be quite significant.

**Michael Guglielmin:** Do these rules push production and jobs to foreign markets?

**Michael Graydon:** If we hadn't had the opportunity to get a reprieve from the government, it would have meant either the closure of this plant in Quebec or the repositioning of it into the United States, so yes, these rules do have implications for capital investment and manufacturing.

**Michael Guglielmin:** You have also said, “When I speak to FHCP members, I hear the same story: Regulations are outdated, inflexible and out of step with many of our trading partners. Canada's regulatory environment is more prescriptive and restrictive than most of our competitors.”

Can you give the committee some specific examples of what that looks like in practice for food products?

**Michael Graydon:** Sure. Let's use the example of fortified flour.

Flour in Canada, no matter what the product, must be fortified. That requirement doesn't exist in the United States, and it certainly doesn't exist in Europe. While the additives in the fortification of flour in bread may be good for young consumers, I'm not quite sure that it's that important in a chocolate chip cookie.

Again, another member with a fairly significant capital investment here in Canada was looking for the opportunity to be able to export to Europe, but because of the fortified flour issue, they were not able to use that manufacturing capacity. Kudos to Health Canada, which allowed us to get a reprieve on that, but again, it's short term.

These are some of the things. Fortified flour, from a scientific perspective, isn't of any value at this particular juncture, especially across the board, but it is restricting our opportunities for global trade.

**Michael Guglielmin:** You mentioned that the cost of investing and bringing products to market here in Canada outweighs the benefits. What does that mean in practice, in terms of actual decisions for your members?

**Michael Graydon:** Well, there are a few things.

One is that the cost implications mean that they're going to raise their prices to protect their margins, so there's an affordability issue.

The other is just the variety of products available to the Canadian consumer. Mid-volume to lower-volume products fill out a category in regard to choice, but there's no hope of making any sort of profit. You sell those goods at a loss. It's those types of things that are starting to disappear, so consumer choice is going to be impacted quite significantly.

**Michael Guglielmin:** You did say that your industry is facing $53 billion of regulation requirements and that 23% of your members want to leave the Canadian market.

**Michael Graydon:** Well, it's not necessarily 23% leaving the market. That's the reduction in SKUs and products that they offer to the Canadian consumer.

**Michael Guglielmin:** Thank you.

**The Chair:** Thank you.

Madam O'Rourke, the floor is yours for six minutes.

**Dominique O'Rourke (Guelph, Lib.):** Thank you, Chair Carr, and welcome to our witnesses.

I have a question for Mr. Veall, and I'll have a general question for everyone in a moment.

Mr. Veall, in your opening remarks you talked about how meeting our emissions requirements—I'm going to add reduction of plastics—is part of our responsibility in terms of maintaining trade relationships with other countries and meeting our responsibilities under the Paris Agreement.

In thinking about producer responsibility in Ontario, which was previously downloaded to municipalities—so the cost has just shifted—how do you square what we're hearing from Mr. Graydon in terms of the added costs for food manufacturers in meeting these requirements? It's my understanding that it's actually driving quite a bit of innovation in the sector and that we need to meet some of these requirements for other trading relationships.

● (1125)

**Michael R. Veall:** These are very difficult things. Everything's a trade-off. I do think that....

Really, all I can say at this level, I think, is that every time we impose a regulation or a restriction, it has to be very carefully weighed in terms of the benefits and costs.

The particular one that I was referring to has to do with the fact that at some level, when we're thinking about the Paris Agreement, we know that many countries aren't going to make their targets. Canada has to decide where it wants to position itself in that situation, with the potential consequence that if Canada is viewed as too much of a laggard, it may interfere with our international trading relationships.

On the other hand, other countries are going to be in the same position, so it requires a very nuanced and very delicate handling of a difficult situation.

**Dominique O'Rourke:** Thank you. I appreciate that.

My question for all three of our panellists is with reference to budget 2025.

I've heard many of you talk about accelerated depreciation, which we're calling the productivity superdeduction. Mr. Anani, I heard you talk about training for skilled workers, including machinists, including all sorts of folks, and looking at investments in AI. What are the most critical elements of budget 2025, including a revised SR and ED program to give manufacturers more choice in how they bring in change and how they invest in their productivity? What are the most critical pieces to move forward, and what is the urgency here in terms of passing the budget, so that we can start with the productivity superdeduction in light of the ongoing tariffs, modify those SR and EDs and have dedicated buy Canadian policies? What is the urgency around that?

**Namir Anani:** Maybe I can expand on this.

Definitely, I think the productivity superdeduction goes a long way in achieving that, and I talked about talent development as well, but I think that the $925-million investment that we're doing in AI compute should also be coupled with an AI talent strategy to develop it, because in the absence of that.... I mean, AI is one of the most strategic and consequential platforms of technology that we're facing, so we definitely need an AI talent strategy to achieve that going forward.

I would say that the budget goes a long way toward achieving many of the things that I highlighted in my opening remarks, but I think in essence that ultimately it all boils down to the implementation strategy. What are the KPIs? When do we see the return on investment? How are we going to achieve, and by when, the productivity investment? If we take an investment through debt, like any business, then when are we seeing the results of that going forward?

However, it's certainly a strong direction that the budget put forward.

**Michael Graydon:** The measures that were put forth in the budget will stimulate some capital investment. I think there are already some signs of change within the dialogue that is happening within our industry. With interest rates starting to come down as well, I think the environment is much more suited to that capital investment. The capital cost allowances will look to try to build more innovation into manufacturing as well. Labour is an issue for us in our industry. We currently have about 45,000 vacant positions within our industry. Further advanced manufacturing and then the required training in regard to actually leveraging that innovation and manufacturing will be very important.

We've had a significant growth in immigration, and in many cases, many of those people coming to Canada are working way below their skill set in regard to their ability to leverage some of the training that they've had from other jurisdictions. Having more consideration for those types of things will help speed up the training environment and the skills environment that we have within our manufacturing.

● (1130)

**Dominique O'Rourke:** That's terrific, thank you.

Mr. Veall.

**The Chair:** Very quickly, please.

**Michael R. Veall:** The capital provisions in the program are very important, but they are essentially a continuation. It's very important that they not be allowed to lapse.

**The Chair:** That's the model for “very quickly”, Mr. Veall. I'm going to hold you up for future witnesses.

Thank you.

[*Translation*]

Mr. Ste-Marie, you have the floor for six minutes.

**Gabriel Ste-Marie (Joliette—Manawan, BQ):** Thank you, Mr. Chair.

I'd like to welcome all the witnesses.

Mr. Anani, your organization published a report last August that looked at productivity and employment. According to the report, a number of studies show that digitally intensive sectors are more productive than non-digitally intensive sectors. Examples include software, finance and advanced manufacturing.

Can you explain that difference in productivity?

**Namir Anani:** Broadly speaking, the difference is certainly based on the adoption of digital technology, particularly the adoption of artificial intelligence in various fields.

That's why I raised the importance of developing skills and talent in Canada. That has to be done as soon as children enter primary and secondary schools and later in post-secondary institutions. Right now, it's also important to promote skills development in the workplace.

Essentially, modern technologies such as automation and robotics can be seen seeping in everywhere. I'm thinking of the manufacturing industry and the health sector in particular. Technology is becoming ubiquitous across all fields.

Indeed, it's important to help small or medium-sized businesses, or SMEs, acquire those technologies. I'd say that the federal government's newly announced program on introducing a productivity superdeduction is actually on the right track. It's a step toward achieving that goal.

**Gabriel Ste-Marie:** Thank you.

We often hear that SMEs have their own way of doing things and that they're overwhelmed. The heads of these SMEs have very busy weeks. They lack the momentum to make that shift and enable a digital transformation.

In some of their remarks, representatives of large companies said that the cost of technologies had really decreased. They explained that when they adopted the technologies, the costs were high, but they're now more affordable.

Aside from introducing a productivity superdeduction, what can we do to convince those businesses to make that shift?

**Namir Anani:** Financial support can help those companies and incentivize them to adopt the technology. In reality, a lot of it has to do with education. That's what I call knowledge mobilization.

The large companies have deep enough pockets to invest in modern technologies and develop the necessary talent. Something has to be created in Canada to convince SMEs to invest in those technologies. They also have to be given enough information about the artificial intelligence technologies available on the market. It's important to tell them that if they adopt such and such a technology, they'll get a good return on investment.

