Report of the
Advisory Council
on Adjustment

ADJUSTING TO WIN

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Government of Canada | Gouvernement du Canada

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March 28, 1989

The Honourable Harvie Andre
Minister of Industry, Science and Technology

The Honourable Barbara J. McDougall
Minister of Employment and Immigration

The Honourable John C. Crosbie
Minister of International Trade

Dear Ministers,

The members of the Advisory Council on Adjustment appointed by Order in Council the fourteenth day of January, 1988, PC 1988-35, to assist the government in ensuring that Canadians take full advantage of the new opportunities arising from the Canada-United States Free Trade Agreement, are pleased to submit to you their Report and Recommendations.

A. Jean de Grandpré
Chairman

Jalynn H. Bennett
Member

Gordon E.M. Cummings
Member

James A. McCambly
Member

Norman E. Wagner
Member

Canada

Adjusting to Win

REPORT OF THE ADVISORY COUNCIL
ON ADJUSTMENT

March 1989

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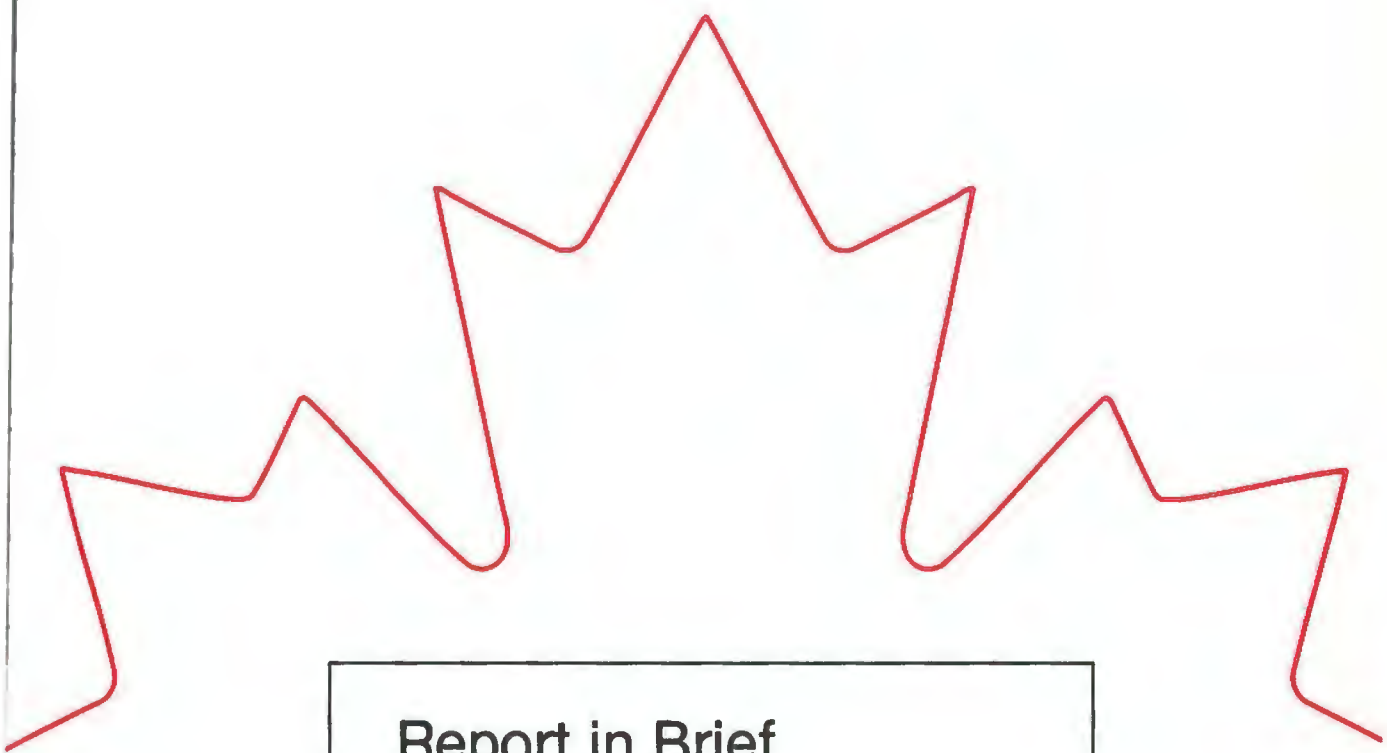


Report in Brief and Recommendations

Adjusting to Win
REPORT IN BRIEF

Mandate and Members of the Council

The Advisory Council on Adjustment was created by the federal government to examine the possibilities for Canadians to gain maximum advantage from the Canada–U.S. Trade Agreement (commonly known as the Free Trade Agreement or FTA), to identify specific adjustment issues arising from the Agreement, and to recommend changes in programs designed to facilitate adjustment.

The chairman of the Council is A. Jean de Grandpré (Montreal), chairman of the board of BCE Inc. Members of the Council, drawn from various regions and economic sectors of Canada, are: Jalynn Bennett (Toronto), vice-president, corporate development, of The Manufacturers Life Insurance Company; Gordon Cummings (Halifax), president and chief executive officer of National Sea Products Ltd; James McCambly (Ottawa), president of the Canadian Federation of Labour; and Norman Wagner (Calgary), chairman of the board of Alberta Natural Gas Company Ltd and immediate past-president of the University of Calgary.

The Council was asked to solicit input from relevant sources across Canada. To ensure adequate representation from all sectors, invitations to make submissions were extended to trade unions, associations, provinces, territories, and the Sectoral Advisory Groups on International Trade (SAGITs), which were established to advise the federal government on trade matters and to work closely with the Free Trade Negotiator. In total, over 160 representations were received by the Council.

In general, the views presented to the Council were positive and confident regarding Canada's ability to adjust to new competitive conditions. However, many submissions also pointed to the need for changes in attitudes, policies, and programs in both the private and public sectors.

The Council's Report

The report of the Council comprises four parts. The first part, "Canada Today," reviews the main features, strengths, and weaknesses of the Canadian economy. Particular reference is made to Canada's relatively successful adjustment to changing economic conditions to the present

day. The challenges ahead, however, will require, on an urgent basis, a change in attitude on the part of all Canadians.

The second part, "People Issues," examines the implications of current demographic and technological changes on labour market requirements, and focuses on education and retraining as the keys to a successful future. Chapters on a strategy for constantly upgrading the skills of the work force and sharing the challenges of adjustment between labour and management form the core of the report.

The third part, "Corporate Issues," discusses the importance of technological innovation, appropriate taxation, access to financing, removal of interprovincial barriers, and export development efforts as essential elements of successful adjustment to the new trading environment.

The fourth part, "Specific Industry Issues," makes recommendations regarding the particular adjustment problems of industries producing and using poultry, dairy, fruits and vegetables, and wheat products, as well as the Canadian wine industry.

The Central Issue

The Council began its work with a strong sense of urgency, recognizing the importance of identifying and recommending ways and means for Canadians to react promptly and creatively to the challenges presented by the FTA.

The Council has chosen to view the FTA in the context of a global process that is affecting the entire industrialized world. Increasingly, international trade is drawing industrial nations together, creating an interlocking global economy that goes beyond national boundaries. In this new economic world, current information and technology are crucial. So too is access to large markets. The process now underway in Western Europe will create by 1992 a single continental market considerably more integrated than the one being created in North America by the FTA. Another large, regional economic block centred on Japan is now taking shape in Southeast Asia. Viewed in this global context, Canada's adjustment to the FTA is just part - though a significant part - of a larger adaptation that must be made to changes in the world-wide economic environment. Even if the FTA did not exist, Canada would still face the need to adapt to an emerging world in which technological innovation and an increasingly well trained and well educated work force are the keys to survival and success.

The Council focused its attention on both the "upside" opportunities and on possible "downside" developments arising out of the new trading environment. It is urgent, in the opinion of the Council, that all Canadians act immediately since the extent to which they take advantage of the "upside" will determine the extent of the "downside."

In recent years, Canada has lost annually over 100,000 businesses but at the same time 130,000 new ones were created. With some changes in basic attitudes, this economic resilience can be substantially increased, enabling Canada to respond quickly and effectively to the challenges of the new trading environment.

The potential to direct specific assistance to individuals adversely affected by the FTA was exhaustively explored. A fundamental obstacle in this regard is the problem of distinguishing between the effects of the FTA and those of the larger, global economic environment. It is virtually impossible, in the Council's view, to clearly and conclusively attribute any particular economic event – such as a plant closure – solely to the effects of the FTA. Depending on the circumstances, the same event might also be attributed to global economic changes, to technological obsolescence, or simply to poor management, among other things. Moreover, because the FTA will have many subtle and complex economic effects, virtually any job loss – whatever its actual causes – might arguably qualify for FTA adjustment assistance. Since anyone who might qualify for such assistance would undoubtedly seek it, any agency dispensing adjustment assistance would be obliged to consider the merits of virtually every job loss occurring anywhere in Canada.

If arbitrary rules were used to determine by "rough justice" which job losses qualified for FTA adjustment assistance, the result would be substantial unfairness to individuals. Two classes of workers would be created, those whose job losses would qualify them for special assistance, and those who would be left on their own.

Once these difficulties were recognized, the Council concluded that it could not recommend an adjustment assistance program aimed specifically at job losses caused by the FTA. Any such approach would be both unworkable and unfair, and would lead to discrimination which the Council considers totally unacceptable in Canadian society. Therefore, instead of attempting to identify specific causes of job dislocation, the central thrust of the Council's recommendations is to promote the swift re-integration into the work force of all workers displaced by economic change of any kind.

A Trampoline versus a Safety Net

Recommendations regarding the continuing education and training of Canadians, which constitute the core of the report, are aimed at promoting employment and are characterized as a "trampoline." This term is contrasted with the term "safety net," traditionally applied to programs aimed at income maintenance, such as unemployment insurance. Rather than simply mitigating the adverse impacts of more intensive economic competition, the Council's "trampoline" recommendations seek to stimulate initiatives, accelerate competitive adjustments, and enhance the ability of both employers and employees to meet new challenges and successfully seize the new opportunities presented by the FTA.

The "trampoline" approach seeks to prepare Canadian workers to prosper in a world of increasing technological change and international competition, in which Canada must use its access to the larger North American market to achieve greater economies of scale and higher productivity. And for those less able to take advantage of the increased opportunities, the safety net must remain in place.

Education and Training

The Council identifies improvements in basic education and training, as well as lifelong re-education and retraining, as among the most critical steps Canada must take to enhance its international competitiveness.

A key issue in this regard concerns attitudes. Many of the Council's recommendations involve changes in the fundamental approaches of corporations, labour unions, governments, and institutions to education and training programs and systems. More cooperation and coordination are necessary to improve the educational attainment of younger Canadians, to make education and training programs more responsive to current and future economic needs, and to make continuing education and retraining more accessible to older workers.

In recent years, the traditional distinction between education and training has become blurred and, increasingly, so has the distinction between education received before entering the labour force and subsequent adult education. These changes reflect the fact that the pace of economic change has made it a certainty rather than just a possibility that workers will have to learn new skills during the course of their working lives. In many fields, lifelong continuing education and training is becoming a necessity. Canada's education systems must adapt quickly to this new reality, and make continuing education and retraining routinely available to all who need them.

A basic recommendation of the Council in this area is that first ministers, on an urgent basis, establish a vehicle to review Canadian education / training systems to make them more responsive to the demands of economic change. The review should involve participation by business and labour, and might take the form of a federal-provincial royal commission.

The Council believes that substantially improving Canada's "training culture" will enhance the employment prospects of Canadians and reduce unemployment. This will ultimately reduce demands on unemployment insurance funds, which will, in turn, liberate more funds for further training.

A key issue identified by the Council is the matter of maintaining a "level playing field" between companies that invest heavily in employee training (some already spend well over one per cent of annual labour cost on such programs) and those that rely on raiding the trained staff of their competitors. The costs of work force training must be shared equitably to avoid giving a competitive advantage to those who shirk their training responsibilities.

As an incentive to stimulate private sector training, the Council recommends that the government establish a tax liability that would be offset by a firm's expenditures for training, up to the full amount of the tax. Taxes levied from firms failing to match the liability would be added to government funding for training programs developed in close collaboration with industry.

The Council views the primary role of government as that of a catalyst for change and a facilitator of private initiatives. Government should, in

general, seek to stimulate private sector activity. Its primary aims should be to offer incentives and assistance, and to remove obstacles and impediments, so that private enterprise is encouraged and enabled to seize all available opportunities.

Labour Adjustment

Recommendations regarding labour adjustment are intended to apply equally and universally to all Canadian workers, regardless of age or sex, enabling everyone to participate fully and fairly in the growth of Canada's economy.

In the Council's view, a concerted effort by all parties involved is necessary to develop and implement a strategic national plan for effective human resource development in the face of global competitive challenges. The private sector should play a pivotal role in the area of training and have important responsibilities in the area of education. Governments and the private sector must work together to shape new policies and programs.

The essential objective of the Council's recommendations in this area is to shift the emphasis of government assistance towards employment promotion (the "trampoline") rather than income maintenance (the "safety net"). Specifically, the Council recommends that the federal government allocate an additional $200 to $300 million to funding programs such as Skill Shortages and Skill Investment, which are particularly germane to adjustment to the FTA.

The Council identifies the federal government's Industrial Adjustment Service (IAS) as an existing and proven tool to help employers, employees, and communities adjust to economic change. A doubling of the existing funding of the IAS is recommended. To further facilitate the adjustment process, the Council also recommends that the establishment of human resources plans and goals be made a prerequisite to applications by firms for any assistance under federal programs. Other recommendations seek to improve the advice and input the government receives from business and labour regarding work force training and adult education programs.

A key set of recommendations concerns the establishment of minimum standards for advance notice of layoffs and severance pay. These include minimum and nationally uniform lead times for layoff, as well as requirements to supply information about employee demographic profiles, skills and compensation packages to relevant government departments and agencies. The Council recommends that severance pay should be a minimum of one week's regular wages for each year of service, up to a maximum of 26 weeks for those with five years of service or more.

It is further recommended that these severance payments not affect the immediate commencement of Unemployment Insurance benefits, and that additional payments be made to workers over 55 years of age. Other recommendations include the establishment of a special fund to compensate employees for unpaid wages and benefits in cases of bankruptcies, as well as special measures to compensate older workers affected by layoffs.

Corporate Issues

The Council considers that the primary onus for constructive action falls on the corporate sector. Corporations generally favoured the FTA during the national debate preceding its adoption, and it is now incumbent on them to make the Agreement work for the benefit of Canada. At the same time, a concurrent responsibility falls on government to act as a catalyst to promote necessary changes and remove impediments to Canadian competitiveness.

The report's discussion of corporate issues addresses the need to modernize industries in the face of rapid technological change, to improve competitive conditions within Canada in both financial and structural terms, to eliminate interprovincial barriers to trade, and to foster an outward orientation regarding global markets.

Research and Development

In the view of the Council, Canada's record in research and development is not what it must be to meet the challenges of international competition. Overall spending on R&D in Canada, at 1.42 per cent of gross domestic product (GDP), is only about half that of leading industrial countries. Fractions of GDP spent by governments and universities are only slightly below average, but investments in industrial R&D are significantly lower. Of a group of 11 industrial nations, Canada ranks a poor eighth in percentage of GDP spent on industrial R&D, exceeding only Australia, Italy, and Spain. By comparison, Sweden (which leads the world in this category) spends proportionately almost three times as much.

To encourage more R&D, the Council recommends a coordinated effort by government and industry to set R&D goals for each industrial sector and to develop programs to achieve them.

Another recommendation regarding R&D calls on provincial governments to address the inadequacy of their funding for universities, particularly for science and engineering facilities and equipment. To assist universities, the Council also proposes that business or government sponsors of university research assume responsibility for all overhead costs involved. The Council further recommends that companies urgently seek new technology available from outside sources, and that governments continually review the effectiveness of programs that accelerate technology transfer.

Taxation and Financing

Regarding the tax treatment of R&D expenditures by industry, the Council recommends that the government closely monitor the impact of current tax policy, and increase incentives when appropriate. The government is also asked to avoid frequent changes in tax rules, so as to provide a more stable and consistent environment for long-term planning. Government cooperation with industry in R&D projects, particularly through procurement and contracts, is also recommended.

Another important recommendation concerns federal sales tax. To help Canadian companies become more competitive in the new trading environment, the Council recommends that the current biases in the federal sales tax which have the effect of favouring imports over domestic production be removed.

Regarding capital investment, the Council recommends that the government carefully monitor the competitiveness of the tax system to ensure it provides adequate incentives to encourage new investment. The government is also urged to compare the availability and cost of capital in Canada to that of the United States and Japan, in view of the need for increased competitiveness.

Continuity and Consistency

An important aspect of government's role frequently cited by groups making submissions to the Council was the need for more continuity and consistency in government policies. The time frame necessary for such things as new product research and development usually exceeds the lifetime of a government. As a result, companies are unable to rely on the continuity of programs, tax measures, or other government policies and programs that may be vital to the success of their endeavours.

Consistency - or the lack of it - among the policies of various government levels, departments, and agencies presents similar problems. In some respects, government policies tend to give with one hand and take away with the other, apparently offering incentives in a particular domain but effectively cancelling them in some other way. To achieve the desired results, policies at all levels of government must be carefully coordinated to deliver genuine net benefits, and these benefits must be available over a sufficiently long time-frame to allow the intended beneficiaries to take full advantage of them.

Balkanization

The Council believes that the removal of interprovincial barriers to economic activity is the most important step governments should take. The economic balkanization of Canada into a series of provincial enclaves robs the country of the ability to achieve the industrial economic efficiency required to be competitive globally. At present, government procurement policies across Canada also militate against the achievement of economies of scale, and prevent important industries from meeting the challenges of foreign rivals in this area.

The Council notes that two committees of federal, provincial, and territorial ministers have already begun the process of rationalizing government purchasing practices. The Council recommends that the draft agreement on government procurement produced by these committees be ratified immediately, and that effective mechanisms be put in place to promote its rapid implementation. Other recommendations call for the prompt removal of interprovincial barriers to trade in particular industries, as well as other barriers that impede the movement of workers between provinces.

Some groups who made representations to the Council also expressed concern about the difficulty of obtaining information on available government services and assistance programs. The Council recommends a better coordinated effort to disseminate information about relevant government services and programs to the industries and individuals who need them.

Outward Orientation

Another set of recommendations addresses the private sector's need to improve its export development efforts. Its attitude must change if it is to take advantage of world-wide opportunities. Government's key role to play in opening of new markets for Canadian goods and services is to assist firms to establish themselves with foreign customers and to ensure that Canadian exporters have access to financing on terms comparable to those of foreign competitors.

Specific Industry Issues

In the course of its work, the Council identified a number of industry sectors which face extraordinary challenges under the FTA. These include canola crushing, cornstarch production, agri-food, and wine. The Council recommends accelerating tariff cuts on canola oil and meal, and reviewing countervail duty rulings on corn imports.

Regarding food-processing industries, the Council recommends a "two-price" system to enable Canadian further processors to purchase poultry and dairy products at the same price as their U.S. competitors. In the more complex area of fruit and vegetables, the Council recommends that a working group comprising governments, processors, and producers establish crop-by-crop methods to ensure that Canadian processors have access to raw materials at the same prices as their U.S. competitors, as well as to harmonize technical standards such as can sizes. For wheat, it recommends that the Wheat Board sell wheat to Canadian millers at prices quoted daily on the U.S. commodity exchanges.

In the case of the wine industry, the report recommends that interprovincial barriers to trade be removed as soon as possible, and that Industry, Science and Technology Canada consult with the wine industry to try to enhance its competitiveness, particularly in marketing and promotion.

Conclusion

In its concluding section, the Council's report sounds a strong note of urgency, emphasizing that only swift action - particularly by business - will enable the positive effects of the FTA to pre-empt its negative potential.

The concluding section also underlines the importance of changing fundamental attitudes in order to focus cooperative efforts on enhancing Canadian competitive capabilities at all levels. Attitudes in all sectors towards education, training, technological innovation, and exports are

identified as keys to future success.

The overall direction of the Council's recommendations is described as one of modifying and reorienting existing programs, rather than making a massive injection of funds into new programs.

A final observation concerns the need, suggested by various parties, for an ongoing focal point or forum to review and consider new circumstances and concerns as they emerge over the ten-year FTA implementation period. The Council supports the creation of such a body, both to deal with problems not foreseen at this time, and to orchestrate efforts to seize new opportunities as they arise.

"Adjusting to Win" is the overall theme of the Council's concluding statement. In a rapidly emerging global competitive environment dominated by three mega-markets - Europe, the Pacific and North America - Canada's future depends on its ability to translate the positive potential of this new situation into successful economic reality. The Council's report is a blueprint for immediate action to help the Canadian economy adjust to win.

Adjusting to Win
RECOMMENDATIONS

(The page numbers in the margin refer to the corresponding discussions within the text.)

On the basis of its consultations and deliberations, the Council recommends that:

Education, The Prerequisite

- On an urgent basis, the first ministers find the appropriate vehicle to review the education / training systems in Canada in order to increase their responsiveness to the requirements of rapidly changing international and domestic economies. Such a vehicle should involve participation by both business and labour, and might take the form of a federal-provincial royal commission on education / training. *33*

A Skills Strategy

- To promote greater labour-management cooperation: *40*
  - the government double the Industrial Adjustment Service funding and increase the personnel required to administer the program;
  - the government consider funding new, imaginative approaches under the Innovations program.
- Other initiatives, such as improvement of the social handling of technological changes issues at the workplace, be encouraged.

• The private sector, both management and labour, seek new and innovative ways to plan jointly for change. • The government increase its support of human resource planning through the Industrial Adjustment Service. • The government make human resource planning and the establishment of human resource goals a prerequisite for firms applying for any assistance under federal programs.	*42*
• To foster the "training culture" needed to increase Canadian competitiveness, the government design and implement an initiative to lever greater private sector training. • The government design and implement a flexible tax liability for firms that would be offset by a firm's expenditures for training, up to the full amount of the tax. • The government act as facilitator in fostering private sector training by providing consulting services, analysis capability, or seed money to employers, unions, and industry associations.	*45*
• A bipartite group of business and labour be established by government to review how best to effect a shift in emphasis in expenditures on labour market interventions from income maintenance to employment promotion measures. • The federal government shift expenditure from income maintenance to employment promotion measures, taking into consideration the recommendations of the bipartite group. • The federal government double the amount allocated to Unemployment Insurance, Section 39, Training. • The provinces cooperate with the federal government in reallocating expenditures from the "safety net" to the "trampoline." • The federal government increase significantly - by $200 to $300 million annually - funding for programs such as Skill Shortages and Skill Investment or similar programs which are particularly germane to adjustment.	*51*
• The government actively seek private sector input in the design, implementation, delivery, and monitoring of labour market measures.	*52*

- The government, building on existing models, establish an ITAC / SAGIT type of structure to provide broad advice on labour market issues and the formulation of labour market policies.

Specific Employment Issues in an Age of Globalization

- The federal, provincial, and territorial governments put in place minimum standards for advance notice for layoffs, with the objective of maintaining as near continuous employment as possible, with the following as a minimum: *56*
  - Notice period of
    - 2 weeks regular notice for all companies laying off 1 to 4 persons;
    - 4 weeks regular notice for all companies laying off 5 to 9 persons;
    - 8 weeks regular notice for all companies laying off 10 to 49 employees; and
    - 16 weeks for layoffs of 50 or more people.
  - Regular part-time employees receive the same advance notice of layoff as full-time employees.
  - In group layoffs, the employer be required to supply the relevant federal, provincial, and territorial departments and agencies with a full demographic and skill profile of those laid off, the proposed compensation and redeployment package, together with the reasons for layoff.
- The federal government, through existing agencies and departments, ensure that employers fully respect seniority provisions, pensions, and other benefits built up during employment, in the design and implementation of merger, acquisition, and product rationalization strategies.

- To harmonize severance pay legislation for permanent layoffs or plant closures throughout Canada, legislation in every jurisdiction should provide to employees with five years or more of service, as a minimum: *58*
  - one week regular wages, excluding overtime, for each year of service, plus a credit for each complete month of service to a maximum of 26 weeks;
  - a further one-half week per year of service for workers 55 years and over, to a combined service-plus-age maximum of 39 weeks.

- Severance payments not be considered in the determination and allocation of earnings for Unemployment Insurance benefit purposes.
- The federal government undertake a study of the costs and benefits of treating severance payments to a maximum of $10,000 as a capital gain for the purposes of income tax, and implement decisions based on the results of this study before December 1989.

- Consumer and Corporate Affairs Canada expedite amendments to the Bankruptcy Act to create a national wage earner protection fund to make payments of up to $4000 to cover unpaid amounts owing to workers for such items as wages, vacation pay, pension and benefit premiums, and severance pay. *60*
- In the event that the wage earner protection fund is not created, the federal government expedite legislation to ensure that claims of wage earners have priority over all other claims in the disposition of assets of insolvent employers.

- Employment and Immigration Canada, in consultation with other federal, provincial, and territorial departments and agencies, establish community-based "one window" arrangements to provide a range of services to employees and employers during layoffs which have a significant material impact on a community. *61*

- The federal government be prepared to expand the Community Futures Program, if necessary, to deal with any communities which require adjustment assistance because of circumstances arising from globalization of markets. *63*

- The federal government examine the circumstances facing older workers in order to determine whether additional special measures are required to help them reintegrate into the labour force. *64*

- All provinces and territories participate in the Program for Older Worker Adjustment. *65*
- The federal and provincial governments examine ways of extending benefits similar to those available under POWA to older workers not part of major layoffs.

Technological Innovation

- The government, in consultation with industry, set realistic R&D goals for each industrial sector, work with industry to develop action programs, and publicize the goals and achievements. *80*

- Provincial governments address the inadequacy of their funding of universities, in particular to provide for more adequate science and engineering facilities. *81*
- Equipment funding be given special attention.
- For contract research to be done by universities, the sponsor (business or government) assume responsibility for all overhead costs involved.

- Companies make a commitment on an urgent basis to seek out and utilize technology available outside the firm. *84*
- In light of the constant evolution of technology and markets, the government review on a continuing basis the effectiveness and funding of programs that promote technology transfer.

- Employers, community colleges, and universities increase their cooperation to meet the challenges of the human resources aspect of technological innovation. *88*
- Government influence industry to develop and promote management training systems designed to elicit broad employee participation in technological innovation.

Taxation and Financing

- The government, taking into account all relevant and significant income and commodity tax measures, closely monitor the competitiveness of the tax system to ensure that it provides adequate incentives to encourage new capital investment. *90*

- The government closely monitor the impact of the tax treatment of R&D activity with a view to providing increased incentives when appropriate. *92*
- The government avoid frequent changes in tax rules pertaining to R&D expenditures and ensure that programs and policies affecting R&D provide a consistent environment.
- The government consider expanding involvement in R&D through industry sector consultations, using government procurement and contracts where appropriate within existing budgets, and making these arrangements more visible.

- In the interest of helping Canadian companies become more competitive in the new trading environment, the current biases in the sales tax favouring imports over domestic production be removed. *95*

- In those sectors where accelerated modernization might be required to meet the challenges and opportunities of the new trading environment, the needs of the sectors concerned be identified under the Sector Competitive Initiatives Program of Industry, Science and Technology Canada, and the program be expanded to provide for loan guarantees or income debentures in those circumstances where it can be demonstrated that there is a serious shortfall of capital in the industry. *97*
- Consistent with the Council's views expressed in Chapter 8, a human resource development plan should be a required component of any application for company financial assistance under all federal government programs.
- The government examine the accessibility and cost of capital in Canada compared to Japan and the United States, in view of the need for increased competitiveness.

Interprovincial Barriers

- Governments ratify the initial Agreement on the Reduction of Interprovincial Barriers to Trade Related to Government Procurement as soon as possible, and follow up this initiative with a concerted effort to bring about real change. *101*
- Governments ensure that effective mechanisms are set in place to promote and monitor progress in implementing this agreement.
- First ministers charge the Committee of Ministers on Internal Trade with the responsibility to negotiate the elimination of barriers to internal trade resulting from the use of differing provincial standards and regulations.

- The federal government promote the further extension of national training standards for skills that are useful to more than one employer. *102*
- Skill certification be fully transferable between provinces, particularly for apprentices, journeymen, and other skilled trades people.
- In the development of new national standards, the federal government encourage a greater labour / management role in national training, in national certification of apprentices, journeymen, and other skilled trades people, and in retraining programs to keep abreast of the latest technological developments.
- The federal and provincial governments use all means at their disposal to ensure the free and unhindered movement of labour between provinces.

Outward Orientation

- External Affairs review the expertise and number of its trade commissioners and specific industry technical experts in the United States and other major trading partner countries and refine their strategic positioning. *108*
- External Affairs undertake a review of the effectiveness and efficiency of the Program for Export Market Development (PEMD), particularly as it relates to the United States, to ensure that it meets the needs of exporters in the new trading environment.

- Federal and provincial governments better coordinate their support programs for export activities.
- The federal government review its support for export financing to ensure that Canadian exporters continue to have access to competitive financing.
- The private sector be involved in developing trade strategies through the ITAC / SAGIT process and other informal and formal mechanisms.
- External Affairs, in cooperation with the private sector and provincial trade organizations, refine and target export education and export awareness programs.
- External Affairs, in cooperation with Industry, Science and Technology Canada, Investment Canada, and the provinces, further enhance investment promotions abroad, with special emphasis on technology-based investments.

Agri-Food

- A two-price system be implemented to provide an adequate supply of North American equivalent priced poultry meat to the further processors of products not covered by the Import Control List; the price of poultry meat per pound paid by Canadian further processors should be the same as that paid per pound by their U.S. competitors. *118*
- The Canadian chicken and turkey marketing agencies hold an initial meeting within six months with representatives of the poultry producer marketing boards, the primary processing industry, the poultry further processing industry, and the provincial supervisory councils to work out the details of a two-price system; Industry, Science and Technology Canada and the Department of Agriculture should facilitate this consultative process.
- If a two-price system cannot be agreed upon, import quotas should be further increased by the Department of External Affairs and made directly available to further processors of products not covered by the Import Control List.

- A two-price system be implemented to provide an adequate supply of North American equivalent priced dairy raw materials to the further processors of products not covered by the Import Control List; further processors should pay the same price for dairy products as that paid by their U.S. competitors. *120*

- The Canadian Dairy Commission hold an initial meeting within six months with representatives of the provincial dairy producer marketing boards, the dairy further processing industry, the dairy primary processing industry, and the provincial supervisory bodies to work out the details of a two-price system; Industry, Science and Technology Canada and the Department of Agriculture should facilitate this consultative process.
- If such a two-price system cannot be agreed upon, import quotas should be increased for cheeses, for example, and made available to further processors of products that contain dairy ingredients and are not covered by the Import Control List.

- A working group consisting of governments, processors, and producer representatives be established within a year to work out, crop by crop, methods to ensure that the fruit- and vegetable-processing industry has access to raw materials at the same price as their U.S. competitors. Industry, Science and Technology Canada and the Department of Agriculture should facilitate this consultative process. *122*
- Any move to harmonize technical standards, such as sizes of cans, should be made in consultation with processors.

- Wheat boards in Canada sell wheat to Canadian millers at prices based on the prices quoted on the U.S. commodity exchanges in effect on the day of the sale. *124*
- Canadian buyers should be able to buy wheat from the wheat boards on a forward contract basis based on the future quotation on the U.S. commodity exchanges in effect on the day of sale.

Wine Industry

- Interprovincial barriers to trade be removed at the earliest possible date to facilitate industry rationalization and improved competitiveness, consistent with measures to meet FTA and GATT requirements. *127*
- Industry, Science and Technology Canada enter into consultation with the wine industry to develop initiatives which would enhance the competitiveness of the industry, with particular reference to improved marketing and promotion.

The Advisory Council on Adjustment

MANDATE

THE COUNCIL SHALL:

(a) examine the possibilities for Canadian businesses and workers to position themselves to secure maximum advantage and better exploit the opportunities and benefits arising from enhanced access to the United States market as a result of the Canada-U.S. Trade Agreement;

(b) identify specific adjustment issues or circumstances arising from the Canada-U.S. Trade Agreement including the examination of government programs that act to support adjustment measures and initiatives including programs for labour adjustment, industrial competitiveness, duty remission and regional development and their impact upon particular regions, communities, sectors, firms or workers;

(c) recommend such changes or amendments to program terms and conditions or delivery mechanisms as the Council feels are appropriate and necessary to improve their effectiveness, efficiency or equity as instruments for facilitating adjustment in response to opportunities and issues arising from the Canada-U.S. Trade Agreement;

(d) solicit such inputs as the Council deems relevant to its work;

(e) assist the Government in ensuring that Canadians take full advantage of the new opportunities arising from the Canada-U.S. Trade Agreement.

Preface

The Canada-United States Free Trade Agreement (FTA) is the most significant trade agreement ever signed by Canada. The elimination of barriers to trade in goods and services between Canada and the United States began on 1 January 1989. By 1 January 1998, virtually all goods produced in Canada and the United States will move across the 49th parallel with no restrictions. The scope of the FTA is broad. In addition to eliminating duty, the agreement will remove most barriers to trade in services, facilitate conditions of fair competition, liberalize conditions for cross-border investment, establish procedures for settling disputes, and lay the foundation for further benefits from the agreement.

Over 30 per cent of Canada's income derives from trade; it provides employment for over three million Canadians in the resource, manufacturing, and service sectors. The U.S. market is of strategic importance to our success in the international trading arena. As has often been pointed out, the United States is our largest customer, accounting for 74 per cent of our exports in 1988. By the same token, Canada is the largest market for U.S. exports; in 1988, U.S. goods made up 69 per cent of our imports.

The FTA will present challenges and opportunities for all Canadians. Although Canadians must constantly adjust to meet new competitive situations, the FTA will provide a unique focus on the importance of competitiveness and on the process of change. Business, labour, and governments must now act positively and together to usher in a new period of prosperity for Canada.

On 11 January 1988, the federal government announced the creation of the Advisory Council on Adjustment, under the chairmanship of A. Jean de Grandpré, chairman of the board of BCE Inc., to assist the government in ensuring that Canadians take full advantage of the opportunities arising from the FTA. The members appointed were Jalynn Bennett of The Manufacturers Life Insurance Company, Gordon Cummings of National Sea Products Ltd, James McCambly of the Canadian Federation of Labour, and Norman Wagner of Alberta Natural Gas Company Ltd

and immediate past-president of The University of Calgary. (Further details on the members of the Council are contained in Appendix A.)

The Council was requested to identify specific adjustment issues, to examine government programs in support of adjustment, and to recommend revisions to such programs where necessary to improve their effectiveness. The Council was to complete its work by 30 June 1989. The Order in Council establishing the Council and defining its mandate is contained in Appendix B.

From the outset, the Council considered that it was essential to have the views of unions, trade associations, companies, provinces, territories, and the Sectoral Advisory Groups on International Trade (SAGITs), which were established by the government to provide advice on international trade matters and to work closely with the Trade Negotiations Office during the free trade negotiations. Although all Canadians were welcome to present their views to the Council, specific associations and unions were invited to participate in its work to ensure adequate representation from all sectors. An invitation was also extended to the provinces and territories, each of the SAGITs, and federal government departments and agencies. In total, over 160 representations were received. Appendix C contains the names of those that participated in the work of the Council.

The consultative process provided the Council with in-depth insight into the adjustments that will face Canadians in their continuing quest for increased competitiveness. Overall, people felt confident of success in the changing circumstances. Certain industry sectors, such as computers, fisheries, and energy, were very bullish about the opportunities expected to arise in the new trading environment. The Council is aware that a number of industry sectors have suggested with some urgency that the tariff cuts be accelerated. Other sectors, such as food processing, expressed serious concerns about the cost of their raw materials and their ability to compete with duty-free processed foods from the United States. The Council will address these concerns in Part 4 of the report.

Although the submissions to the Council addressed FTA issues, they often referred to the need for Canada to be competitive in a global market. It was essentially in the context of the globalization of markets, as well as of the FTA, that people spoke about adjustments which will lead to increased employment and investment opportunities; these adjustments were identified as "upside." Submissions also cautioned the Council that unless adequate precautions were taken there could be adjustments which might result in layoffs and cutbacks in production, sometimes called the "downside" of the adjustment process.

The consultations also revealed major influences in the economy that could have an equal or perhaps more profound effect on Canada's competitiveness than the FTA. Rates of exchange, consumer tastes, new technologies, and interest rates were most often identified as influences

to which Canadians must adjust, sometimes within a very short time frame. The Council felt that these factors could not be ignored, not only because of their potential to influence the extent to which Canadians seize the opportunities arising from the FTA, but also because they directly affect Canada's competitiveness in the global marketplace.

During the debate following the announcement establishing the Council and the tabling of the FTA legislation in the House of Commons, expectations were expressed that special adjustment measures would be put in place to deal with a downside effect of the FTA. In the debate, the emphasis was on assistance for workers of firms adversely affected by the agreement. The Council examined this option very thoroughly, in light of the expectations and the submissions received. After much discussion and soul-searching, the Council came to the conclusion that such an approach would be unworkable and unfair.

It would be unworkable because it would be extremely difficult, if not impossible, to determine whether or not the job loss was the result of the FTA. None of the submissions to the Council provided a solution to this problem. The dilemma was evident in the debate during the fall and early winter of 1988 when a number of plants closed. The proponents of special treatment for workers argued that the FTA was the cause, while the companies involved maintained that they were obliged to rationalize their operations for other economic reasons.

It would be unfair because the Council is of the strongest opinion that all unemployed workers deserve equal benefits and protection regardless of the cause of unemployment. The Council cannot accept the view that Canada should create two classes of unemployed citizens, one whose job was lost on account of the FTA and who would benefit from special programs, and another whose job was lost because a product was rejected in the marketplace or through poor management and who would not be entitled to special treatment over and above the support provided by programs already in place. Such discrimination would be totally unacceptable to members of the Council.

The Council recognizes the importance of fostering in Canada an environment which will help to motivate the vast majority of Canadians who are ambitious and eager to get started, to adjust, and to win. At the same time, this environment must provide comfort and dignity for those who cannot find new opportunities.

The FTA in itself provides a framework for an expanded Canadian export capacity to serve markets not only in the United States but around the world. Although the United States market continues to be strategically important to Canada's export effort, it would be unwise to look at the future of Canadian trade only in bilateral terms; exports to overseas markets are increasing faster than those to the United States. Translating trade opportunities into widespread export performance, however, will require a major overhaul of the attitude of Canadian companies towards

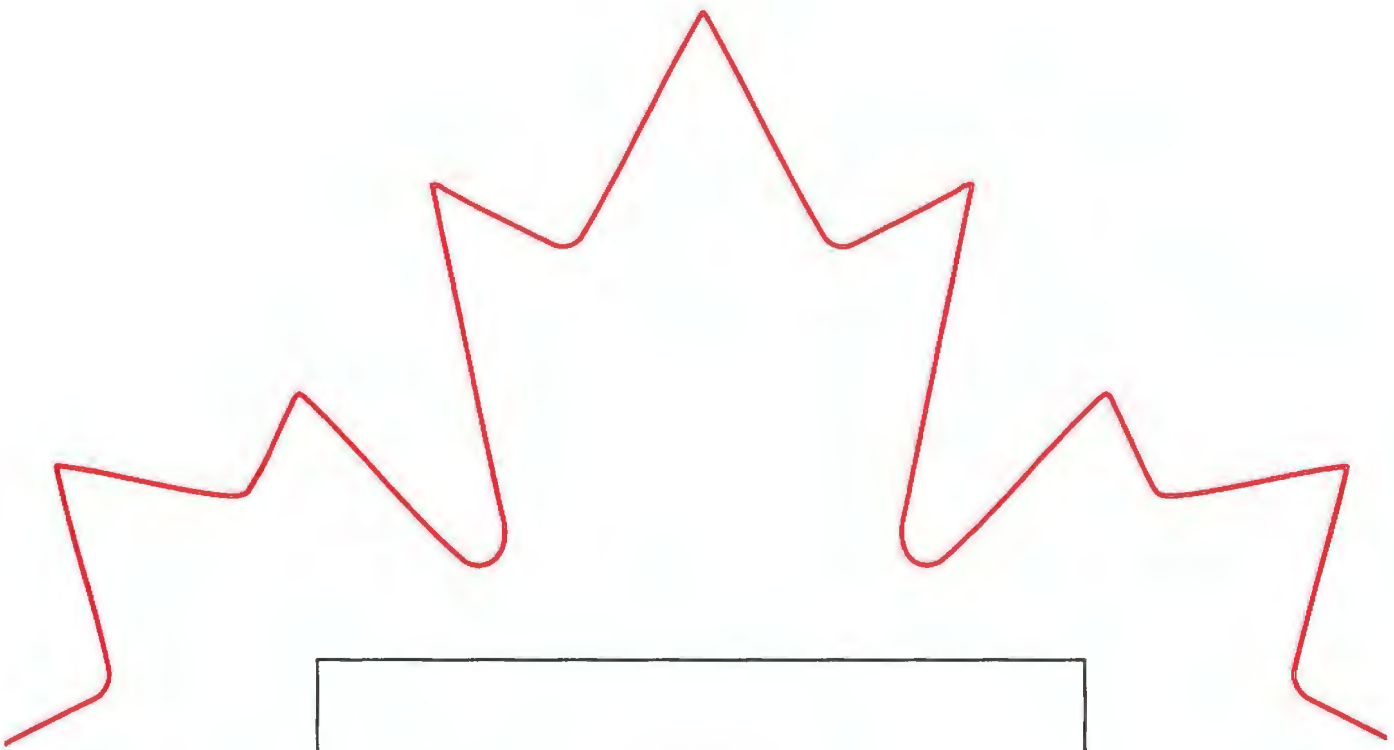
exporting: this was the key message that came across in representations to the Council. More Canadians must develop an export mentality if Canada's trade potential is to be fulfilled.

The economy is continuously under pressure to respond to numerous international and domestic challenges and opportunities affecting the production of goods and services in Canada. The smoothness of the adjustment process that takes place in this type of environment depends on the decisions of business and labour and the policies and programs of governments.

Given the challenges and opportunities which lie ahead, Canadians clearly must become better than the competition to maintain and enhance the standard of living to which they have become accustomed. In short, Canada must dare to excel, to meet and to beat the challenges of rapid change, to increase productivity, and to achieve new levels of competitiveness. To allow this to happen, business, labour, and governments must begin immediately to work individually and together to ensure that the benefits of the new trading environment are realized to the advantage of all Canadians.

This report is intended to assist the government in ensuring that Canadians take full advantage of the new opportunities arising from the agreement. It charts a course which will help Canadians in their efforts to meet the challenges and to take advantage of the opportunities which await them in the 1990s and in the new century. The Council wishes to emphasize that the report is only a beginning. It is imperative that the government set in motion a process to monitor Canada's success in adjusting to the new trading environment. This process will become a focal point for Canadians involved in adjustment. It will also allow the continuing effectiveness of programs designed to meet the adjustment needs of Canadians to be measured. Canada's commitment to monitor this process should be at least as strong as its commitment to monitor the implementation of the FTA.

There are four parts to the report. Part 1, Canada Today, looks at Canada's successful adjustment to date in light of such influences as the Auto Pact and multilateral trade negotiations, and Canada's competitive position compared to that of its main international competitors. Part 2, People Issues, discusses the need for a human resource strategy to facilitate adjustment. Part 3, Corporate Issues, covers the importance of research and development to Canada's competitiveness and other factors affecting investment decisions, such as taxation, access to financing, and export promotion. Part 4, Specific Industry Issues, examines the impact of the Free Trade Agreement on the agri-food and wine industries. The report concludes with the Council's overview of the challenges and opportunities for Canadians to succeed in the new trading environment.



PART ONE

Canada Today

CHAPTER ONE

The Country

Canada is naturally endowed with abundant natural resources in a climate characterized by extremes of heat and cold. The abundance of its resources has provided the basis for many large and successful industries and generated an enviable standard of living. In the past, an insatiable world appetite for primary resources permitted Canada to compete and often to excel in the international marketplace. Today, however, the simple ownership and export of unprocessed resources is no longer as important a factor in economic strength as it once was. Now Canadians are challenged not only to become more productive and competitive in traditional products and services, but also to search out new opportunities in uncharted waters. This is not a simple task, but it is critical that Canada turn the opportunities provided by change to national advantage.

Many factors influence a country's competitiveness, but the size and skills of the population are extremely important. In an international trading context, Canada's population is not large enough to provide economies of scale in production. Consequently, Canadian companies competing against companies with a large home market must increasingly look to the international marketplace to prosper. To succeed, these companies must be able to find skilled and adaptable people for their work force.

Canada's natural resources, coupled with success in such areas as cold climate technology in the petroleum industry and in telecommunications, should not lull us into complacency. *Competing in the New Global Economy*, the 1988 report of the Premier's Council in Ontario, states it plainly:

> *Yes, Ontario looks rich, but the veneer of prosperity conceals serious structural weaknesses. The Council believes that the same historical forces that made Ontario's economy prosperous today could make it vulnerable tomorrow. (p. 5)*

As Canada's resources become less indispensable to traditional customers, and as trade becomes truly global, Canadians must face and overcome new challenges which, as yet, have not been discussed with sufficient intensity or sense of urgency in our country. A full discussion requires not only an examination of ways in which Canadians can take maximum advantage of new trading opportunities, but also how to assist those who, for a variety of reasons, have difficulty in a changing economic environment. The Council is pleased to have the opportunity to contribute to this debate and offer its thoughts on the areas that deserve priority attention.

CHAPTER TWO

A Vibrant Society

Adjustment is an ongoing process. Each year, about four million Canadians change their jobs,[1] on average about 136,000 firms are identified by Statistics Canada as new ones, and some 109,000 firms disappear.[2] This turnover of firms and workers occurs continually in a healthy market economy.

LABOUR MARKET DYNAMICS

The labour market in Canada is dynamic. Canadians of working age are constantly moving in and out of the labour force.[3] In addition to these movements, people are constantly changing their status within the work force from employment to unemployment and back again (Figure 1.1).

The labour force also shows a high degree of inter-industry mobility. Using the chemical industry as an example, Figure 1.2 shows that, between 1978 and 1983, 175,500 workers entered the industry, while 160,200 individuals left. Of those departing, 127,800 individuals found work in other industries, no information was available for 23,400, and 9,000 were unemployed.

The degree of interprovincial mobility also indicates whether the population can adjust to employment fluctuations brought on by economic change. Statistics show that, in the 12-month period ending May 1988, 381,000 Canadians moved from one province to another.[4] In addition, there is significant intra-provincial movement of population.

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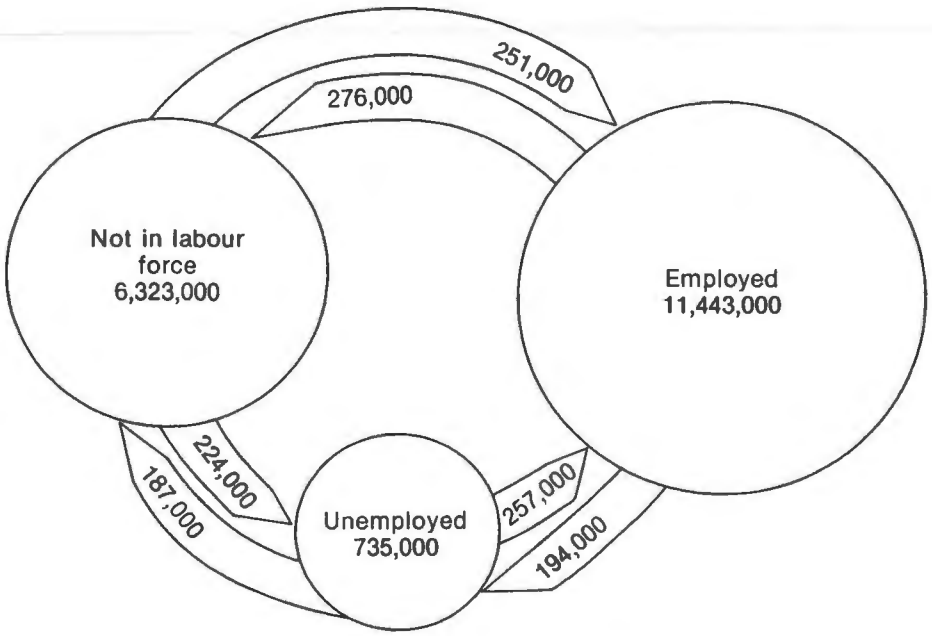
[1] Some of these workers change jobs more than once, leading to over five million employment changes. Employment and Immigration Canada, Record of Employment data, operational data.

[2] Statistics Canada, Small Business and Special Survey Division.

[3] The labour force is made up of individuals who are employed as well as the unemployed who are looking for work.

[4] Statistics Canada, *Post-Censal Annual Estimates of Population by Marital Status, Age, Sex, and Component of Youth for Canada, Provinces and Territories*, 1 June 1988, Cat. no. 91-210, Table IX.

FIGURE 1.1
Labour Force Flows, Monthly Averages, 1987
Source: Statistics Canada, *Labour Force Survey*, Gross Flows Data



Note: In a typical month of 1987, 475,000 not previously looking for work joined the labour force: 251,000 individuals gained employment and 224,000 began their search for jobs. Conversely, 463,000 left the labour force: 276,000 left employment without looking for another job and 187,000 who were already unemployed decided not to look for a job any longer. Within the labour force, 257,000 gained employment and 194,000 became unemployed.

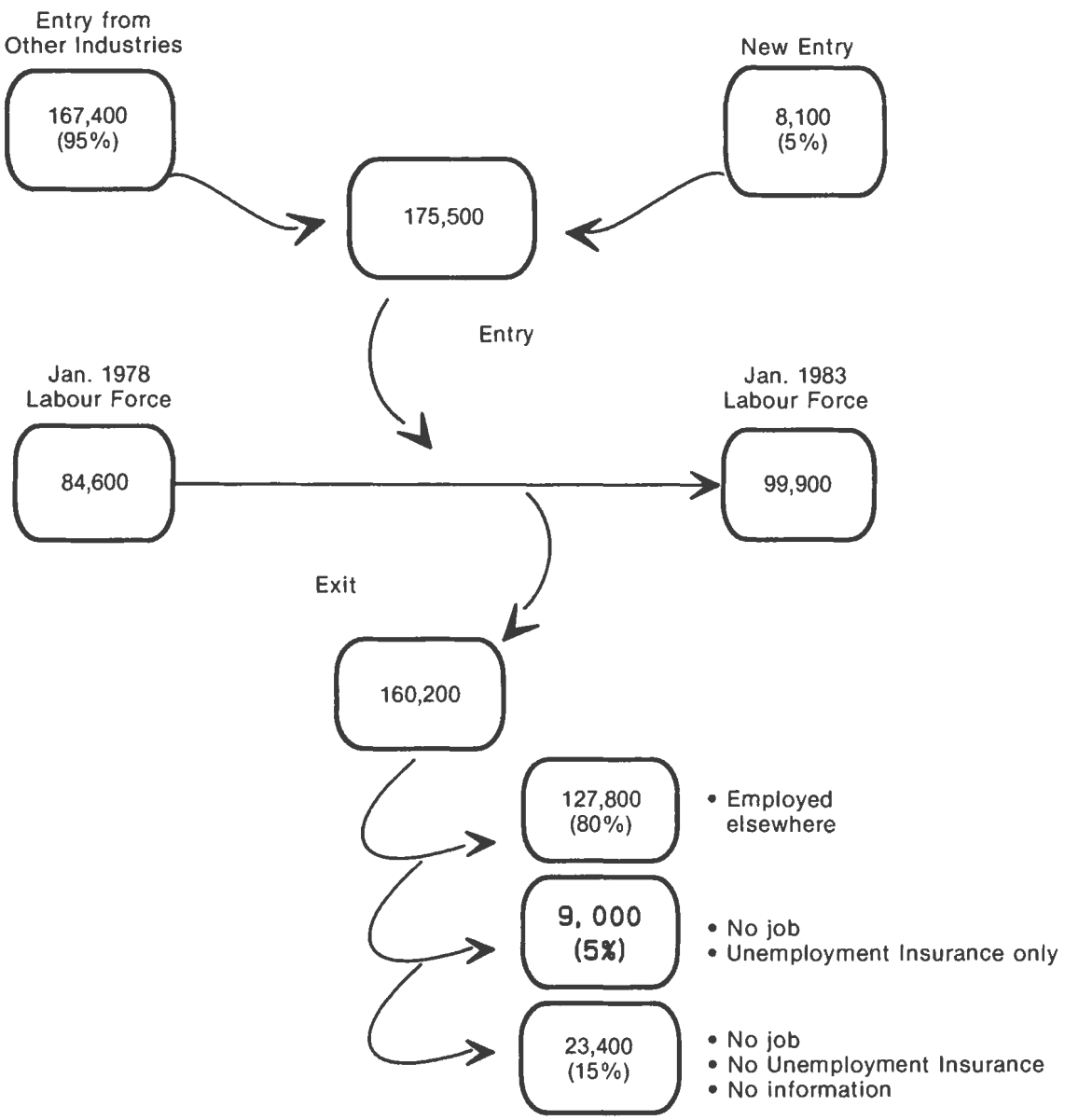
FIRM DYNAMICS

According to Statistics Canada, 503,000 firms, representing about 61 per cent of businesses in existence in Canada in 1985, had been established since 1978; these businesses were responsible for creating an estimated 1.8 million jobs. Small businesses made up about 97 per cent of these new businesses. During the same period, 283,000 firms, representing 47 per cent of all businesses operating in 1978, were no longer identified in 1985 (Figure 1.3).[5] About 95 per cent of those that disappeared were small businesses with fewer than 20 employees.[6]

[5] Statistics Canada, Small Business and Special Survey Division. Closure includes firms that disappeared as well as those that were restructured.

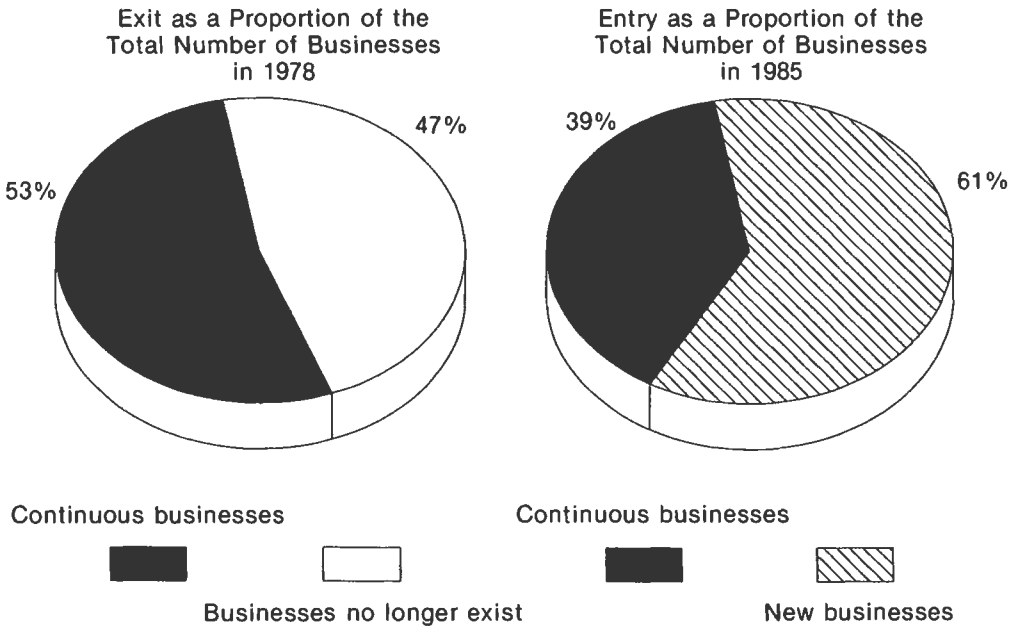
[6] Statistics Canada, Small Business and Special Survey Division. Number of employees is estimated on the basis of average labour unit, that is, total payroll divided by average earnings.

FIGURE 1.2
Canadian Chemical Industry Changes in Labour Force, 1978-83
Source: Employment and Immigration Canada, Research and Special Studies



These statistics clearly indicate that adjustment is a normal part of economic life in Canada, and all Canadians are accustomed to the changes involved. Workers move from one job to another and from one place to another; firms open, change in structure, or close.in response to the changing environment.

FIGURE 1.3
Exit and Entry of Businesses in Canada, 1978-85
Source: Statistics Canada, Small Business and Special Surveys Division.



CHAPTER THREE

Canada's Adjustment Record

Canada's economy is influenced by many factors. In the past few decades these have included trade liberalization such as the Auto Pact, technological change, exchange rates, the energy crisis, and the 1981-82 recession. This section examines how Canada has adjusted to these factors. It then reviews some instances of trading arrangements and looks briefly at adjustment policies abroad. It concludes with a few remarks on the globalization of world economies.

TRADE LIBERALIZATION

Since 1948, international trade has been increasingly governed by the provisions of the General Agreement on Tariffs and Trade (GATT), a multilateral contract subscribed to by 96 governments which together account for most of world trade. Its basic aim is to liberalize trade and place it on a secure basis, thereby contributing to economic growth and development and the welfare of the world's peoples. The General Agreement is the only multilateral instrument that lays down agreed rules for international trade.

Major multilateral trade negotiations take place under the auspices of GATT. There have been seven rounds of such negotiations; two of the most significant for Canada have been the "Kennedy Round" (1964-67) and the "Tokyo Round" (1973-79). The latest round, referred to as the "Uruguay Round," began in Punta del Este, Uruguay, in September 1986.

Under the Kennedy Round of tariff reductions, rates of duty applicable to the Canadian manufacturing sector were to be reduced over a four-year period beginning in January 1968, from an average of 21 per cent to about 18 per cent. Tariff cuts were accelerated by the government in mid-1969, however, as part of selective anti-inflationary measures which aimed at reducing costs to manufacturers and increasing competitiveness.

To encourage companies to take advantage of the new opportunities and to meet the challenges resulting from the tariff cuts, in 1968 the Canadian federal government introduced the General Adjustment Assistance

Program (GAAP), which provided for loans and loan guarantees. During its lifetime, the GAAP provided 122 loan guarantees totalling $84 million and 6 loans totalling $9 million. The rather limited use of the program and the strength of the economy during this period indicate that Canadian companies were able to adjust to the new situation.

The Tokyo Round represented a more comprehensive approach to trade liberalization than the Kennedy Round. It culminated in the conclusion of a number of new international codes and other agreements relating to the use of non-tariff measures, such as subsidies, countervail duties, and import licensing. Canadian tariff cuts averaged about 35 to 40 per cent, as was the case for most developed countries. When the Tokyo Round of tariff cuts were fully implemented, over 70 per cent of Canada's exports to the United States entered duty free. No special adjustment programs related to the Tokyo Round were put in place in Canada. There existed, however, several broad-based adjustment programs to which firms had access. The adjustment process was affected by the oil crisis, low economic growth, and high inflation.

THE AUTO PACT

In 1965, Canada and the United States signed the Auto Pact, allowing automotive companies to rationalize production on the basis of a North American market. The Auto Pact proved to be a very positive experience for Canada. Employment in the industry rose from 83,000 jobs in 1965 to over 146,000 jobs in 1987.

In response to initial concerns about adjustment to the Auto Pact, the Automotive Adjustment Assistance (AAA) program was introduced in 1965 and was in effect for about a decade. It provided loans to Canadian automotive manufacturers to assist them in restructuring their operations to meet the market conditions created by the automotive agreement. A $20 million fund was initially established, to provide loans at a rate of interest close to the prime lending rate. By the end of 1975, 125 loans, totalling $109.6 million, had been authorized under the AAA program. The Transitional Assistance Benefits Program (TAB) was also announced in 1965 to meet the possible labour adjustment implications of the Auto Pact. Although TAB was in existence for a decade, only 3,100 workers took advantage of the program. The main reasons for the low utilization were the small number of layoffs in the industry, the significant increase in employment immediately after the Auto Pact was introduced, and the availability of alternative employment.

EXCHANGE RATES

In the course of the Council's consultations, the importance of the exchange rate on Canada's competitiveness was brought forward in many submissions. The position of the Canadian dollar with respect to that of the United States, Canada's major trading partner, was of most concern.

In this context the Council noted that the value of the Canadian dollar *vis-à-vis* the U.S. dollar has eroded significantly over the last 10 years, but that since the beginning of 1986 it has appreciated by about 20 per cent. While there was growth in real exports during this period, real imports increased more rapidly, leading to a deterioration in the real trade balance. Notwithstanding this decline in trade balance and appreciation in the value of the dollar, Canada's economy has remained strong, but further increase in the value of the dollar could seriously undermine the competitiveness of Canadian exports.

ENERGY CRISIS AND RECESSIONS

The oil price shocks of 1973 / 74 and 1979 had severe repercussions throughout the world. The economies of the major industrialized countries went into deep recession in 1974 and real output of countries of the Organization for Economic Cooperation and Development (OECD) grew marginally at an estimated 0.3 per cent, compared to 6.3 per cent in the previous year. Canada felt the effect of this downturn; commodity exports from Canada declined 1.5 per cent in real terms in 1974, and the foreign trade deficit rose from $785 million in 1973 to $2,485 million in 1974.

Canadians entered the most severe of the post–World War II recessions in 1981-82, following the second oil shock in 1979. During 1982, real gross domestic product declined by 3.2 per cent, while inflation and prime lending rates averaged 10.8 per cent and 16 per cent, respectively. The jobless rate rose from an average of 7.4 per cent in the first quarter of 1981 to a peak of 12.7 per cent in the fourth quarter of 1982. Canada recovered quickly from this recession. Within a few months, output and employment increased, inflation dropped dramatically to 5.8 per cent, and, by 1983, the prime lending rate declined to about 11 per cent. In the years since, strong growth has created many opportunities for Canadians. Over 1.6 million jobs have been created since the 1981-82 recession. In 1986 and 1987, Canada's employment growth rate exceeded that of the major industrialized countries by a wide margin.

TRADING ARRANGEMENTS

The FTA is only one example of the trade agreements being negotiated by two or more countries in every part of the globe. The Council's review indicates that liberalization of trade in other parts of the world has benefited the participating countries without any insurmountable adjustment problems. To obtain further insight into this process elsewhere, the Council examined the adjustment experiences in other free trade areas (Appendix E). The European Community (EC) during the 1959-68 period increased its real output, productivity, and incomes more rapidly than did the United States. Encouraged by these positive results, the EC countries are moving towards completing the Internal Market, which is designed to remove all remaining trade barriers in the Community by 1992.

The Closer Economic Relation (CER) agreement between Australia and New Zealand has resulted in many positive benefits for both countries. It also shows that a smaller trading partner (New Zealand) can seize opportunities in such a situation with few adverse effects. For example, from the inception of the CER in 1983 until mid-1988, New Zealand's exports to Australia increased by 118 per cent. Encouraged by the success of the CER agreement, both countries agreed to remove the remaining non-tariff barriers five years ahead of the originally scheduled date.

SOME LESSONS FROM ADJUSTMENT POLICIES ABROAD

The Council holds the view that there are areas where Canadians can learn from the adjustment policies of other countries. With that in mind, the Council undertook to examine employment and industrial policies in Sweden, West Germany, Japan, and South Korea (Appendix E). At least two interesting characteristics related to employment and industrial practices deserve to be mentioned.

First, the relationships between unions and management in Sweden, Germany, Japan, and South Korea foster consultation and cooperation. For example, the Co-determination at Work Act in Sweden gives local unions the right to information on company policies on employment. In Germany, the Works Council, formed at the firm level, has equal rights with management to determine how issues of compensation, hours of work, layoffs, and dismissal are resolved. In Japan, a widespread system of labour-management consultation at the enterprise level fosters cooperation. In these countries, the principle of co-determination created an environment within which trade unions are supportive of structural change and the introduction of new technologies.

Secondly, in terms of industrial policies, these countries took drastic steps with respect to many industries which were characterized by excess capacity and outmoded production facilities. For example, Sweden reduced its shipbuilding capacity, a move that involved difficult large-scale shutdowns in many locations. In Germany, coal-mining companies received government assistance to promote restructuring. In Japan, increasing competition in the textile industries led the government to introduce measures to encourage companies to scrap excess capacity and inefficient plant and equipment. One of the important factors in the success of these countries in adjusting is their willingness to support restructuring in response to a changing environment.

LOOKING FORWARD

Canada has demonstrated an ability to adjust to change. In recent years, Canada has been a leader among OECD countries in both employment and economic growth. According to the report *Competitiveness Criteria*, Canada, in terms of overall competitiveness, is ranked sixth of 22 major industrialized countries, after Japan, Switzerland, the United States, Germany, and Finland.[7]

In this light, Canadians should be confident that they have the potential to take full advantage of the opportunities of the twenty-first century. While they should be proud of their achievements and abilities, while they should celebrate success, they should not, in the Council's view, become complacent. Canada's good overall competitive performance is based on a limited number of areas in which it fares well. Canada ranks first on the list in terms of natural resources; Canada also ranks first in terms of availability of developed energy sources for the needs of companies competing internationally. However, many areas need significant improvement if Canada is to become more competitive internationally. For instance, Canada ranks twelfth in terms of managers' sense of drive, responsibility, and entrepreneurship, and fifteenth in terms of workers' willingness to identify with corporate objectives and priorities. Canadian business enterprise, judged by business research and development expenditure as a percentage of total R&D expenditures, ranks seventeenth.

If Canada is to enhance its international competitiveness, it must deal with these issues on a priority basis. It must excel at the assimilation of technological change and become more productive, since competition at the turn of twenty-first century will become more intense. Canadians,

[7] World Economic Forum, *Competitiveness Criteria* (Geneva, June 1987).

for instance, will be facing increased competition from newly industrialized countries. Several Asian countries, as emphasized in the C.D. Howe publication *Business Strategies*, have moved away from being manufacturers of textiles and low-value-added goods to becoming fierce exporters of high-value-added manufactured goods.[8] At the same time, countries such as Spain, Brazil, and Mexico are becoming increasingly industrialized. In 1986, Brazil's manufacturing output exceeded Canada's, Spain's performance is close to Canada's, and Mexico is not lagging far behind. In addition to responding to emerging competitive pressures from newly industrialized countries, Canada will have to strive to become more competitive in an increasingly global environment. Business decisions in the future are likely to be related to the assembly, production, and distribution of products whose components will be procured from many international sources.

The FTA will no doubt also play a significant role in the global trading environment outlined in the previous paragraphs. It will increase competition at home, but it will provide secure access to a market of some 250 million individuals. This potential market is large enough to offer Canadian industry the possibility of economies of scale and rationalization. Canadian businesses will also be able to develop specialty products, a difficult option without a large market base. The FTA represents a giant step towards a stable North American trading environment; it will assist Canada to become more competitive at home and in world markets.

[8] C.D. Howe Institute, *Business Strategies and Free Trade, Focus on Corporate Adjustment*, Policy Study No. 5, May 1988.

CHAPTER FOUR

Policy Implications of the Global Trading Environment

The FTA is only one element, although a significant one, of the changing and increasingly global trading environment. Part of its impact is that it provides Canadians with a unique opportunity to reflect on their response to ongoing change. It constitutes a tremendous opportunity to focus the discussion on the role of the various participants in the adjustment process and on the appropriateness of government programs in support of adjustment.

Workers, businesses, unions, trade associations, and all levels of governments, including municipal governments, must urgently assume their common responsibilities in the adjustment process. If Canadians are to benefit fully from the FTA and to ensure Canada's international competitiveness by the turn of the century, they will have to develop a collective will. They will all need to cooperate to develop an immediate plan of action. The Agreement will provide them with the opportunity to do so. But only if they succeed in developing and adopting such a plan rapidly will they be able to maximize these opportunities.

In the area of human resources, for instance, Canadians will have to become better educated and better trained – quickly – if they are to meet the increasingly sophisticated skills required for enhanced competitiveness. Part 2 of this report, People Issues, discusses how to attain such objectives. Although it acknowledges that some corporations have a "training and personal development" ethos, it emphasizes the urgent need to develop a "training culture" across the private sector.

On the corporate side, firms will have to keep at the leading edge of new technologies, and aggressive trade initiatives will have to be sharpened if Canada is to improve its competitiveness on the international scoreboard. Part 3, Corporate Issues, reflects these issues, notes the need for the private sector to take steps immediately, and provides a blueprint for action.

In the course of the Council's consultations, it became clear that specific industries were going to face specific circumstances arising out of the FTA which will go beyond the usual challenges of the marketplace. The Council will underline that some policies / measures applying to these

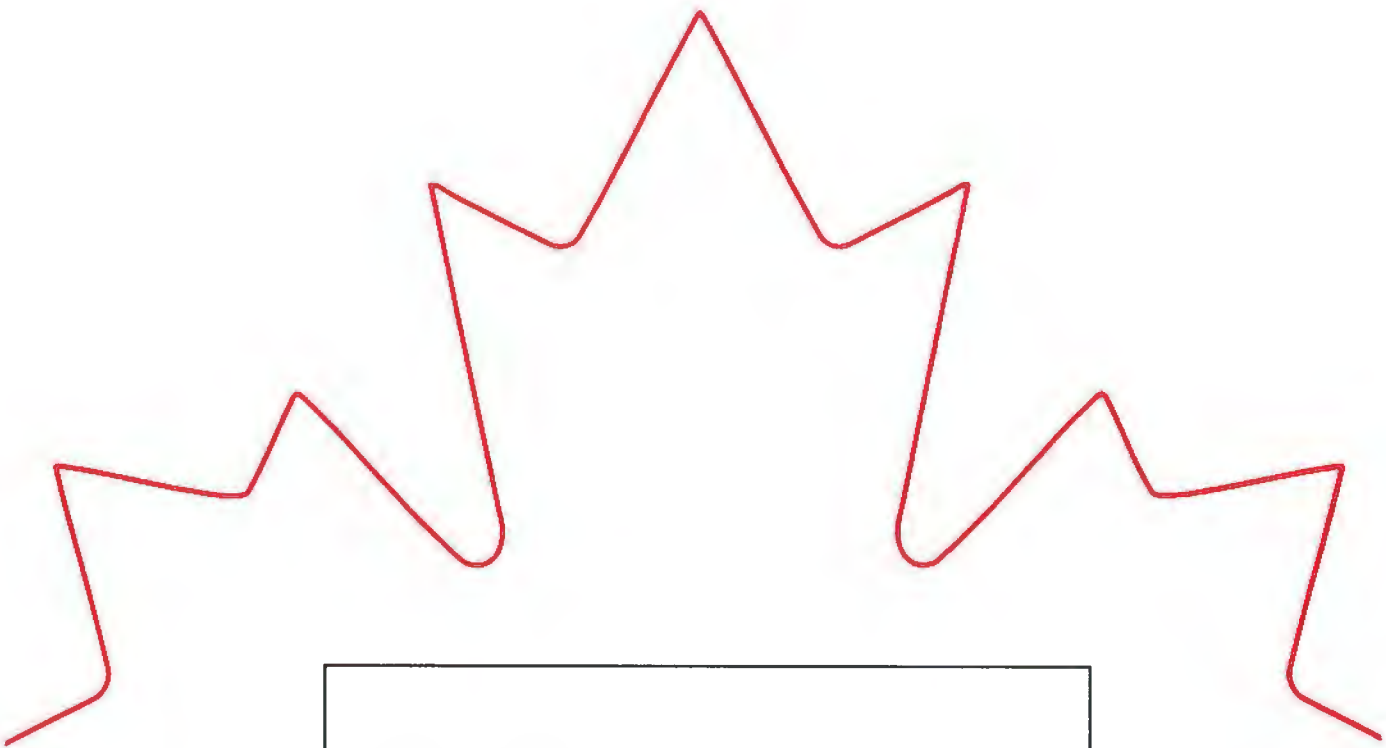
industrial sectors will require special attention if these sectors are to increase their competitiveness. These questions will be discussed in Part 4, Specific Industry Issues.

Specific government programs will be referred to throughout the report, but the Council wishes to underline that close to 400 programs touching some aspect of adjustment are offered by federal, provincial, and territorial governments in support of private sector efforts. There are certain common elements about all these programs. Generally speaking, all levels of government have designed programs to help labour, industry, or communities adjust to economic change. This assistance is provided either directly through financial assistance, such as loans or wage subsidies, or indirectly through tax incentives. The scope of assistance programs is extensive.[9] They cover a wide range of needs, from assisting industries to prepare to take advantage of opportunities, to helping labour upgrade skills, to helping individuals who require support in adjusting to a more competitive environment.

While the private sector must take the lead in responding to change, goverment can play an important supporting role. In the case of the federal government, for example, skill enhancement is facilitated by an array of activities by Employment and Immigration Canada. In the area of acquisition, development, and rapid implementation of technology, Industry, Science and Technology Canada and the National Research Council of Canada provide a number of programs, together with a range of services. Export efforts are supported by the Department of External Affairs.

Key programs will be referred to throughout the report and a description is found in Appendix D.

[9] Since details of these programs are available from a number of government and non-government inventories and sources, they will be discussed only in broad terms here. Federal programs are discussed in greater detail since they are generally available nationally. Programs available from provincial and territorial governments are similar to federal programs but are more specifically designed to respond to the needs of small businesses.



PART TWO

People Issues

Introduction

"People issues" have been the subject of a great deal of discussion during the Council's consultations. It became evident there was a global consensus of opinion that investing in the skills of a country's people is crucial. From an economic point of view, there has been growing recognition that a skilled work force is a key – if not *the* key – to competitiveness and growth.

At the same time, from a social point of view, it has become widely accepted that a skilled work force is essential to the well-being of societies. Work is expected to provide opportunities for personal growth. By allowing individuals to achieve their potential, education and training shape the quality of life. It is most important to the Council that Canadians thoroughly understand how central a role skilled human resources play in modern societies. This realization is vital if Canadians are to meet the labour market requirements of the next decade. It is also essential if Canadians are to secure and improve their quality of life and standard of living as well as their maximum personal growth as they enter the twenty-first century.

How to achieve that skilled work force – for the benefit of both the country and the individuals involved – was one of the questions faced. The Council became convinced that, in the information age Canadians now live in, the traditional distinction between education and training has blurred. In the Council's view, to function in such a society Canadians need a good basic education in language, mathematical skills, and scientific and technical literacy, and they need to be prepared to go on absorbing knowledge all their lives. In addition, there is no doubt that acquiring specific skills will be a complex and ongoing activity. Therefore, the assumptions underlying this report are that, in a high-tech world, education and training are coming together and that – whatever words are used – continuing education or training or improvement of skills must be a part of all Canadians' working lives.