I'll conclude by saying that small or medium-sized businesses usually don't want to be the first to adopt new technologies. They prefer to have a clearer picture of what's going on elsewhere before adopting technologies. It will be very important to support these small or medium-sized businesses to help them move forward.

**Gabriel Ste-Marie:** How does Canada compare with other countries when it comes to small, medium or large businesses adopting these technologies?

**Namir Anani:** Unfortunately, the data from our organization and other market research indicate that only 10% of companies in Canada are aware of the importance of artificial intelligence.

As a result, they haven't developed processes or strategies for adopting these technologies. This is a serious matter when it comes to trade. Indeed, to be well positioned in the global competitive environment, it's necessary to adopt the best technologies.

● (1135)

**Gabriel Ste-Marie:** In Canadian sectors that use digital innovations such as artificial intelligence, is there enough competition to encourage businesses to adopt those technologies?

Conversely, is the competition too weak to speed up the transition to those technologies?

**Namir Anani:** It's always important to create competition in Canada, because it drives innovation. That has to be remembered. This is particularly true in telecommunications, for example. That's why I mentioned the need to broaden the regulations somewhat to encourage other companies to set up shop in Canada and thereby increase competition in various sectors.

**Gabriel Ste-Marie:** Okay, thank you very much.

Mr. Chair, my time is almost up. I'll leave it there.

**The Chair:** Thank you, Mr. Ste-Marie.

[*English*]

Mr. Falk, five minutes go to you, sir.

**Ted Falk (Provencher, CPC):** Thank you, Mr. Chair.

Thank you to our witnesses for your attendance at committee here today.

Mr. Graydon, I'd like to at least begin with some questions for you.

On August 6, you made a post on LinkedIn indicating that “the United States imposed 25 percent duties earlier this year, part of a broad crackdown, ostensibly to address fentanyl supply chains”. What did Ottawa do? You wrote that it “defaulted to its 2018 playbook: retaliation in kind.”

If my memory serves me correctly, President Trump had two requirements for the Canadian government in order to avoid 25% tariffs. Number one was, as you indicated, to address the fentanyl issue here in Canada, and number two was to tighten up our border security.

How has the failure to address those two issues impacted your industry?

**Michael Graydon:** Fortunately, the government has repealed the retaliatory tariffs, but it had a significant impact for a period of time on our export capability to the United States. We had a number of orders that were cancelled. It was just very difficult to be price-competitive in the marketplace with that sort of increase, so we have experienced the ability to get back on track with those retaliatory tariffs having been removed.

**Ted Falk:** In an August 20 piece by CTV, you were quoted as saying, “You can’t take an economy that’s 10 per cent of the U.S. economy and expect our retaliatory tariffs to have any impact.”

Do you still agree with that?

**Michael Graydon:** I still agree 100%.

We have to recognize the trading partner that we have. It is very large, but also, at this particular juncture with the Trump administration, very unique, and sometimes it requires a different playbook in regard to meeting the expectations of that particular individual, as this file sits squarely in the centre of his desk.

**Ted Falk:** Thank you.

The piece goes further to cite Loblaw's July food inflation report, and in there it says, “Loblaw notes that about one-third of all inflation-related cost increases submitted by suppliers are tied directly to tariffs.”

Is that the experience you're hearing about from your members?

**Michael Graydon:** Very much so, and because of the impact, there was really no choice but to price up.

**Ted Falk:** Could the Carney government have done a better job of addressing Mr. Trump's concerns?

**Michael Graydon:** I think the retaliatory tariffs were a mistake. I don't think it was a tactic that was necessarily of value, and I think the government came to that conclusion fairly quickly. Unfortunately, there were some consequences in regard to cost implications, but I think at this particular juncture there's still a lack of certainty, and at some point, certainty can be of value in regard to planning and making investments in manufacturing here in this country.

**Ted Falk:** Other than accelerated capital cost in this budget that's been tabled by the Liberal government, do you see any focus on agriculture or agri-food that would help to stimulate that industry here in Canada?

**Michael Graydon:** I think the investment in primary processing could be very helpful.

Canola, for example, gets shipped as a commodity. It also gets shipped to the United States for the purpose of transitioning it into oil, which then comes back into Canada. We don't have a lot of that opportunity to translate the agricultural output into that sort of secondary ingredient component, which then goes into further processing of whatever. If you're a potato chip manufacturer, you're buying vegetable oil to fry your potato chips that, from an agricultural perspective, was likely produced in Canada but was further processed into vegetable oil in another jurisdiction. The cost implications start to have some ramifications.

I think getting some focus back on where there are opportunities to leverage our agricultural superiority in this country and not just translate it into commodities could be a very helpful component with regard to input costs.

● (1140)

**Ted Falk:** You've talked about regulations as being an impediment to your industry and incurring significant cost increases to the consumer on the shelf.

Are there specific regulations that this government could have moved on and hasn't?

**Michael Graydon:** There are. I think the labelling component of it is that the magnitude of cost is extraordinary, and it's coming at us from all ranks. It's coming from Health Canada with regard to things like front-of-pack labelling. Now ECCC would like us to put another logo on our packaging with regard to the recyclability of the product. If you have a supplemental ingredient, you have to put another logo on it for supplemental ingredients. Today's technology allows for these things to be done in different ways.

**Ted Falk:** What about the QR code?

**Michael Graydon:** The QR code will work. We have 3-D bar codes that exist. There are opportunities.

**The Chair:** Gentlemen, I appreciate that there's further dialogue. There will be some time left for colleagues on this side of the floor should they wish to get back into that.

**Michael Graydon:** Mr. Chair, there is no translation coming through either, by the way.

**The Chair:** That is a problem, Mr. Graydon, so just give me one moment, please.

All right, I'm going to try now, Mr. Graydon.

[*Translation*]

I'm speaking in French now to see whether the interpretation is working.

[*English*]

I suspect that Mr. Erskine-Smith will be in English, so we can buy ourselves a few minutes. You never know, though.

The floor is yours for five minutes, Mr. Erskine-Smith.

**Hon. Nathaniel Erskine-Smith (Beaches—East York, Lib.):** Thanks very much.

I want to start with Mr. Veall.

I can imagine that this committee issues a report and says that we have to address interprovincial trade barriers, that we need more competition, that we need to address brain drain to the U.S., and that we need to have a more efficient civil service. It would read like a report that you might have read or written yourself a decade or two ago. This is not a new challenge in many ways, so do you have advice for how we might be a little more specific? You had your, I think, seven or eight recommendations from the hop, but I mean more in terms of how we proceed with our inquiry in the sense of getting more specific recommendations.

Take interprovincial trade barriers, for example. We have a bill that this Parliament passed. Part 1 of that bill addressed federal trade barriers across this country. The federal government is doing its part, and it's now up to provinces to act.

How might this committee proceed, not to do away with interprovincial trade barriers at a high level but to address the issue with more specificity?

**Michael R. Veall:** You're right. This is a challenge, because there are the jurisdictions of government, always, that matter.

In terms of that specific one, I don't know that there's a lot of runway left or a lot more to do. I think the big steps have been taken, but it will need to be a continuing brief.

If I were thinking about something to focus on instead, I would focus on the productivity of the federal government itself, things like the way we administer the tax system. It's not how high taxes are, how low taxes are or which taxes. It's just the actual administration of it—trying to make it more efficient, trying to adopt artificial intelligence in those processes, if possible—and of other administrative capacities of the government, because I think a more efficient—

● (1145)

**Hon. Nathaniel Erskine-Smith:** I can't imagine that there are too many people tuning in, but in this budget, we've recently proposed automatic tax filing for low-income Canadians. Other jurisdictions do it more broadly, of course, for any one of us filing our taxes.

I receive employment income as a member of Parliament, and that's it. The government knows what I make. The government could file my taxes on my behalf, and I wouldn't have to turn my mind to it, waste my own time or spend my own money to have a third party file my taxes. That's what you're getting at—simplifying things for ordinary Canadians.

**Michael R. Veall:** Yes, clearly progress is being made there.

In general, whenever we think about a new tax measure, we think about it from a fairly complex perspective, and maybe we don't put enough weight on the administration aspect.