In the view of the Council, it is critical that the benefits and challenges of a modern economy be shared equally by all Canadians. It is most important, for instance, that adequate provisions be put in place to allow

a parent to participate actively – and fairly – in the labour market. Women should have equal access to positions requiring higher skills and the knowledge of new technologies. Increasing women's participation in "non-traditional occupations" would not only be a significant step in overcoming the "ghettoization" of occupations, but would also avoid their being disproportionately affected by the decline of uncompetitive industries.

Women sometimes encounter different circumstances from men when they enter or re-enter the labour market, and further difficulties are faced by immigrant women. Often they do not speak either official language, making it difficult for them to participate fully in the labour market. While the Council notes that these barriers may prevail because of societal reasons – for instance, the acquisition of another language may be perceived as a threat to the family unit as well as to the culture of origin – it believes it critical that language training be made widely available to immigrant women.

Canadians of native ancestry and visible minorities must become part of the mainstream labour market. In the Council's view, barriers to the employment of the physically and mentally disabled must also be lowered so that all Canadians can contribute to the challenges ahead.

These equity issues are, for the most part, already the subject of targeted programs. In the opinion of the Council, however, they are issues that should be carefully considered in the design and delivery of any government programs. It is essential that equity considerations cut across all education and labour market policies – as well as private sector planning – so that all segments of the Canadian population are reached. Every individual worker must have maximum employment opportunities.

During the Council's consultations, most sectors expressed general confidence in future employment growth. The Council's attention was drawn, however, to small segments of the Canadian work force employed in certain industries which may face particular difficulties in remaining competitive once the FTA is in place. The Council examined the points raised by these industries, and its conclusions and recommendations are in Part 4 of the report, Specific Industry Issues.

Concerns were also expressed about the ability of the work force to meet labour market requirements over the next decade and to adapt to new technologies and to the globalization of the world economy. The Council listened to deep-rooted concerns about education and training. It was also apprised that shortages of skilled workers are becoming increasingly frequent and might constitute a serious impediment to increased competitiveness. Certain groups also indicated to the Council that some Canadian workers might not be able to compete in an increasingly demanding labour market.

This part of the report deals with a wide range of "people issues" in light of the Council's discussions and submissions received. It looks at a convergence of trends demanding urgent action if Canadians are to

meet the challenges of the 1990s and of the next century. It also proposes principles to strengthen basic skills, to enhance the skills of Canada's work force, and to facilitate work force adjustment. Its structure is as follows:

- The Challenges Ahead;
- Education: The Prerequisite;
- Training: The Key to Success;
- A Skills Strategy; and
- Specific Employment Issues in an Age of Globalization.

CHAPTER FIVE

The Challenges Ahead

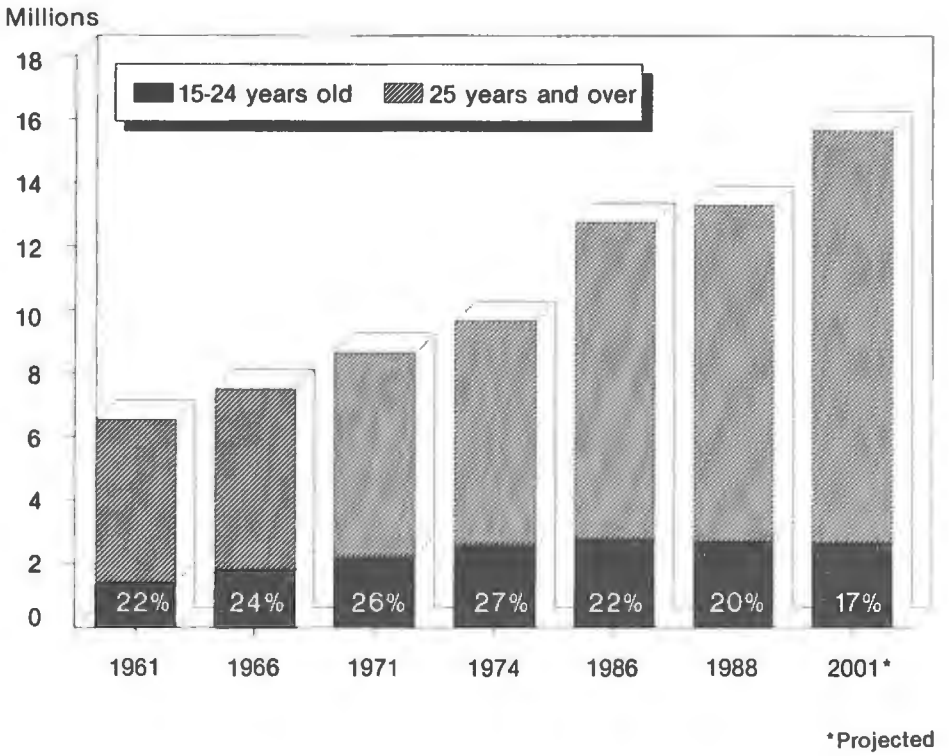
It is urgent that Canada meet effectively the human resource needs of the next decade if it is to enter the twenty-first century satisfactorily. This urgency stems from a convergence of factors. The FTA challenge is no doubt the first to come to the minds of all Canadians. It indeed provides a focus. However, Canadians will be able to maximize the opportunities arising out of the FTA only if they adjust satisfactorily to many pervasive challenges. In this chapter, the Council will briefly review the "Baby Bust," technological change, and shifts in the employment structure.

THE "BABY BUST"

For years, policy-makers had to struggle with the "baby boom." During the 1970s, as those born in the years after World War II – the baby boomers – entered the labour force, employers could choose from a vast pool of young entry-level workers (Figure 2.1). Youths between 15 and 24 years of age constituted approximately 22 per cent of the total labour force in 1961, and in 1971 this percentage rose to 26 per cent. It reached a peak of 27 per cent in 1974, to decline to about 20 per cent in 1988. It is projected to decline further to 17 per cent by the year 2001. Because of this vast supply, businesses were able to select the best-qualified, sometimes over-qualified, candidate, often ignoring the less well-equipped and the employment disadvantaged, such as school drop-outs or functional illiterates. Poor economic conditions and this over-supply of individuals led to record high unemployment rates for youth, which reached 21.3 per cent in 1982.[1]

[1] Statistics Canada, *Labour Force Survey*, Seasonally adjusted data, July 1982, Youth 15-24.

FIGURE 2.1
Labour Force, Canada, 1961, 1966, 1971, 1974, 1986, 1988, 2001
Source: Statistics Canada, *Labour Force Survey*; Employment and Immigration Canada, Canadian Occupational Projection System (COPS)



The situation has changed. Sixty per cent of those estimated to form the labour force in the year 2000 have already left school. Policy-makers now have to deal with the impact of the "baby bust." The "baby bust" will greatly affect the labour market, since Canada may not be able to rely on immigration to ensure a stable and sizeable work force in the future.[2] The "baby bust" will reduce the flow of new entrants into the labour market.

A dwindling stream of labour force entrants will require greater efforts to ensure that skill requirements are met through ongoing training or retraining. Renewed efforts will be needed to ensure that existing workers can acquire new skills.

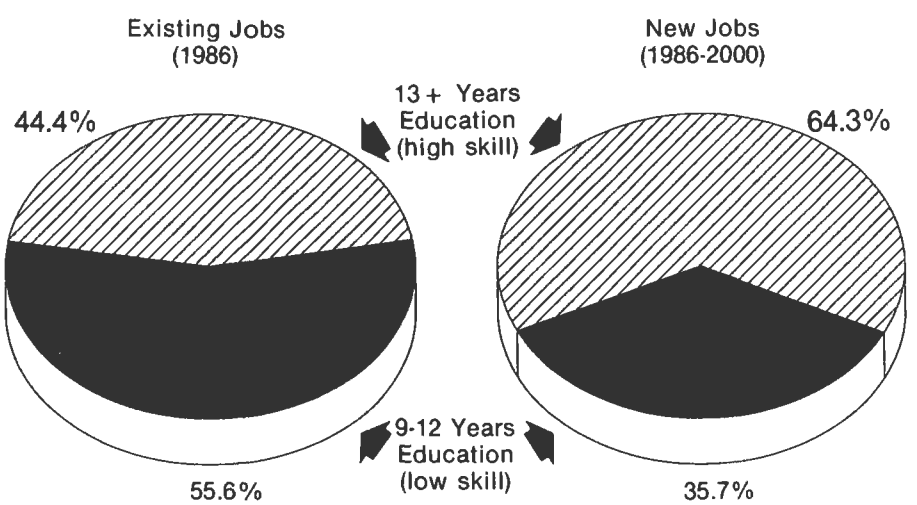
[2] Health and Welfare Canada is currently conducting a "Review of Demography and Its Implications for Economic Policy" which should provide further insight on this issue. It is scheduled to be released in April 1989.

TECHNOLOGICAL CHANGE

While demographics have a dramatic effect on the labour market, new technologies also have a significant impact. New technologies require more sophisticated skills. For instance, while 44.4 per cent of jobs in 1986 required a higher level of education than secondary school, 64.3 per cent of the jobs to be created between 1986 and the year 2000 will require higher education (Figure 2.2).[3] As recently indicated by an officer of a large automotive company: "People think that anybody can get a job as a production worker or assembler. But for these jobs, we no longer even consider applicants who have not successfully completed high school."

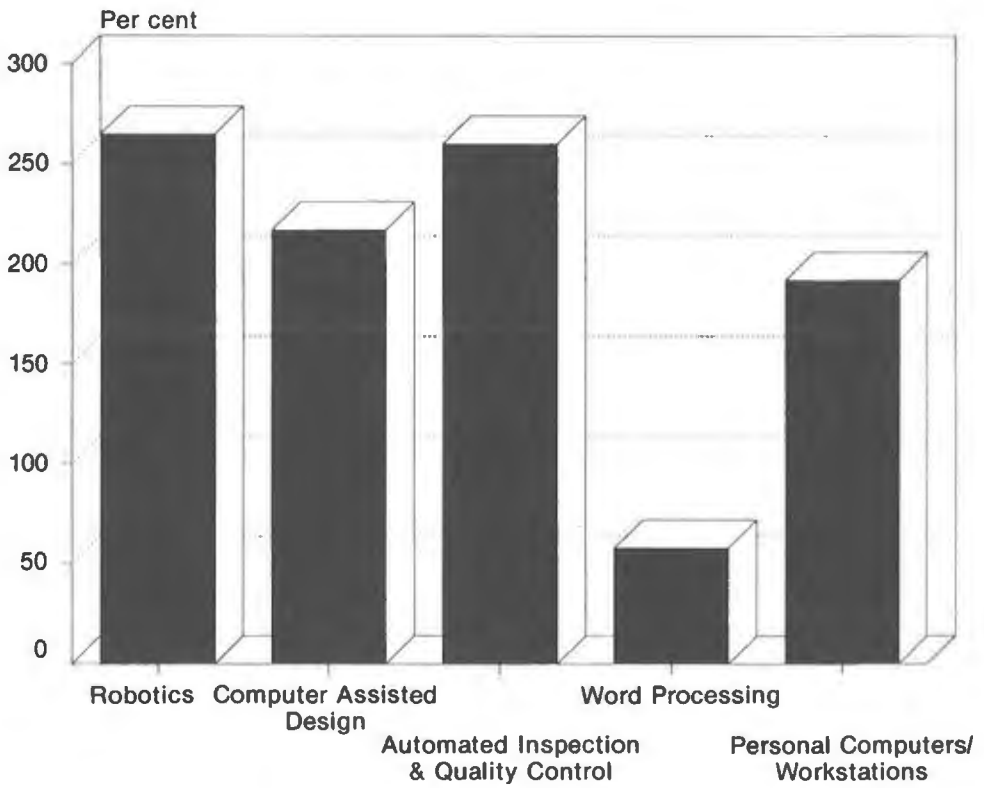
New technology is being introduced at an accelerating pace. Figure 2.3 shows the percentage increase in the use of selected technologies between 1985 and 1990. The largest percentage increases are expected to occur in the use of robotics, 265 per cent, and in automated inspection and quality control, 260 per cent. It is estimated that by 1990, 17.5 per cent of Canadian workers will use personal computers and workstations and 8.75 per cent, word processors (Figure 2.4). Such an exponential introduction of new technologies will require not only higher skills but also new skills.

FIGURE 2.2
Skill Requirements
Source: Statistics Canada; Employment and Immigration Canada, Canadian Occupational Projection System (COPS)



[3] Or any equivalent combination of high school and training.

FIGURE 2.3
Estimated Percentage Increase in the Use of Selected Technologies, 1985-90
Source: Economic Council of Canada, unpublished data

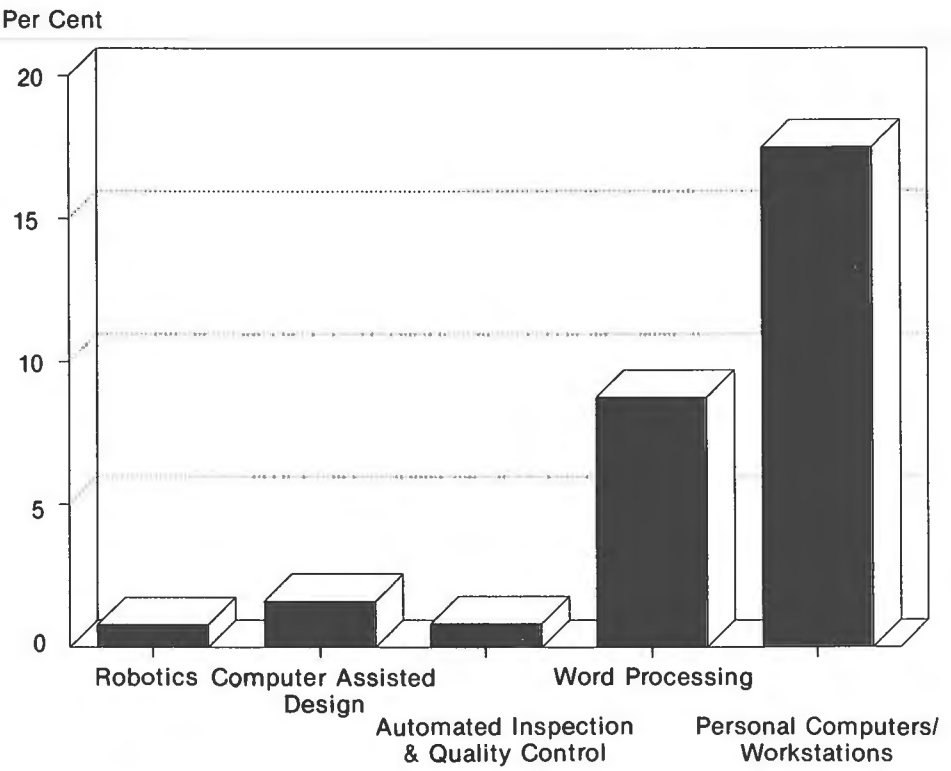


SHIFT IN EMPLOYMENT STRUCTURE

Shifts in the employment structure also affect the kinds of skills required. Since the early 1900s, the proportion of people employed in the primary sector of the economy has declined. More recently, the share of employment in the secondary sector has also dropped, while the service sector has grown. Agriculture, mining, forestry, and other primary industries account now for less than 6 per cent of employment in Canada (Figure 2.5). Employment in manufacturing and construction also declined to about 23 per cent. Despite this relative decline, employment in the primary and secondary sectors will continue to put significant pressure on the labour market, since the technological changes taking place in these sectors require increasingly sophisticated skills.

Employment in the service and trade sector – the tertiary sector – has grown to over 70 per cent of total Canadian employment. And this

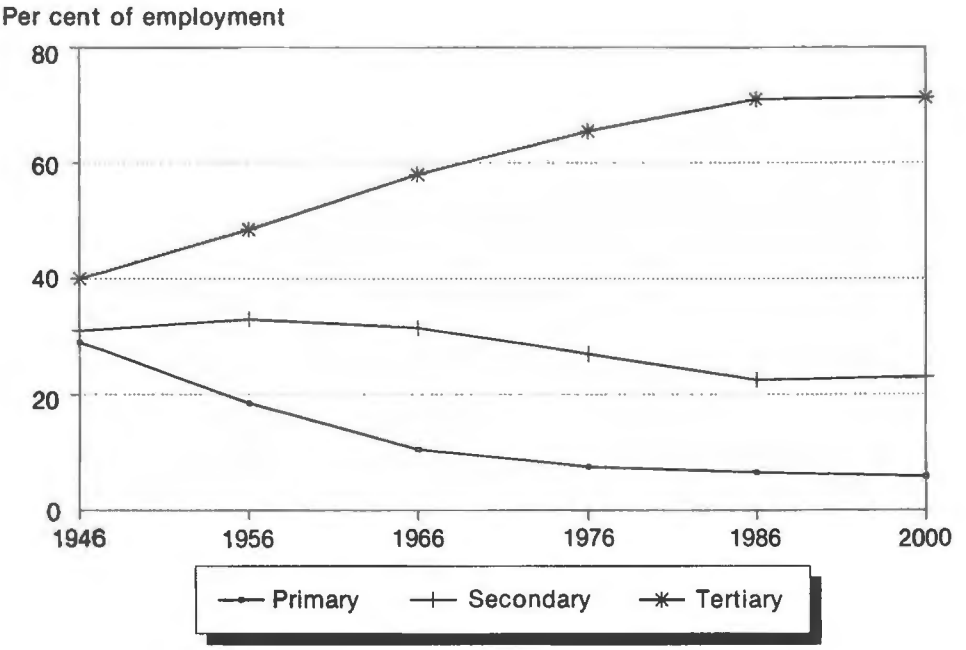
FIGURE 2.4
Estimated Percentage of Workers Using Selected Technologies, 1990
Source: Economic Council of Canada, unpublished data



percentage will continue to increase in the future, even though labour market projections for the year 2000 indicate that the rate of growth will slow down over the next decade.[4] Despite this slowdown in the growth rate, employment in the service sector is expected to increase by 2,173,000 between 1986 and 2000.[5] This trend is not unique to Canada. All industrialized countries have experienced a shift in employment from goods-producing industries to service industries, and thus a decreasing share of manufacturing employment, over the post-war period. The extent of the shift differs from country to country, and tends to be higher among the more industrialized nations.[6]

[4] Employment and Immigration Canada, Canadian Occupational Projection System (COPS).
[5] Ibid.
[6] OECD, *Employment Outlook*, September 1987, p. 20.

FIGURE 2.5
Shift in Employment Structure by Industrial Sector, 1946-2000
Source: Statistics Canada, *Labour Force Survey*; Employment and Immigration System, Canadian Occupational Projection System (COPS)



Technological change, combined with a shift in the employment structure, will have an important impact on skill requirements. The needs of the labour market are changing rapidly and are becoming more stringent. With the growing sophistication of work, many occupations which previously were essentially "manual" become increasingly "mental," requiring higher mathematical and language skills as well as scientific and technical literacy. This change, in turn, has serious implications for all Canadians.

CHAPTER SIX

Education: The Prerequisite

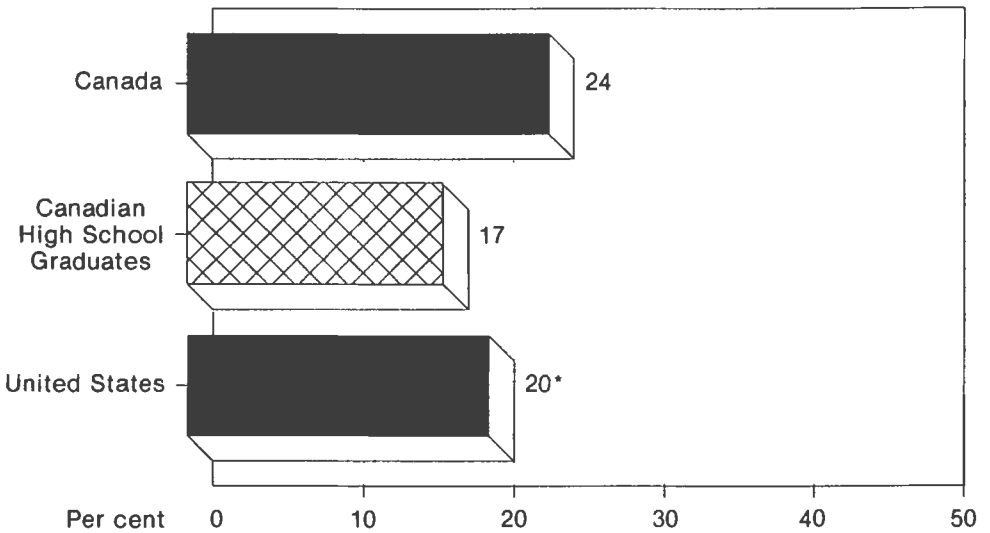
Canada is now well into the "information age." Although skill requirements are becoming more sophisticated, significant segments of the Canadian population are not equipped to meet the challenge this change represents. According to a 1987 Southam survey, some five million Canadians do not have the reading, writing, and mathematical skills needed to take full advantage of today's society. One of four Canadians over 18 years of age is functionally illiterate, compared to one out of five in the United States. They are found across the entire spectrum of Canadian society. They may have left school early or they may be older workers who learned their skills when they started work and who have not kept pace with rising requirements of the workplace. Functional illiterates also make up 17 per cent of Canadian high school graduates (Figure 2.6).

Functional illiteracy constitutes not only a barrier to employment but also a barrier to training and retraining. These individuals simply do not possess the basic skills required for training. The Canadian high school drop-out rate is another worrisome indicator. Currently, approximately 30 per cent of students leave school before completing grade 12. They thus have little basis for a working life that will involve continually learning new skills. A recent study by Gilles Dussault for the Sommet québécois de la technologie (1988) provides another troubling indicator. While French-speaking students in grade 5 in Quebec rank fourth among 15 countries in terms of science achievements, by the time they complete high school they slip to thirteenth. English-speaking students in Quebec rank seventh and eleventh, respectively.

The Council sees this situation as serious, since data indicate that there is a direct correlation between educational attainment and the unemployment rate. University graduates, for instance, have an unemployment rate almost two-thirds lower than individuals with less than grade 8 education (Figure 2.7).

This situation is serious in itself, but it is even more worrisome in the context of existing and emerging shortages of skilled workers which may hinder Canada's quest for increased competitiveness. Skill shortages are

FIGURE 2.6
Functional Illiteracy Rate, 1987
Source: Southam Survey, 1987



* L. Stedman and C. Kaestle, "Literacy and Reading Performance in the United States from 1880 to Present," *Reading Resource Quarterly* (winter 1987)

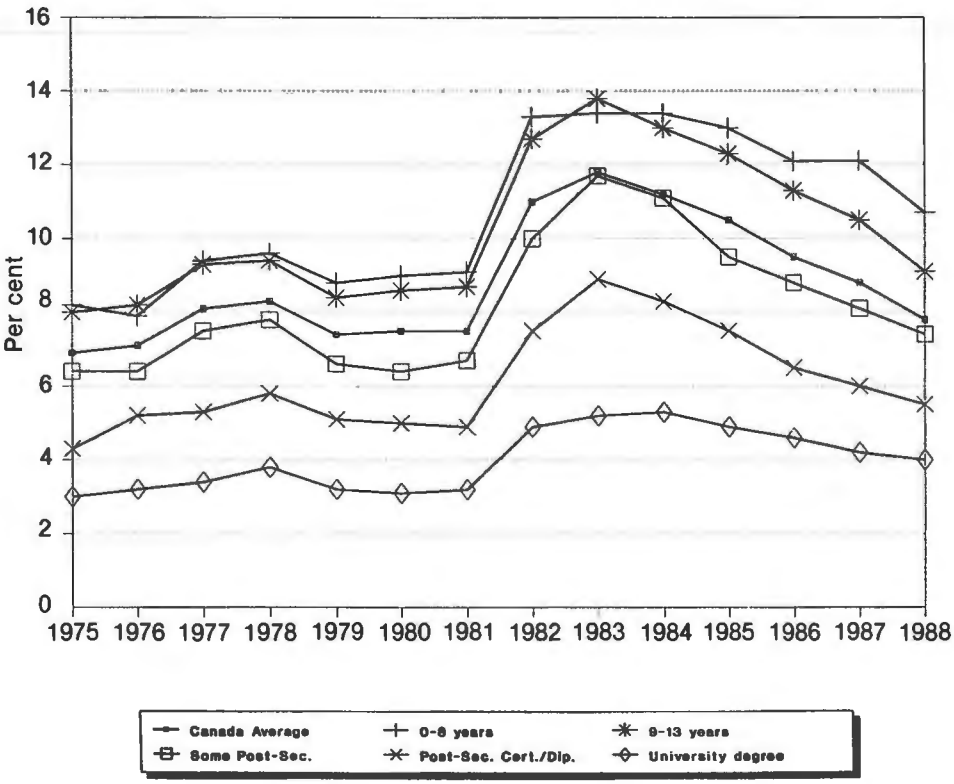
becoming more frequent in the new technology areas.[7] While the demand for scientific skills will no doubt keep increasing, the Council noted that Canada ranks behind the United States, Japan, and the United Kingdom in terms of the relative number of science graduates (Figure 2.8).[8]

These facts are by no means new and they have been publicized frequently. By highlighting them, the Council wants to re-emphasize an emerging national consensus – shared by many provincial education authorities – that education, throughout Canada, is in need of significant improvements.

More money does not appear to be the answer. Canada has much higher public expenditures on all levels of education as a proportion of

[7] OECD, *Science and Technology Policy Outlook, 1988* (Paris, 1988), p. 70.
[8] These figures refer only to university degrees. They do not include other professional qualifications such as technical diplomas, which are more prevalent in West Germany and Sweden.

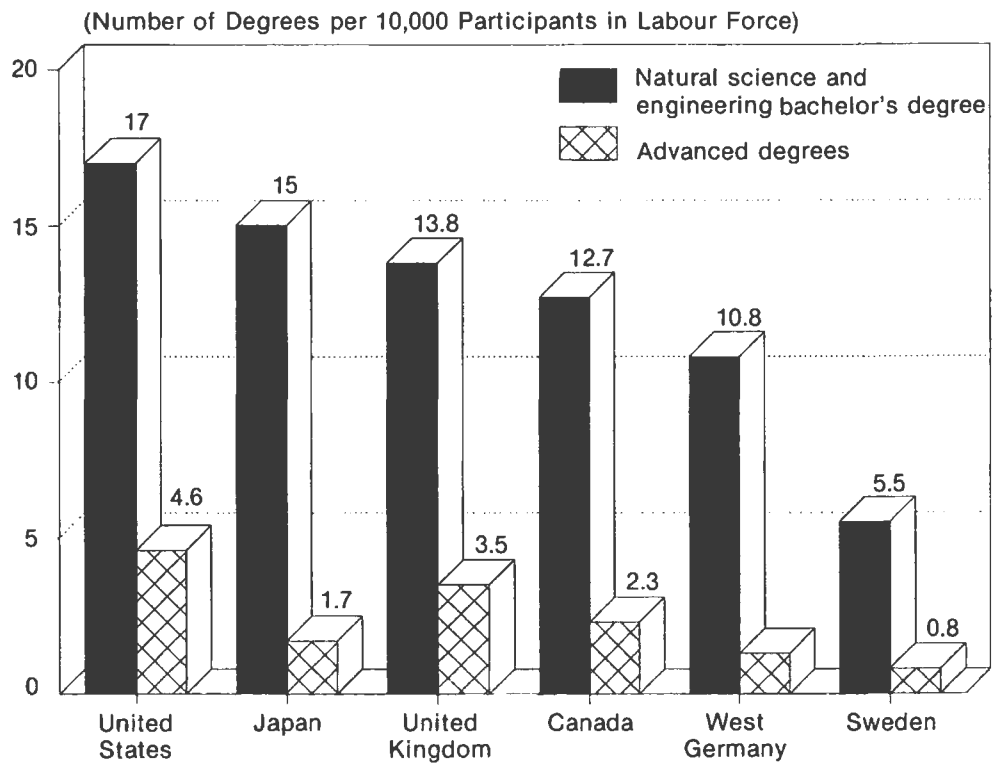
FIGURE 2.7
Unemployment Rates by Educational Attainment, Canada, 1975-88
Source: Statistics Canada, *Labour Force Survey*



gross national product than most other developed countries, 7.4 per cent as opposed to an international average of 5.8 per cent (Figure 2.9). Strengthening the education systems and making them more responsive to the changing requirements of the economy also goes, in the opinion of the Council, far beyond simply asking the traditional education sector to do a "better job." What is required is a thorough reassessment of the role of education, a rethinking of long-held assumptions. There needs to be a judicious balance between the educational goals of an individual and the educational requirements for a fast changing economy. It might be appropriate to have an in-depth look at innovative ways to strengthen continuing education in order to make it more accessible and more relevant to changes in the workplace. Perhaps there is also a need to examine the role of modern technology in education.

Although the Council does not want to get involved in a lengthy discussion of the philosophy of education – this must be done primarily by the provinces and also the federal government – it wants to put forward some of its thoughts.

FIGURE 2.8
Natural Science and Engineering Bachelor's Degree and Advanced Degrees
Source: National Advisory Council on Science and Technology, Industry Committee Report, February 1988, p. 73

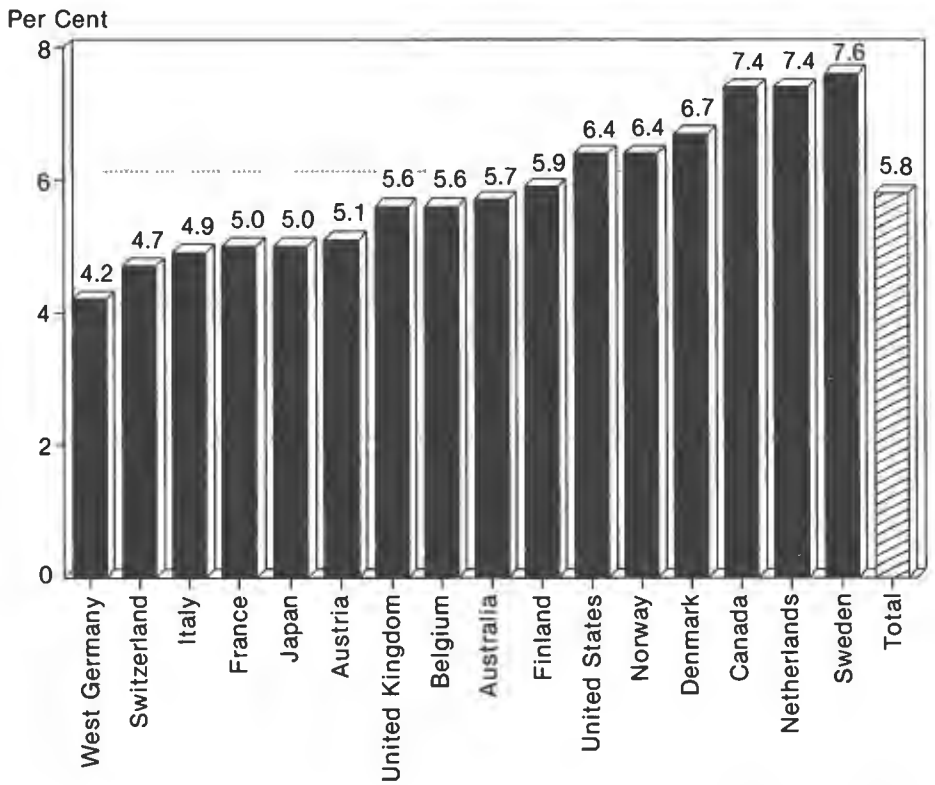


In view of the high level of functional illiteracy among Canadians, of the high drop-out rate, and of the prevalence of skill shortages and significant unemployment existing side by side, the Council believes that the education systems fail to prepare some significant segments of the Canadian population for the challenges of a modern society. The Council is of the opinion that education has three key objectives and that the education systems should be reviewed – and rebalanced – to attain the objectives of imparting basic knowledge, social values, and lifelong learning skills.

Imparting basic knowledge, the primary objective of education in the opinion of the Council, has been de-emphasized over the years. It should be re-emphasized, since the lack of basic knowledge – reading, writing, arithmetic – is now a problem for one of four adult Canadians. Imparting social values is a second and crucial objective, one that must be strengthened. Not only do strong social values help ensure that society

FIGURE 2.9
Public Expenditures for Education as a Percentage of the Gross National Product, Canada and 15 Other Developed Countries, Average of 1965, 1970, 1975, 1980, and 1985

Source: Quoted in Department of the Secretary of State, *Profile of Higher Education in Canada*, February 1989



functions smoothly, but they are also important from an employment perspective in that a lack of social values may constitute an impediment to training, to obtaining and securing a job. The third objective of education – equipping individuals for lifelong learning – is becoming crucial. As the pace of technological change accelerates, individuals may have to be trained for three or four different careers over the course of their working life; therefore, they must be prepared for the learning this will entail.

In the view of the Council, a debate on education – followed by immediate action – is urgently required. Remedial measures must be designed and implemented at an early date to assist individuals who have already left school and are not equipped to deal with the increasing levels of skills required in the labour market. In this respect, the Council noted with satisfaction the establishment of the Literacy Secretariat by the federal government in 1988, with a budget of

$110 million over five years. The Secretariat, with the collaboration of the provinces and the help of the non-government sector, is responsible for coordinating a federal response to illiteracy. While the need for further remedial measures is pressing, it is also most important, in the Council's opinion, to ensure that the education system will, in the future, teach individuals how to acquire the increasingly sophisticated skills of the "information age," as well as imbue them with social values. It is crucial in the eyes of the Council that the issues of entrepreneurship, industrial excellence, outward orientation, and the reality of the workplace be incorporated in the curricula.

In designing and implementing these measures, it will be essential to seek broad private sector input to ensure that the three objectives of education are achieved.

Therefore, the Council recommends that:

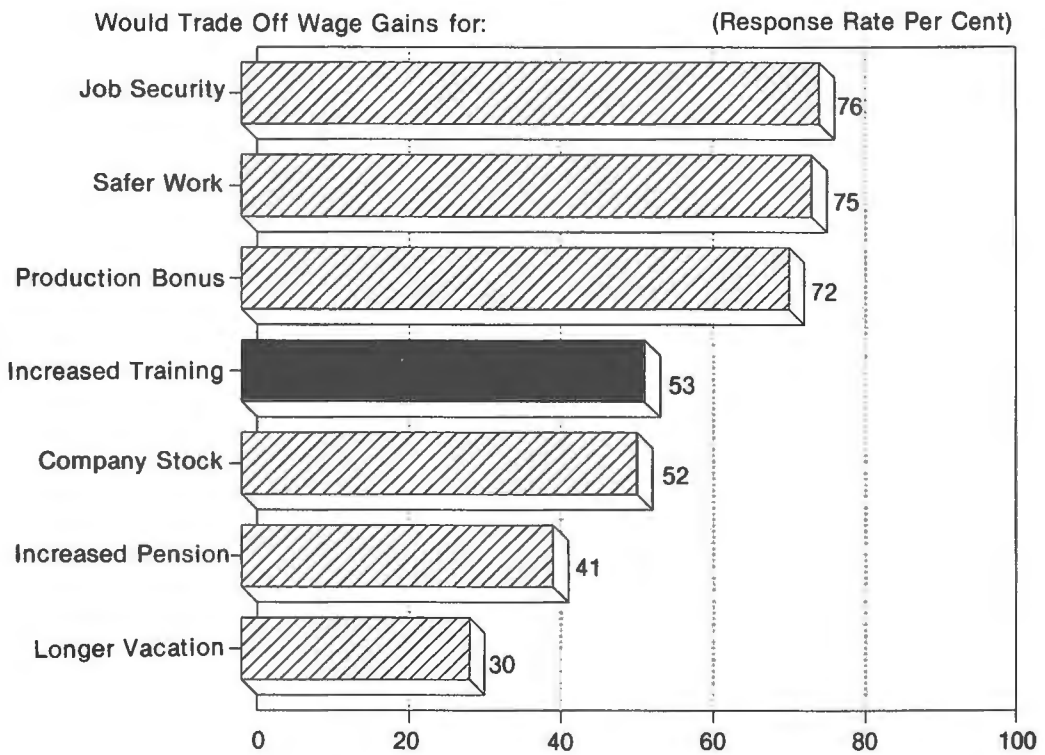
- On an urgent basis, the first ministers find the appropriate vehicle to review the education / training systems in Canada in order to increase their responsiveness to the requirements of rapidly changing international and domestic economies. Such a vehicle should involve participation by both business and labour, and might take the form of a federal-provincial royal commission on education / training.

CHAPTER SEVEN

Training: The Key to Success

There is widespread recognition of the importance of training in Canada. Decima's December 1988 *Quarterly Report* estimates that more than half of the Canadian work force – 53 per cent – would trade off wage gains for increased access to training. As shown in Figure 2.10, this is almost

FIGURE 2.10
Canadian Work Force Priorities, 1988
Source: Decima *Quarterly Report*, December 1988



twice the proportion – 30 per cent – of those who would trade off these gains for a longer vacation. In addition, 76 per cent of the respondents would trade off wage gains for increased job security, which undoubtedly can be enhanced by training to a significant extent.

In the increasingly global environment, the Council sees skill training not only as a necessity but also as a sound investment. It benefits both employers and employees. The Council believes that there are significant savings and benefits attached to a better prepared work force, which will make companies more productive and enhance the quality of working life. For instance, a highly skilled work force will help reduce error and decrease supervisory time. It will contribute to increased productivity and product quality. It may improve work habits, attitudes, and motivation. It may enhance the understanding of business principles and operations, and help workers to maximize their potential.