**Hon. Nathaniel Erskine-Smith:** You mentioned that everything's a cost-benefit balance, and I think that's right. That's part of the challenge here. When you do away with red tape, one person might see red tape everywhere, and one person might not see red tape and say that it's serving an important interest. Some might say that there's a cost and a benefit to this, and we have to balance the two to make sure that the benefits outweigh the costs.

In the interest of more specificity, Mr. Graydon, I didn't love the example of fortified flour, I have to be honest, because there's a huge public benefit to having fortified flour. In certain instances, it might not make sense. It sounds like Health Canada acknowledges that and issues a reprieve in specific circumstances. Doing away with that regulation writ large seems like a very bad idea. The FDA and Health Canada are aligned on it to a large degree, from what I understand.

It would be helpful to this committee, I think—and maybe that would be on your list; I don't know—if you could offer a list of things you've heard from your members. I don't mean today, but come back with a longer, more detailed list. Then it might be up to us to assess the costs and benefits of that list. We could say this one makes sense, or that one doesn't make sense. I think that might be more useful, as far as the committee work goes, around addressing productivity, if we have more specific examples to grab on to.

Could you commit to doing that?

**Michael Graydon:** Yes, absolutely.

**Hon. Nathaniel Erskine-Smith:** I would offer the same to you, Mr. Anani.

**Namir Anani:** Yes, I'm happy to do that.

Ideally, to advance productivity, if you look at the economies that have advanced productivity, at least in the OECD—Denmark, Switzerland and the U.S.—they have high investment in talent. They have high investment in capex, which means equipment and modernization. They have open and competitive markets. They have clear regulations of what works and what doesn't, because capital is very mobile. If there is no certainty in the market, it will go somewhere else. Most of their industries are highly established industries that have good productivity processes.

It's interesting to see that the highest productivity in Canada is actually in Alberta, with $77 per worker compared to a $62 average across the country. The reason is that Alberta has one of the top energy systems, advanced manufacturing and others, with very much established capabilities in process management and productivity, whether it's six sigma, kaizen or other advanced manufacturing capabilities on that.

If I had to boil it down to what is needed—the question that was asked recently—for our economy of small and medium enterprises, we can give them all the incentives to adopt technology, but ultimately we have to showcase what works and what doesn't, because they don't want to be the first movers; they want to be fast followers on this.

Hence, diffusion of that information, in terms of a productivity accelerator, in terms of knowledge mobilization, is going to be critical.

**Hon. Nathaniel Erskine-Smith:** Thanks.

**The Chair:** Thank you, Mr. Erskine-Smith.

[*Translation*]

Mr. Ste-Marie, you have the floor for two and a half minutes.

**Gabriel Ste-Marie:** Thank you, Mr. Chair.

Mr. Anani, a few years ago, you appeared before the committee to talk about blockchain technology.

What sectors can benefit from adopting that technology to increase productivity?

What can the government do to support that?

**Namir Anani:** The entire manufacturing industry supply chain could benefit from adopting blockchain technology.

The retail industry would also benefit, as well as the health sector, because it's necessary to track data to know who is using what drug, for example.

Most industry sectors could benefit from adopting this technology. Even the Government of Canada could benefit, particularly when it comes to passport services, procurement and defence.

Frankly, this technology is ubiquitous, and we should use it, just as with artificial intelligence.

● (1150)

**Gabriel Ste-Marie:** Thank you very much.

Do you have any comments on quantum computing and the quantum computer? Do you think it's a good idea to continue focusing on that technology?

**Namir Anani:** Yes, and it's even essential. Artificial intelligence is the first technological step. The whole quantum transformation is going to be a much more important area. It's going to really change things. It will be disruptive technology, even for artificial intelligence.

For that reason, it's important to accelerate research and development in that area to ensure that Canada becomes the hub for quantum technology.

**Gabriel Ste-Marie:** Okay.

Canada can position itself, then, to be the hub for this technology.

How does Canada compare with other countries on the international stage?

**Namir Anani:** Canada is very well positioned in terms of research, research excellence, and especially in the field of artificial intelligence and quantum technologies.

It's important to support research and do so quickly, because now is the time to do so. In terms of global competitiveness, it will be crucial for Canada to secure its presence in the field.

**Gabriel Ste-Marie:** Thank you very much.

**Namir Anani:** You're welcome.

[*English*]

**The Chair:** Ms. Borrelli, the floor is yours for five minutes.

**Kathy Borrelli (Windsor—Tecumseh—Lakeshore, CPC):** Thank you, Chair.

Mr. Graydon, Canadian business investment per worker is roughly 50% to 70% of U.S. levels. Does the Liberal 2025 budget meaningfully narrow that gap, or are your member companies still planning to expand their capital expenditures abroad?

**Michael Graydon:** I think it's early going. I think most members are just trying to digest the budget at this particular point.

I can also suggest that most of the energy is being put into understanding where the benefits are for those actual capital investments themselves: the machinery, the buildings, etc. It's still very early going at this particular juncture.

**Kathy Borrelli:** Until now, when capital investment has flown outward, which countries or regions are your members favouring and why?

**Michael Graydon:** It's almost entirely to the United States. I think part of it is that it's easy to trade—or it has been—between Canada and the United States. We're looking at consistent languages and consistent understanding of the marketplace.

The distribution component of it is quite easy. You're putting it on a truck, not a boat, and you're able to meet the supply chain needs that are required, so the majority of it has gone south.

**Kathy Borrelli:** Are there any legislative changes Canada could make that would help companies keep their investments here? What could keep companies here?

**Michael Graydon:** I think some of the moves that have been identified in the budget could, and I think there has been a lot of talk in the past around trying to incentivize capital investment. Our tax policies in this country are very high. The access to labour is very low on occasion.

In terms of more investment in regard to stimulating those dollars spent on manufacturing, I think the opportunity is there and the market is there. I think we do have some very good trading arrangements outside of the United States to leverage as well. We need to seize the opportunity to take advantage of those.

**Kathy Borrelli:** Can you give us an example of the kind of Canadian company or technology that risks being scaled, funded or commercialized outside of Canada because our environment isn't competitive enough?

**Michael Graydon:** I think all in our sector are potentially vulnerable to those components of it. That said, remember that Canada is 40 million-plus people. It is a good market. Even if the manufacturing evaporates from this country, these organizations that transition to the United States will still look very favourably on the Canadian consumer as an opportunity, but there could be cost implications there, too, because of the uncertainty of the relationship with the United States, especially on the food side.

We have lost some of our food sovereignty in this country. When you're getting almost half of the centre-store food product in a grocery store coming from someplace else, it's not a good place to be. We didn't used to be like that. Where companies now are producing maybe 30% of their volume at a Canadian plant and 70% in the U.S., it was the reverse over 20 years ago, and over time it has just slowly evaporated. As I said, I think we're getting to the point where, if we're not careful, we're at a tipping point.

I think it's also important to recognize that while small to medium-sized enterprises make up the majority of the plants in this country, where the volume sits is in the large manufacturers. It's the 80:20 rule, where 20% of the manufacturers make 80% of the goods, because they have the scale.

It's those organizations that also have significant capital to be able to employ in manufacturing in this country, but it goes into a global capital pool. You need to deploy your capital where you get the best return on investment, and Canada is not a great place for that right now.

● (1155)

**Kathy Borrelli:** Does the lack of a clear Canada-U.S. trade strategy in the budget create hesitation for long-term commitments?

**Michael Graydon:** At this particular juncture, it does. You're looking at.... Remember, even with the trade environment being calmer pre-Trump administration too, we still saw some elements of evaporation of capacity, so there are other factors that are contributing to it. At this particular juncture, the issues with the United States were a wake-up call to manufacturers in Canada. There's an opportunity here. Getting that stability will be very helpful, I think. As for some of the moves that the government is currently making to enhance capital investment, we need to continue those. It has to translate from words into actions. It's really down to execution right now.

**The Chair:** Thank you very much, Ms. Borrelli.

Mr. Bains, the floor is yours for five minutes.

**Parm Bains (Richmond East—Steveston, Lib.):** Thank you, Mr. Chair.

Thank you to our guests for joining us today.

I'm going to go to Mr. Graydon.

You talked a lot about food sovereignty. I want to talk a bit about the regulatory framework in my home province, for example. If you're producing food and are looking at doing processing on that farm, you have to actually grow 50% of it. It's a fifty-fifty rule. Are you familiar with that? Is this type of regulatory reform needed where that is restrictive to having more processing plants here to increase our food sovereignty?

The other piece I want to ask you about is whether there could be a direct correlation between more food processing here domestically and the cost coming down for consumers.

**Michael Graydon:** I do believe that the cost for consumers will come down as we can consolidate some of the manufacturing in Canada, but it's a multistep process. Not only does the manufacturing need to be here, but also it will take some of the cost implications out of it. Getting that next level of primary processing where some of those agricultural outputs are actually produced in this country and not elsewhere will also have a very positive impact with regard to cost and affordability.

**Parm Bains:** What are some steps that can be taken to achieve that?

**Michael Graydon:** There needs to be some attention to this sector. It is not in the dialogue. We've had a situation now where we've been talking about major projects. There hasn't been a single major project announced or discussed related to agri-food or food manufacturing in this country. We're focusing on issues and industries, some of which, quite frankly, are in crisis. I understand that, but if we're not careful, we're going to find that our food manufacturing industry is going to be in crisis, and then we're in real trouble.

We already see it in consumer health products. If you go back to COVID, remember that we did not make hand sanitizers. We do not make many of the products that we consume every day or use every day. We don't make toothpaste in this country anymore. We don't make mouthwash in this country anymore. Those are things that have slowly but surely evaporated away from this country. It needs to be part of the dialogue.

Part of the challenge we have is that, with all due respect to government, we don't have a home. Nobody in government talks to us. We tend to get sent to the agriculture minister. They're doing a great job, but that's not where the issues are. Their focus is more on the farm gate than on further processing and value-added manufacturing.

● (1200)

**Parm Bains:** Thank you for that.

I know you talked a little about what's been introduced in the budget around the superdeduction and the accelerated writeoffs. Is this a potential solution to get some of these things and make it more attractive for manufacturers and processors to unlock some private investment here?

**Michael Graydon:** Absolutely.

We're seeing a real change in government right now. It is very obvious that the mandate from the Prime Minister's office has been to not penalize manufacturing and business. We've seen a marked change, especially in Health Canada, with regard to regulatory reform and red-tape reduction. We need to continue that momentum, because it is really positive. Then you add these tax incentives, and you see our interest rates starting to come down. We're starting to create an opportunity here for these investments. Now we need to leverage it and take full advantage of it.

**Parm Bains:** Thank you for your time.

**Michael Graydon:** Thank you.

**The Chair:** Thank you very much, colleagues.

Thank you to our witnesses for appearing today. I appreciate your guidance and your insight.

Colleagues, I'm going to suspend briefly as we turn over to the second hour.

● (1200)

_____________________(Pause)_____________________

● (1210)

**The Chair:** Welcome back. We are going to get into the second hour.

I have just a quick note. We did have on the witness list for today Avery Shenfeld, who is the chief economist for CIBC. Unfortunately, there were some challenges getting them set up virtually and they will not be able to attend. The clerk is going to ensure we get a translated version of their opening remarks sent to members of the committee.

Therefore, there will just be a couple of witnesses with us today.

From the Business Council of Canada, we have Theo Argitis, who is senior vice-president, policy, and Michael Gullo, who is vice-president, policy. From the Royal Bank of Canada, we have Frances Donald, the senior vice-president and chief economist.

Witnesses, we will have upwards of five minutes for introductory remarks. We will then have an allotted amount of time distributed to members as per the recognized parties around the table and their allotment in the House of Commons. If you have any questions, let us know, but I think we are ready to go.

With that, Ms. Donald, I'm going to turn the floor over to you first. You have up to five minutes for introductory remarks.

**Frances Donald (Senior Vice-President and Chief Economist, Royal Bank of Canada):** Thank you, Chair.

Thank you to this committee for your important work.

Productivity is not a new concern. Economists have been discussing the causes and suggesting possible solutions for as long as productivity growth has been ailing, and that is approximately 40 years.

We have highlighted as a profession Canada's lack of tax competitiveness, burdensome regulations, slow investment, overexposure to the housing sector and barriers to trade, some self-inflicted, some quite natural. You'll be hard-pressed to find a Canadian economist without published research and perspective on these, and you'll find that almost all of it rhymes.

The productivity problem has persisted beyond the life of any single government and any single economic cycle, and even beyond the career life of many economists who study it, yet the profession is still pressed to provide a revolutionary perspective or a transformative solution. However, as much as one plus one will always equal two and if it rains the ground will get wet, the economist view on productivity is likely to be constant and consistent in its observation that productivity issues are not confined to one problem and one sector and cannot be solved with one stroke of one pen.

That said, as we head into 2026, there are three pieces of new context to the discussion that are relevant to the elements that have always been true.

The first is that slower population growth—and in some regions of the country, negative population growth—will mean that we need more productivity growth to compensate. Let me explain. I'll use an example I've used many times before. If you've heard it, I apologize.

Consider an economy as being like a fast-food restaurant. The growth, the GDP, of that fast-food restaurant is the number of hamburgers it produces. The number of hamburgers that a restaurant makes is always a function of two things: how many people are working behind the counter—that's your labour force—and how fast each individual makes a hamburger—that's productivity.

When population was expanding at a healthy rate in Canada over the past decade, and particularly in the past few years, we had more people working behind our metaphorical counters, thus the fact that we weren't making our hamburgers more quickly was less noticeable, but we are going into a period where population growth is going to slow dramatically and potentially even be flat. In some places in the country, like British Columbia, population growth is already negative.

Effectively, we will have fewer people working behind the metaphorical counters of this country, and if we want to maintain the number of hamburgers coming out of the restaurant, we have to increase the number that each worker can make. In essence, there should be and is a close tie between our population policies and our productivity policies.

Second, I feel compelled to highlight that while productivity will be a more critical issue for the aggregate economy in Canada as a whole, it will feel like less than the most important issue, less of an emergency, to the areas of the economy that are suffering deep recessions as a result of the trade shock.

On balance, Canada's economy has been resilient, and that's in part thanks to CUSMA and the approximately 90% of exports to the United States that remain tariff-free. Roughly 10%, however, is experiencing the largest trade shock in nearly a century. As a result, segments of the economy, particularly in southwestern Ontario, are struggling with unemployment. In cities like Windsor, Ontario, it's at over 10%. One rarely thinks about repairing the state of the firehouse when one's home is on fire.

Other parts of the country have solid labour markets, like Victoria or Ville de Québec, so as economists will highlight frequently that different regions and sectors struggle with different productivity issues, it's likely wise to remember that there is more scope and appetite to address structural challenges in places of the country that are not also struggling with mass job losses.

● (1215)

[*Translation*]

As I mentioned, our productivity problem has built up over the past 40 years. It's unlikely to be resolved in a single year, based on a single idea.

The good news and the bad news are identical. While there's a long list of policy measures that would incrementally increase productivity, there's no silver bullet that will save the country on its own.

My mother once told me that when my whole house is messy, I should pick any corner and start cleaning from there. In other words, you're probably getting a lot of ideas about what can be done. However, we're past the point where we can say which one would be best. In short, we're just going to have to pick a corner and get going.

Thank you for your time today and for the opportunity to share my thoughts.

[*English*]

**The Chair:** Thank you very much, Ms. Donald.

I don't think I've ever wanted a hamburger so badly.

Mr. Argitis, we'll turn the floor over to you for up to five minutes.

**Theo Argitis (Senior Vice-President, Policy, Business Council of Canada):** Mr. Chair and honourable members, thank you for the opportunity to appear before this committee.

We are here today on behalf of the Business Council of Canada, which represents CEOs of over 170 leading Canadian enterprises across all sectors of the economy. Together, our members employ more than two million Canadians, and their companies are responsible for most of the country's private sector exports, investments and corporate philanthropy.

The Business Council has one central mission: to help build a stronger, more competitive and more prosperous Canada. We view productivity and investment as absolutely foundational to achieving that mission. You have already heard, during your previous hearings for this study, about Canada's disappointing productivity record. It's been well covered in the data, and I won't repeat the statistics, only underscore the core message that these statistics send.