Skill development, in the Council's view, will make workers more adaptable within firms, increasing workers' satisfaction, and avoiding costly layoffs and hiring. In addition, the Council believes that training will make workers more adaptable in the event of a layoff. Training represents a tool to maintain employment, ensure quick re-employment, and minimize unemployment.

Harvard economist R. Reich, who has written extensively on competitiveness and industrial policies, observes that: "skilled labor has become the only dimension of production where advanced industrialized nations can create and retain an advantage ... Production facilities can now be established anywhere. Financial capital now flows around the globe at the speed of an electronic impulse. The production processes that depend on skilled labor must stay where the skilled labour is ..."[9] In the Council's opinion, Canada's competitiveness, as well as that of most industrialized countries, will rest on the skills of its people.

[9] Robert Reich, "Beyond Free Trade," *Foreign Affairs*, spring 1983, p. 782.

CHAPTER EIGHT

A Skills Strategy

Effectively meeting the labour market challenges of the next decade will require, in the Council's opinion, renewed and concerted efforts. Despite a significant growth in employment – over 1.3 million jobs created between 1984 and 1988 – and a steady decline in the aggregate unemployment rate since 1984, the country is confronted with persistent problems.[10] Skill shortages and long-term unemployment prevail side by side.[11] Involuntary part-time work remains high.[12] Once laid off, older workers and immigrant women have poor re-employment prospects.[13] In addition, large regional differences in employment still exist.[14]

The old philosophy of a strong economy resulting in full employment no longer applies. Overall, the Canadian economy has experienced strong growth. Unemployment remains, however, and significant skill shortages are becoming more prevalent. In view of these developments, the Council concludes that a definite redirection of labour market policies is required.

[10] On an annual average, employment was 10,932,000 in 1984 and 12,244,000 in 1988. The annual average unemployment rate dropped from 11.2 per cent in 1984 to 7.8 per cent in 1988. Statistics Canada, *Labour Force Survey*.

[11] In January 1988, 14 per cent of manufacturers experienced a shortage of skilled labour; at the same time in 1988, on an annual average, 13.1 per cent (135,000) of all the unemployed (1,031,000) were unemployed for 27 to 52 weeks, and 7.1 per cent (73,000) for 53 weeks or more. Canadian Manufacturing Industry, *Quarterly Business Conditions Survey*; Statistics Canada, *Labour Force Survey*.

[12] On an annual average, in 1988, 23.7 per cent (446,000) of all part-time workers (1,882,000) were involuntary part-time workers. Statistics Canada, *Labour Force Survey*.

[13] In 1988, on an annual average, 17.5 per cent of unemployed older workers (45 years or more) were unemployed for 27 to 52 weeks versus 12.1 per cent for the age group 15-44; 14.4 per cent of unemployed older workers were unemployed for more than 53 weeks, versus 5.4 per cent for the age group 15-44. Statistics Canada, *Labour Force Survey*. No data specific to immigrant women is available; anecdotal information, however, indicates this trend.

[14] In 1988, on an annual average, the unemployment rate was 16.4 per cent in Newfoundland and 5.0 per cent in Ontario. Statistics Canada; *Labour Force Survey*.

In this chapter, the Council will propose some guiding principles for such a redirection and look at:

- FTA-Specific Measures versus Measures to Adapt to Ongoing Change;
- The Thrust of a Skill Strategy;
- The Trampoline versus the Safety Net; and
- A General Framework.

FTA-SPECIFIC MEASURES VERSUS MEASURES TO ADAPT TO ONGOING CHANGE

Canadians have faced many challenges in the past. They will face many more by the year 2000. The challenges arising from the Free Trade Agreement are significant. In this respect, the Council could review labour adjustment issues solely in the context of the challenges and opportunities arising out of the agreement. The Council feels, however, that such a study would be too narrowly focused and might mislead policy-makers and many Canadians. In the Council's view, Canadians must adjust successfully to the challenges reviewed earlier, to ongoing change, to be able to benefit fully from the FTA.

While the Council feels that an effective adjustment strategy must be global, it also became clear during the course of the Council's consultations that, in most cases, it would be extremely difficult to differentiate between adjustment to the FTA and ongoing adjustment resulting from technological change, globalization of trade, or changing consumer taste. The Council would not want to see Canadian workers, unions, and management attempting to prove that a particular problem of adjustment arises out of the FTA. Nor would it want to see a large bureaucracy trying to determine whether such circumstances arise out of the FTA or other developments. It wants to see all Canadians working together to adjust and win.

Besides recognizing that it would be extremely difficult in many instances to differentiate FTA from non-FTA adjustment, the Council also concluded that, if it were to differentiate and recommend enriched labour market programs related exclusively to the FTA, such a course of action would be inequitable. It would create two classes of citizens. The Council wants all Canadian workers, regardless of their particular circumstances, to be treated equally.

The Council believes, therefore, that it would be neither feasible nor appropriate to differentiate between adjustment to the FTA and adjustment to ongoing change. The development of human resources and programming in support of labour adjustment should be addressed within a global context.

THE THRUST OF A SKILLS STRATEGY

The broadly based acceptance of human resources as a major determinant of economic performance, of quality of life, and of the ability of workers to reach their full potential is an important milestone on Canada's way towards greater competitiveness. Canadians must now take several further steps, however, if they want to meet the challenge fully. Workers and management must cooperate more closely. They have to excel at "human resources planning," the very core of a skills strategy. They must urgently develop a "training culture."

In the following section, the Council will review what it sees as the three cornerstones of a skills strategy: greater worker-management cooperation, increased human resources planning, and increased private sector training.

Greater Worker-Management Cooperation

Better cooperation between workers and management, leading to constructive efforts to adjust to change, is, in the view of the Council, a fundamental part of a skills strategy. The Council fully supports the views expressed in a recent British North American Committee publication: "the politics of confrontation cannot accommodate the changes needed in the relationship between labour and management to help them to solve the difficult problems created by today's international economy and new technology."[15] Although increased cooperation remains a private sector responsibility, the Council concludes that the government must foster such cooperativeness.

The Council encourages innovative approaches. For example, an Employment and Immigration Canada (EIC) project with the Canadian Steel Trade and Employment Congress (CSTEC) is an experiment to foster both increased labour-management cooperation and industry-led adjustment measures for laid-off workers in the steel industry; in the Council's opinion, this experiment should be carefully followed up. Under the Innovations program, EIC agreed to assist the CSTEC financially to develop and implement adjustment measures.[16] The CSTEC approach hinges on improved labour-management relations. CSTEC's first requirement is, indeed, that a joint labour-management committee be formed at any plant where workers are going to be laid off. This, in some cases, involves breaching a confrontational attitude. As a former fitter first class with

[15] British-North American Committee, *New Departures in Industrial Relations: Developments in the U.S., the U.K. and Canada. An Occasional Paper* (Washington, D.C., April 1988), p. 4.

[16] For information on the Innovations program, refer to Appendix D.

Frankel Steel in Milton, Ontario admitted: "when you are involved with the union, you certainly have reservations when you start with the [CSTEC] process and management feels the same. But when the plant is closing – everyone is affected, so it brings everyone together. There is nothing left to fight about; you are both looking for a job."[17] Even though such cooperation might be difficult at times, the Frankel Steel experience shows that it may contribute to swift adjustment. According to the project committee's final report, 99 per cent of the 250 displaced workers found other employment. The Council is encouraged by such an approach and urges other industries to develop innovative mechanisms to enhance worker-management cooperation.

The Council also noted that Employment and Immigration already has a proven tool to foster improved worker-management cooperation in the Industrial Adjustment Service (IAS). IAS, introduced in 1963, is designed to encourage employers and employees to work together to bring about labour adjustment within a plant, an industry, or a community. It helps the private sector to solve its adjustment problems at an early stage through the mediation of industrial consultants. Every intervention sanctioned by an IAS agreement involves the establishment of a committee of employer and employee representatives, chaired by a neutral third party. An evaluation of the program indicates that, in most cases, employer and employee representatives as well as the chairpersons thought that the IAS program had improved labour-management relations.[18]

Despite the positive impact of IAS on labour-management relations, the Council noted that IAS has a budget of only $11.4 million, which severely limits the potential scope of its activities.

The Council applauds the thrust of such government initiatives. It believes that governments can be a catalyst in fostering worker-management cooperation and notes that increased resources are required. However, it wants to stress that, to meet the challenges and opportunities of technological change and the increasing globalization of the economy, business and labour will have to try to eradicate the lingering politics of confrontation.

[17] Frankel Steel in Milton, Ontario closed its doors in January 1988, putting 250 employees out of work.

[18] Employment and Immigration Canada, Strategic Policy and Planning, Program Evaluation Branch, Evaluation Study of the Industrial Adjustment Service (IAS) Program, Final Report, p. 68.

Therefore, the Council recommends that:

- To promote greater labour-management cooperation:
  - the government double the IAS funding and increase the personnel required to administer the program;
  - the government consider funding new, imaginative approaches under the Innovations program.
- Other initiatives, such as improvement of the social handling of technological changes issues at the workplace, be encouraged.

Increased Human Resources Planning

Better and more general planning for human resources is critical in the view of the Council. Such planning is essential if Canadians are to meet the challenges and opportunities ahead. Business, in concert with workers, must prepare the work force for developments such as technological change, changes in work organization, emergence of new lines of products, production facilities, rationalization, or emergence and decline of industries. Human resource planning is a simple concept that can, in a basic form, be profitable for even the smallest business. In larger firms, or at the national level, it can be very sophisticated. At all levels, it offers concrete and effective ways to increase productivity and to minimize adverse effects on the labour market. If they are to avoid disruption, Canadians must prepare now. Early planning not only reduces people's reluctance to accept change, but also facilitates the adjustment process.

The Council would like to see human resources planning by both business and labour across the economy. This planning must permeate all industrial levels and must become an essential element of a national agenda to increase competitiveness. Strengthening the role of the Canadian Labour Market and Productivity Centre (CLMPC) could be one way to facilitate such planning. At the industry level, the Council is encouraged by the activities of organizations such as the Canadian Automotive Repair and Service Council or the Canadian Electric and Electronics Manufacturing Association. At the firm level, human resource planning should be intimately linked to the firm's business plan or corporate strategy, since it is part of the necessary future orientation of any enterprise, as firms such as IBM Canada or the Xerox Corporation demonstrate.

The Council believes that human resource planning remains primarily a joint responsibility of business and labour. It is of the view that in this area also the government should play a catalytic role by making Cana-

dians more aware of the benefits of such planning and by providing support services. The Council noted some promising examples of government initiatives in this area. Employment and Immigration Canada entered into agreements with private sector organizations to help the private sector identify their current and future skill requirements and to ensure that training provided by firms and educational institutions meets their needs. Agreements with the Canadian Electrical and Electronics Manufacturing Association and with the Aerospace Industries Association of Canada are two such examples.

In the view of the Council, this type of approach is worth studying further to determine the extent to which industrial sectors can manage the adjustment process and implement programming more effectively than government. It is also critical to define more precisely how the government can be an effective catalyst.

The Council sees the government playing a more direct role. The government should consider requiring, for instance, that any requests by firms for federal assistance include a human resources plan. In such a plan, the Council wants to stress that the level of consultation between labour and management should be fully outlined.

The government in its programs could also play an important role in human resource planning by putting greater emphasis on government training in areas where opportunities and problems are emerging. In this respect, the Council identified an EIC program which emphasizes linking upside and downside development. The Continuing Employment Option of the Skill Investment program was implemented in July 1988. This option provides financial assistance to help defray workplace-based training costs, wages, and other costs incurred by new or expanding employers when they hire and train workers recently laid off or whose job is threatened because of technology or market change (an IAS certification is required for eligibility). Although the thrust of this option appears promising, it has been introduced too recently for further assessment. The Council also noted that the funding for this option is limited, some $4 million for 1988 / 89.

In conclusion, the Council wants to emphasize once again the importance of human resource planning in the Canadian quest for increased competitiveness. This planning must permeate the economy at an early date, and the primary responsibility for it rests with business and labour. Employment and Immigration Canada can play a role as facilitator. Industry, Science and Technology Canada can also provide important services in the area of emerging technologies, through the Sector Competitiveness Initiatives discussed in Chapter 11. Ultimately, however, the private sector must take charge.

Therefore, the Council recommends that:

- The private sector, both management and labour, seek new and innovative ways to plan jointly for change.
- The government increase its support of human resource planning through IAS.
- The government make human resource planning and the establishment of goals a prerequisite for firms applying for any assistance under federal programs.

Increased Private Sector Training

The data collected indicate that Canada's overall private sector training effort is limited, although it is recognized that there is little consistency in the interpretation of what constitutes training. For 1987, expenditures by the private sector on training and retraining are estimated at approximately $1.5 billion[19] – just over $100 per worker on average. U.S. firms now spend about $80 billion annually on training their staff, similar to the amount spent by all U.S. public and private universities and four-year colleges.[20]

Most of the Canadian expenditures are incurred by a small number of firms. According to a Canadian Facts study, in 1984, three out of four establishments did not provide any formal training.[21] There is evidence that training is largely concentrated in capital-intensive rather than labour-intensive industries and in expanding rather than declining industrial sectors. Moreover, in firms offering training, evidence shows that it is directed in large part to employees who already have above-average education and pay.[22]

The Council believes that the responsibility for training the unemployed – some one million – rests primarily with the government. It is convinced, however, that the responsibility for most of Canada's training effort – training the 12 million or so employed – rests with the private sector. The Council notes with regret that the private sector does not

[19] The 1987 figure was extrapolated from Canadian Facts 1984 data, *Manpower Training and Development Study*, commissioned by Employment and Immigration Canada and the Ontario Manpower Commission, 1985.

[20] OECD, *Science and Technology Policy Outlook, 1988* (Paris, 1988), p. 14.

[21] Canadian Facts, *Manpower Training and Development Study*, 1985.

[22] OECD, "The Role of Education in Labour Force Preparation and Adjustment," prepared for the Intergovernmental Conference on Education and the Economy in a Changing Society, Paris, 16-18 March 1988, p. 72.

yet have a training mentality. It encourages companies to do more training, and workers to take steps to equip themselves with skills.

The Council is not saying that all corporations in Canada are equally remiss in their efforts. Some corporations indeed demonstrate a strong training ethos. IBM Canada is one of them. It is a resilient company in a fast-moving business. In 1987, it spent $29.6 million in training – an average of $2,437 per employee. Every year, employees receive on the average eight and a half days of training in addition to a maximum of six-months' training at the time of hiring. At IBM, training is an intrinsic part of work. Every year each employee's performance is appraised and he or she also participates in a personal development session to decide what training will respond to both the individual's personal educational wishes and the skills needed for advancement within the company. This is, in the eyes of the Council, an example of what the private sector training ethos should be.

Despite a few such instances of high corporate responsibility *vis-à-vis* training, the Council remains extremely concerned that more companies do not take a similar approach. A general private sector training effort is urgently required and will benefit both employers and employees. If everyone were involved in such an effort, employers who do training would not see their staff raided by employers who do not invest in the skills of their work force. Employees' satisfaction would also be greatly improved as they would be able to achieve their utmost potential. The Council cannot stress too much that Canadian corporations must rethink their approach to training. Training is not a residual activity. It must become part of work. The Council sees the responsibility to equip individuals with mathematical, scientific, and technical literacy skills resting primarily with governments – with appropriate input from the private sector – but ensuring that workers can meet the challenges of tomorrow's occupations remains a private sector responsibility. In the Council's opinion, only private sector training and retraining, on a continuing basis, will allow firms to meet their skills requirements, workers to maximize their abilities, and firms and workers to adjust and to win.

The Council believes that the private sector will not increase its training efforts simply because it is exhorted to do so. It considers that the government should act immediately to ensure that companies begin offering basic training.

The Council proposes establishing a corporate tax liability that would be offset completely if the firm provided a base level of training to employees. The objective would be to foster a training ethos and to induce firms to meet their own changing and increasingly sophisticated skill requirements. It is not to raise revenue. Should the private sector not meet the training level required, the government would use the moneys collected to develop training programs, in consultation with industry and labour, to ensure that skill shortages do not hamper the quest for increased

competitiveness, to ensure that Canada enters the twenty-first century with a highly skilled work force, and to ensure that Canada adjusts and wins.

Such a tax liability should be set at a relatively low level, so that employers would have little difficulty matching it. For instance, given a $300 billion Canadian payroll base, a 1 per cent tax liability could lever $3 billion in training. This tax liability should be introduced with ample notice to allow companies to plan. It might also have a carry-over provision – possibly five years – to ensure flexibility. The Council recognizes that without appropriate safeguards, this approach might produce only a minimum level of incremental training.

Although the principle is simple, issues surrounding its application will require further study and extensive consultations. In designing such a tax liability the government should work closely with the provinces, business, and labour.

One of the first issues that the parties involved will have to examine is the adequacy of the training infrastructure to provide training, especially in the area of high technology. In this respect, it may be desirable to assess how new technologies could further enhance Canada's private sector capacity. The Council thinks that a tremendous opportunity exists in the development, by community colleges and others, of advanced skills training techniques that are well suited to the adult learning environment – such as computer-based training (CBT) techniques. The experience of industrial and military institutions could be used as models. Such programs result in substantially lower costs per student and greater acquisition of knowledge.

Defining eligible training will be another key issue. To be eligible, programs must not encourage "paper training," the designation of pseudo-training activity as training expenses. Defining training will also mean addressing such issues as training on the job or contracting out, direct and indirect training costs, and apprenticeship.

Practical and administrative issues will also deserve extensive cooperative study. Would it be appropriate to treat small businesses differently from large corporations? Is it realistic to expect a small fishing venture in Atlantic Canada, for instance, or a family-operated small business in a remote area to be involved in such an initiative? The issues of seasonal and temporary workers will have to be addressed, as well as the treatment of unincorporated businesses and government services. Parties involved may also want to review the feasibility of applying a dollar-per-hour-of-training formula. These are only a few of the details that would have to be worked out. Although the details of the initiative will generate strong debate, the overriding principles of fairness, equity, and minimum reporting burden should be kept at the forefront of the discussion.

The Council does not – and should not – have answers to these questions; the details of this initiative, as well as alternative solutions like those proposed by the Canadian Labour Market and Productivity Centre which would achieve the same objective, must be carefully worked out in cooperation with the many parties involved. The Council wants to underline, however, that industry must take more responsibility to develop a training capacity that meets current and projected needs. Governments must encourage and facilitate the process without dictating needs and solutions; they must foster a "training culture."

In addition to administering the training incentive tax, the government would also have another important role to play in fostering private sector training – as facilitator. For instance, the government might provide consulting services and analysis capability to industry associations or unions, along with some seed money to plan for skills development needs and to implement new and unique solutions.

Finally, the Council wants to emphasize that Canadians themselves must develop a "training culture." The government can assist, but ensuring the availability of a highly skilled work force to meet the challenges of the twenty-first century will be a private sector responsibility.

Therefore, the Council recommends that:

- To foster the "training culture" needed to increase Canadian competitiveness, the government design and implement an initiative to lever greater private sector training.
- The government design and implement a flexible tax liability for firms that would be offset by a firm's expenditures for training, up to the full amount of the tax.
- The government act as facilitator in fostering private sector training by providing consulting services and analysis capability, or seed money to employers, unions, or industry associations.

THE "TRAMPOLINE" VERSUS THE "SAFETY NET"

In most industrial countries, total public spending on labour market programs, including unemployment insurance, expressed as a percentage of gross domestic product falls into the 2 to 3.5 per cent range. Programs may concentrate on the one hand on getting the unemployed back to work as quickly as possible. These "employment promotion" programs

include, for instance, employment services, training, and special measures for youth or the disabled. On the other hand, some labour market programs are designed to maintain income. They include unemployment compensation or early retirement for labour market reasons.

These two categories of measures reflect, in the opinion of the Council, two very different approaches: the "trampoline" versus the "safety net." The former approach is not an easy one. It requires imagination. It also means frustration, anxiety and sometimes failure. Its effectiveness and efficiency will be scrutinized. It will have to show continuity but have the ability to be fine tuned as labour market requirements evolve. The trampoline approach constitutes a real challenge.

The latter approach – the safety net – is an easier one. It requires, in the opinion of the Council, far less imagination. Although the Council agrees that such an approach is an important element in achieving a fair and equitable society, it notes that it does not contribute to the future development of a country.

Traditionally, countries have relied on both types of measures. Internationally, however, there are significant differences in the mix used, as Table 2.1 shows. Sweden, for instance, spends some 70 per cent of its labour market expenditures on employment promotion measures. At the other end of the scale, Australia spends 21 per cent on this type of measure.

TABLE 2.1
Government Employment Promotion and Income Maintenance Expenditures as a Percentage of Total Labour Market Expenditure, 1987

	Employment Promotion Measures	Income Maintenance Measures
Sweden	70	30
West Germany	42	58
United States	29	71
United Kingdom	35	65
Finland	32	68
Japan	29	71
Canada	**25**	**75**
France	24	76
Australia	21	79

Source: Derived from OECD, *Employment Outlook*, September 1988, p. 86

Canada relies heavily on the safety net approach. Only 25 per cent of public expenditures on the labour market are devoted to employment promotion – the trampoline. This distribution, in the view of the Council, requires greater balance. The Council believes that some of the empha-

sis should be shifted away from the safety net towards the trampoline. Canadians should invest primarily in employment, not in unemployment.

Although the Council advocates a shift in emphasis, it is not recommending a major reorientation of the Unemployment Insurance (UI) program. The Council recognizes that the safety net is important and that in fact it may be more important to Canadian regions which do not fully participate in our fast-growing economy.

In the opinion of the Council, an emphasis on employment promotion measures on the part of both the private sector and governments would eventually lead to a decrease in UI expenditures, as claimants would become far fewer.

A GENERAL FRAMEWORK

Canada's labour market expenditures expressed as a percentage of gross domestic product compare well to those of many countries often seen as models. Relatively, Canada spends approximately as much as Germany, Sweden, and Finland (Table 2.2). In recent years, total unemployment insurance expenditures have been in excess of $11 billion annually (financed in 1987 as follows: employers 43%; employees 31%; and government 26%) and, for 1988 / 89, the Canadian Jobs Strategy had a budget of $1.774 billion.[23] Thus, the total level of resources devoted to labour market intervention is not a core issue in the opinion

TABLE 2.2
Labour Market Expenditures as a Percentage of Gross Domestic Product, 1987

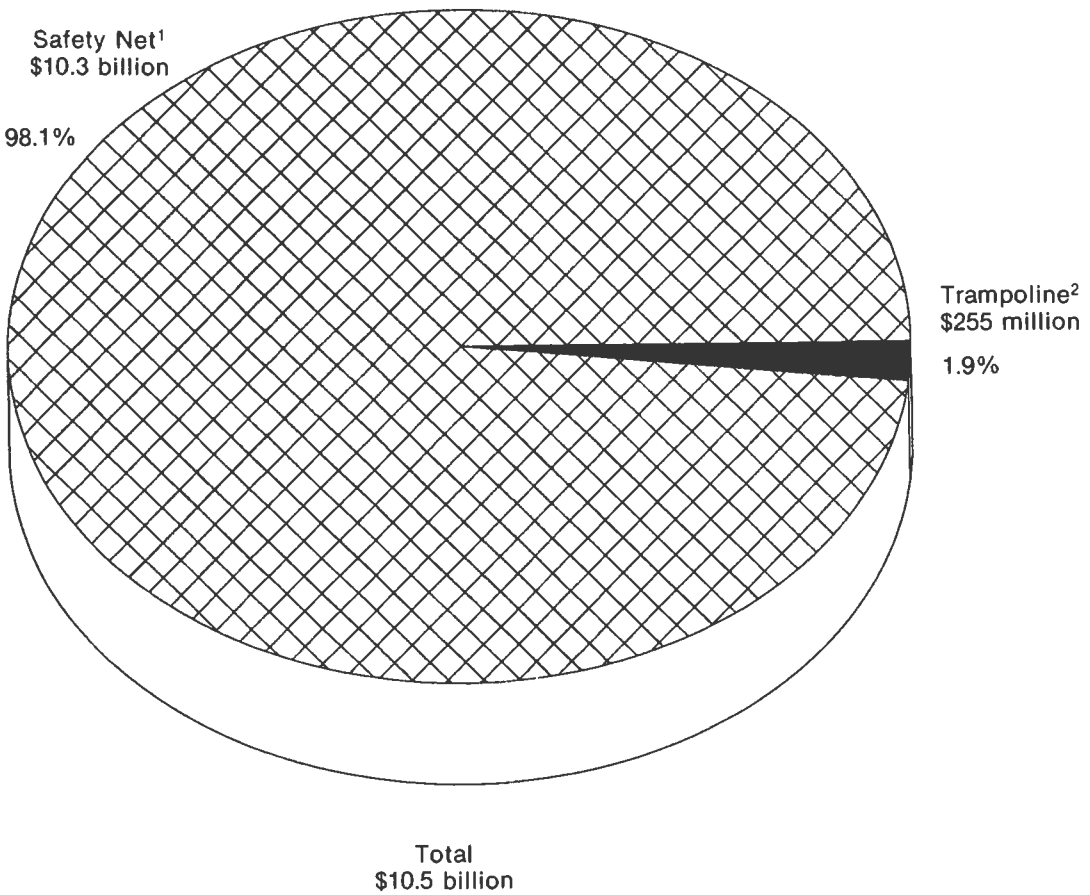
	Total Labour Market Expenditures	Employment Promotion Measures	Income Maintenance
France	3.07	0.74	2.33
Sweden	2.66	1.86	0.80
United Kingdom	2.57	0.89	1.68
Finland	2.39	0.76	1.63
West Germany	2.34	0.99	1.35
Canada	**2.24** *	**0.57**	**1.68**
Australia	1.53	0.32	1.21
United States	0.83	0.24	0.59
Japan	0.59	0.17	0.42

Source: OECD, *Employment Outlook*, September 1988, p. 86. * *sic*

[23] Employment and Immigration Canada launched the Canadian Jobs Strategy in 1985. It was developed after consultations with business, labour, and provincial governments and emphasizes involvement by the private sector at the local level.

FIGURE 2.11
Estimated Unemployment Insurance Benefits, 1988

1 Regular and special benefits, developmental uses for work-sharing and job creation
2 Section 39: training
Source: Employment and Immigration Canada



of the Council, and it sees little need to recommend a dramatic increase in the overall level of moneys. The balance of these expenditures is, however, of concern.

Unemployment insurance benefits for the most part represent an income maintenance measure as shown in Figure 2.11. For many individuals, unemployment insurance provides a short-term but essential financial bridge to allow them to find another job.[24] For those who

[24] Twenty-two per cent of UI claimants receive benefits for less than 9 weeks and some 45 per cent for less than 20 weeks.

experience longer term unemployment – and therefore likely need to upgrade their skills – it does not help them get back to work as soon as possible, since it does not generally allow for training or retraining. The Council noted one exception: Section 39, Training Provision of the UI Act. This section – currently budgeted at $255 million – provides income support to the unemployed up to a maximum of 104 weeks while they improve their skills. In the eyes of the Council, this is a positive use of funds which should be strengthened significantly, but without increasing the UI contributions of employers and employees.

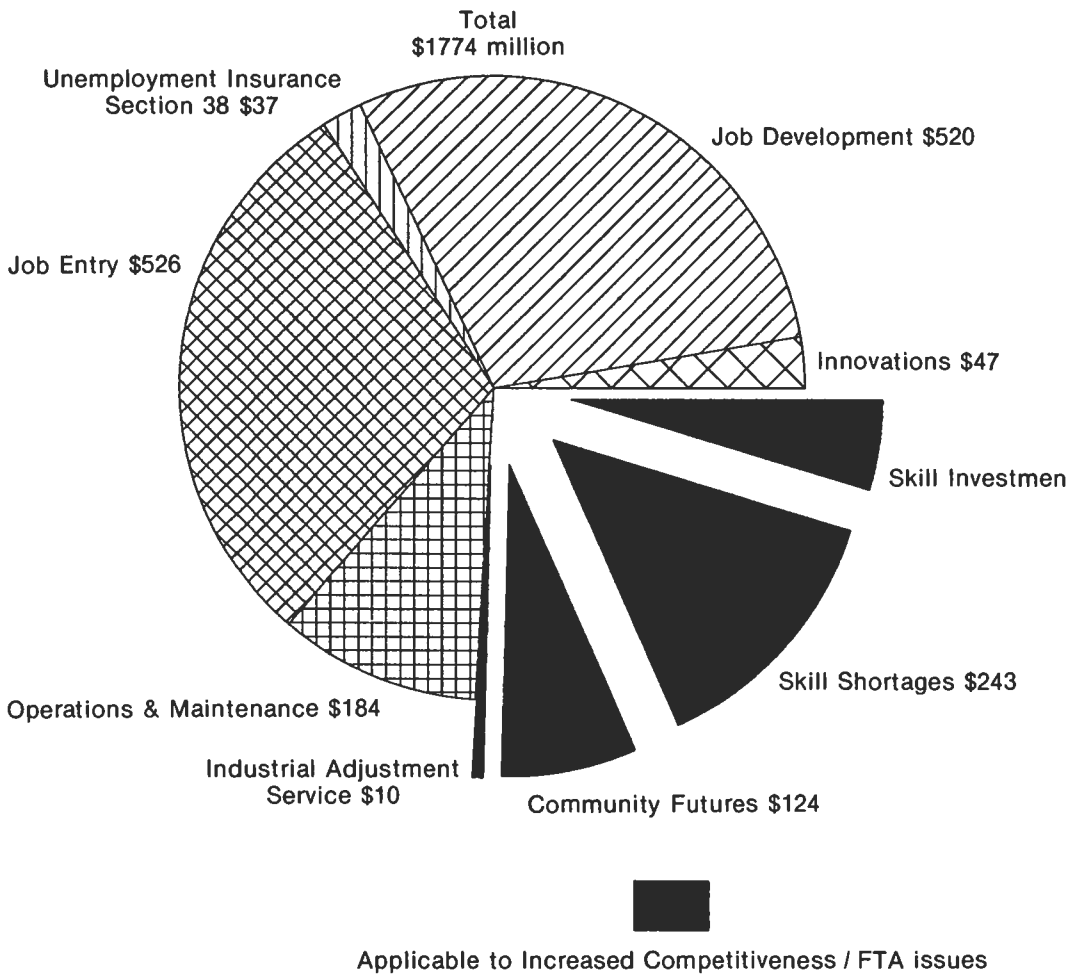
With respect to alternative uses of other income maintenance funds, the Council is also encouraged by the cooperative efforts of federal and provincial governments to enhance the employment prospects of social assistance recipients. In this initiative, employment programming and training are available to recipients on a voluntary basis as an alternative to social assistance payments.[25] The Council again sees this type of measure as a positive step in getting individuals back to work.

The Canadian Jobs Strategy is another major federal labour market intervention, and the Council noted that considerable emphasis is given in it to equity issues (Figure 2.12). As indicated earlier, certain segments of the population face special employment problems, and several CJS programs have been targeted to assist in this respect. Some $520 million is spent on Job Development to provide training and work experience to the long-term unemployed. Approximately $525 million is spent on Job Entry to help young people and women, for instance, find employment. In total, two-thirds of CJS expenditures – $1.05 billion – are devoted to these groups.

Although the Council sees these programs as valid, and indeed needed, another segment of CJS programming is more germane to adjustment to the FTA, to the quest for increased competitiveness. This segment comprises programs designed to upgrade skills, reduce skill shortages, and assist the employment threatened or newly unemployed. These programs, all focusing on efficiency, should in the view of the Council be given greater emphasis. Overall, some $450 million is allocated to these programs. Skill Investment, designed to assist the employment threatened or newly unemployed as a result of market or technological change, has, for instance, a budget of $83 million. Skill Shortages, which assists employers in finding the skilled workers they need to be competitive – where these skills have been designated in shortage at the regional or national level – has a budget of $250 million. In addition, Community

[25] This initiative, introduced in 1985, is designed to enhance the employability of social assistance recipients. It became fully operational in 1987-88. Since its inception approximately 60,000 individuals have participated in the federal component of this initiative. (Data for the provincial component are not available.)

FIGURE 2.12
Canadian Jobs Strategy, Budget, 1988-89
As of 31 January 1989
Source: Employment and Immigration Canada



Futures, designed to assist selected communities in the assessment of their economic circumstances and in the development of employment opportunities, has a budget of $124 million.[26]

In light of the arguments above, the Council concluded that the emphasis in government labour market interventions needs to be shifted. The Council believes that the details of how best to achieve that shift should be developed jointly by labour, business, and governments. It wants to stress, however, that the existing safety net should remain, and

[26] For information on Canadian Jobs Strategy programs, refer to Appendix D.

it notes that greater emphasis should be given to the trampoline which facilitates employment maintenance, quick re-employment, and minimized unemployment. Greater emphasis should be given to developmental income support measures, such as Section 39 of UI, and to programs such as Skill Investment and Skill Shortages. The Council is of the opinion that, although equity considerations can be met by the CJS, the efficiency challenges cannot fully be addressed with current CJS funding.

Therefore, the Council recommends that:

- A bipartite group of business and labour be established by government to review how best to effect a shift in emphasis in expenditures on labour market interventions from income maintenance to employment promotion measures.
- The federal government shift expenditure from income maintenance to employment promotion measures, taking into consideration the recommendations of the bipartite group.
- The federal government double the amount allocated to Unemployment Insurance, Section 39, Training.
- The provinces cooperate with the federal government in reallocating expenditures from the "safety net" to the "trampoline."
- The federal government increase significantly - by $200 to $300 million annually - funding for programs such as Skill Shortages and Skill Investment or similar programs which are particularly germane to adjustment.

While the level of funding is important, it is even more imperative to design programs with extensive private sector input if Canada is to meet labour market requirements and maximize their impact. Too often, in the Council's view, such programs have been designed with too little consultation with the private sector. In this respect, the Council welcomes initiatives on the part of EIC to increase private sector input in the design of labour market interventions. The Council believes, however, that considerable further scope exists for broader advice from the private sector on global and sectoral labour market requirements. It is also of the opinion that there is a need for private sector suggestions on the most effective means of utilizing the funds available for human resource

development and for both the UI program and the Canadian Jobs Strategy.

The Council is impressed with the scope and the breadth of the advice on trade matters provided by the International Trade Advisory Committee (ITAC) and the Sectoral Advisory Groups on International Trade (SAGITs). The strength of the structure is that it has provided an ongoing, confidential, two-way flow of information and advice between the government and the Canadian private sector on international trade matters. Membership in the committees is drawn from the business, labour, consumers, cultural, research, and academic communities. Both the ITAC and the SAGITs report to the minister for international trade. The Council believes that a similar structure should be put in place to advise the minister of employment and immigration on policies and programs to assist Canadian workers adapt to the requirements of an increasingly competitive international environment.

Therefore, the Council recommends that:

- The government actively seek private sector input in the design, implementation, delivery, and monitoring of labour market measures.
- The government, building on existing models, establish an International Trade Advisory Committee (ITAC) / Sectoral Advisory Groups on International Trade (SAGITs) type of structure to provide broad advice on labour market issues and the formulation of labour market policies.

CHAPTER NINE

Specific Employment Issues in an Age of Globalization

In Canada's continuing quest for competitiveness, the process of labour adjustment will be ongoing as Canadians gear up for:

- the increasing pace of international technological change;
- more intense competition as world markets become truly global, with product stock, assembly, and distribution supplied from many international sources;
- competition in the larger North American market with countries which have relatively low labour costs; and
- the effort to overcome the problems of Canada's smaller scale production with higher unit costs in comparison with larger global trading partners.

In the opinion of the Council, there is no doubt that the globalization process of previous decades will continue and likely intensify in the foreseeable future. The programs of the federal, provincial, and territorial governments which deal with work force adjustment in these circumstances, as well as the wide variety of initiatives taken by employers and employees, will continue to assist workers as these changes occur.

In the Council's view, there are two main complementary sets of issues to be addressed. On the industrial side, the adjustment process is complicated by relatively low increases in productivity, high rates of regional unemployment, and more recently by higher rates of interest and a strong Canadian dollar. On the labour side, the adjustment process under globalization is complicated in particular by the traditional fragmentation of responsibilities between federal and provincial or territorial jurisdictions, and by variations in labour standards.

The effort required to gear up and make Canada fully competitive internationally for the next century is of considerable magnitude and will require a high degree of integration and harmonization of policies, in economic and social areas as well as between government jurisdictions. It is in this context of global competitiveness that a decade of new labour adjustment measures must be situated.

In order that Canadian business and labour can take full advantage of larger markets and increased competition arising from globalization, there is a need to:

- rapidly increase the international competitiveness of much of Canadian industry;
- ensure that government and business assume an appropriate share of responsibilities for encouraging competitiveness and improving the management of the process of change;
- establish common labour adjustment standards applicable to all Canadians in all regions of the country;
- ensure that those who are displaced are assisted, by rapid retraining of workers where required, to help them find new employment in areas of emerging opportunities; and
- make provision for retraining older workers and, where appropriate, for a humanitarian exit from the labour force for those workers.

In this section of the report, the Council has singled out some key areas for particular and immediate attention. In the Council's view, the most important aspects are:

- Advance Notice of Layoff;
- Severance Pay;
- Wage Earner Protection;
- Community-based Re-employment Services;
- Community Adjustment; and
- Programs for Older Workers.