For more than a decade, Canada has not been investing at the pace required to keep our economy competitive or to sustain the rising living standards Canadians expect. In short, our productivity crisis is really an investment crisis. Our industries and our workers are capital starved. We often talk about productivity as if it's an abstract economic concept, but productivity is simply the measure of how much value we create with the time, skills and capital we have. When we invest in better machinery, modern technology, advanced equipment, and training and innovation, people will produce more, wages will rise, and businesses will grow. When investment stalls, productivity falls, and incomes stagnate. That is what has been happening in Canada.

The heart of the productivity challenge is an investment challenge, and the fundamental questions for policy-makers more broadly are straightforward. What is holding back investments in Canada? What is causing companies to hesitate, delay or choose other jurisdictions? The barriers are well known, and you've heard them all. They include insufficient infrastructure to move goods and to power the economy, cumbersome regulatory and permitting systems, and broader uncertainty that makes long-term commitments very hard.

Our tax system, meanwhile, is not competitive enough to compensate for these weaknesses, and I'm sure we'll be talking about many of these issues over the next hour.

Before I conclude, let me just say a word about the recent federal budget. It contains a number of measures that point in the right direction: steps towards a more competitive tax system, some signalling around improving the regulatory landscape, some efforts to attract talent and some additional financing for major projects. These are all positive moves.

Our concern is that the pace of change still isn't fast enough to break out of the low-investment trap the economy has fallen into. After a decade of underinvestment and uncertainty, we need more than incremental progress.

Canada has enormous strengths. We truly have what the world needs. What we need now are urgency and a focus on enabling private sector investment at scale. The cost of inaction is continued stagnation. The reward for boldness is a stronger, more productive economy that delivers rising incomes and enduring opportunity for Canadians.

With me today is Michael Gullo, vice-president of policy at the Business Council, who recently authored a report about Canada's potential to capture market share in global markets.

Thank you, Mr. Chair. We would be pleased to take your questions.

● (1220)

**The Chair:** Thank you very much.

Colleagues, we'll enter into our line of questioning.

Madam Dancho, the floor is yours for six minutes.

**Raquel Dancho (Kildonan—St. Paul, CPC):** Thank you very much to the witnesses for being here. I'm hearing similar themes in your opening remarks.

Mr. Argitis, I'll start with you. I'd like you to just elaborate, really, on your opening comments, but I do want to put to you a recent comment you made to Reuters, I believe, regarding the budget. You said, “This isn't a generational budget.” It states in the article, “Argitis said there was not enough that might speed private investment at the scale necessary for significant growth. 'If you're looking to transform the economy, this budget is not going to do it.'”

You gave a brief summary of some things we can do, but could you elaborate a bit on what could have made this a transformational budget?

**Theo Argitis:** I will echo something that Frances just said, that if you have a very messy house, you can start anywhere and you'll make progress.

We've intentionally not tried to come up with specific proposals, because we felt that we are at a moment when we think some bigger change is required. We like to call it political courage. It could take the form of the tax side, maybe, or it could take the form of the regulatory side or even the infrastructure side. We were ready to see some ambitions on infrastructure as well in this budget. We felt that instead of getting that impulse for change, we got incrementalism.

While many of the measures are positive—we actually think there are many positive things in the budget—we don't think it's enough, really, to make a big change in the competitive landscape. Certainly, the government itself has set out some very lofty objectives that it wants to achieve. We think it will struggle to achieve its own objectives without some more ambitious change.

**Raquel Dancho:** Thank you.

The Hub, which I know you've contributed to in the past, put out a piece today commenting on a recent productivity study from the Fraser Institute that shows the U.S. has significantly outpaced Canada in labour productivity growth over the last 40 years, with notably an acceleration, as you know, in the last 10. In those last eight or 10 years, so to speak, the Fraser Institute found that our productivity actually saw a slight decrease of 0.6% in business investment, whereas the U.S. grew by over 10% in just the last eight years. We're seeing a bit of a decrease, in fact, from what they found, whereas the U.S., of course, is doing very well, in this regard at least.

We know, of course, that America is our largest competitor. Why do we always talk about the U.S.? Well, you know why. We have capital outflows to the U.S. We have daily headlines of manufacturing jobs being lost. We've certainly had a problem over the last 40 years, but especially the last 10. Could you comment on a few things that you see, just elaborating a bit on the productivity, on what we can do specifically, perhaps, in Canada, to change the channel on this?

● (1225)

**Theo Argitis:** Again, I will defer to the government and members of Parliament to come up with really ambitious ideas. The government itself has talked about tax reform, for example. They've talked about reducing the cost of investing in Canada, the tax cost of investment in Canada, and have used very ambitious language to talk about Canada as an energy superpower. It would require certain steps in order to achieve that very ambitious objective to turn Canada into an energy superpower.

Whether it's on the tax side, whether it's on the regulatory side, or whether it's even on the infrastructure side, as I mentioned earlier, we were prepared to support a very ambitious budget that focused on investment. We think the number one concern in Canada right now, the number one challenge in Canada, really is that we're in an investment crisis. We live in very interesting times. We need to use all the tools available to us in order to make a difference and change the picture, to change the perception of Canada as a bad place to invest. We're ready to support any reasonable tools that would change the picture for Canada's economy right now.

**Raquel Dancho:** Thank you.

I have just about a minute left, but I appreciate your talking about investment. I think you mean mostly—or perhaps you could correct me—private sector investment, because, of course, we hear the government currently talking about investment. In fact, we've heard the Liberal government talk about investment for the last decade. In that investment, the Liberal government doubled the national debt in just one decade. The current budget and the forecast for the next few years say that we're going to add another $300 billion to our national debt, yet we've had this decade of, really, productivity stagnation, despite all these promises of investment.

Are you saying more that we need to incentivize private investment, or do you agree with the last 10-year approach of public-debt financing that the Liberal government calls investment?

**Theo Argitis:** At the Business Council of Canada, we think the best way to unleash the Canadian economy is to unleash private sector investment. That's our first best solution, for sure.

We also understand that there's a role for the government to play in public infrastructure as well, and that can be useful. We want to see investment in ports. We want to see investment in trade corridors and in other areas.

We like to say that the government can do a lot for competitiveness without spending a cent. However, that doesn't mean that we don't think there's a role for the government to play in infrastructure.

**The Chair:** Thank you.

MP Bardeesy, the floor is yours for six minutes.

**Karim Bardeesy (Taiaiako'n—Parkdale—High Park, Lib.):** Thank you.

I'll start with a couple of questions for Mr. Argitis and the Business Council of Canada, and then I'll go to Madam Donald.

The budget, as you saw and made some allusion to, has some tax measures that result in the average marginal effective tax rate for investment being below the average for all G7 countries, including the United States. Now, the sticker rate isn't always the marginal effective tax rate, but can you share your views on the role of investment tax rates as calculated that way in terms of attracting or dissuading investment?

**Theo Argitis:** The marginal effective tax rate is an important economic indicator, because that's what it is; it's not actually a real tax rate that any business or industry faces. These effective tax rates vary quite a bit going from industry to industry. For example, it's very low for manufacturing. In fact, I think I read somewhere that it may actually be negative, which means that every single dollar invested in Canada's manufacturing sector is subsidized at this particular point. For oil and gas, I think it is hovering somewhere around 30%. There are a wide range of marginal effective tax rates—meters, as the economists say.

The government, in its budget, had this chart in which it showed that the measures it undertook in the budget will lower that meter by a couple of percentage points, which is fine. That's actually a good indicator of the tax cost of an extra dollar of investment in the Canadian economy. I'll defer to Frances on how she uses it, but economists like to use it.

The one thing I would say about that is that Canada has had an advantage on this specific rate, and it's not the only rate. I mean, there are a lot of.... The statutory rate in Canada, for example, is actually higher than it is in the U.S.—the corporate income tax rate, both federal and provincial.

Canada has had this advantage on the meter rate for a very long time, and what we've seen is that this advantage has actually practically vanished. About 15 years ago or so, it peaked at around almost 15 percentage points—the difference between Canada's average meter and the meter in the U.S. It had fallen down to about two percentage points up until the budget, when the government—the finance minister or the finance department—said that the measures it's taking will lower it by another two percentage points. The gap between the U.S. and Canada will be about four percentage points. It had been as much as 15 percentage points not too long ago, so we've seen that advantage shrink.

I think what the last decade has shown is that a small advantage on that meter rate is insufficient to actually move the needle by much. It does. I mean, you actually do see it having some impact in manufacturing. However, overall, that small advantage is actually not sufficient to offset all the other negatives in the Canadian economy that make it unattractive to invest here.

That's all to say that I consider moving the advantage from two percentage points to four percentage points a marginal change. It's not a big bang in the tax system that will make, necessarily, a huge difference.

● (1230)

**Karim Bardeesy:** I think it helps with the competitiveness equation that you've described, which has, as you've said, a number of variables.

[*Translation*]

Ms. Donald, you said that a good policy in life in general is to pick a corner and start cleaning.

Which corner do you think would be worth looking at?

**Frances Donald:** My point is that we just have to start with a corner, somewhere. We have to take action instead of discussing the best way to proceed.

[*English*]

There are two ways that we can think through measures.

One of them is through measures that cost. Those include things like investment from the public sector or investment from the public sector that can simultaneously create investment in the private sector or results in private sector investment over time.

The other, as Theo mentioned, is costless measures towards productivity enhancements, and those include primarily deregulation.

Perhaps I might push back against my own statement to start in one corner and say that you could probably work out of two corners simultaneously and have a parallel track between measures that cost very little and measures that perhaps cost a bit more, but I would be using that framework to think through where to start and how to get going.

**Karim Bardeesy:** You mentioned the relationship between productivity-oriented investments and regional dynamics. We've heard elsewhere at this committee that it's really important to disaggregate some of the productivity metrics on a sector basis.

Can you talk to us a bit about how we could target pro-productivity policy on a regional basis? Typically, that's done through provinces, but there may be other ways.

**Frances Donald:** Thank you for this question, which I think is the critical one, to recognize that while there are some cross-country productivity improvements that can be made, for example, in addressing competitiveness in the tax system, much of what can be done to improve competitiveness and productivity is actually a sector-by-sector story. For example, what weighs down our resources sector and the competitiveness there and what limits investment is very different from what is, for example, weighing on housing.

When I talk about the regional diversification and the fragmentation that's occurring across the country, it largely comes down to which provinces are more reliant on different areas of growth. We know that in certain places in the country—for example, in Alberta—we have much more resource focus, so productivity enhancements there are more likely to support productivity in that region. If we could improve productivity on the housing side of the picture, that would probably bias more towards Ontario productivity.

All of these things are good, but there's a difference between cross-country productivity enhancements and sector-specific enhancements, and some awareness of that will be important on this productivity journey.

● (1235)

**The Chair:** Thank you, Mr. Bardeesy.

[*Translation*]

Mr. Ste-Marie, you have the floor for six minutes.

**Gabriel Ste-Marie:** Thank you, Mr. Chair.

I'd like to welcome all the witnesses and thank them for being here.

I'm going to pick up where we just left off. My question is for all the witnesses, but Ms. Donald can answer first.

What specific sectors have the greatest potential for productivity gains, in economic terms?

**Frances Donald:** Thank you very much.

It's definitely the construction sector. That's where we see the worst statistics. I think there are a lot of easy gains to be made there.

As for other sectors across the economy, there are a lot of opportunities in the resource sector. There are sectors where there could be significant improvements that would stimulate both growth and productivity, and there are other sectors where the focus is more on productivity, which is different from growth.

If I had to pick one, it would be construction. That's probably the one with the greatest number of easy gains, but it's important not to lose sight of the growth side of things. In that regard, the resource sector has the greatest potential.

**Gabriel Ste-Marie:** Thank you very much.

Mr. Gullo, what do you think?

[*English*]

**Michael Gullo (Vice-President, Policy, Business Council of Canada):** I'd be happy to respond. Thanks a lot for the question.

Maybe one of the ways to frame it is that it's fair to say that we're kind of navigating a hinge moment. There are many metrics out there that will underscore that our current economic trajectory is not on a healthy footing. If it continues the way it is, by 2035, all Canadians are going to be worse off than they are now.

At the same time, we are facing a very different geopolitical situation driven by global population increases and demands for energy, critical minerals and food for various different national and economic objectives. Canada is very well placed to capitalize on this unique and time-bound opportunity. Our latest policy paper, called "Selling to our strengths", creates an argument that, in order to meet this moment and unlock higher levels of energy, inclusive of many different forms of critical minerals, those supportive of the energy transition and national defence, as well as the agri-food industry, we're really going to require a whole-of-government approach to move this forward. As you'll see in the paper, it describes that the responsibilities go above and beyond any single minister. We need our foreign policy working with our infrastructure policy working with our energy policy and our innovation policy.

The size of the prize, from our view, makes it worth pursuing. A recent report by McKinsey says that, if we really do expand our exports in those particular sectors that I just mentioned, we could grow our economy by roughly $150 billion GDP by 2035. However, if there's one chapter of that report that I would really draw your attention to on account of the work that you're doing vis-à-vis the productivity challenge, it's the chapter on innovation. We know that leveraging our resource advantage can also create a generational opportunity to drive technological progress and go beyond just exporting raw, unprocessed commodities. At the same time, we also know that meaningful productivity gains require widespread and rapid leverage of technology and participation in higher parts of the value chain.

The reality is that innovation policy in Canada requires a significant shot in the arm. The proof is in the investments in research and development of both the public and private sectors. They're among the lowest in the OECD, and there's also a lot of evidence out there to suggest that our research efforts often fall short of commercialization.

There are some very tremendous illustrative examples of the productivity gains that can be gleaned if we really get more serious about innovation. The Arrell Food Institute out of the University of Guelph suggested that—and this is a finding from Frances's team over at RBC—if emerging innovations in ag technology were truly embraced, there is a $30-billion opportunity.

We don't have time to waste. Our competitor countries are moving forward and standing up advanced research agencies that are supporting the competitiveness and productivity of sectors of their economy where they have comparative advantage, and we're arguing for the same.

● (1240)

[*Translation*]

**Gabriel Ste-Marie:** Thank you very much.

Your colleague talked about the current investment crisis. He said that the economy had fallen into a trap and that investment was low. There's a connection with what you were saying, then. For decades now, businesses have been raking in cash and refusing to make investments to increase productivity.

Could you talk a bit about that and maybe give us some potential solutions?

[*English*]

**Theo Argitis:** Capital is mobile. When companies generate cash flow and earnings, they have to make certain decisions as to whether they're going to invest that capital or they're going to return the capital to their shareholders. Executives need to weigh what is fundamentally the best return for the shareholders. The other option is to invest in other jurisdictions.

The calculus for investing in Canada has been a difficult one, certainly in the resource sector over the last 10 years. I don't think it's a mystery why. It hasn't been the most welcoming environment for the resource sector. It's been very difficult to build things in Canada, which is why the Prime Minister's mantra is "build, baby, build". We haven't been building, and that's been a clear problem. That's because it's been very difficult to generate reliable returns on building anything in Canada.

I don't know if that answers your question, but I think it's just that money goes or capital goes where the highest returns are. Sometimes it's in other jurisdictions. Sometimes it's back to the shareholders. In some instances, they do invest in Canada, but in aggregate. It hasn't been a rosy picture over the last 10 years.

**The Chair:** Thank you.

Madam Dancho, you have five minutes.

**Raquel Dancho:** Thank you, Mr. Chair.

I want to pick up a bit on what Mr. Gullo was talking about.

You mentioned investments in research and development, both public and private. We have some of the lowest in the OECD. I believe we also rank quite low in the OECD in terms of IP. We have a big IP leakage issue, particularly to the U.S., but not exclusively to them.

We invest a lot, perhaps not relative to other countries, but it's in the billions overall in research grants, R and D tax credits and the like. I've been surprised to learn that we actually don't keep a lot of what we create, even though Canadians create a lot of really interesting, cool things.

I want to just set you up to give a bit more detail on your thoughts on this issue and how it impacts productivity.

**Michael Gullo:** I fully agree with the information you've provided, and I think it underscores the severity of the situation. It's clear that our innovation input isn't matching the output, even in sectors where we enjoy a relatively competitive market share globally.