ADVANCE NOTICE OF LAYOFF

Business, communities, and individuals need time to plan for change and to acquire new skills. It is self-evident that, the more prepared for change people are, the easier it will be for them to make an orderly transition to new opportunities. This observation is also supported by growing international evidence.[27] One of the most important features of advance notice is that it provides time to assess the labour market, to make an inventory of the skills and preferences of the laid-off workers, and allows unions, management, and all levels of governments to take an early and

[27] OECD, *Measures to Assist Workers Displaced by Structural Change: Report by Evaluation Panel No. 1 (Phase II)*, April 1988, chap. IV.

active role in defining the options or tailoring the adjustment services required.

Ideally, the longest possible notice of a layoff should be given, since adequate notice can allow a worker to find new employment before a permanent layoff occurs, thereby avoiding or at least reducing a period of unemployment. The six-month advance notice provided by Firestone Canada Inc. in 1987 for the closure of its Hamilton plant was an important factor in the placement of over 80 per cent of the 1,286 workers involved. As an added economic benefit, this period of notice not only reduced the length of unemployment for these workers but also avoided considerable unemployment insurance costs. This relationship between a long period of advance notice and savings in unemployment insurance costs is in line with similar findings in the United States.[28]

As the globalization process unfolds, Canadian companies will adopt a variety of strategies including mergers, acquisitions, and other production rationalizations in order to be in the best position to compete internationally. These activities could lead to anxiety and uncertainty for affected Canadian workers. The Council strongly believes that these competitive strategies must not lose sight of benefits built up by workers, such as seniority, and should not result in disadvantages to any groups of employees.

The Canada Labour Code and legislation in most provinces and territories require an employer to provide notice before laying off individual employees. Advance notice is also required in many jurisdictions before a collective layoff. Depending on the jurisdiction, as few as 10 or as many as 50 employees have to be laid off to come under the provisions of federal, provincial, or territorial collective layoff legislation.[29] The general principle followed is that the larger the group the longer the advance notice required.

Legislation for group termination is in place at the federal level as well as in Newfoundland, Nova Scotia, New Brunswick, Quebec, Ontario, Manitoba, and Yukon. Where legislation for group termination is not in place, provincial or territorial legislation requires individual notice, except in the Northwest Territories where neither type of layoff notice exists.

In addition, group termination legislation in the federal, Manitoba, Ontario, and Quebec jurisdictions provides for joint adjustment commit-

[28] L. Mishel, *Advance Notice of Plant Closings: Benefits Outweigh the Costs*, Economic Policy Institute Briefing Paper (Washington, D.C., May 1988), pp. 3-4.

[29] The Federal Labour Code applies to industries such as banking, telecommunications, and interprovincial transportation. It requires a group notice of 16 weeks where an employer terminates the employment of 50 of more employees under certain designated circumstances. Provincial statutes, where they exist, generally follow a similar pattern with significant variations. Notice required varies from 4 to 18 weeks.

tees made up of employer and employee representatives. The purpose of these committees is to facilitate the adjustment process by minimizing the impact of layoffs on workers and assisting in their re-employment. As well, employers anticipating group terminations are typically required to provide information concerning the intended termination of employment, including statistical and skill profiles of affected employees, under federal, Ontario, Quebec, and Manitoba legislation.

After examining advance notice, the Council has concluded that it is a key element in successful re-employment strategies, since it provides an essential period of time during which individuals and the community can prepare for and adjust to change.

Therefore, the Council recommends that:

- The federal, provincial, and territorial governments put in place minimum standards for advance notice for layoffs, with the objective of maintaining near continuous employment as possible, with the following as a minimum:

  Notice period of

  - 2 weeks regular notice for all companies laying off 1 to 4 persons;
  - 4 weeks regular notice for all companies laying off 5 to 9 persons;
  - 8 weeks regular notice for all companies laying off 10 to 49 employees; and
  - 16 weeks for layoffs of 50 or more people.

  Regular part-time employees receive the same advance notice of layoff as full-time employees.

  In group layoffs, the employer be required to supply the relevant federal, provincial, and territorial departments and agencies with a full demographic and skill profile of those laid off, the proposed compensation and redeployment package, together with the reasons for layoff.

- The federal government, through existing agencies and departments, ensure that employers fully respect seniority provisions, pensions, and other benefits built up during employment, in the design and implementation of merger, acquisition, and product rationalization strategies.

SEVERANCE PAY

Compensation for termination of employment, or "severance pay," is another important measure available to ease hardship for workers as a result of work force reduction. The Council notes that there is provision for severance pay only in federal and Ontario employment legislation.[30] However, severance payments are an accepted practice and regarded as such a strong corporate responsibility that compensation on termination of employment for executives is commonly provided.

The extent of the adjustment burden being carried by workers has not, in the opinion of the Council, received sufficient attention. The Council strongly believes that severance payments should be made to all employees and that the prime responsibility for severance pay rests with employers. Employers should be conscious of this responsibility. A recent example of corporate responsibility in this regard is Gillette Canada Inc., which, at its plants in Montreal and Toronto, provided a minimum of 26 weeks severance pay for permanent employees and for temporary employees who had worked 3700 hours or more. It also allowed for an age bonus.

In addition, the Council observed that under some severance arrangements, an employee who found another job before separation was not entitled to receive full severance. The Council sees this as a potential impediment to early job search and re-employment, as well as a departure from the notion of compensation for loss of employment and past service. The Council also noted that under the Unemployment Insurance program, severance pay is considered income, and as such reduces the overall UI benefits otherwise payable. In the opinion of the Council, severance payments are essentially compensation and not earnings, and should not be considered in the UI waiting period or be fully taxable.

Severance pay represents an amount paid in recognition of, among other things, a loss of capital built up by workers in their jobs. This capital may take various forms, such as seniority privileges or other considerations specific to a particular employer. These can all be considered as forms of "human" capital which represent investments by employees in

[30] Under the Federal Labour Code, an employee who has completed 12 consecutive months of employment is entitled to two days' wages in respect of each completed year of employment but not less than five days' wages at the regular rate.

Under the Ontario Employment Standards Act, the employer must provide severance pay to each employee who has accumulated five years of service or more. This requirement applies where 50 employees or more are terminated within six months or less, or where one or more are terminated by an employer (including a group of related companies) having an annual payroll of $2.5 million or more. In these situations, the employee is entitled to one week's regular wages (exclusive of overtime) in respect of each year of service, plus credit for each completed month of service, to a maximum of 26 weeks.

their jobs and which are similar to the types of investments subject to capital gains tax that are given special treatment for income tax purposes. Severance payments also represent a financial base for individual initiatives, to ease adjustment or to consider alternatives, for example, by paying down a mortgage or starting a small business.

After considering the capital aspect of severance pay, the Council concluded that treatment of severance pay as a capital gain for income tax purposes would help in the adjustment process. At the same time, it recognizes that there is a certain scale of payment that can reasonably be regarded as facilitating the adjustment process and that beyond this scale other factors less related to adjustment prevail. Consequently, the Council is of the view that the amount of severance pay that is considered to be a capital gain should be subject to a maximum limit.

Similarly, current administrative practice under the Unemployment Insurance program treats lump-sum payments such as severance pay as earnings, which effectively reduces the amount of benefits received. The Council believes that this practice works against the adjustment process; it is inequitable to reduce the resources available to an individual to explore adjustment options fully at a time when these resources are needed most.

Therefore, the Council recommends that:

- To harmonize severance pay legislation for permanent layoffs or plant closures throughout Canada, legislation in every jurisdiction should provide to employees with five years or more of service, as a minimum:
  - one week regular wages, excluding overtime, for each year of service, plus a credit for each complete month of service to a maximum of 26 weeks;
  - a further one-half week per year of service for workers 55 years and over, to a combined service-plus-age maximum of 39 weeks.
- Severance payments not be considered in the determination and allocation of earnings for Unemployment Insurance benefit purposes.
- The federal government undertake a study of the costs and benefits of treating severance payments to a maximum of $10,000 as a capital gain for the purposes of income tax, and implement decisions based on the results of this study before December 1989.

WAGE EARNER PROTECTION

The Council considered situations involving terminations of employment in which employers were unable to provide severance compensation. It was noted that, in addition to federal legislation, each province and territory has a basic system that requires the payment of certain wage amounts and that creates mechanisms for their recovery. Beyond these systems there are a variety of measures which try to ensure that assets will be available for the recovery of these wage amounts. These measures vary from jurisdiction to jurisdiction.

Under the current federal Bankruptcy Act, for example, a wage earner is entitled to a limited priority claim for an amount not exceeding $500 for arrears of wages for services rendered during the three months prior to the bankruptcy. Some provinces have also created legislative mechanisms to cover amounts owing for wages and vacation pay. The most noteworthy mechanism is the Manitoba "Payment of Wages Fund" from which the provincial government, as a last resort, pays wages owing, up to a maximum of $1,200 per employee.[31] The government subsequently undertakes to recover amounts paid out from defaulting employers.

The federal government has proposals before it to create a wage earner protection fund. It would be financed by the federal government, and would cover unpaid wage claims of employees whose employers are bankrupt, insolvent and being liquidated under statute, or in receivership, and whose employment has been terminated. Coverage would extend to 90 per cent of gross wages and vacation pay earned within the six months prior to the bankruptcy, liquidation, or receivership. The maximum amounts claimable would be $2,000 for wages and vacation pay together and $1,000 for expenses. A 10 per cent deductible would apply in all cases. The federal government would have an ordinary claim against the defaulting employers for amounts paid as compensation.

The Council recognizes that in the case of bankruptcies, for example, the proposed amendments to the Bankruptcy Act would provide some relief for workers. Furthermore, improvements to legislation by the provinces should result in a more standard treatment of severance payments and an increased awareness of employer responsibilities.

The Council strongly believes that employers must compensate employees fairly upon termination of employment. This responsibility to make restitution to individuals is a vital element in maintaining continuing

[31] Manitoba's Payment of Wages Act provides that, as a last resort, when all reasonable and necessary efforts have been made to collect the unpaid wages and all appropriate procedures under this act have been utilized, if part or all wages ordered to be paid remain unpaid, the minister of finance, on the requisition of the director of employment standards, shall pay the wages owing out of the Payment of Wages Fund.

confidence in a commercial relationship and is an accepted obligation in several fields.[32]

The Council is of the view that a fund should be created, financed by levies on employers or financed by the federal government from general revenues, to cover unpaid amounts owing to employees in situations involving layoffs where the employer is unable to make payment. Although the Council firmly believes that employers have the primary responsibility for such payments, it also is of the opinion that the federal government should assume this obligation when the employer cannot pay.

This wage earner protection fund should make timely payments of unpaid amounts of up to $4,000 owing to workers, and be responsible for recovering amounts paid out under the fund from defaulting employers.

Therefore, the Council recommends that:

- Consumer and Corporate Affairs Canada expedite amendments to the Bankruptcy Act to create a national wage earner protection fund to make payments of up to $4,000 to cover unpaid amounts owing to workers for such items as wages, vacation pay, pension and benefit premiums, and severance pay.
- In the event that the wage earner protection fund is not created, the federal government expedite legislation to ensure that claims of wage earners have priority over all other claims in the disposition of assets of insolvent employers.

COMMUNITY-BASED "ONE WINDOW" RE-EMPLOYMENT SERVICES

Any layoff having a significant material impact on a community creates extraordinary pressures and demands that require special attention by all those involved. At such a time it is essential that speedy and effective delivery of a range of employment services be available.

These services exist to some extent now in many cities and towns across Canada as part of the network of Canada Employment Centres

[32] For example, the Canadian securities industry has established a National Contingency Fund, a trust fund financed entirely by the securities industry, to protect individual investors in the event of the insolvency of an investment dealer.

and the routine range of other programs and services available from Employment and Immigration Canada, as well as from provincial and territorial governments. However, the extraordinary demands and imperatives of a major layoff or plant closure require an enhanced level and intensity of services. In the Council's opinion, the full range of required services would be best located at the work-site where the layoff is to occur. This is also the conclusion of a recent study by the Organization for Economic Cooperation and Development.[33]

Although the ideal in significant work force reductions is an orderly process in which there is ample communication and coordination of effort to achieve re-employment of all affected employees, with no break in employment, this is often far from what happens. Even with several months' advance notice, employees are faced with many stressful and difficult questions or choices, and the environment is emotionally charged.

In this context, an effective approach would be a number of well-trained mobile teams which could establish a presence quickly and enhance the existing resources of government departments and agencies in a community where a significant work force reduction is planned. The team members would be the primary contact in government that employers and employees would need from the time they first meet until the issue or problem is satisfactorily resolved.

Employment and Immigration Canada, having dedicated resources, would be the logical lead department to offer this increased level of service and to coordinate federal government activities with those of provincial and territorial departments and agencies. These teams would complement and enhance rather than replace existing services such as the Industrial Adjustment Service.

Therefore, the Council recommends that:

- Employment and Immigration Canada, in consultation with other federal, provincial, and territorial departments and agencies, establish community-based "one window" arrangements to provide a range of services to employees and employers during layoffs which have a significant material impact on a community.

[33] OECD, *Measures to Assist Workers*, chap. IV.

COMMUNITY ADJUSTMENT

The realignment of employment caused by ongoing economic change, including the opportunities and challenges arising from more liberalized trade, will have a different impact on communities across Canada as a result of many factors. These factors include the diversity of community circumstances and local ability to cope with change. In this respect, the Council notes the achievements of the community of Sudbury, in cooperation with INCO Limited, in diversifying its economic base following major work force reductions in the 1970s and 1980s, as well as the diversification achieved by Alcan Aluminum Limited together with other companies in the Saguenay–Lac Saint-Jean region in Quebec.

Large metropolitan centres and adjacent communities which have access to a broad range of commercial alternatives will on balance likely be affected neutrally or positively. At a different level, small subsistence-based communities in northern, coastal, or rural areas will likely be affected only minimally.

The areas most likely to be affected negatively are those population centres where there is only one source or a limited number of places of employment. Examples are communities with import-vulnerable industries such as textiles and clothing, as well as commodity-based industries which are subject to relatively wide price swings and changing consumer taste. Estimates of the number of single-employer resource-based communities range from around 800 to 1,500.[34]

Although Canadian cities and towns benefit from a broad range of programs, the centrepiece is the Community Futures Program introduced in September 1985 as part of the Canadian Jobs Strategy (CJS). Administered by Employment and Immigration Canada (EIC), Community Futures assists eligible communities to adjust to structural and economic changes which may result in permanent layoffs. The program operates primarily through local Community Futures Committees consisting of 10 to 15 individuals drawn from local business, labour, and municipal government. These committees receive assistance for operating expenses to prepare and oversee the implementation of a plan which identifies opportunities and the labour adjustment measures required. The National Labour Market Innovations Program (Innovations), also part of CJS, directly supports the Community Futures Program by providing shared-cost assistance for new initiatives to address labour market issues including community-based projects.

As the process of globalization of markets continues, Canadian communities will face a range of opportunities and challenges which will

[34] Canada Employment and Immigration Advisory Council, *Canada's Single-Industry Communities: A Proud Determination to Survive*, February 1987, p. 3.

only become defined over time. Communities are in a pivotal position to assess their vulnerability to changing circumstances and take early action to mobilize resources to resolve emerging problems. Advance planning by communities with few employers, so as to identify feasible ways to diversify their economic base, is a critical factor in how well communities adjust. These points, as well as the paramount importance of community self-reliance, were confirmed in representations to the Council by the Federation of Canadian Municipalities and the Canadian Association of Single Industry Towns. To support action at the local level, community circumstances should be monitored on an ongoing basis by the federal government, in cooperation with the provincial and territorial governments, so that assistance for community adjustment initiatives can be provided when and if necessary.

Therefore, the Council recommends that:

- The federal government be prepared to expand the Community Futures Program, if necessary, to deal with communities which require adjustment assistance because of circumstances arising from globalization of markets.

OLDER WORKERS

As indicated in Part 1, much of the labour adjustment process arising from economic change, including trade liberalization, takes place without government intervention. This is especially true during periods of economic buoyancy and where there is high labour flexibility. However, job changes can be impeded for a variety of reasons. Significant among these reasons is the age of the workers, an issue that is real and growing in importance.

The Canadian labour force is aging rapidly and the number of members aged 45 to 64 is expected to increase by almost 2 million to 6.7 million between 1985 and 2001, a span of only 16 years.[35] In addition, although they tend to have a relatively lower unemployment rate compared to the labour force as a whole, older workers, once unemployed, take longer to obtain another job.

[35] Employment and Immigration Canada, Advisory Council, *Older Workers: An Imminent Crisis in the Labour Market*, August 1985, p. 6.

Not all older workers experience lengthy unemployment. Those with skills and talents in high demand and those who are mobile tend to be re-employed most quickly. Recent and anticipated amendments to pension legislation in almost all jurisdictions in Canada, providing for relatively uniform vesting of pension benefits, hold promise for greater portability of pensions and mobility of older workers.

It is important to note, however, that certain segments of the older worker population may have more difficulty in taking advantage of opportunities outside their community or industry. This may be, for example, because of financial concerns including home equity or because of the characteristics of specific industries such as the garment industry, where women make up over 75 per cent of the work force.

The Council is of the opinion that all unemployed workers should have access to opportunities that will enable them to return quickly to the work force. As discussed in the previous chapter, training is an important factor in ensuring rapid re-employment. As well, early retirement, unless clearly dictated by individual wishes, could be counterproductive in view of current skill shortages and the dwindling labour force anticipated in the future.

Therefore, the Council recommends that:

- The federal government examine the circumstances facing older workers in order to determine whether additional special measures are required to help them reintegrate into the labour force.

The Council recognized that there will be circumstances under which some older workers will not be able to reintegrate into the work force. The Program for Older Worker Adjustment (POWA), announced in its current form in October 1988, is a response to these particular circumstances. POWA is intended to focus assistance selectively on those major permanent layoffs which could lead to real hardship for a significant number of older workers. It is not designed to encourage early retirement, since all avenues to re-employment must be exhausted before the assistance is made available. Support is targeted to workers between the ages of 55 and 64 who have been in the labour force for 15 of the last 20 years.

Under the program, major permanent layoffs will be assessed on a case by case basis, taking into account a wide range of considerations, including laid-off workers' prospects for re-employment and the prospects of retraining or mobility leading to job opportunities. POWA will provide

income assistance at a level between social assistance and unemployment insurance. This level will be determined on an individual basis, depending on a variety of factors. Federal contributions under the program will be contingent on a provincial financial contribution and the maximum feasible contribution will be sought from the employer in every case. There has been no payout under the program as yet, since applications for assistance are still under consideration.

Eight provinces and territories have agreed to participate in POWA to date, and discussions are continuing with the others.

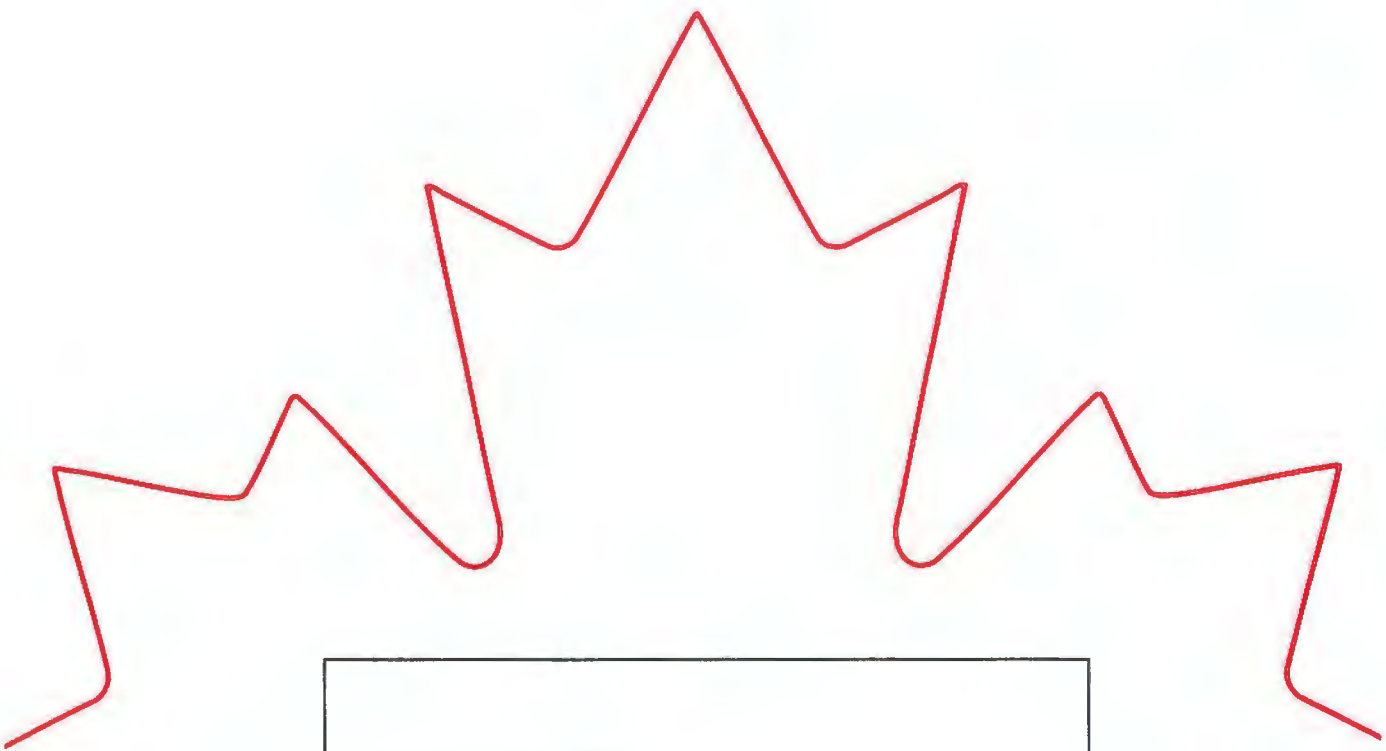
Therefore, the Council recommends that:

- All provinces and territories participate in the Program for Older Worker Adjustment.

The Council noted that under POWA, assistance is available only to those older workers involved in major layoffs and that there is no similar support for those not part of such layoffs.

Therefore, the Council recommends that:

- The federal and provincial governments examine ways of extending benefits similar to those available under POWA to older workers not part of major layoffs.



PART THREE

Corporate Issues

Introduction

Adjusting to change has become a way of life for Canadian corporations. Economic Council data indicate, for instance, that over a 10-year period about 40 per cent of firms leave a typical manufacturing industry, primarily through plant closure.[1] The firms that close down are rapidly replaced by new firms starting up. Even though some of the other 60 per cent may just struggle along, most are adjusting by either modernization or expansion.

Canada has adjusted well to developments in the changing trade environment, as indicated in Part 1, Canada Today. The tariff cuts of the Kennedy and Tokyo rounds and the implementation of the Auto Pact are just a few examples. Over the last three years, Canada's corporate sector also adjusted remarkably well to a significant increase in the value of the Canadian dollar *vis-à-vis* the U.S. dollar.

The corporate sector must build rapidly on its strengths, since the process of change is expected to accelerate as we approach the twenty-first century. The pace of technological change will gain momentum. Canada will face increasing competition from the newly industrialized countries of South Korea, Taiwan, Hong Kong, and Singapore, as well as countries such as Brazil, Mexico, and India. The remaining barriers between European countries will fall in 1992, and Canada can expect fierce competition from this trading block. Compounding these changes in the global trading environment, the FTA will increase competitive pressure at home. The FTA, however, will greatly enhance Canada's export opportunities by giving preferred access to a market of 250 million consumers.

Consultations with representatives from the business sector left the Council with the impression that many saw enhanced opportunities in the new global trading environment. The Council was apprised of expansion plans which had already taken place as part of a continental ration-

[1] *Managing Adjustment: Policies for Trade-Sensitive Industries, A Statement by the Economic Council of Canada*, 1988, p. 7.

alization of industry. Canadians also witnessed some plant closures as part of this rationalization, not only at the North American level but also at the world level.

With the exception of specific industry sectors which are covered in Part 4 of this report, the Council heard few representations to the effect that new programs were required to enhance Canada's competitiveness. The Council heard repeatedly, however, about the need to improve the business environment. The erosion of the tax treatment of research and development and of investment, the need for sales tax reform, impediments to interprovincial trade and labour mobility, and the issue of the consistency and continuity of government policies were most often aired.

This part of the report will give an overview of the main issues raised in relation to business. It will also provide insight into the findings of the Council, as well as indicate what Canada must do if it is to enter successfully into the twenty-first century. The chapters are organized as follows:

- Technological Innovation;
- Taxation and Financing;
- Interprovincial Barriers; and
- Outward Orientation.

CHAPTER TEN

Technological Innovation

Technological innovation is important to Canada's ability to adapt to the new business environment. It is a potent tool for achieving major gains in productivity, for developing new products, and for improving existing ones. These activities create wealth and jobs.

Technological innovation starts with identifying a technology that has the potential to enhance commercial products or processes. The technology is then developed or acquired and applied in a manner that will lead to improved productivity, better quality, new features of existing products, or entirely new products.

Technological innovation may be achieved in three general ways. Research and development is the first. Adopting technology from outside the firm is the second and major avenue. Improvements in products and processes on the shop floor, at the initiative of people on the job, is the third. All three must be utilized in a suitable balance in today's competitive world.

Technological innovation is frequently discussed in connection with high-technology industries. Some companies in these sectors are doing well in Canada, notably in telecommunication equipment. However, by far the largest part of the Canadian economy is comprised of more traditional industries, including other manufacturing, services, and resource industries. It is critical to the economic growth and prosperity of Canada that these industries rapidly adopt leading-edge technologies of all kinds, many of which will come from the high-technology industries. For example, the applications of computer technologies, new materials, and biotechnologies can boost the productivity and competitiveness of traditional industries.

Technological innovation, however, cannot proceed in a vacuum. First, the process must be market driven. Secondly, the firm must have technologically oriented management, strong marketing capabilities, adequate financing, and a skilled work force. The need for skilled people – scientists, engineers, and technicians – is particularly important.

While industry must take the initiative on technological innovation and provide most of the resources, other organizations can provide

valuable assistance. Universities and government laboratories can work jointly with companies on projects, although their main responsibilities may lie elsewhere.

The establishment of the National Advisory Board on Science and Technology, chaired by the prime minister, is considered by the Council to be a significant signal regarding the importance of science and technology to Canada's future. For the first time in recent history, science and technology have a meaningful place on the national agenda. The board is now a key initiator of government policy in this area. The Council welcomes the commitment of the prime minister to R&D indicated at the January 1988 Conference on Technology. It is important that the government define its role in industrial technological innovation precisely, since it has a significant influence on the other participants: companies, universities, and government laboratories.

In this chapter, technological innovation will be discussed under the following headings: research and development; technology transfer; federal government support for technological innovation; and human resource aspects of technological innovation.

RESEARCH AND DEVELOPMENT

Current Status of R&D

The level of Canadian R&D activity has been low in the past and, despite brave words over the years, only modest improvements have been recorded. Canada's overall expenditure on R&D, at 1.42 per cent of gross domestic product (GDP) in 1986, is only half that of leading industrialized countries, as illustrated in Figure 3.1. The percentages of GDP spent annually in Canada by government laboratories and universities have been somewhat less than in other OECD countries, as shown in Table 3.1. In the case of industrial R&D, however, Canadian expenditures have been significantly lower.

Industrial R&D expenditures have been growing steadily in industrialized countries (see Figure 3.2). Significant differences in the growth rate prevail. In Canada, for example, the R&D expenditure, expressed as a percentage of domestic product of industry (DPI), rose from 0.6 in 1973 to 0.9 in 1983, a 50 per cent increase. In Sweden, West Germany, and the United States, the increases were 73, 44, and 16 per cent, respectively. Within 10 years, West Germany and Sweden overtook the United States in terms of industrial R&D expressed as a percentage of DPI. Even though a country increases its efforts each year, it cannot be complacent. It must do more just to maintain its position.

An overview of sources of R&D funding and expenditures by those carrying out R&D in Canada is contained in Table 3.2. Of the

FIGURE 3.1
Total R&D Expenditures as a Percentage of Gross Domestic Product in 11 OECD Economies, 1986 or Latest Year
Source: OECD, *Main Science and Technology Indicators, 1982-88*, December 1988

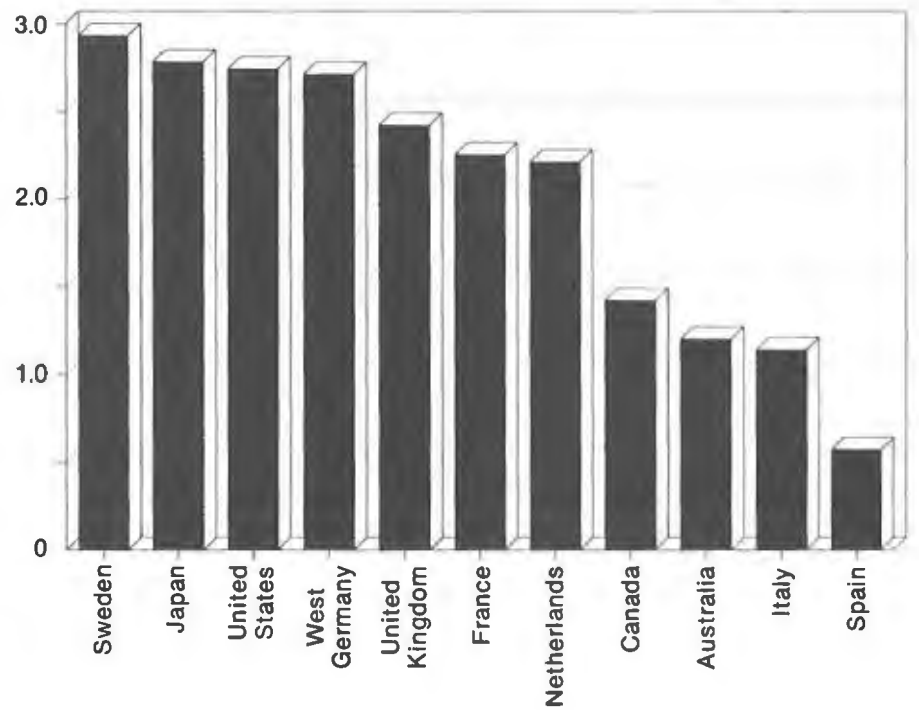


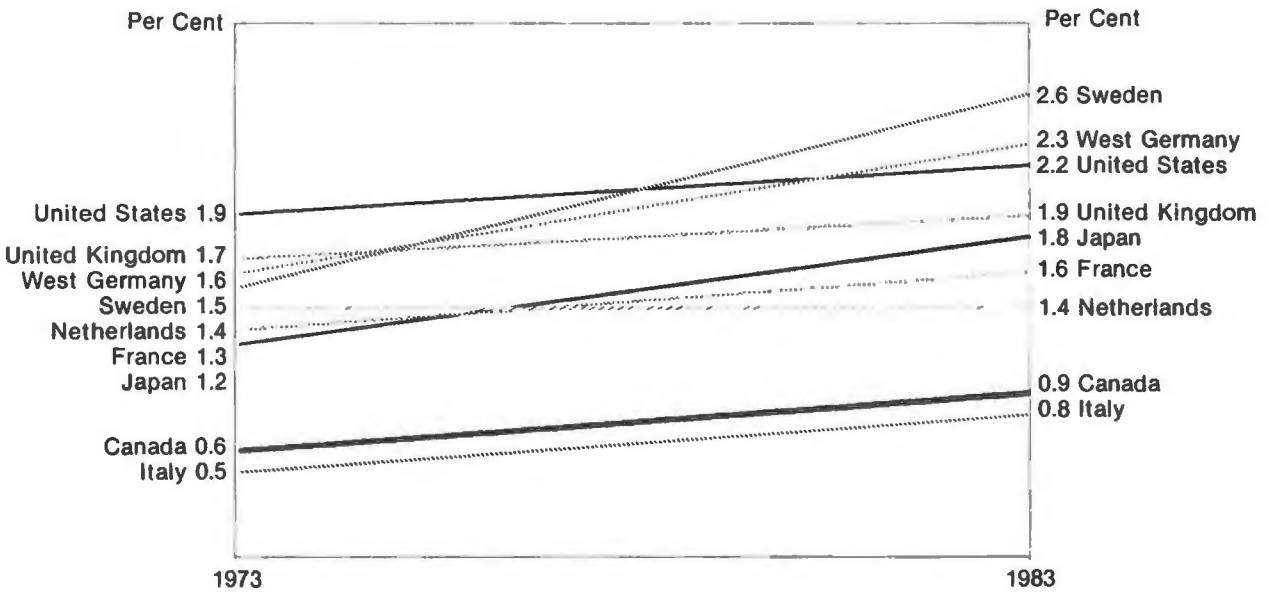
TABLE 3.1
Direct R&D Expenditures in 11 OECD Economies, 1986 or latest year (R&D as a Percentage of GDP)

	Industry	University	Government	Total R&D
Sweden*	2.15	0.65	0.13	2.93
Japan	1.85	0.55	0.38	2.78
United States	1.93	0.40	0.41	2.74
West Germany*	1.98	0.36	0.37	2.71
United Kingdom	1.63	0.33	0.46	2.42
France	1.32	0.34	0.59	2.25
Netherlands	1.30	0.49	0.43	2.21
Canada	**0.76**	**0.32**	**0.34**	**1.42**
Australia	0.42	0.32	0.46	1.20
Italy	0.67	0.22	0.25	1.14
Spain	0.34	0.09	0.14	0.57

Source: OECD, *Main Science and Technology Indicators, 1982-88*, December 1988
* Figures for 1987

FIGURE 3.2
Industrial R&D as a Percentage of Domestic Product of Industry, by Country, 1973-83

Source: OECD, Science, Technology and Industry Indicators Unit, as presented in Statistics Canada, *Science and Technology Indicators, 1987*, Cat. no. 88-201, p. 63



$7.185 billion available in Canada for R&D in 1986, $2.384 billion originated with the federal government and $2.924 billion with business enterprises.

Most R&D was performed by business enterprises – $3.828 billion; by universities – $1.637 billion; and by federal government laboratories – $1.417 billion. The business expenditures in 1986 were accounted for by only 3,800 companies, and 25 of them accounted for almost half of these expenditures.[2]

Industrial R&D

Overall, the relative level of expenditure on industrial R&D is significantly lower in Canada than in most other competing countries. Canada ranked eighth among 11 OECD countries (Table 3.1).

The performance among sectors of industry in Canada is uneven. Some, such as aircraft and parts, communications equipment, other elec-

[2] Industry, Science and Technology Canada, *Science and Technology Resource Allocation Statistics*, November 1988, p. 25.

TABLE 3.2
Sources of R&D Funds and Performing Sectors, Canada, 1986

Source of Funds	Performing Sector						
	Federal Laboratories	Provincial Laboratories	Provincial Research Organization	Business Enterprise	Higher Education	Private Non profit	Total
				$ millions			
Federal Government	1,417	—	8	409	524	26	2,384
Provincial Government	—	147	39	54	205	19	464
Provincial Research Organization	—	—	2	—	—	—	2
Business Enterprise	—	—	17	2,850	54	3	2,924
Higher Education	—	—	—	—	703	—	703
Private Non-profit	—	—	—	—	140	40	180
Foreign	—	—	2	515	11	—	528
Total	1,417	147	68	3,828	1,637	88	7,185

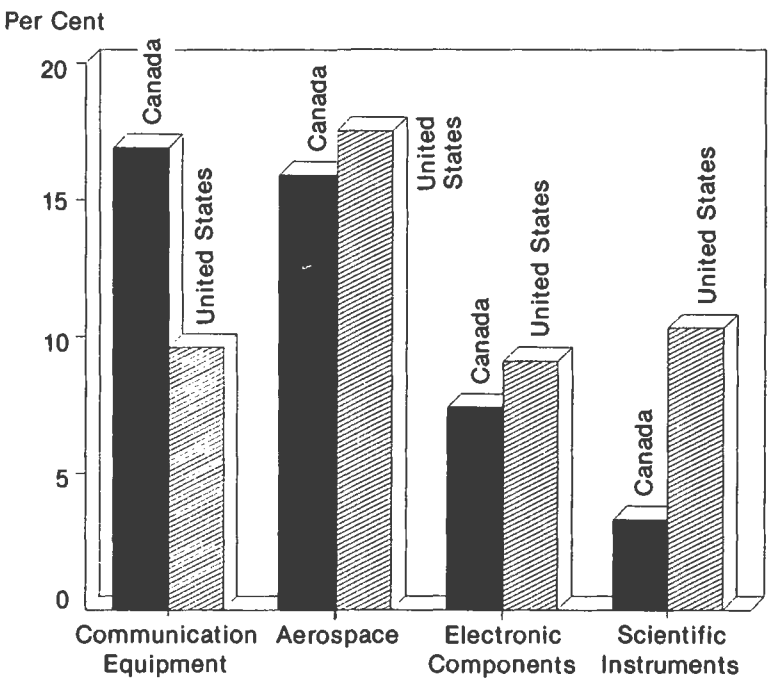
Source: *Estimates of Canadian Research and Development Expenditures by Region, 1979-86*, Statistics Canada, revised September, 1988.

tronic equipment, and engineering and scientific services, have a high level of R&D expenditure as a percentage of sales. In some areas where comparisons are possible with the United States, Canadian R&D expenditures are at a similar level, as shown in Figure 3.3.