Look at our mining industry, for example, where we have many companies headquartered in this country investing elsewhere. Our IP challenge is most acute in a sector like this, as an example, where you have Chinese dominance of over 70% of the IP that's out there, while Canada is hovering at around 2%. There is a real dysfunctional aspect to how we're going about capturing this aspect.

A couple of reasons come to mind, broadly. We're just investing less, as my colleague, Theo, opened with. In the resource sector specifically, over the last 10 to 15 years, the level of investment has really slowed down. That's really limited our ability to produce more, to go after global market share and to be more competitive at an international scale.

We've also missed out on the opportunity to really go after different value-added aspects of the economy, whether that's in the tech space, in advanced manufacturing or in other fields. We haven't been bold and aggressive in doing that. Part of the problem is that when you don't have a marriage between those different elements of the economy, there really isn't a very clear technology-to-market strategy. Despite having excellent research centres and despite having a substantive amount of money going into R and D, there is really that missing bridge piece from translating those technologies of the research efforts into commercial opportunities.

Frankly, with the broad-based membership that we have, we do see success stories in other parts of the world. In the U.S., they have an exceptional ARPA system, whether it's on the defence side with DARPA or on the energy side with ARPA-E. These are real places where companies can go and work with the best research institution that the U.S. has to offer and really take some risks on developing new technologies and finding a very clear pathway to bring that technology to the market, first through their own operations and then being able to deploy that at scale and even sometimes as an export service.

● (1245)

**Raquel Dancho:** I'll give the same question over to Ms. Donald.

I appreciated your opening analogy about the fast-food chain. The workers making the burgers are the labour force and then the number of burgers they make are sort of the productivity. I immediately thought of that movie, *The Founder*, which talked about McDonald's and how McDonald's was really the fast-food chain that revolutionized burger-making with new technologies and the most efficient path to do so.

Just building on what Mr. Gullo said and on that analogy, can you elaborate perhaps on your expertise on the issue with productivity, IP and development in Canada?

**Frances Donald:** I think sometimes we conflate the terms "growth," "investment" and "productivity." Of course, they're all very related to each other, but you can have growth without investment. It could be consumption-led. It could be the government spending a significant amount of money. It could be wealthy households spending a significant amount of money. You can even have investment that doesn't lead to productivity gains, and we've seen plenty of that in Canada.

For example, our housing sector has had plenty of investment, but it's not a high-productivity sector, and what we're witnessing in the United States right now is that there has been a significant amount of investment in, for example, data centres and AI development that has boosted growth in very real ways but has yet to produce the productivity responses to that, and that's because investment is step one, but the type of investment that you make matters. Do you have the skills to then use that investment and generate productivity gains from it, and are those productivity gains going to be sustainable over time?

I view these as three separate questions that are all interlinked, and as the Business Council has highlighted, there is a strong link between investment and productivity, but it's not a silver bullet towards those productivity gains. It needs to be in the right places, and clearly, when we think about the types of investments, then a focus on AI and these new technologies would be a core area.

To return to some of my prior comments, there are two ways we can address productivity, and we should probably be doing both. One is to fix the areas where productivity is broken—I've mentioned construction, for example, and housing and manufacturing—and the second is to focus on where the areas of productivity will be in the future, and those probably have to do with AI services and technology in Canada. Those will be the productivity areas of the future, and we want to make sure that 10 years from now, we're not talking about trying to fix productivity in our AI sector.

It's dangerous, I think, to link all of these concepts as though they're the same. There are steps of pass-through from investment to productivity to growth, and you have to follow those steps.

● (1250)

**The Chair:** Thank you very much.

[*Translation*]

Ms. O'Rourke, you have the floor for five minutes.

**Dominique O'Rourke:** Thank you very much, Mr. Chair.

[*English*]

Mr. Argitis, you said that for more than a decade Canada has not been investing at the pace required, so can you help me understand? We had COVID, which was a major challenge and created a lot of pent-up capital investment, but then when that investment should have flowed, we had major global supply chain issues and wars breaking out, so then we thought, "Okay, it's coming now," and now we have these unjustified American tariffs that are very challenging for many sectors of the economy.

I'm curious to understand, because despite all those challenges, Canada has the second-largest foreign direct investment stock-to-GDP ratio among the G20, and last year, Canada had a record foreign direct investment of $85.5 billion, which was up 36% from the previous year—our best performance in a decade.

Barring those challenges, there were still some good stats but nothing to make us rest on our laurels; there's still a 40-year challenge on productivity. This budget's going to invest in ports, roads, electricity, critical minerals and AI. We're going to improve SR and ED. We're going to increase the research investments. We're going to look at talent attraction. We're looking at newer, stronger trading relationships, including a signed deal with Indonesia, which is the world's fourth-largest economy. We have the productivity superdeduction. We're investing in modular housing.

What is missing here? When you say Canada has not been investing at the pace required, are you talking about the Government of Canada, or are you talking about the business community?

**Theo Argitis:** I'm talking about private investment. The environment is not there for.... We see it in capex data. I mean, you talked about foreign direct investment to Canada, and I'm happy to talk about that as well.

You're right. Canada is an interesting situation, because we actually do draw in, relatively speaking, a healthy amount of foreign direct investment compared to other peer-type nations. We have a more open flow of capital than, maybe, other countries. That applies both coming in and going out. We've had a lot of money coming in. We've had much more money going out. When Canadian companies are the ones that are exiting the country to invest abroad, primarily in the U.S.—much of that investment is going to the U.S.—that suggests something.

You're right. Canada has done decently in terms of drawing in some foreign direct investment, but much more has exited the country.

I look at just the capex data, the business investment data, that you see every quarter in the quarterly economic accounts. We're going to get the latest numbers at the end of this month, I think. We have seen stagnating business investment in Canada over the last 10 years, starting in the resources sector in 2015 with the price of commodities falling. We did see the initial, large reduction in business investment in Canada, and we just haven't really recovered very quickly since then.

It's particularly stark if you look at it as a share of investment per worker, for example—you know, investment per capita—and—

**Dominique O'Rourke:** Just in the interests of time....

What's missing from what is proposed? There are a number of measures. What will help us get to that?

**Theo Argitis:** As I said earlier, what would help is a bit more ambition, whether it's on the tax side, the regulatory side or even the infrastructure side—just some more ambition. To go back to the budget you mentioned and many of the things you mentioned....

I mean, I agree. I think there are many positive things in the budget, but once you're in a situation where you're trapped in a certain kind of circumstance in Canada, the perceptions of Canada as a place to invest are very negative. You need something to break out of that trap. You need a bit of a big bang in policy for companies, whether foreign or domestic, to really change their perceptions about Canada as a place to invest. You need a bigger type of bang.

● (1255)

[*Translation*]

**The Chair:** Excuse me, Ms. O'Rourke. Unfortunately, your time is up.

Mr. Ste-Marie, you have the floor for two and a half minutes.

**Gabriel Ste-Marie:** Thank you, Mr. Chair.

Ms. Donald, are innovative companies properly funded?

Can you talk about traditional financing, venture capital and venture debt financing?

**Frances Donald:** Thank you for the question.

The topic is a bit outside my area of expertise. I would need some time to think about that.

**Gabriel Ste-Marie:** Okay.

**Frances Donald:** What I can tell you is that there are a lot of good examples in the United States. They started by offering public funding. Using various techniques, they transferred the matter of funding to the private sector. That's one thing the U.S. is doing right.

That said, I could send you more details later.

**Gabriel Ste-Marie:** Great.

You can send us your answer in writing, of course. We would appreciate that.

I'll ask the Business Council of Canada the same question.

Is there any room for improvement when it comes to funding innovative businesses?

What's your view on traditional financing, venture capital and venture debt financing?

[*English*]

**Theo Argitis:** It's also not my area of expertise. I can come back with a response for you as well, if you'd like.

[*Translation*]

**Gabriel Ste-Marie:** Okay.

[*English*]

**Michael Gullo:** Mr. Ste-Marie, maybe I'll just weigh in on one small area that I think can help answer the question you're trying to explore. When I've looked at this, I've landed in a spot where the solution is somewhat institutional.

Right now, there isn't a great partner for the private sector, in terms of government, to de-risk emerging opportunities, to have a collaborate approach and to align on investment strategies for R and D, and then to bridge that into daily operations.