However, in some resource sectors which are significant in the Canadian economy, a different picture emerges. R&D expenditure as a percentage of domestic product of industry in mining and quarrying, for example, was the lowest among a group of six OECD countries in 1983, as shown in Figure 3.4.[3] Agriculture, forestry, and fishing, an aggregate sector in which Canada could be expected to be prominent,

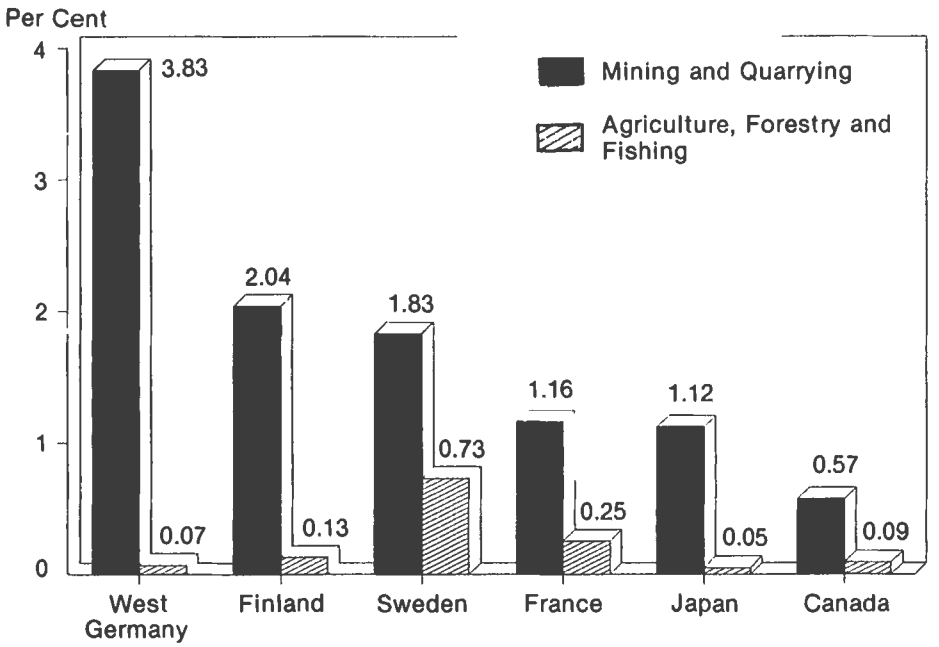
FIGURE 3.3
R&D Expenditures as a Percentage of Sales for Some R&D Intensive Industries, Canada and the United States, 1985

Source: Statistics Canada, *Industrial Research and Development*, Cat. no. 88-202, p. 62; United States, National Science Foundation, *National Patterns or Science and Technology Resources, 1987*, NSP 88-305, Table 8-28



[3] A group of five other countries was chosen for comparison with Canada in ISTC, "The Relative Effects of Industry Structure and R&D Propensity in International Comparisons of the Level of Industrial R&D Activity: The Canadian Case," 1988. West Germany, France, and Japan were included as representative of leading industrialized nations; Sweden and Finland as representative of small economies having a strong resource base but also using modern technologies. The United States was not included because statistics were not available on a comparable basis for resource industries.

FIGURE 3.4
R&D Expenditure as a Percentage of Domestic Product of Industry, 1983
Source: Industry, Science and Technology Canada, *The Relative Effects of Industry Structure and R&D Propensity in International Comparisons of the Level of Industrial R&D Activity: the Canadian Case*, 1988



was no better. In the same group of countries, only West Germany and Japan did relatively less R&D in this sector; Sweden spent relatively six times as much.

Even though R&D expenditures vary by sector, the overall level is low. Among the factors which may contribute to the low level of R&D in Canada are multinational control of Canadian companies and defence expenditures.

With regard to multinational control, in 1986 in-house R&D expenditures by companies in Canada, expressed as a percentage of sales, were as follows:[4]

Canadian controlled	1.6 per cent
U.S. controlled	1.1 per cent
Other foreign	1.3 per cent
Overall	1.4 per cent

[4] Statistics Canada, *Industrial Research and Development Statistics*, Cat. no. 88-202, p. 64.

TABLE 3.3
R&D Expenditures as a Percentage of Sales for Some R&D-Intensive Industries in Canada, 1979

	United States	Canada	Canadian controlled	Foreign controlled
Business Machines	11.8	**1.5**	**8.0**	1.3
Other Machinery	2.1	**0.9**	**1.1**	0.7
Aircraft & Parts	11.4	**10.2**	**19.0**	5.2
Communications Equip.	8.4	**9.1**	**9.7**	5.5
Other Electrical	5.1	**1.4**	**1.0**	1.1
Drugs & Medicines	6.1	**4.7**	**7.5**	3.5
Other Chemicals	2.7	**1.0**	**2.6**	0.7
Scientific Equipment	5.7	**1.7**	**17.7**	0.7

Source: Ontario, Ministry of Industry, Trade and Technology, *A commitment to research and Development: An Action Plan*, January 1988, p. 13

More detailed information on R&D by national ownership of business in Canada is given in Table 3.3 for a selection of research-intensive industries. Canadian firms producing business machines, aircraft, communications equipment, drugs and medicines, chemicals, and scientific equipment all do relatively more R&D in Canada than foreign-owned firms producing the same products. The explanation usually advanced for this is that multinational firms tend to concentrate their R&D in the country of the parent firm. In this respect, Canadian multinationals are no different.

Canadians derive a benefit from technology transfer from the parent to the Canadian subsidiary. This keeps the subsidiary up-to-date on product and process technology, but the result is not entirely satisfactory since the subsidiary has no claim on leading-edge technological development. The automobile industry is of particular interest in this context. In Canada in 1986, industrial R&D expenditure in this sector was $90 million. As the sector is a large one in the Canadian economy, $37 billion in sales,[5] this low level of sectoral R&D – 0.2 per cent of sales – likely has a significant effect on the average of all industry sectors.

The second factor contributing towards a low level of R&D is the level of defence expenditures. According to the OECD, in 1985 Canada ranked seventh for defence R&D expenditures expressed as a percentage of GDP. In particular, the Canadian expenditure of 0.04 per cent was minute in comparison to that of the United States, which was 0.85 per cent

[5] ISTC, Communication from the Automotive Directorate, January 1989. In the automotive case, sales refer to shipments of Canadian-made automobiles and parts to both Canadian and foreign markets.

(Table 3.4). Similarly Canada's expenditures were much less than those of the United Kingdom, France, and Sweden. In comparison with Japan, Canadian expenditures in relation to GDP were actually higher. It is clear that the level of defence expenditure contributed in part towards the relatively low level of R&D in Canada.

The Council recognizes that the level of R&D expenditures in Canada is low overall, compared to major OECD countries, and that this level may be explained in part by influences such as multinational corporations and defence expenditures. However, these factors do not account for all of the difference. Some of it is because the amount of civilian R&D conducted by Canadian-owned companies is weak.

The level of R&D varies from sector to sector and, in areas which have been significant in the Canadian economy, levels of R&D are low by international standards. At the same time, there are areas such as aircraft and communication equipment where R&D effort compares well, for example, with the United States. In this respect, the Science Council of Canada, in collaboration with Industry, Science and Technology Canada (ISTC), is investigating industrial R&D expenditures on an industry sector basis. The objective of the study is the establishment of targets by sector that would lead to the development of specific plans of action by industry to accomplish those targets. In the opinion of the Council, this work is an urgent imperative which will strengthen performance in all sectors, particularly those that are low by comparison.

TABLE 3.4
R&D Defence and Civil Expenditure as a Percentage of Gross Domestic Product, 1985

	Defence	Civil	Total
United States	0.85	1.98	2.83
Japan	0.02	2.79	2.81
Sweden	0.30	2.48	2.78
West Germany	0.13	2.53	2.66
United Kingdom	0.67	1.66	2.33
France	0.46	1.85	2.31
Netherlands	0.03	2.08	2.11
Norway	0.08	1.55	1.63
Finland	0.01	1.49	1.50
Canada	**0.04**	**1.34**	**1.38**
Italy	0.08	1.25	1.33

Source: OECD, *Main Science and Technology Indicators, Recent Results, 1979-87*, November 1987, as quoted in ISTC, *Science and Technology Resource Allocation Statistics*, September 1988, p. 32

Therefore, the Council recommends that:

- The government, in consultation with industry, set realistic R&D goals for each industrial sector, work with industry to develop action programs, and publicize the goals and achievements.

University R&D

Universities play an important role in Canada's R&D effort. Their rate of spending on R&D, at 0.32 per cent of GDP, places Canada in the eighth position among 11 OECD countries (Table 3.1). Canadian universities suffer from a chronic problem of inadequate funding. Engineering and science laboratories are obsolete and crowded. Their capability to collaborate with industry in R&D projects is limited. Universities are a provincial government responsibility, and the provincial governments must address the financing issue if universities are to fulfil their role in technological innovation. Substantial funding support is also currently being provided by the federal government through transfer payments to the provinces and by the three major granting councils: the Natural Sciences and Engineering Research Council, the Medical Research Council of Canada, and the Social Sciences and Humanities Research Council of Canada.

If significant research projects are to be undertaken at the request of industry or government, these projects will incur overhead costs additional to those incurred for research related to teaching. These additional costs must be recognized by industry and government, since ignoring the full cost is no more practical in the long run for universities than it would be in a company. The Council noted that Supply and Services Canada recognizes these costs and would encourage other departments, as well as industry, to do the same. Until full overhead costs are acknowledged, universities will remain discouraged and uncommitted to this level of work. Universities have particular difficulty in obtaining necessary funding for equipment, a problem that needs to be addressed by governments and others.

Closer cooperation between universities and the business world is regularly advocated on all sides.

> *Universities in some countries have become more entrepreneurial as the demand for their research and education has grown. The greater demand results primarily from the increasing need of scientific knowledge for the development of advanced technologies and of associated education and training for applying the technologies in business and industry. Because of the present close link-*

> *age of many areas of science with advanced technologies, new scientific knowledge often has relatively direct and immediate practical application – which acts to enhance its commercial value and consequently, the demand for such knowledge. The result is a sizable and expanding market for the research and educational "products" of academic institutions and the movement of many of them into that market.*[6]

Universities will be challenged to work jointly with industry to develop technology that will enhance Canada's competitiveness. The Council is encouraged by the federal government's efforts to set up Centres of Excellence which bring together networks of researchers and scientists across Canada to conduct world-class research.

Therefore, the Council recommends that:

- Provincial governments address the inadequacy of their funding of universities, in particular to provide for more adequate science and engineering facilities.
- Equipment funding be given special attention.
- For contract research to be done by universities, the sponsor (business or government) assume responsibility for all overhead costs involved.

Government Laboratories

The fundamental research role of government laboratories is to carry out investigations and provide information relevant to standards, regulations, and other measures which safeguard the environment, occupational safety and health, and other public interests. R&D expenditure by government laboratories in Canada is at about the same relative level as in other OECD countries.

Government laboratories also provide leadership and encouragement to industry through the provision of support for relevant research and technology development. These laboratories should not, however, be developing commercial products and processes; this must be done by industry. The National Advisory Board on Science and Technology is examining the questions of the relevance and quality of the scientific research conducted in a number of laboratories, as part of an ongoing

[6] OECD, *Science and Technology Policy Outlook, 1988* (Paris, 1988), p. 20.

review of the role of government laboratories. The Council believes that these initiatives are important in clarifiying the balance of effort between research related to government objectives and support for private sector efforts.

TECHNOLOGY TRANSFER[7]

In most industrialized countries, technology is the motive power behind economic growth. Improved productivity and new products are derived from technology and are essential for successful competition in the new trading environment. Little of the technology needed is available within Canada's borders, since Canada carries out only about 2 per cent of the world's industrial R&D. Even if this Canadian R&D were doubled – which would be expensive and difficult to achieve – it would not be enough. R&D also takes time, and the need is immediate. Canadian companies must find, adapt, and use technologies from other countries if they are to respond quickly enough to the new competitive challenges.

Using foreign technology has been an effective practice, as Japan and South Korea have shown. Canada has a range of economic advantages, such as large resources of energy and materials, a well-educated population, mobility of people, a free enterprise economy, and easy access to the American market. With such advantages, Canada is in a good position to exploit the world's technologies to achieve rapid economic growth.

Canada, however, is not making the best possible use of its potential; instead its utilization of new technologies has been relatively weak. It lags behind other industrialized countries in the application of computers. The rate of acceptance of new manufacturing processes is slow. The rate of capital investment in advanced equipment is low. Process automation is not being put into place at the speed of Canada's competitors.

A major change is needed now. Canadian companies must adopt foreign technology rapidly and in a major way.

FEDERAL GOVERNMENT SUPPORT FOR TECHNOLOGICAL INNOVATION

> [*Increased spending on research and development*] *is not just the federal government writing a cheque for borrowed money; it is*

[7] This section is based on a letter of 13 September 1988 to the Council from the National Research Council.

> *creating the climate within which the private sector, especially, responds to a great national challenge.*[8]

To foster this climate, the government has developed the Innovaction Program. It focuses science and technology efforts in five critical areas:

- industrial innovation and technology diffusion;
- development of strategic technologies;
- effective management of federal science and technology resources;
- human resources for science and technology; and
- public education in science and technology.

The responsibility for implementing government commitment to technological innovation is shared by Industry, Science and Technology Canada (ISTC), the National Research Council of Canada (NRC), the Natural Sciences and Engineering Research Council (NSERC), the Medical Research Council of Canada (MRC), and the Social Sciences and Humanities Research Council of Canada (SSHRCC).

ISTC acts in partnership with the private sector, the science community, other federal government departments, and other levels of government. It promotes international competitiveness and industrial excellence. It also fosters the renewal and expansion of Canada's scientific, technological, managerial, and production base. A major program of ISTC is the Strategic Technologies Program. This program supports alliances among companies and other organizations for the purpose of transferring leading-edge technology, as well as cooperative precompetitive research. It is intended to create technological capabilities and position Canadian firms to capture future markets. Technologies to be featured are biotechnology, information technology, and advanced materials. Other key programs which emphasize technology transfer are the Microelectronics and Systems Development Program, the Technology Outreach Program, the Defence Industry Productivity Program, the Centres of Excellence, and the Canadian Scholarships in Science and Engineering. (Descriptions of these programs are given in Appendix D.) Many of these programs are of only recent vintage; their impact will be felt in the future. The Council believes that their objective of accelerating technological innovation is both important and well timed in the light of rapid changes occurring in the new trading environment.

The National Research Council of Canada offers a number of science and technology programs and services in support of innovation. It

[8] The Right Honourable Brian Mulroney, quoted in National Conference on Technology and Innovation, *Proceedings*, January 1988, p. 1.

conducts fundamental and applied research. It provides advice, foreign contacts, and funding for technology transfer to small and mid-sized Canadian companies, as well as financial assistance for R&D through its Industrial Research Assistance Program. It also provides a computerized data base on world science and technological developments.

The three major granting councils provide funding for research at Canadian universities. The main objectives of these councils are to establish a substantial continuing base for research in Canada, to develop a pool of highly qualified research personnel, and to facilitate collaboration between universities, companies, and other institutions. NSERC is concerned with the natural sciences as well as with engineering. The largest programs of the council involve operating grants in areas such as chemistry, cell biology, and earth sciences. The Medical Research Council of Canada, among other health science related activities, provides grants in support of excellence in basic, clinical, and applied research in the health sciences. SSHRCC supports the social sciences and humanities through a broad range of granting programs including those in interdisciplinary research.

Therefore, the Council recommends that:

- Companies make a commitment on an urgent basis to seek out and utilize technology available outside the firm.
- In light of the constant evolution of technology and markets, the government review on a continuing basis the effectiveness and funding of programs that promote technology transfer.

HUMAN RESOURCE ASPECTS OF TECHNOLOGICAL INNOVATION

> *The key to increasing Canada's technological base lies in the availability of adequate numbers of highly trained and well-educated people.*[9]

Compared to six key competitors, Canada ranks last in terms of the relative number of scientifically and technically trained personnel – tech-

[9] Dr Norman Keevil, in National Conference on Technology and Innovation, *Proceedings*, January 1988, p. 25.

TABLE 3.5
R&D Personnel per Thousand Labour Force, 1983

Country	R&D*
Japan	7.4
United States	6.4
West Germany	4.8
Norway	4.1
France	3.9
Sweden	3.9
Netherlands	3.7
Finland	3.7
Denmark	2.8
Canada	**2.7**
Italy	2.7
United Kingdom	n.a.

Source: OECD, *Main Science and Technology Indicators. Recent Results, 1979-1987*, November 1987, as quoted in ISTC, *Science and Technology Resource Allocation Statistics*, November 1988, p. 36 (R&D personnel).

* R&D personnel reported in some countries consists only of university graduates in science and engineering; in other countries, technologists are also included.

nicians, scientists, and engineers – involved in R&D. For every thousand persons in the labour force, in 1983 there were 2.7 people involved in R&D; this contrasts with 6.4, 7.4, and 4.8 in the United States, Japan, and West Germany, respectively (Table 3.5). This relatively low number of R&D personnel is not surprising considering the fact that most companies in Canada do not carry out any research. Notwithstanding this lack of activity, a shortage of qualified R&D personnel is reported to exist in Canada today in technology intensive companies. About 61 per cent of these companies expect the shortage to persist during the coming five years, as shown in the accompanying box. This issue must be addressed immediately if Canada is to enhance its technological innovation capability to meet the challenges of the twenty-first century.

Technological innovation is not a priority with Canadian business executives.[10] In fact, there is a "lack of in-house technical and management skills."[11] Only about 3 per cent of Canadian manufacturing companies do any R&D. Furthermore, "seventy per cent of Ontario's manufac-

[10] Canadian Chamber of Commerce, *Focus 2000, Report of the Task Force on Technology and Canadian Business*, 1988, p. viii.

[11] OECD, *Science and Technology Policy Outlook, 1988*, (Paris, 1988), p. 70.

A SURVEY OF COMPANIES ON R&D PERSONNEL AVAILABLE IN 1988

Reporting Shortages of Qualified R&D Personnel

	(% of companies reporting)
Technology-intensive companies	43.1
Small companies	37.8
Medium-sized companies	37.5
Large companies	25.6

Reporting Unfilled Positions Slowing R&D 69.4

Expecting Shortages to Persist in the Coming Five Years

Technology-intensive companies	60.8
All companies in sample	48.5

Source: Conference Board of Canada, *R&D Outlook, 1989*, Report 34-88, p. 9.

turing industries do not have even one engineer on staff."[12]

Although very few companies conduct R&D, those companies doing so experience difficulties recruiting highly qualified research personnel. This has been documented by a recent Conference Board of Canada

[12] On the percentage of manufacturing companies doing R&D, see Canadian Chamber of Commerce, *Focus 2000, Report of the Task Force on Technology and Canadian Business*, 1988, p. 4; on engineers in manufacturing industries, see Dr Larkin Kerwin, "Rating Canada I.Q.," *Globe and Mail*, 3 March 1989, p. A7.

survey.[13] Because Canada will have to intensify its R&D efforts to increase its competitiveness in global markets, this shortage may become more acute.

In the opinion of the Council, it is imperative that Canadian business executives develop a "technological innovation culture." This innovation culture must permeate the company. Employees must be able to take advantage of the vast pool of technology that exists in the world today. Production and sales people need to be involved in improving a product or process during its lifetime. Management must take the initiative to secure their participation. Direct involvement of employees, in the sense of sharing management responsibility for the success of the product or process, is an essential ingredient to the company's success.

Companies that have a system in place to involve employees have given several reasons for its success. Technology has become more complex, making it impractical for top management to make all the decisions. Larger organizations slow down if many decisions have to be referred to the top, and rapid market changes demand rapid company response, requiring decision-making authority at the working level. The better educated work force of today is more capable of making good decisions. Good information systems enable most employees to have a broad and detailed knowledge of their company, putting them in a position to make good judgments of their own tasks. For all these reasons, employee involvement works.[14]

An outstanding example of employee involvement is the General Electric Canada Inc. plant in Bromont, Quebec, which won the 1988 silver medal for productivity and the 1987 bronze medal for labour-management cooperation in the Canada Awards for Business Excellence Program.[15] In this plant, employees participate in many kinds of decisions, and direct supervision has been decreased or eliminated. Employees are trained to do all the jobs in their department, and so become fully aware of the consequences of their work at all points in production. They hold frequent meetings to resolve production issues. Salary levels reflect the number of training courses employees have mastered. Hiring decisions are made by committees which include members of the work team affected, and employees participate in a committee established to recommend pay systems.

Under this regime, the performance of the Bromont plant has been impressive: the number of hours per set of engine parts has been reduced

[13] Conference Board of Canada, *R&D Outlook, 1989*, Report 34-88, p. 9.

[14] Conference Board of Canada, *Winning Strategies: Organizational Effectiveness through Better Management of People*, Conference Board of Canada, Report 36-89-E, 1989, p. 19.

[15] A program of Industry, Science and Technology Canada.

by 57 per cent, and the cost by 64 per cent, in three years. Employment has increased substantially and employees have become highly trained.

The Council is convinced that employee involvement is an important gateway for technological innovation. This point was recognized by the Social Sciences and Humanities Research Council of Canada, which indicated that technological change is essentially a social process. The importance of employee involvement has been overlooked in many companies, and management, in its quest for competitiveness, must understand the importance of involving their work force. Management needs training and pertinent information on how to achieve similar success to that at Bromont.

Therefore, the Council recommends that:

- Employers, community colleges, and universities increase their cooperation to meet the challenges of the human resources aspect of technological innovation.
- Government influence industry to develop and promote management training systems designed to elicit broad employee participation in technological innovation.

CHAPTER ELEVEN

Taxation and Financing

The competitiveness of Canadian industry in world markets was the predominant and common theme in the submissions received by the Council. The representations emphasized the need to establish comparable and consistent government policies and to avoid policies that frustrate industry efforts to modernize and to develop and obtain new technology. Among the factors identified by associations as affecting their competitiveness were taxation and the availability of financing.

In this chapter the Council will deal specifically with comparability and consistency of taxation, sales tax, and access to financing.

COMPARABILITY AND CONSISTENCY OF TAXATION

In the course of its consultations, the Council received representations to the effect that the overall Canadian taxation system should be competitive with the one in the United States. For example, if Canada is to be successful, it must have a tax system that will not discourage world-class companies and individuals. In addition, changes in the tax system should move in tandem with those of Canada's major competitors. In this context the Council noted that the United States is contemplating an important change to its tax provisions on capital gains.

The Council received representations concerning the negative impact of certain aspects of recent tax reform on Canadian competitiveness. This development was described as unfortunate, coming at a time when Canadian industry is preparing to face new competitive challenges in a global trading environment. Certain aspects of tax reform were viewed as disincentives for investment and innovation, and therefore contrary to the needs of Canadian companies. A modern plant is of prime importance if companies are to achieve the level of productivity and competitiveness needed to seize new opportunities. By increasing the financial burden of modernization, this reform, in the opinion of some associations, has reduced the capacity to adjust to the new competitive environment.

Some companies and associations have made specific recommendations on capital cost allowances, others on R&D incentives, advocating a return to the treatment prior to tax reform.

Capital Cost Allowance

The capital cost allowance (CCA) system is the income tax method used in writing off investments in assets over a period of time. There are differences between the rates for CCA and those for usual accounting depreciation. Usual accounting practice provides a write-off period which approximates the expected useful life of the asset. CCA write-off periods, often shorter, give a tax advantage to the corporation.

The tax reform of 1987 changed CCA rates substantially. For manufacturing machinery and equipment, CCA changed from a three-year straight line basis to a 25 per cent declining balance basis. This change is expected to have a significant impact on corporate income tax payable, amounting to about $670 million per year when fully implemented.[16] "For the first time in decades the effective depreciation rates on most machinery and equipment in Canada for tax purposes would be below those in the United States."[17]

The Council is concerned that Canada's former advantage has been eroded. The Council urges that the tax system should not further negatively affect the ability of Canadian companies to adjust to new competitive conditions through modernization of plant and equipment.

Therefore, the Council recommends that:

- The government, taking into account all relevant and significant income and commodity tax measures, closely monitor the competitiveness of the tax system to ensure that it provides adequate incentives to encourage new capital investment.

R&D Tax Provisions

The federal tax treatment of R&D is less generous than it was before tax reform. For a dollar of R&D expenditure, the present value of tax deduc-

[16] Department of Finance, *Tax Reform 1987, Income Tax Reform*, 18 June 1987, p. 67.
[17] R.D. Brown, "Effects of U.S. and Canadian Tax Legislation: A Canadian Perspective," *Canada-United States Law Journal* 14 (1988): 158.

tions for R&D has dropped from $0.525 to $0.455.[18]

The reaction of industry to the recent changes in the tax provisions for R&D was given in a recent Conference Board survey:

> *Over the coming year, federal government policies are expected to adversely affect the R&D plans of 43.5 per cent of all respondents, of whom more than one-half feel their impact will be very significant. This is a big increase from last year's 18.4 per cent and reflects continuing disappointment on the part of the business community. Hopes had been raised based on government pronouncements regarding R&D and technology policies, particularly those contained in the reformed tax code, and these expectations are not being fully met. On the other hand, respondents considered provincial government policies as lesser obstacles to R&D than federal policies (31.2 per cent), indicating that an emphasis placed on R&D in several provincial governments' budgets is seen as a positive policy element.*[19]

In attempting to understand further the funding of R&D in Canada, it is instructive to compare other Canadian and U.S. practices, not just the tax provisions. For expenditures on industrial R&D, the difference is enormous: Canadians spent $3.8 billion, compared to $107.1 billion in the United States, in 1986.

Table 3.6 shows that, although total federal government support of industrial R&D in the two countries is comparable as a proportion of company expenditure, the overall dollar amounts are vastly different, being $1.26 billion in Canada compared to $41.5 billion in the United States.

The environment for carrying out R&D is different in Canada from that in the United States. Canadians refer to the advantageous tax benefits in Canada. These tax benefits are small in relation to the U.S. government practice of contracting for R&D to be carried out by companies and of purchasing initial production runs of goods such as aircraft. The Canadian government should recognize the importance of these various kinds of support. Canada will probably never have the extensive procurement and contract system that the United States has, nor will the large U.S. expenditures on R&D related to defence be matched in Canada. It is appropriate to Canadian circumstances, therefore, that tax incentives continue to be significantly greater than in the United States, even merely to maintain Canada's position.

The Council recognizes, however, that government procurement and research contracts can provide powerful tools to foster research and that they should be used, where appropriate, within existing budgets.

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[18] C.D. Howe Institute, *Tax Reform: Perspectives on the White Paper*, ed. E.A. Carmichael, Policy Study No. 4 (Toronto, Montreal, and Calgary, 1988), p. 67.

[19] Conference Board of Canada, *R&D Outlook, 1989*, Report 34-88, pp. 2-3.

TABLE 3.6
Industrial R&D Expenditures and Federal Government Financial Support, Canada and the United States, 1986

Description	**Canada**	United States*
	$ billions Cdn	
Industrial R&D Expenditure	**3.8**	107.1
Grants and contracts	**0.49**	38.7
Tax credits	**0.77**	2.8
Total Federal Government Support	**1.26**	41.5

Source: Canadian figures came from ISTC, *Science and Technology Resource Allocation Statistics*, 1986. U.S. figures for industrial expenditure and for government grants and contracts came from *Science and Engineering Indicators – 1987*, U.S. National Science Board, p. 294; U.S. tax credits came from *Special Analysis, Budget of the U.S. Government*, 1988, p. G-37.

* U.S. dollars were converted at Cdn. $1.00 = U.S. $0.80.

Since 1983, the government has frequently changed R&D tax rules according to the changing needs of its budget. A history of R&D tax changes is shown in the accompanying box. Industrial R&D requires greater consistency in tax rules than has existed. Companies must be able to undertake their long-term R&D programs with some confidence that their after-tax costs are predictable, since it could take years for R&D expenditures to mature into streams of new products.

Therefore, the Council recommends that:

- The government closely monitor the impact of the tax treatment of R&D activity, with a view to providing increased incentives when appropriate.
- The government avoid frequent changes in tax rules pertaining to R&D expenditures and ensure that programs and policies affecting R&D provide a consistent environment.
- The government consider expanding involvement in R&D through industry sector consultations, using government procurement and contracts where appropriate within existing budgets, and making these arrangements more visible.

HISTORY OF TAX INCENTIVES FOR R&D

Pre-1961	Current expenditures for R&D fully deductible in the year incurred; capital at 33 per cent per annum.
1961	Capital expenditures made fully deductible.
1962-66	Additional deduction of 50 per cent of expenditures in excess of base levels.
1966-75	Additional 50 per cent tax deduction replaced by grants under Industrial Research and Development Incentives Act.
1977-78	Tax credit of 5 to 10 per cent of R&D expenditures, for incremental spending.
1978	Tax credits of 10 to 25 per cent, depending on location of R&D and size of company.
1983	Credits of 20 to 35 per cent, depending on location of R&D and size of company.
1983-85	Scientific Research Tax Credits introduced, then withdrawn.
1988	Restrictions on tax credits for medium-size and large companies; cost of buildings no longer eligible.

Source: CCH Canadian Limited, *Canadian Tax Reports, 1988*, para. 1983; Department of Finance, *Research and Development Tax Policies*, 1983, p. 6.

SALES TAX

Sales taxes are imposed by both provinces and states, the impact on company competitiveness apparently being about equal in the two countries. The Canadian federal sales tax, however, is unique in North America, since there is no U.S. federal sales tax.[20] For sales within Canada, federal sales tax is often a greater burden on Canadian manufactured products than on imported goods. The Canadian manufacturer will usually include costs such as distribution, advertising, and warranty in the base for tax calculation. On imported goods, however, these costs are often incurred by the Canadian importer after the sales tax has been paid. This results in Canadian goods bearing one-third more federal sales tax than imported goods, on average.[21]

On goods exported from Canada, the incidence of tax is about 1 per cent,[22] having accumulated at various stages in the production cycle. Therefore, for both domestic sales and exports, the present tax system is considered to reduce competitiveness of Canadian manufacturers. Furthermore, because this tax is applied to investment goods, such as machinery, it increases the cost of capital investment in Canada by an estimated 4 per cent, thereby decreasing the competitiveness of Canadian industry.[23]

The current sales tax has other significant disadvantages, such as administrative complexities and cost of compliance. It also increases the cost of manufactured goods to the consumer. Since it is imposed at the manufacturer level, the tax is included in the manufacturer's selling price and is subject to mark-ups by both wholesaler and retailer. An additional problem for competitiveness at present is that corporations are subject to a 3 per cent surtax on income until the sales tax is reformed.

Under the reform of sales tax envisaged by the Department of Finance, the overall rate will decrease, and the wholesaler and retailer tax mark-ups will disappear, since tax will effectively be levied only at the retail level. Consequently, prices of some manufactured goods should drop. Offsetting this advantage to the consumer, a range of services will be subject to tax for the first time. Sales tax will be rebated entirely on exports, improving the export competitiveness of Canadian producers, at least for some products and industries. The sales tax advantage now given to imports will be removed. For many reasons, then, it is important, in the opinion of the Council, that the federal sales tax system be reformed without delay.

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[20] C.D. Howe Institute, *Tax Reform: Perspectives on the White Paper*, 1988, p. 73.
[21] Department of Finance, *Tax Reform 1987, The White Paper*, 18 June 1987, p. 14.
[22] Department of Finance, *Sales Tax Reform, 1987*, p. 15.
[23] Department of Finance, *Tax Reform 1987, The White Paper*, p. 72.

Therefore, the Council recommends that:

- In the interest of helping Canadian companies become more competitive in the new trading environment, the current biases in the sales tax favouring imports over domestic production be removed.

ACCESS TO FINANCING

Some briefs made to the Council described a pressing need to respond to the challenges and opportunities of the new trading environment through such initiatives as the development of new products, the adaptation of new technologies, the installation of different manufacturing processes and the adoption of accelerated modernization programs. These initiatives, of course, require new capital investment, which for some firms will come at a time when financial resources are already fully committed. Some briefs, representing a relatively small number of companies, advocated that the federal government should assist companies with this financing.

For example, the boxboard and specialty paper industries, in their representations to the Council, indicated that the adjustment they anticipate will require substantial financial resources and must be completed well before January 1993, when tariffs will be totally removed. They also emphasized that these investments will have to take place if they are to remain competitive, and will be needed during a period when company earnings will be under increasing pressure.

In its consultations, the Council was apprised of the importance of the impact of the cost of capital on the competitiveness of Canadian industry. The Council noted that this cost varies significantly among industrial countries. It urges the government to investigate the overall cost of capital in Canada compared to the United States and Japan, for example.

As companies strive for international competitiveness, it will be more important than ever for Canadians to maintain modern facilities utilizing the latest technology. Industry briefs have underlined that the recent changes to capital cost allowances will reduce their cash flow at a time when major capital investments take on increased importance.

In light of the expressed need for financial resources, the Council reviewed federal and provincial assistance programs. The Council estimates that in 1988-89, the federal government will have spent in excess of $1.3 billion to support strategies such as industrial diversification, modernization, encouragement of small business, and development of

scientific and technological capabilities in companies. The federal government has also earmarked additional funds to further strengthen the economic base in the Western and Atlantic provinces over the next several years.

Government programs are intended to serve strategic priorities of the government, rather than provide a broad base of financial funding for business. The latter is provided by capital markets and by retained earnings, to the extent of more than $83 billion per year.[24]

Keeping in mind the way capital markets function, and having reviewed existing federal programs, the Council is of the view that, overall, the amount of money available should be sufficient to cover requirements at this time. Most businesses should be able to adjust; in fact few firms were represented by groups suggesting that government assistance might be required. Under certain circumstances, however, some might not have access to financing at a crucial time. In this context, there may be a need for financial assistance of last resort; for example, loan guarantees or income debentures might be appropriate vehicles. Such assistance should not be used to bail out companies or to maintain uncompetitive operations.

The Sector Competitive Initiatives Program of ISTC involves an industry sector and the department working together to develop a concerted plan of action to improve international competitiveness and to yield significant economic gains in terms of output, employment, and market share. This approach identifies the strengths and weaknesses of the sector, its competitiveness, its record of investment in plant and equipment, and the challenges and opportunities confronting it. The program could be augmented to include a feature whereby companies that have special financial needs, and are part of an industry sector for which a strategic plan had been developed, would be referred to the appropriate regional development agencies for support. Should there not be such an agency in the region, the Sector Competitive Initiatives Program should have available as a last resort a loan guarantee or income debenture arrangement.

The Council believes that the kind of labour-management cooperation described in Chapter 8 could improve the success of existing programs for financial assistance to companies. A human resource development plan should be a required component of a company's application for financial assistance. We would expect that this involvement of employees in the planning process would contribute significantly both

[24] Statistics Canada, *Financial Flow Accounts*, Fourth Quarter, 1987, Cat. no. 13-002, pp. 12-13, line 1100 plus line 1300. The $83 billion approximation does not include sources of funds for Crown corporations or unincorporated businesses, or transactions with a foreign affiliate.

to the success of the company and to job upgrading and stability for the employees.

Therefore, the Council recommends that:

- In those sectors where accelerated modernization might be required to meet the challenges and opportunities of the new trading environment, the needs of the sectors concerned be identified under the Sector Competitive Initiatives Program of Industry, Science and Technology Canada, and the program be expanded to provide for loan guarantees or income debentures in those circumstances where it can be demonstrated that there is a serious shortfall of capital in the industry.
- Consistent with the Council's views expressed in Chapter 8, a human resource development plan should be a required component of any application for company financial assistance under all federal government programs.
- The government examine the accessibility and cost of capital in Canada compared to Japan and the United States, in view of the need for increased competitiveness.

CHAPTER TWELVE

Interprovincial Barriers

During the Council's consultations, a number of submissions pointed out the adverse effects that some provincial government policies and practices have on the competitiveness and productivity of Canadian business. Limitations on trade among provinces, and even within provinces, fragment the domestic market and encourage inefficiency in both investment and the use of skilled human resources. Although they serve short-term goals and respond to local interests, these policies and practices aggravate the adjustment problem and make the adjustment process less effective.

Generally speaking, the kinds of government policies and practices referred to in these submissions are those designed to protect local business or to encourage the use of local labour and production facilities. These practices can be complex, sometimes indirect, and pervasive throughout the full range of government activity.

This chapter will examine three of the most significant factors limiting competitiveness and exacerbating adjustment problems in the face of change: government purchases, standards and regulations, and interprovincial mobility of labour.

GOVERNMENT PURCHASES

Purchasing practices by all levels of government have an influence on the business community. These levels include the federal government, provincial governments, municipalities, and Crown corporations, as well as government-supported organizations such as school boards, universities, and hospitals. Together, these organizations purchased $70.9 billion in 1983, which was 11.1 per cent of the total market demand in that year.[25]

Public sector purchasing practices sometimes impose conditions on tendering or contracting which may require the use of local labour, invest-

[25] Supply and Services Canada, *The Canadian Public Sector Market*, 1988, p. 31.

ment in local production facilities, or provision of other kinds of local benefits. These conditions may result in higher costs and prices for the services being rendered.

In the Council's view, these preferential purchasing practices are inconsistent with the imperatives of a competitive, flexible, global marketplace. These practices could limit the potential for successful adjustment actions, and may eventually result in increased appeals for adjustment assistance. This balkanization of the Canadian market through government purchasing practices has long been a recognized problem. Only recently, however, has concerted attention been given to this problem, with the intention of major reform.