The previous government promised a new innovation corporation. We haven't seen that. STDC is a story that's already played out. There aren't a lot of institutional arrangements, and I think this is a lane that is really wide open. When thinking about an advanced research agency for this country, we have a bit of a model on the defence side, with Borealis, which I think is starting to spell out the theoretical possibilities of what can be accomplished. Something that scale, though, could be truly transformational.

**The Chair:** Thank you very much.

As a reminder to members and witnesses, if you intend to send subsequent information to the committee, it has to go through the clerk—not directly to a member but to the clerk—who will then distribute it. Thank you.

Mr. Guglielmin, the floor is yours.

**Michael Guglielmin:** Mr. Argitis, you've written that permitting, impact assessments and packaging rules all add complexity, and that Bill C-5 risks creating an emergency fast lane for a few select projects while the rest of the economy essentially remains in gridlock.

From the Business Council's perspective, has the government actually reduced regulatory complexity yet, or are we mainly adding new structures on top of old ones?

**Theo Argitis:** The way we think about Bill C-5 is that it's better than nothing. We haven't seen much movement on major projects in Canada for a while. We would prefer that the first best solution would be to get rid of the constraints on investments—the ones you're talking about—and to allow the private sector to decide how it's going to invest its capital, rather than the government essentially picking winners and losers. Having said that, we think it's important that we actually do get some major projects built, and if the government chooses to move ahead in this manner, we think that it's better than nothing.

● (1300)

**Michael Guglielmin:** If Bill C-5 and the Major Projects Office focus mostly on a small number of projects but don't improve the underlying approvals system or permitting system, does that actually help us attract investment?

**Theo Argitis:** I think it will do something, for sure. These projects can be important projects. Michael knows the specifics of the projects better than I do. We want to see infrastructure projects being built in Canada. As I said, we prefer legislation that solves the problem rather than bypassing the problem. Canada needs more infrastructure, and Canada needs more investment, so that's how I....

**Michael Gullo:** Maybe I could just add to my colleague's remarks. We're happy to send you some follow-up material on this, because we've done quite a bit of writing about major project approval and permitting processes prior to Bill C-5 and post Bill C-5. We're big believers not only in the principle of "one project, one assessment", but also in taking it further to say, "one decision".

We have a bit of a narrative on how to get there, which requires a very different level of collaboration between federal and provincial governments, recognizing that provincial governments, in most cases, have the jurisdiction over many major resource projects.

We also have some ideas on how the Impact Assessment Act can be retooled so that there is a different approach for the broader economy that's trying to figure out its footing outside of the Bill C-5 structure at the moment.

There are some ideas we can share around the project list regulations, such as increasing thresholds so that, by default, more is going through provincial systems than federal systems, and really starting to unpack a lot of the complexity and redundancy that has been holding back major project potential in the country for years, unfortunately.

**Michael Guglielmin:** I have one quick question for you, Mr. Gullo. Before the election, the Business Council called for clear fiscal anchors, including "a declining debt-to-GDP ratio and stable or falling interest-to-revenue burden". The PBO recently said that the government's fiscal targets are "unlikely" to be met and that deficits are projected to average over $60 billion for the next five years.

What are the risks to private investment and productivity if the government continues on this trajectory?

**Michael Gullo:** Go ahead, Theo.

**Theo Argitis:** We felt that the fiscal anchors were weaker than we would have liked in the budget. I wouldn't go so far as to say that there isn't fiscal capacity for the government to do things. We're not anywhere near some type of fiscal crisis of any sort. As I mentioned, there is scope for the government to do things with a balance sheet, but it has to be part of a medium-term fiscal plan that keeps Canada's finances looking credible to markets.

Fundamentally, the risk is that our debt continues to grow and the things we do with that debt don't improve the productivity of our economy or don't increase long-term growth in our economy, so we don't get a payoff for that debt. There's nothing wrong, really, in my eyes, with finance for investment-enhancing or productivity-enhancing projects or investment. The question is whether you have much capacity to do much more than that. There's no fiscal capacity to do things other than investment.

The risk is that you run high debts, you don't change the growth dynamics in Canada, investors sour on the debt, interest rates rise and you slow down the economy. You have this kind of vicious cycle.

● (1305)

**The Chair:** Thank you very much.

Mr. Erskine-Smith.

**Hon. Nathaniel Erskine-Smith:** Thanks very much.

I want to start with Ms. Donald, specifically in relation to this idea of business investment in research and development and the difference between Canada and our peers. At the same time, you have the SR and ED program, which is very generous when compared with those of our peers, and in this budget we're making it even more generous. I take it, though, that there's also an administrative issue, where it's being streamlined to a degree.

Apart from that particular issue, though, do you have advice on how we might encourage businesses or...? You wrote at one point that it's sometimes a tax competitiveness issue, but it's also just cultural. We need to create a culture of risk-taking, to a degree. How do we ensure that when we address the productivity, businesses are investing in research and development to a greater degree to make us more competitive?

**Frances Donald:** It's a bit of a tragedy that there's no single, one-line answer that achieves this, but effectively, you're right; there's somewhat of a culture component to this. What we're trying to do at the end of the day, and I think it's what my colleagues at the Business Council have also implied, is change the risk-reward of investment. Anything that helps reduce the risk—it could be to speed up the moment until you get to the reward or it could be to reduce the costs of taking on that risk—is helpful. Then you have the other side of that equation: How do you make sure we're creating reward around that? Some of that is the tax competitiveness system attached to it.

What matters to R and D is the same thing that matters to all elements of investment: How do we improve the risk-reward component of investment in the country? Programs like the ones you've mentioned take a step in that direction. Therefore, we should celebrate them, but at the same time, we have to run a marathon. While we should be happy that we've taken a few steps in the right direction, we have many more steps to take.

**Hon. Nathaniel Erskine-Smith:** On that question of tax competitiveness, you've referenced housing a few times. I've always found it odd that.... Let's take capital gains, for example. We have more favourable treatment of capital versus income. It's partly to stimulate capital investment, yet, if a REIT buys an existing property, that's an investment. It's not creating anything new in this country. If they sell it off years later, capital gains treats them favourably so long as the price has appreciated. If they build something, they are treated in the exact same way. We don't really, with the tax system, treat productive capital differently from passive and less productive capital. Housing is the most obvious example in some ways. You've referenced it a few times.

In your work on tax competitiveness, have you looked at all at that particular question of how we might treat different kinds of capital?

**Frances Donald:** Well, certainly, a point that I've made a few times in this hour, but you've highlighted so well, is that within the productivity challenges there are many different streams, and within each one of those streams a different treatment is likely necessary in a variety of different sectors.

This is why, sometimes, when we appear in front of a committee that is doing great work, as this one is, it's important to emphasize that there is a nuance, a complexity, to solving the productivity issue, and one grand swipe that applies to all sectors across the entire the country is not going to be as effective as we hope it would be. Unfortunately, that probably means more work on productivity, but it also means elevating the conversation beyond some of these broad terms like “Let's invest more,” and “Let's have a more competitive tax system.”

We all know that. We've been saying it for 40 years. It's time for us to dive deep into more specifics. Perhaps conversations about productivity with those in those individual sectors is the evolution of this conversation towards the next steps. Also, sector-specific policies on productivity would probably be well received and helpful for this economy.

**Hon. Nathaniel Erskine-Smith:** I think that is very good advice. Thanks very much.

**The Chair:** Thank you very much.

Colleagues, we have one small order of business to deal with. It won't take us long. We'll let the witnesses go while we get ready to deal with that.

Thank you very much for availing yourselves to the committee. It was a very interesting conversation. I appreciate your insight and guidance and wish you a good week.

Colleagues, very quickly, we have to pass a budget for the auto sector study we held. I believe the clerk sent this out to all members this morning. We dealt with this last time. The number looks really big. That's not the actual amount of money we're spending. That's just what the ceiling is.

We need consent from committee members to approve the necessary budget to expense the costs related to the auto sector. I see thumbs-up from the Bloc. I see thumbs-up from the Conservatives.

**Some hon. members:** Agreed.

**The Chair:** Okay. We'll consider that budget passed.

All right, colleagues. The meeting is adjourned.

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