With impetus from the prime minister and the premiers at the annual conferences of first ministers, two committees of federal-provincial-territorial ministers have been established since 1986. They are:

- Committee of Ministers Responsible for Procurement;
- Committee of Ministers on Internal Trade.

Under the leadership of these committees, action has been taken, on a cooperative basis between governments and industry, on the problem areas listed below:

- negotiation of a federal-provincial-territorial Agreement on the Reduction of Interprovincial Barriers to Trade Related to Government Procurement, to provide for open tendering on purchase contracts of over $25,000;
- a pilot project to reduce transportation costs for distant suppliers;
- the possibility of initiating regional supplier development programs, in cooperation with other agencies;
- a trial project to identify and promote unique technologies available from Canadian companies;
- promotion of increased Canadian manufacture of medical devices;
- promotion of increased Canadian manufacture of wood products;
- establishment of a public sector procurement data network; and
- analysis of the potential for industrial development from sub-contracting on major projects funded by the government.

The Intergovernmental Agreement on the Reduction of Interprovincial Barriers to Trade Related to Government Procurement, referred to above, is being recommended by the Committee of Ministers on Internal Trade

to the first ministers, for ratification. It is clearly a worthwhile accomplishment. The agreement remains to be ratified, however, and then to be implemented effectively. Ratification is only a first step. Unless continuing commitment to this reform is given at the highest levels of authority, no real change will be made. The momentum must be sustained by the first ministers.

STANDARDS AND REGULATIONS

A variety of standards and regulations imposing limits on interprovincial trade were brought to the Council's attention. This problem relates primarily to goods sold to consumers, not to governments. The largest number of commerce-restricting standards and regulations appear to be in agricultural and food products, particularly where provincial governments have responsibility for regulation and inspection. These restrictions take a number of forms, including product standards and packaging standards. In agriculture, various marketing boards, consumer product standards, and inspection practices, particularly in dairy and meat products, limit competition by protecting local producers and processors. Many of the standards and regulations are primarily intended to protect consumers, but they are also used to limit interprovincial trade.

In 1984, for example, Quebec established a requirement that fresh tomatoes be sold in imperial measure containers; Ontario tomatoes in metric containers were returned to the shipper. In another example, Quebec regulations specify that butter must be wrapped in aluminum foil, while Ontario accepts both aluminum foil and parchment wrapping. For soft drinks, different provinces have regulations requiring different containers (steel, glass, aluminum), to support local industries. One effect of these differing standards is increased cost to Canadians.

The Council is convinced that restrictive regulations and standards practices must be changed if producers are to prosper and consumers are to benefit in the new trading environment. Governments have the prime responsibility in these issues, and it is governments who have the power to change their policies and practices and to create an open and efficient domestic market – in effect a Canadian common market where goods and people move freely across interprovincial boundaries.

Therefore, the Council recommends that:

- Governments ratify the initial Agreement on the Reduction of Interprovincial Barriers to Trade Related to Government Procurement as soon as possible, and follow up this initiative with a concerted effort to bring about real change.
- Governments ensure that effective mechanisms are set in place to promote and monitor progress in implementing this agreement.
- First ministers charge the Committee of Ministers on Internal Trade with the responsibility to negotiate the elimination of barriers to internal trade resulting from the use of differing provincial standards and regulations.

INTERPROVINCIAL MOBILITY OF LABOUR

A number of submissions received by the Council underlined impediments to the movement of both skilled labour and professionals. Accreditation and recognition of qualifications differ from one province to another, and hiring practices (through unions and other mechanisms) tend to exclude qualified people from other jurisdictions.

Local hiring preferences, established by provincial governments, impede the free movement of skilled labour and trades people. Such practices have been reported in a number of provinces. They undermine the effectiveness of the Interprovincial Standards Program, commonly referred to as the Red Seal Program. This program, which is coordinated by Employment and Immigration Canada, is intended to increase the mobility of journeymen in selected occupations. There appears to have been little real progress on these issues in recent years.

The Council appreciates the concern of provincial governments to promote the interests of their working population. It also believes, however, that these interests could be met more constructively through training programs for their own workers rather than restrictive regulations.

In the Council's view, to maximize Canada's competitiveness, firms should have access to the talents of all Canadians. Unfortunately, because of interprovincial barriers to labour mobility, areas of higher growth may suffer skill shortages even though well-trained people are available in other areas.

Therefore, the Council recommends that:

- The federal government promote the further extension of national training standards for skills that are useful to more than one employer.
- Skill certification be fully transferable between provinces, particularly for apprentices, journeymen, and other skilled trades people.
- In the development of new national standards, the federal government encourage a greater labour / management role in national training, in national certification of apprentices, journeymen, and other skilled trades people, and in retraining programs to keep abreast of the latest technological developments.
- The federal and provincial governments use all means at their disposal to ensure the free and unhindered movement of labour between provinces.

CHAPTER THIRTEEN

Outward Orientation

International trade is vital to Canada's economic well-being. Over 30 per cent of Canada's national income comes from trade, and more than three million Canadians work in industries that produce goods and services for export.

"The Free Trade Agreement with the United States is a major building block in the government's strategy to strengthen Canada's competitive position in world markets."[26] Although the United States is and will likely remain Canada's most important trading partner, accounting for 74 per cent of Canada's exports and 69 per cent of imports (Figure 3.5), the Council noted that from 1987 to 1988, Canadian exports to overseas destinations increased by 20 per cent compared to 4 per cent to the United States. The U.S. trade focus will continue to be important, but it would be inappropriate to look at the future of Canadian trade solely in terms of bilateral Canada-U.S. opportunities. Canada must also look at other major markets such as Europe and Pacific Rim countries.

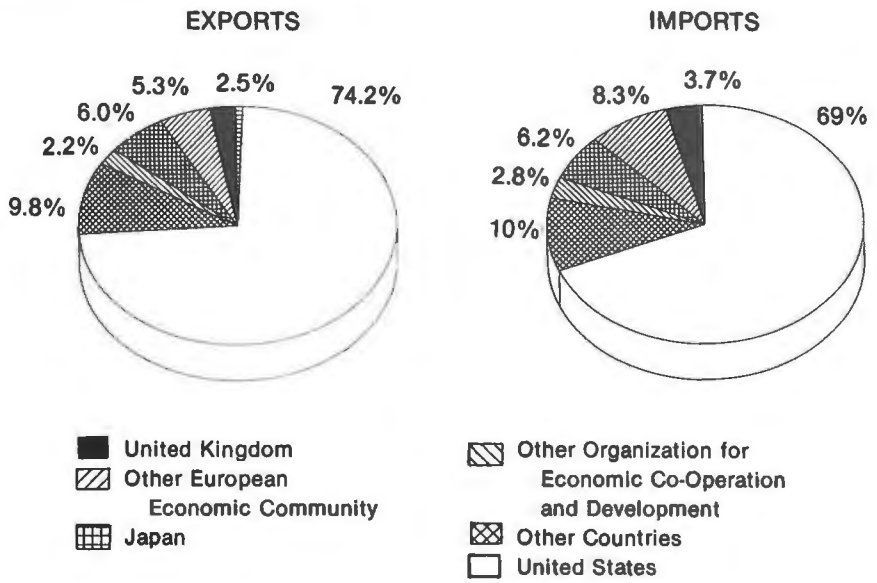
THE CHALLENGES

In the U.S. market, Canadian exporters will not only have to compete with U.S. manufacturers but with exporters from all over the world who are constantly trying to increase their share of this most significant market. Canadian exporters, therefore, will have to adjust to a much larger, intensely competitive environment. To be successful, they will have to transform this adjustment into solid export performance, which will require a major effort on their part and concerted support from governments. Success in the competitive U.S. market should provide the stepping stone to increased exports to major overseas markets.

The attitude of Canadian companies to exporting must change fundamentally if they are to take advantage of the opportunities offered

[26] *The Canada-U.S. Free Trade Agreement: An Economic Assessment*, 1988, foreword.

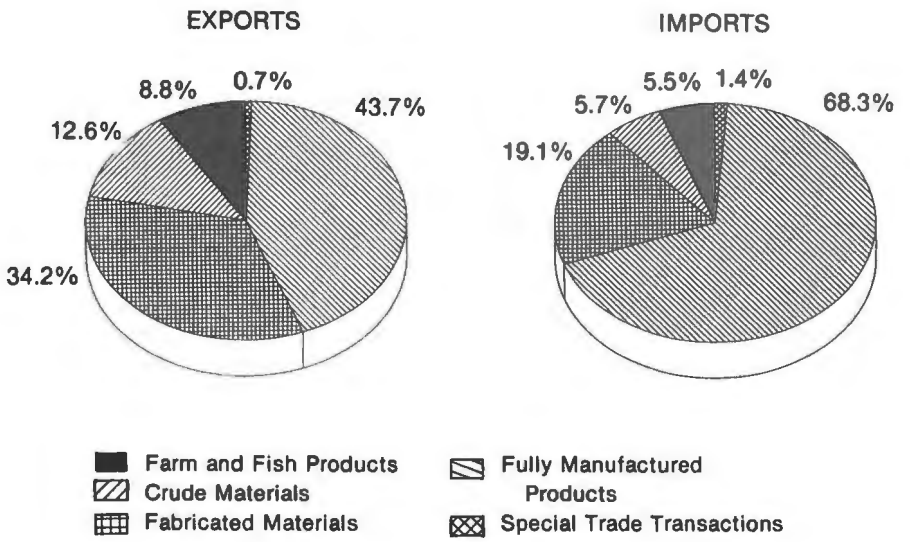
FIGURE 3.5
Canada's Exports and Imports by Region, 1988
Source: Statistics Canada, Quarterly Estimates of Canadian or Payments, 1 March 1989 (preliminary estimates)



by the new trading environment. This is a key message that came across during the Council's consultations with representatives of the business sector. Exporting is not well understood and less well implemented, despite the seminars and information put out by governments and private sector organizations on how to be a successful exporter. The Council is firmly of the view that Canadians must develop an export mentality which goes beyond the traditional export of commodities such as natural resources and automobiles, as well as beyond our traditional export markets.

Over the last 15 years, international competition for higher-value-added goods has become particularly intense, and the place of these products among Canadian exports has only been maintained with difficulty. Fully manufactured products accounted for only about 44 per cent of Canada's total exports in 1988, but they accounted for 68 per cent of total imports (Figure 3.6). Competition from new suppliers and substitute products is threatening to reduce markets for traditional Canadian resource exports. Canada can no longer take for granted that export

FIGURE 3.6
Canada's Exports and Imports by Commodity, 1988
Source: Statistics Canada, Merchandise Imports and Exports on Balance of Payments Basis, 17 February 1989 (preliminary estimates)



markets for its resources are secure. Further specialization and exploitation of market niches of global significance that relate to our skills, rather than our endowments, will be crucial to our success as an exporter.

In seeking new export opportunities and targeting our efforts, the Council is of the view that the private sector and governments should together determine the trade support programs required. The International Trade Advisory Committee (ITAC) and the Sectoral Advisory Groups on International Trade (SAGITs) are good examples of how the private sector and governments can work together.

EXPORT PROMOTION

In support of export activities by Canadian firms, the Department of External Affairs (DEA) has in place a number of services and programs. These are designed to provide information on market opportunities and financial support for marketing activities, to assist technology inflow, and to support investment promotion activities. The key programs will

be discussed in the following paragraphs, and additional information can be found in Appendix D.

The DEA's Trade Commissioner Service delivers the primary trade support to the private sector. International marketing expertise and knowledge of foreign markets are provided to Canadian exporters through an extensive network of trade commissioners at posts abroad, by DEA trade officials located in Ottawa, and through the International Trade Centres across Canada which are run jointly by DEA and Industry, Science and Technology Canada. Canadian exporters receive advice and information on market opportunities, local agents, and other issues specific to the international marketplace. The trade commissioners' efforts are supported by an extensive computer data bank – WIN Exports – which provides detailed information on the capabilities of over 22,000 Canadian exporters of goods and services.

Exporters seeking new opportunities turn to the Program for Export Market Development (PEMD). Under this program, assistance is provided for trade fairs and missions, market identification, project bidding, export consortia, and sustained export market development. Members of the Canadian Exporters' Association have been enthusiastic about the objectives and benefits of the PEMD program. They have expressed concern, however, over funding cutbacks to the program.

A recent program that has proven successful is the New Exporters to Border States Program. Under it, new exporters are taken to the nearest Canadian consulate in the U.S. border states to learn about all aspects of exporting, including discussions with agents and distributors. DEA is expanding this program to include southern U.S. states and is considering further expansion to overseas markets in Europe and Japan.

The creation of the International Trade Centres is a positive initiative to offer "One-Stop" shopping for all federal trade programs and services. Each centre will consolidate the trade support services of External Affairs and Industry, Science and Technology Canada. The Canadian International Development Agency, the Export Development Corporation, and the Canadian Commercial Corporation also plan to locate within the International Trade Centres. The Atlantic Canada Opportunities Agency, the Department of Western Economic Development, and the Northern Ontario Development Office will also be part of the network.

The Investment Development Program (IDP), which operates in cooperation with Industry, Science and Technology Canada, Investment Canada, and the provinces, promotes direct foreign investment in Canada. The program encourages investment in high-technology areas.

In addition to what is available from the federal government, provincial and territorial governments also offer a variety of financial and other assistance programs to develop export markets. The Council noted that some provinces maintain offices abroad which provide trade services to their exporters and foreign clients.

KEY TO EXPORTING

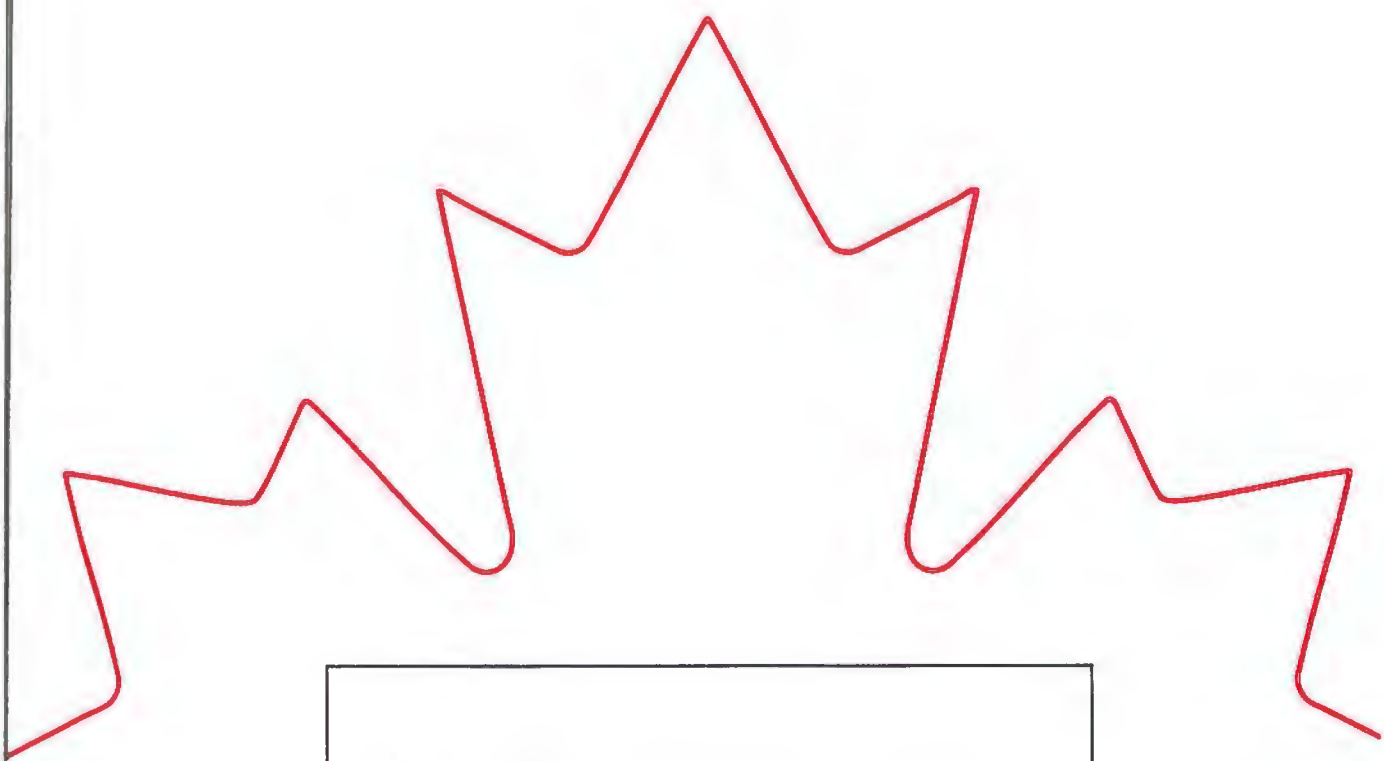
In the opinion of the Council, there is no one strategy that will guarantee success for all exporters. Individual exporters must have a plan tailored to their needs. In the opinion of the Council, however, any export strategy should take into consideration the following elements:

- Export activities must be treated by members of the business community as an essential activity requiring commitment, resources, and confidence.
- A solid business at home represents a crucial base from which to expand into export markets. Product quality and after-sales service are key elements.
- It is essential to define a target market clearly. Information on the export market must be collected and analyzed carefully. This activity is crucial. The information might include on-site market studies to determine the acceptability of the Canadian goods or services.
- Exporters must select a marketing plan that responds to the demands of foreign markets. This could mean an ongoing presence in export markets.

Canadian exporters are facing challenges not only in the United States but in markets throughout the world. Although Canada's share of world trade was about 4 per cent in 1988, other countries are gaining ground. Canada's success will be a measure of its competitiveness in the global context. The onus is now on the private sector to seize the opportunities provided by the new trading environment. It is also incumbent on governments to ensure their continued support for these export initiatives. The importance of the role of the Export Development Corporation in financing and ensuring exports is recognized. It must be continually reassessed in view of export financing and support provided by major export competitors. This support should be developed in close consultation with the private sector and coordinated at all levels of governments.

Therefore, the Council recommends that:

- External Affairs review the expertise and number of its trade commissioners and specific industry technical experts in the United States and other major trading partner countries, and refine their strategic positioning.
- External Affairs undertake a review of the effectiveness and efficiency of the Program for Export Market Development (PEMD), particularly as it relates to the United States, to ensure that it meets the needs of exporters in the new trading environment.
- Federal and provincial governments better coordinate their support programs for export activities.
- The federal government review its support for export financing to ensure that Canadian exporters continue to have access to competitive financing.
- The private sector be involved in developing trade strategies through the ITAC / SAGIT process and other informal and formal mechanisms.
- External Affairs, in cooperation with the private sector and provincial trade organizations, refine and target export education and export awareness programs.
- External Affairs, in cooperation with Industry, Science and Technology Canada, Investment Canada, and the provinces, further enhance investment promotions abroad, with special emphasis on technology-based investments.



PART FOUR

Specific Industry Issues

Introduction

The thrust of the views expressed to the Council on the issues expected to face Canadian industry in the new trading environment was positive and constructive. The private sector recognised the need to move quickly and decisively to enhance Canada's competitiveness. To ensure success, business also stressed the importance of government policies in fostering an environment which will encourage investment, help provide access to the latest technology, and develop the necessary human resources.

During the consultations, however, the Council identified a number of industry sectors which could face extraordinary challenges – circumstances that go beyond the normal competitive challenges of the marketplace. The industry sectors in question were canola crushing, cornstarch production, agri-food, and wine. The particular circumstances in which these sectors find themselves involve the provisions of the FTA dealing with the acceleration of tariff cuts, countervail duty, supply-management systems, provincial marketing boards, wheat boards, and provincial policies which have given rise to certain interprovincial trade barriers.

In the case of the canola-crushing sector, the industry felt strongly that its market position in Canada and in the United States would be enhanced significantly by the immediate and reciprocal removal of Canadian and U.S. duties. Under the FTA, the duty is scheduled to be phased out over a 10-year period, but the FTA also provides for the removal of duty in advance of agreed timetables. In light of the provisions of the FTA and the recommendations of the canola-crushing sector, the Council strongly urges the government to begin discussions with the United States about accelerating, as appropriate, the tariff cuts on canola oil and meal at the earliest date.

Canadian industrial cornstarch manufacturers were concerned about the impact of the countervail duty on imports of corn from the United States. The industry concluded that the decision to impose the duty had resulted in higher prices for Canadian corn. The higher prices for Canadian raw material will diminish the competitiveness of Canadian producers as the duty on starch from the United States is phased out over the next 10 years and U.S. starch producers continue to have access to

lower priced corn. Cornstarch is a price-sensitive commodity used in such products as paper and textiles.

Inasmuch as the decision to apply the countervail duty resulted from due process of law under Canada's anti-dumping and countervailing legislation, the Council thinks it inappropriate to comment on that decision. It would, however, urge the government to take the position of the starch manufacturers fully into account in its review of the ruling. The Council noted with interest that the starch manufacturers purchase a "significant majority" of their corn from Canadian growers.

The food-processing and the wine industries found themselves in vastly different positions than either the canola crushers or industrial cornstarch manufacturers. Food processors, for example, maintain that they were confronted with purchasing their most important raw materials at prices determined under supply-management and marketing board systems and having to sell their products in an environment which will be duty free in 10 years. Their competitors in the United States are not subject to similar pricing arrangements. In the case of wine, industry structure has been fragmented by provincial government policies which impede inter-provincial trade and seriously undermine potential competitiveness.

The complexity of the food-processing and wine industry issues, the degree of interdependence which, in many cases, exists between producer and processor and the significant discretion inherent in the pricing mechanisms of the systems which govern production and distribution in these sectors have led the Council to discuss each sector in considerable detail. The Council's analysis and recommendation's will be included in two chapters: Agri-food and Wine.

CHAPTER FOURTEEN

Agri-Food

A significant segment of Canada's food-processing industry[1] using Canadian chicken, turkey, cheese, and fruits and vegetables has indicated that it will be placed in an uncompetitive position once tariffs on processed foods from the United States are eliminated. Unlike other industrial sectors in Canada, food processors are obliged to purchase certain raw materials at prices determined under supply-management and marketing board systems rather than at prices established by the competitive forces of the marketplace.

Since food processors in the United States obtain their raw materials at prices which are not influenced by similar pricing and production systems, Canadian processors maintain that they will be at a competitive disadvantage in the manufacture of further processed products in a duty free environment. In this respect, the Council is aware that, for example, Canadian wholesale prices for chicken on a five-year average have been about 40 per cent higher than corresponding prices in the United States. Under the FTA, the administrative mechanisms – supply-management systems and marketing boards – which influence the price of Canadian inputs such as chicken will remain in place.

Background

Worldwide, the agricultural sector is characterized by periods of overcapacity and volatile prices, and one result is uncertain rates of return on investment. Governments of many of the industrialized western countries have intervened to stabilize the return to farmers. In Canada, there are two major vehicles of intervention: the supply-management system for poultry and dairy products, and provincial marketing boards for most fruits and vegetables. The Canadian approach has resulted in significantly higher prices than those prevailing in the United States.

[1] Canada's food-processing industry employs about 250,000 individuals in total.

Provisions of the Free Trade Agreement Affecting the Agri-Food Sector

The major elements of the FTA affecting the agricultural sector are as follows:

- Most agricultural and processed food tariffs will be removed in 10 annual steps starting on 1 January 1989.
- In the case of fresh fruit and vegetables, a "snap-back" provision exists to reinstate tariffs on a temporary basis over the next 20 years should import prices fall below predetermined levels.
- Canadian import licences on U.S. wheat, oats, and barley and their products are to be removed once the level of U.S. government support for the respective grains is equal to or less than the level of government support in Canada.
- The FTA preserves Canada's agricultural policy instruments, such as the establishment of supply-management mechanisms including import controls.
- Canada's global poultry import quotas, expressed as a percentage of domestic production, will be increased to reflect actual imports over the last five years, as follows: chicken from 6.3 to 7.5 per cent, and turkey from 2.0 to 3.5 per cent.

Under the supply-management system, Canadian production of chicken, turkey, and milk is controlled through national production quotas administered by provincial agencies. The integrity of the system is preserved by limiting imports by means of the Import Control List (ICL). In the case of milk, imports are permitted only when there are proven shortages of supply. For significant dairy products such as cheese, a global quota has been established which limits imports to predetermined levels. Global quotas have also been established for chicken and turkey. The supply-management system, in effect, provides Canadian producers with a right to supply a specific share of the Canadian market. In the case of chicken, the share in 1987 was about 93.5 per cent of the apparent Canadian market.

Within the poultry and dairy processing industries, it is necessary to distinguish between two levels of processed products – primary processed and further processed products. *Primary processed products* essentially contain a single primary ingredient. Examples include milk, cheese, whole or cut-up chicken, chicken nuggets, or chicken fingers. *Further processed products* are more highly formulated foods which incorporate a number

of ingredients in addition to those that are regulated. Examples include frozen pizza (which contains cheese) and frozen entrées and dinners (which may contain poultry). Primary processed products are covered by the ICL, but further processed products are not.

The primary purpose of provincial marketing boards for fruits and vegetables is the establishment of minimum prices. These prices are negotiated by producers and processors. The boards do not, however, set production quotas. While there are no overall import controls on fruits and vegetables, imports of fresh or semi-processed products in non-standard containers, including bulk containers, is only allowed if no domestic product is available.

The Sectoral Advisory Group on International Trade (SAGIT) for Agriculture, Food and Beverages, during its appearance before the Council, suggested that the solution to the competitive situation facing further processors would be to include on the ICL all products containing 10 per cent or more by weight of supply-managed ingredients in order to limit imports of such products. This position was supported to a large extent by the proposal of the Canadian Federation of Agriculture. The Grocery Products Manufacturers of Canada (GPMC), noting that many further processed products were not included on the ICL, emphasized that manufacturers would need access to competitively priced raw materials if the food-processing industry was to be competitive in the future.

In the opinion of the Council, however, adding goods to the ICL in the manner suggested by the SAGIT for Agriculture, Food and Beverages and the Canadian Federation of Agriculture would be contrary to the spirit of the FTA. The Council also concluded that such action might not be in line with Canada's obligations under the General Agreement on Tariffs and Trade (GATT). GATT Section 2 (c)(i) of Article XI specifies that a contracting party may apply import restrictions to any agricultural or fisheries product, imported in any form, in order to enforce government measures which restrict the quantities of similar domestic products permitted to be produced or marketed. The term "in any form" is defined as covering products that are in an early stage of processing, still perishable, and which compete directly with the fresh product. In a recent case involving restrictions by Japan on imports of certain further processed agricultural products, such as preserved pineapple, tomato ketchup, and preserved milk, a GATT panel ruled that such restrictions were inconsistent with Article XI.

The Council is assuming that the supply-management and marketing board systems will be maintained. In these circumstances, the Council strongly believes that a satisfactory solution can and must be worked out within the present system to ensure both continued production and reasonable growth potential for further processed products that rely on Canadian produced raw materials.

The following paragraphs deal with the specific problems facing processors of poultry, dairy, fruits and vegetables, and wheat. First, the Council examines further processed products that use supply-managed raw materials (namely poultry and dairy) which are not included on the ICL. It then looks at the problem facing processors who use fruits, vegetables, and wheat.

POULTRY

The greatest concern identified to the Council by further processors of poultry will be their inability to obtain poultry at the same price as their U.S. competitors, which will prevent them from being competitive in the new trading environment.

The Canadian market demand for all chicken in 1987 was about 553,937 tonnes. Domestic sales made up about 93.5 per cent of the total. The total domestic market demand for turkey was about 118,254 tonnes, of which 96.3 per cent was supplied from domestic sources. Imports for that year for chicken and turkey accounted for 6.5 and 3.7 per cent, respectively, of the total domestic requirement.

In effect, over 98 per cent of domestic chickens and turkeys go into primary processed products such as whole and cut-up poultry, chicken fingers, and nuggets. The remainder (less than 2 per cent) goes into further processed products such as chicken kiev, frozen entrées, and TV dinners. These products are considered a growing sector of the market. Under the FTA, the duty on both primary and further processed products will be phased out over 10 years. However, imports of the primary processed products will continue to be included on the ICL and limited by global import quotas.

Further processed poultry products cost substantially more to produce in Canada than equivalent U.S. goods. Poultry can represent from 40 to 60 per cent of the direct product cost of frozen entrées (prepared meals), and for up to 80 per cent of the direct product costs in the case of chicken kiev. On a five-year average, according to Agriculture Canada data, Canadian wholesale prices for chicken, as mentioned above, have been about 40 per cent higher than prices in the United States, while turkey prices have been 38 per cent higher. These cost disadvantages were previously offset by tariff protection of 17.5 per cent on frozen dinners and pies, and 12.5 per cent (to a maximum of 22 cents per kilogram) on chicken kiev. Annual shipments in Canada of frozen complete and specialty meals (some of which may contain red meat or fish) and frozen meat and poultry pies amounted to over $120 million in 1985.

During its review of the issues involving further processed poultry products, the Council noted that increases in import quotas for chicken and turkey were negotiated under the FTA and that, in the allocation of these increases, the government granted further processors first priority.

This recent initiative will ease the access of further processors to competitively priced inputs. The Council believes, however, that this is a temporary solution. It does not address the concern of investors needing long-term assurances of competitively priced supply. Moreover, this option has the effect of limiting a growing segment of the market to imported supplies of raw materials.

The Council examined a number of ways to encourage commercial producers to participate in this growing market while maintaining a supply-management regime. The Council is of the opinion that this objective could best be achieved through the establishment of a two-price system.

Under a two-price system, further processors would procure chicken and turkey raw materials from Canadian producers at the same price as their U.S. competitors. This could be achieved within the present supply-management system by charging a slightly higher price on the 98 per cent of production which is destined for the primary processed market and protected by the ICL. This small price increase would be used to support the price decrease on the under 2 per cent of poultry destined for further processing. This would ensure unchanged incomes for the growers and competitively priced raw materials for the further processing industry. The growers would, thus, participate in this segment of the food-processing industry without reduction in income.

The effects of a two-price system is demonstrated in Table 4.1. For the purpose of this example, it is assumed that the total quantity of chicken produced is 100 pounds and the price per pound is $1.00 in Canada. In the first scenario, further processors use about 2 per cent of domestic production. This share rises to 5 per cent in the second scenario. Under the two-price system, Canadian chicken is sold to further processors at 71 cents per pound, to equal the price of chicken in the United States.

Growers' income in the example remains at $100 under either the status quo or a two-price system. The further processors' cost of poultry is lowered to $0.71, i.e., to $1.42 and $3.55 from $2.00 and $5.00 under the first and second scenario, respectively. The price on the primary processed product destined for other consumers rises to $1.006 and 1.015 per pound, respectively i.e., less than 1 per cent increase under the first scenario and 1.5 per cent increase in the second scenario. This relatively insignificant effect on consumer prices, however, should be offset by the decrease in prices of further processed products resulting from lower costs of raw materials. This will leave the total expenditures by consumers on poultry products unchanged. The Council is assuming, of course, that further processors will pass the savings on to consumers as a means to meet increasing import competition.

The Council recognizes that a two-price system would require extensive consultations with the provincial marketing boards, the provincial supervisory councils, the further processing and the primary processing

industries, the Canadian Chicken Marketing Agency, and the Canadian Turkey Marketing Agency.

Therefore, the Council recommends that:

- A two-price system be implemented to provide an adequate supply of North American equivalent priced poultry meat to the further processors of products not covered by the Import Control List; the price of poultry meat per pound paid by Canadian further processors should be the same as that paid per pound by their U.S. competitors.
- The Canadian chicken and turkey marketing agencies hold the initial meeting within six months with representatives of the poultry producer marketing boards, the primary processing industry, the poultry further processing industry, and the provincial supervisory councils to work out the details of a two-price system; Industry, Science and Technology Canada and the Department of Agriculture should facilitate this consultative process.
- If a two-price system cannot be agreed upon, import quotas should be further increased by the Department of External Affairs and made directly available to further processors of products not covered by the Import Control List.

DAIRY

Supplies of all milk, including industrial milk, are controlled by a supply-management arrangement which includes import restrictions and quotas. This has been partly responsible for higher prices of cheese and other milk products in Canada than in the United States. The removal of tariffs on further processed products containing significant quantities of dairy ingredients will accentuate the cost advantage for U.S. processors. In this sector too, further processors have requested relief to offset the loss of tariff protection on their products, since the production and importation of dairy ingredients remain controlled.

Industrial milk products are a major ingredient in products such as frozen pizza and an important ingredient in some bakery products, chocolate confectionary, and frozen meals. Mozzarella cheese is the primary ingredient in products such as frozen pizza.

TABLE 4.1
Effect of a Two-Price System for Chicken and Turkey on Growers, Further Processors, and Others

	Scenario 1 Market Share of 2 Per Cent		Scenario 2 Market Share of 5 Per Cent	
	Status Quo	Two-Price System	Status Quo	Two-Price System
	$	$	$	$
Average Producer Price				
Price to further processors	1.00	0.71	1.00	0.71
Price to others	1.00	1.006	1.00	1.015
Total Producer Revenue	100.00	100.00	100.00	100.00
From sales to further processors	2.00	1.42	5.00	3.55
From sales to others	98.00	98.58	95.00	96.45

Canadian frozen pizza manufacturers maintain that they will be at a significant cost disadvantage under the FTA, since tariffs will be eliminated over the next 10 years on their products but they will continue to pay higher prices than their U.S. competitors for mozzarella cheese. Annual shipments of frozen pizza in Canada amounted to about $50 million in 1986. Cheese accounts for an estimated 40 per cent of the direct production cost of pizza, and the Canadian price for mozzarella cheese is currently some 30 per cent higher than the U.S. price. The frozen pizza sector uses between 1.5 and 2.5 per cent of the total specialty cheese production.

The Council found that the issue was similar in principle to that associated with poultry. As in the case of poultry, the Council favours a solution based on a two-price system which could be accommodated within the existing supply-management regime. This would allow Canadian further processors, using dairy products as a primary ingredient, to procure these raw materials at the same price as their U.S. competitors. The total cost to consumers, as in the poultry case, should remain approximately the same. This would ensure that Canadian producers participate fully in this market. In the dairy industry, there appear to be precedents for such a system. For example, surplus skim milk powder is currently sold at a preferential price to bakeries for the manufacture of milk bread.

Again, setting up a two-price system will require the cooperation of the provincial supervisory bodies, the marketing boards, the further

processing and the primary processing industries, and the Canadian Dairy Commission.

Therefore, the Council recommends that:

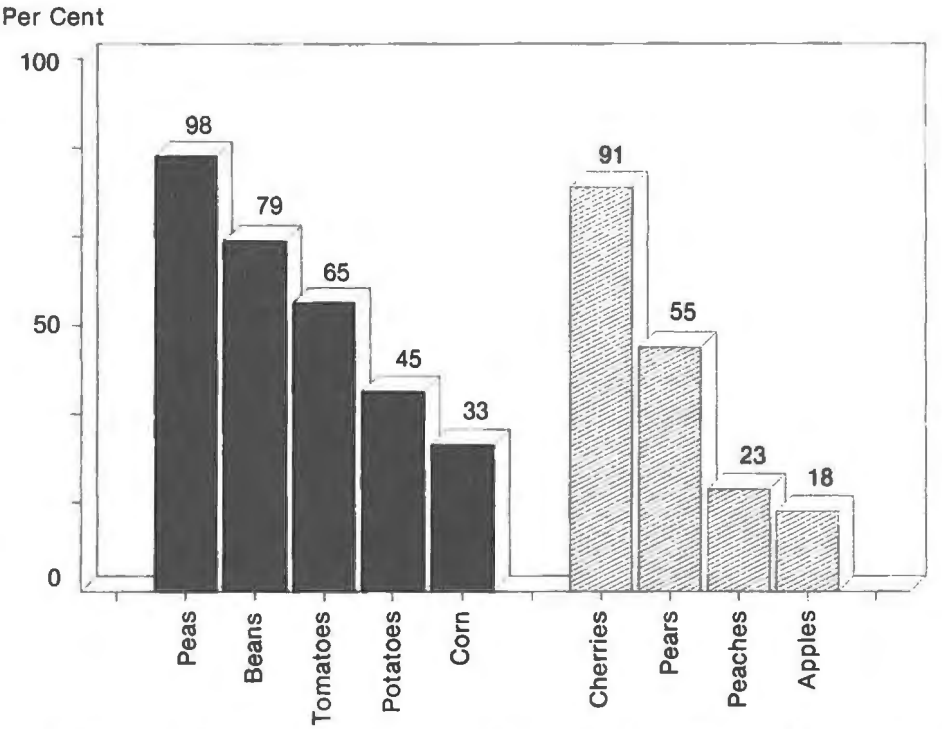
- A two-price system be implemented to provide an adequate supply of North American equivalent priced dairy raw materials to the further processors of products not covered by the Import Control List; further processors should pay the same price for dairy products as that paid by their U.S. competitors.
- The Canadian Dairy Commission hold the initial meeting within six months with representatives of the provincial dairy producer marketing boards, the dairy further processing industry, the dairy primary processing industry, and the provincial supervisory bodies to work out the details of a two-price system; Industry, Science and Technology Canada and the Department of Agriculture should facilitate this consultative process.
- If such a two-price system cannot be agreed upon, import quotas should be increased for cheeses, for example, and made available to further processors of products that contain dairy ingredients and are not covered by the Import Control List.

FRUITS AND VEGETABLES

Canadian fruit and vegetable processors pay higher prices than processors in the United States for most raw materials, according to representations made to the Council. Most fruits and vegetables in Canada are covered by provincial marketing boards which ensure the orderly sale of raw products on behalf of the producers. A minimum price is negotiated between a representative group of processors and growers. In most provinces, if no agreement can be reached, the matter is referred to an arbitration board.

Shipments by the fruit and vegetable processing industry in 1987 reached $2.5 billion. The processing industry purchases an average of 40 per cent of all fruits and vegetables grown in Canada. Although the percentage of individual crops going to either processing or the fresh market varies by province and from product to product, the approximate amounts of the most significant crops for the entire Canadian industry being processed are shown in Figure 4.1.

FIGURE 4.1
Fruits and Vegetables Grown in Canada
Percentage Going to Processing, 1987
Source: Industry, Science and Technology Canada, Grocery Products Division



Fruit and vegetable processors in Canada have been able to pass on the extra cost of raw materials to consumers, since their products are protected by tariffs which are in the 10 to 15 per cent range for most goods. Once tariffs on processed products are phased out under the FTA, however, the processors will no longer be able to pass on this extra cost. If prices of raw materials continue to be significantly above U.S. levels, the Canadian fruit- and vegetable-processing industry will be at a competitive disadvantage compared to the U.S. industry.

In 1986, domestic negotiated prices for tomatoes averaged 25 per cent above their U.S. raw price equivalents, according to a study commissioned by nine major Canadian food processors. The former chairman of GPMC indicated to the Standing Senate Committee on Foreign Affairs on 9 August 1988 that negotiated prices for tomatoes in Ontario were roughly 35 per cent above U.S. prices after taking freight, tariff, and the exchange rate into consideration. Comparing the prices of Canadian sweet corn with U.S. corn, he stated that the U.S. products were roughly 10 per cent below Canadian domestic prices.

In the opinion of the Council, the fruit and vegetable industry essentially faces three possible futures: competitiveness in North America, the status quo, or subsidization.

Competitiveness could be achieved, in large part, by ensuring that processors have access to raw materials at North American equivalent prices. Developing improved strains and yields of products would also help assist the industry's objective of competitiveness. Better strains and yields, however, would require more research and development efforts and better field management by growers. At the same time, more efficient plant operation by processors would also help their competitiveness. In addition, technical standards which provide some degree of protection to the Canadian industry may also reduce competitiveness by inhibiting rationalization. The FTA provides for consultations leading to the harmonization of technical standards. This should induce Canadian industry to rationalize production so as to achieve economies of scale where possible.

It is clear to the Council that, if the status quo is maintained, Canadian processors will have great difficulty competing successfully in the new trading environment. The following situation could be the result: (1) the closing or relocation of plants; (2) a reduced market for Canadian fruits and vegetables, and (3) reduced income for farmers. The Council believes that such a result would not be in the best interest of Canadians.

An argument could be put forth in favour of subsidizing either or both the producing and the processing sectors, to permit them to maintain their share of the market. The Council rejects this approach as contrary to the spirit of the FTA. Such a measure could also be challenged by foreign importers if any of the products involved are exported.

The Council has concluded that provincial marketing boards must recognize that the futures of the primary sector and the processing industry are interdependent. It is, therefore, in the interest of both growers and processors to ensure a competitive processing industry in Canada. The survival of both sectors will require a cooperative long-term policy, focused on fostering competitiveness in the new trading environment.

Therefore, the Council recommends that:

- A working group consisting of governments, processors, and producer representatives be established within a year to work out, crop by crop, methods to ensure that the fruit- and vegetable-processing industry has access to raw materials at the same price as their U.S. competitors. Industry, Science and Technology Canada and the Department of Agriculture should facilitate this consultative process.
- Any move to harmonize technical standards, such as sizes of cans, should be made in consultation with processors.

WHEAT

During the consultative process, biscuit manufacturers and pasta producers expressed concern about the pricing practices of both the provincial wheat boards and the Canadian Wheat Board. They have indicated to the Council that they are at a disadvantage compared to their U.S. competitors because of the lack of flexibility of the Canadian price-setting mechanism. The previous two sectors expressed similar concern about the arbitrary pricing mechanism used by wheat boards in Canada.

The Council is aware, however, of the fact that the FTA does not affect most pasta imports, since there were no tariffs on the main items (products containing water and flour only) in the pre-FTA period. Other products, such as noodles containing eggs and stuffed pasta, had some tariff protection.

Until recently, Canada has had a two-price wheat policy under which Canadian flour millers, bakers, and other food processors paid a higher price for wheat (flour) used for domestic food processing. As of 1 August 1988, the two-price system has been eliminated in favour of a single price, which is established by the Canadian Wheat Board for a fixed time period of 60 or 90 days and based on prices on the U.S. commodity markets.

While Canadian food processors see establishing a single price for wheat as a positive step, they have serious reservations about the mechanism that the Canadian Wheat Board uses to set its price. The immediate result of the new system was higher prices for wheat in Canada than in the United States. For example, the price (for the January-March 1989 period) of Canadian Western Amber Durum based in Thunder Bay was pegged at $270.80 per tonne, and the average price (for the week ending 3 February 1989) of Amber Durum based in Minneapolis was $228.50 Cdn per tonne. The price for Ontario soft wheat was pegged at $221.20 per tonne, compared to $182.70 Cdn in Michigan as of 6 February 1989. These higher prices for Canadian wheat have a direct impact on food processors with milling facilities and an indirect impact, through the price of flour, on those without their own milling facilities.

The Council also recognizes the fact that U.S. users can procure wheat at prices quoted on the U.S. commodity exchanges at the time of purchase. In addition, buyers are able to buy wheat for forward contract at the futures prices quoted for that time period.

In this context, the Council is aware that certain initiatives involving the Canadian wheat boards are underway to discuss the feasibility of adopting the daily price quotation on the U.S. commodity exchanges. These discussions are in anticipation of the removal of Canadian import controls on wheat, the timing of which remains uncertain. In the opinion of the Council, the wheat boards should abandon the "pegged" system and sell domestically at prices based on the prices quoted on the U.S. commodity exchanges in effect on the day of the sale. Canadian users could then buy wheat at the same cost as their U.S. competitors.

Therefore, the Council recommends that:

- Wheat boards in Canada sell wheat to Canadian millers at prices based on the prices quoted on the U.S. commodity exchanges in effect on the day of the sale.
- Canadian buyers should be able to buy wheat from the wheat boards on a forward contract basis based on the future quotation on the U.S. commodity exchanges in effect on the day of sale.

CHAPTER FIFTEEN

Wine Industry

According to the Canadian Wine Institute, provincial regulations have required the industry to invest in a manner that favours provincially based plants and, in certain provinces, to use locally grown grapes at negotiated marketing board prices. The result is a fragmented industry, with high costs of production and without the flexibility needed to produce higher quality wines. To offset its higher costs, the industry has been protected provincially by preferential listings and distribution arrangements, and by higher mark-ups for imported wines.

A GATT panel found these practices to be inconsistent with Canada's obligations. In this context, Canada reached an agreement with the European Community, our principal supplier of wine, to phase out the mark-up differential against European wine over a seven- to 10-year period. Under the FTA, the mark-up differential is also phased out over seven years but declines more rapidly in the first two years; 50 per cent of the differential is to be removed within the first 12 months.

The Canadian Wine Institute, in a detailed submission to the Council, identified an adjustment cost of $77 million for its members. The single largest item involves productivity improvements amounting to $36.6 million. The institute estimates that $16.1 million of the total would be required to offset severance pay and other costs associated with plant closures. In its submission, the institute also advocated that interprovincial barriers to trade be removed to facilitate industry rationalization; it emphasized the importance to the industry of being allowed to purchase high quality grapes at internationally competitive prices.

The Council concurs that the removal of interprovincial barriers to trade is a prerequisite before industry rationalization can take place. With respect to access to internationally competitive priced grapes, the Council noted that the recent programs developed by the federal government with British Columbia and Ontario go some way towards accommodating the industry's request. These agreements will also provide for market development to assist the industry in letting consumers know what it is doing to improve wine quality. Such initiatives should address the so-called "wine image" issue and assist the industry to maintain its current

The Canadian Wine Institute indicated that the Canadian industry consists of 47 companies operating 61 wineries, with annual retail sales of about $700 million. The industry holds about 45 per cent of the domestic market, while European and U.S. wines have captured about 50 per cent and 4 per cent of the domestic market, respectively. Total manufacturing employment in the industry, excluding retail outlets, is approximately 1,400 employees. Three large companies – T.G. Bright & Co. Ltd, Andrés Wines Ltd, and Ridout Wines Limited (Chateau Gai) – together operate 20 wineries, accounting for 66 per cent of total Canadian production. The wine companies range from small "cottage" or "estate" wineries, to medium-sized commercial or boutique wineries, to larger multi-plant commercial operations. Provinces have adopted policies which create preferences for provincially produced wines. British Columbia and Ontario, the grape-growing provinces, require the extensive use of locally produced grapes. Provincial marketing boards regulate the price of grapes. Surplus grapes, primarily from Ontario, are purchased under federal / provincial agreement through the Agricultural Stabilization Act.

share of the market in Canada. In addition, these two measures provide financial compensation to growers for removal of non-economic or undesirable vines. This change would reduce pressures on wineries to buy grapes which do not fit their taste or quality needs.

The Council recognizes and supports the industry's effort to maximize its international competitiveness through a productivity program. The Council feels, however, that the effectiveness of such a program rests on the provincial jurisdictions. Interprovincial barriers to trade, if maintained, would work against the performance goals of the program and make it largely inoperative. Because the Council feels that such a program is premature, given current circumstances, it urges the Canadian Wine Institute to pursue its representations concerning the need to remove interprovincial barriers to trade.

Therefore, the Council recommends that:

- Interprovincial barriers to trade be removed at the earliest possible date to facilitate industry rationalization and improved competitiveness, consistent with measures to meet FTA and GATT requirements.
- Industry, Science and Technology Canada enter into consultation with the wine industry to develop initiatives which would enhance the competitiveness of the industry, with particular reference to improved marketing and promotion.

CONCLUSION

Adjusting to Win

Adjusting to changing circumstances has been a constant challenge for Canadians. And evidence suggests that they have been relatively good at it. Under their efforts, Voltaire's "few acres of snow" have yielded a standard of living envied by many other nations in the world. In this century, Canadian society has been transformed from an agricultural to an industrial base, and Canada is among world leaders in certain high-tech areas such as communications.

Canadians should not become complacent about past successes, however. The challenges that lie ahead in the next 10 years are as great as any that faced previous generations – and these challenges are urgent. They must be met successfully if Canadians are to enter the twenty-first century with its economic position improved, and no lesser result is acceptable. The FTA is only one of these challenges. But it provides a focus within which Canadians can see the spectrum of opportunity. It illuminates the actions they must take. It demonstrates that Canadians must begin immediately to become better educated as a people. In particular, mathematical skills, general literacy, together with specific technical and scientific literacy need drastic improvement. Canadians must make increased use of technology. They must rethink their approach to training, and they must do so right away. If Canada is to adapt to the new business environment, Canadians must devote more of their energies to technological innovation, to technological transfer, and to R&D. Their business attitudes towards the rest of the world must change. They must look for and pursue export possibilities with all speed and aggressiveness.

Although these issues of education, training, technology, R&D, and exports appear varied, they are linked by the common thread of attitude. The Council sees the attitudes of Canadians as the key to future success. If Canadians are to take advantage of the opportunities arising out of the FTA and of an increasingly global economy, they must change their attitudes on all these issues. This is the first and most important adjustment to be made.

All segments of society must take responsibility for these changes, and, in particular, business and labour must take the first steps. Business must adopt a positive attitude towards export possibilities; it must become more eager to win, and it must take immediate action. Business needs to devote its energies to making the best use of its human resources, and to do so it must develop a "training culture." Involved in that training culture will be the constant technological innovation that business must strive for. At the same time, labour has its responsibilities. If workers are to adapt to the new environment, they must share that training culture. They must be eager to improve their skills at every opportunity and plan for the changes that technology will bring. With these challenges, the new environment will bring greater possibilities of personal growth. And at the base of these new attitudes must be a new spirit of cooperation between business and labour. Both must work together to make Canada's enterprises competitive and successful internationally.

In the Council's view, the different levels of governments have an undeniable role to play in the quest for increased competitiveness. They can – and indeed must – provide an environment in which the private sector can flourish. Government can ensure, for instance, that taxation policies are conducive to competitiveness. It can make sure that business has the information and assistance that it needs to penetrate foreign markets successfully. It can act as a catalyst for the various changes required. It can help to establish the training culture Canada needs. It cannot, however, force Canadians to face the challenges involved. Canadians have increasingly looked to governments to take a leading role in all societal change.

In the Council's view, Canadians have placed too much responsibility on governments, responsibility that should be borne in large part by the private sector. In considering the issues raised in this report, the Council wishes to emphasize that it is the private sector that must take on most of the costs of training and retraining its work force. It has neglected this responsibility in the past and now must make it part of any corporate plan.

Whether or not Canadians take full advantage of the opportunities arising from the FTA will depend on the extent to which they improve their competitiveness. During the 1988 federal election campaign, business supported the FTA strongly because it gives access to a market of 250 million people. But the Council wishes to repeat that action by business must be immediate. The urgency relates in part to the possible downside effects of the FTA; the magnitude of these effects will depend directly on the extent to which Canadians benefit from the upside.

The Council believes firmly that Canadians will meet the challenge. Throughout the extensive consultations the Council had with the private sector – SAGITs, trade associations, unions – as well as the provinces and various federal government departments, the Council's confidence

grew in Canadians' eagerness and ability to adjust to win. Many groups indicated to the Council that they did not anticipate any important adjustment problems arising out of the FTA. They were confident they could seize the opportunities. They did, however, express some concerns about certain factors that have interfered with competitiveness in the past and will continue to do so unless changed.

The first area of concern, one that was repeated many times, is the interprovincial barriers to labour mobility, to procurement, and to trade in goods and services. The Council shares the view that these barriers have balkanized the country, created inefficiencies in industries, and increased costs to consumers in some instances. In the opinion of the Council, these barriers constrain Canada's quest for competitiveness and should be removed at the earliest possible date.

Another area in which government can ensure an environment conducive to business success is by providing continuity of policy and programs. Business cannot plan a coherent R&D strategy without some expectation of continuity in tax treatment, for example. Frequent changes in tax rules was a complaint raised a number of times, one the Council thinks worth listening to. In developing a science and technology strategy in general, the private sector wishes to see more consistency in government policy and programs.

Yet another frequent message of submissions was that it was sometimes difficult to get information about programs in support of adjustment. There are close to 400 such programs and, despite the extensive and fruitful cooperation the Council received from many federal and provincial departments, the Council must concur that such information is not always easy to come by.

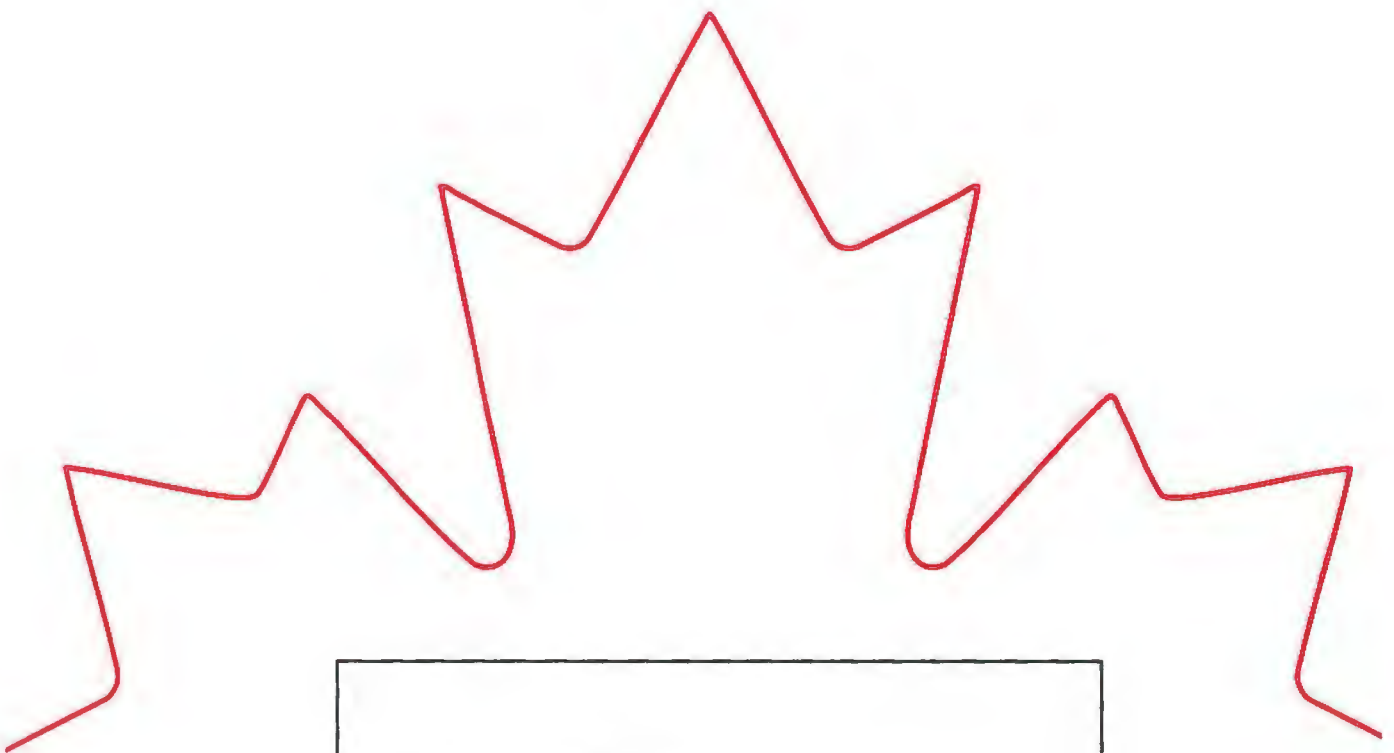
When the FTA was signed and when the Council was appointed, expectations were raised that special adjustment programs might be put in place. As outlined in the preface, the Council concluded after careful and judicious consideration that such an approach would be neither workable nor fair. Therefore, what the Council has put forward in this report is a blueprint for an integrated strategy of change, one that rests on cooperation among all involved. The federal government's part in this strategy should be to expand selected programs, those judged particularly germane to adjustment to the FTA and to Canadian competitiveness. The Council does not see a massive injection of funds for new programs as appropriate.

The Council does, however, think that the emphasis of certain programs should be redirected. The skills of Canadians must be developed and utilized, and it is to that end that all levels of government should devote their efforts. At the same time the Council wishes to reiterate that the protection now available to those unable to adjust must be kept in place if we are to have a fair and equitable society.

Rather than becoming a bigger spender, government must take a catalytic role. It should facilitate cooperation between business and labour, and help the private sector undertake its responsibilities effectively. It should also facilitate cooperation among the various jurisdictions in Canada. The Council was appointed by the federal government and reports to that government. Throughout its consultations, however, the Council has enjoyed – and has been grateful for – the generous support of other levels of government. The Council is aware that many of its recommendations require that Canadian governments act together. It urges all governments to continue this spirit of cooperation and take the necessary action jointly.

Many representations to the Council emphasized that since the FTA is to be implemented over 10 years, some opportunities and challenges might arise only over time. Consequently they urged that a monitoring group be established to review new circumstances as they arise and listen to emerging issues and concerns. The Council supports this request; indeed it believes that such a focal point is imperative. It would be instrumental, not only in monitoring the implementation of the Council's recommendations, but also in helping Canadians to seize new opportunities.

The Council wishes to close by returning to the nature of these opportunities – the issue it first confronted in trying to fulfil its mandate. These opportunities are global. Canadians will meet ever increasing competition as the economies of the world move rapidly towards three megamarkets: Europe, the Pacific, and North America. Canadians' ability to translate into action the opportunities inherent in these changes will determine whether the country moves ahead or is left behind. Canada must urgently meet the challenges presented by this situation if it is to "Adjust to Win".



Appendices

Appendix A
MEMBERS OF THE ADVISORY COUNCIL ON ADJUSTMENT

A. JEAN DE GRANDPRÉ, C.C., Q.C., of Montreal, is chairman of the board of BCE Inc. He is chancellor of McGill University and director of Bell Canada, Chrysler Canada Ltd, Northern Telecom Limited, the Seagram Company Ltd, Stelco Inc., Sun Life Assurance Company of Canada, the Toronto-Dominion Bank, TransCanada Pipelines Limited, Chrysler Corporation, and E.I. du Pont de Nemours & Co. Mr de Grandpré is also active in numerous professional, educational, and community organizations.

JALYNN B. BENNETT is vice-president, corporate development, of The Manufacturers Life Insurance Company. She is chairman of the Sectoral Advisory Group on International Trade, Financial Services, and a member of the International Trade Advisory Committee and the Economic Council of Canada. Mrs Bennett is also a governor of Trent University and a director of the Laidlaw Foundation and St. Marys Cement Corporation.

GORDON E.M. CUMMINGS is president and chief executive officer of National Sea Products Limited, Halifax, a company with which he has been associated since 1984. He is a former partner, principal, and senior consultant with Woods Gordon. Mr Cummings has been active in the Society of Management Accountants of Canada for the past 10 years and was president of the organization in 1988-89. He is also a member of the Board of Directors of Cobi Foods Inc. and the Izaak Walton Killam Hospital for Children Foundation.

JAMES A. MCCAMBLY is president of the Canadian Federation of Labour. He has served on numerous key national organizations and committees, including the Construction Industry Development Council, the Canada Employment and Immigration Advisory Council, the National Advisory Board on Science and Technology, the International Trade Advisory Committee, and, between 1974 and 1981, as a member of the Economic Council of Canada. Mr McCambly was also the founding chairman of the Canadian Co-ordinating Committee on Multi-Employer Pension Plans.

NORMAN E. WAGNER, O.C., Ph.D., is chairman of the board of Alberta Natural Gas Company Ltd of Calgary. He was president of the University of Calgary from 1978 to 1988. He is a trustee of the Alberta Heritage Foundation for Medical Research and a member of the National Advisory Board on Science and Technology. Mr Wagner is also a director of Angus Chemical Co., Pacific Gas Transmission Co., and several small business ventures. He is chairman of Auxano Techologies International Inc., and president of N.E. Wagner Associates Ltd, a firm providing advice on new business ventures.

P.C. 1987-2707

ORDER RESPECTING THE ADVISORY COUNCIL ON ADJUSTMENT

Short Title

1. This Order may be cited as the Advisory Council on Adjustment Order.

Interpretation

2. In this Order,

"Council" means the Advisory Council on Adjustment established pursuant to section 3; (Conseil).

"Advisory Council on Adjustment Secretariat" means the organizational unit in the Department of Regional Industrial Expansion established to support the Council and the Ministers in the discharge of their duties and functions under this Order; (Secrétariat du Conseil consultatif sur l'adaptation).

"Ministers" means the Minister of Regional Industrial Expansion, the Minister of Employment and Immigration and the Minister for International Trade (ministres).

ADVISORY COUNCIL ON ADJUSTMENT

3. (1) A Committee is hereby established to be known as the Advisory Council on Adjustment, consisting of not more than five (5) members, excluding ex officio members, to be appointed by the Governor in Council, one of whom shall be designated by the Governor in Council as Chairman of the Council.

(2) The Chairman and any two (2) members of the Council appointed pursuant to subsection (a) constitute a quorum for the purpose of carrying out any of the duties and functions of the Council under this Order.

(3) In the event of the absence or incapacity of the Chairman, or if the office of Chairman is vacant, the Ministers may designate one other member of the Council to exercise and perform any of the duties and functions of the Chairman.

4. (1) The Deputy Ministers of Regional Industrial Expansion, Employment and Immigration and International Trade shall be members of the Council ex officio.

(2) If any of the Deputy Ministers of Regional Industrial Expansion, Employment and Immigration or International Trade are absent or unable to act, each may respectively designate a person employed in the Departments of Regional Industrial Expansion, Employment and Immigration or External Affairs (International Trade) at the Assistant Deputy Minister, equivalent or higher level to exercise and perform his duties and functions on the Council.

(3) The Head of the Advisory Council on Adjustment Secretariat shall serve as the Executive Secretary to the Council and shall be an ex officio member of the Council. If the Executive Secretary is absent or unable to act, he shall designate a person employed in the Advisory Council on Adjustment Secretariat to exercise and perform his duties and functions as Executive Secretary to the Council.

(4) An ex officio member is not entitled to vote at meetings of the Council.

5. The conduct of the affairs of the Council shall be in accordance with such policies, procedures and practices as the Council may establish in order for it to discharge its responsibilities.

6. The Council shall keep such records and books and make such reports on its activities as the Ministers may require.

7. In carrying out is activities and functions, the Council shall use the staff of the Advisory Council on Adjustment Secretariat to provide secretariat support services to the Council and, to the extent considered necessary by the Council, may use such other staff, facilities and services of the Departments of Regional Industrial Expansion, Employment and Immigration and External Affairs (International Trade) as may be available to it in order for it to discharge its responsibilities.

8. The Council shall:

(a) examine the possibilities for Canadian businesses and workers to position themselves to secure maximum advantage and better exploit the opportunities and benefits arising from enhanced access to the United States market as a result of the Canada-U.S. Trade Agreement;

(b) identify specific adjustment issues or circumstances arising from the Canada-U.S. Trade Agreement including the examination of government programs that act to support adjustment measures and initiatives including programs for labour adjustment, industrial competitiveness, duty remission and regional development and their impact upon particular regions, communities, sectors, firms or workers;

(c) recommend such changes or amendments to program terms and conditions or delivery mechanisms as the Council feels are appropriate and necessary to improve their effectiveness, efficiency or equity as instruments for facilitating adjustment in response to opportunities and issues arising from the Canada-U.S. Trade Agreement;

(d) solicit such inputs as the Council deems relevant to its work;

(e) assist the Government in ensuring that Canadians take full advantage of the new opportunities arising from the Canada-U.S. Trade Agreement.

9. The Council shall meet at least four times a year in order to discharge its responsibilities, or more frequently if considered necessary by the Chairman of the Council.

10. The Council is expected to complete its work in June 1989.

11. Any member of the Council who has an actual or potential conflict of interest, which could result in a direct or indirect personal or financial gain, in respect of any policy, proposal, matter or issue which comes before the Council shall immediately declare such conflict of interest and remove himself from discussion, consideration, deliberation or review of the subject policy, proposal, matter or issue.

Appendix C
LIST OF PARTICIPANTS IN THE WORK OF THE COUNCIL

ASSOCIATIONS AND ORGANIZATIONS

Aerospace Industries Association of Canada
Association des manufacturiers de chaussures du Canada
Association of Canadian Community Colleges
Association of Consulting Engineers of Canada
Automotive Industries Association of Canada
Automotive Parts Manufacturers' Association of Canada, The
B.C. Vegetable Marketing Commission
Brewers Association of Canada
Business Task Force on Literacy
C.D. Howe Institute
Canadian Advanced Technology Association
Canadian Apparel Manufacturers Institute
Canadian Association of Management Counsultants
Canadian Appliance Manufacturers Association
Canadian Association of Manufacturers of Medical Devices
Canadian Association of Single Industry Towns
Canadian Bankers' Association, The
Canadian Broiler Hatching Egg Marketing Agency
Canadian Cattle Breeders Association
Canadian Cattlemen's Association
Canadian Chamber of Commerce, The
Canadian Chemical Producers' Association, The
Canadian Construction Association
Canadian Council of Furniture Manufacturers

Canadian Dairy Commission
Canadian Electrical & Electronics Manufacturing Industry
Canadian Electrical Association
Canadian Exporters' Association
Canadian Federation of Agriculture
Canadian Federation of Milk Producers
Canadian Food Processors Association
Canadian Gas Association
Canadian Heat Exchanger and Vessel Manufacturers' Association, The
Canadian Horticultural Council
Canadian Life and Health Insurance Association Incorporated
Canadian Manufacturers' Association
Canadian Manufacturers of Chemical Specialties Association
Canadian Petroleum Association
Canadian Pork Council
Canadian Printing Industries Association
Canadian Pulp and Paper Association
Canadian Steel Producers Association
Canadian Steel Service Centre Institute
Canadian Textiles Institute
Canadian Urban Transit Association
Canadian Window and Door Manufacturers Association
Canadian Wine Institute
Canola Crushers of Western Canada
Citizen Action Group, Hamilton Help Centre Division
Coal Association of Canada, The
Council for Yukon Indians
Council of Forest Industries of British Columbia
Economic Council of Canada
Federation of Canadian Municipalities
Fisheries Council of Canada
Further Poultry Processors Association of Canada
Grocery Products Manufacturers of Canada
I. Bernolak and Associates Incorporated
Information Technologies Association of Canada
International Labour Office

Investment Dealers Association of Canada
Machinery and Equipment Manufacturers' Association of Canada
Mining Association of Canada, The
Mohawk College of Applied Arts and Technology
Mossop, Cornelissen & Associates
Motor Vehicle Manufacturers' Association
Native Council of Canada
Ontario Oilseed Industry Association
Ontario Potato Growers' Marketing Board
Ontario Social Development Council
Organization for Economic Cooperation and Development (OECD)
Petroleum Services Association of Canada
Prairie Implement Manufacturers Association
Resources Management Counsultants Limited
Retail Council of Canada
Rubber Association of Canada, The
Shoe Manufacturers' Association of Canada, The
Society of the Plastic Industry of Canada, The
Trust Companies Association of Canada, The
Waferboard Association, The
Wine Council of Ontario
Yukon Chamber of Commerce

COMPANIES

Andrés Wines Limited
Cambridge Towels
Canada Consulting Agency
Canadian Chicken Marketing Agency
Canadian Enterprises
Carling O'Keefe Breweries of Canada Limited
Casco Incorporated
Catelli Incorporated
Central Soya
Chase Cattle Company
Corporation House Limited
Dominion Textile Incorporated

El Racimo Vineyards
Exeltor Incorporated
First Brands Holdings Corporation
Fishery Products International Limited
Ganong Bros. Limited
Grey, Clark, Shih and Associates, Limited
Imperial Feather
Inglis Limited
Island Paper Mills Limited
John F. Hepburn, Limited
J. Ford & Co. Limited
Maple Lodge Farms Agency
McCain Foods Limited
Morrison Lamothe Incorporated
Omstead Foods Limited
Polysar Basic Petrochemicals
R.D. Hood Economics Incorporated
Reed Incorporated
Rieder Distillery Limited
Rolland Incorporated
Société de développement industriel du Québec
St-Lawrence Starch Company Limited
Strathcona Paper Company
Sydney House
T.G. Bright & Co. Limited
United Oilseed Products Incorporated
WCI Canada Incorporated

FEDERAL GOVERNMENT (Department / Agency)

Agriculture Canada
Atlantic Canada Opportunities Agency
Canadian Patents and Development Limited
Communications Canada
Consumer and Corporate Affairs Canada
Department of Finance Canada
Department of the Secretary of State
Department of Western Economic Diversification
Employment and Immigration Canada

Energy, Mines and Resources Canada
Environment Canada
Export Development Corporation
External Affairs Canada
Federal Business Development Bank
Federal-Provincial Relations Office
Fisheries and Oceans
Health and Welfare Canada
Indian and Northern Affairs Canada
Industry, Science and Technology Canada
Investment Canada
Labour Canada
National Defence
National Research Council
Natural Sciences and Engineering Research Council Canada
Privy Council Office
Public Works Canada
Revenue Canada, Taxation
Statistics Canada
Supply and Services Canada
Trade Negotiations Office
Transport Canada

PROVINCES

Government of Alberta
Government of British Columbia
Government of Manitoba
Government of New Brunswick
Government of Newfoundland and Labrador
Government of Northwest Territories
Government of Nova Scotia
Government of Ontario
Government of Prince Edward Island
Government of Quebec
Government of Saskatchewan
Government of Yukon

SAGITS

International Trade Advisory Committee
Agriculture, Food and Beverage
Apparel and Fur
Arts and Cultural Industries Sectoral
Automotive and Aerospace
Chemicals and Petrochemicals
Communications, Computer Equipment and Services
Consumer and Household Products
Energy Products and Services
Financial Services
Fish and Fish Products
Forest Products
General Services
Industry, Marine and Rail Equipment
Minerals and Metals
Textiles Footwear and Leather

UNIONS

American Federation of Musicians of the United States and Canada
Canadian Federation of Labour
Canadian Labour Market Productivity Centre
Canadian Textile Labour-Management Committee
Centrale des Syndicats démocratiques
International Brotherhood of Electrical Workers
International Union of Operating Engineers
Ontario Cloakmakers, Dress and Sportswear District Council (International Ladies Garment Workers' Union)
Sheet Metal Workers' International Association
United Food & Commercial Workers of International Union

Appendix D
PRINCIPAL FEDERAL GOVERNMENT ADJUSTMENT PROGRAMS

The latter part of the 1980s has seen enormous change in Canada's industries and people's jobs. Although Canadians have successfully adapted to the new patterns, often by developing skills and changing jobs, government has assisted the transition process through a series of adjustment programs.

Generally speaking, federal government programs are either directed towards labour, industries, or communities. They cover a wide range of needs, for example, assisting industries to be prepared to take advantage of opportunities through the use of technology or the development of export markets, and helping workers upgrade skills or take advantage of new employment opportunities. The principal federal government programs in support of adjustment are described below.

DEPARTMENT OF AGRICULTURE

Federal-Provincial Adjustment Program for Grapes and Wine

Assistance is provided through federal-provincial agreements to improve the international competitiveness of Canadian grape and wine industries. Components of the program include assistance for grape acreage removal, quality enhancement, and price support, as well as grape and wine market development. Agreements are currently in place with Ontario and British Columbia.

Federal-Provincial Tobacco Diversification Plan

Assists tobacco producers to rationalize or exit from the industry and diversify into other commodities. Components of programs under federal-provincial agreements or direct federal initiatives include: crop / market development projects, research projects, and tobacco quota retirement. Programs are currently in place in Ontario, Quebec, New Brunswick, Nova Scotia, and Prince Edward Island.

ATLANTIC CANADA OPPORTUNITIES AGENCY (ACOA)

Action Program

Provides financial assistance to foster the establishment, development, support, and promotion of small and medium-sized enterprises, and to contribute to the growth of earned incomes and long-term employment opportunities in Atlantic Canada. The Action Program offers the following six main areas of assistance to commercial operations in a number of sectors: loan insurance, interest buy-downs, studies, innovation assistance, new facility establishment, and facility expansion / modernization or new product expansion.

Atlantic Canada Supplier Development Program

Provides assistance to enhance the supplier base in Atlantic Canada, through increasing opportunities for Atlantic firms to compete as suppliers to public sector procurement agencies, in domestic and foreign markets, and to encourage consumers, businesses, and governments to buy goods and services that originate in Atlantic Canada.

Economic and Regional Development Agreements (ERDA) Subsidiary Agreements

The purpose of these agreements is to support projects and priorities in specific sectors or industries, on a federal-provincial cost-shared and administered basis, which contribute to the development of the economies of the Atlantic provinces.

EMPLOYMENT AND IMMIGRATION CANADA (EIC)

Industrial Adjustment Service

Provides a practical, cooperative forum in which employers and workers are encouraged to work together, with the assistance of an impartial chairperson, to identify and solve problems related to human resources, new technologies, productivity, relocations, or layoffs.

Skill Investment Program

Assists workers, including those recently laid off, whose employment is subject to change or elimination because of technological or market change. Among the options available are: assistance to employers to train their existing workers or to hire and train individuals recently laid off

by other firms; training trust funds, which encourage employee associations to establish and contribute to such funds as are supplemented by EIC contributions; relocation and travel assistance; and work sharing, which provides financial assistance for a reduced work week.

Skill Shortages Program

Assists employers to train established or newly hired workers in skills designated as being in short supply. Options include: workplace-based training, institutional training, as well as relocation and travel assistance.

Community Futures Program

Assists communities in their efforts to identify, develop, and undertake measures that support adjustment arising from structural and economic changes and to create permanent employment. The program is particularly aimed towards communities suffering chronic unemployment or anticipating major layoffs in its main industries. Options emphasize: entrepreneurial development, including self-employment incentives for small business; a business development program; funds for community initiatives; relocation assistance; and institutional training.

Canadian Rural Transition Program

Assists farm families, who have lost or risk losing their farm business, to adjust to alternative employment through counselling, training, relocation, and income support.

Unemployment Insurance (UI) Program

Provides income protection for Canadian workers suffering temporary income interruptions and tries to match as closely as possible unemployed workers and available jobs. Under Section 39 of the UI Act, assistance is provided to laid-off workers taking approved courses. In addition to training under Section 39, other developmental uses of UI funds include Section 38, job creation, and Section 37, worksharing, which helps avoid layoffs by arranging reduced working time and partial UI benefits.

National Labour Market Innovations Program (Innovations)

Supports pilot projects and other short-term activities that test new and cost-effective ways to improve the functioning of the labour market.

Canada Employment Centre Services

Helps Canadian employers find workers and Canadian workers find jobs through the provision of labour market information, placement, and employment counselling services at 470 centres located across Canada.

EXPORT DEVELOPMENT CORPORATION (EDC)

Export Financing

Facilitates and develops Canada's export trade by providing export financing to foreign buyers. Funds are disbursed directly by EDC to Canadian exporters on behalf of the buyer / borrower, in effect providing the exporter with a cash sale.

Export Insurance

Facilitates Canada's export trade by protecting Canadian companies against losses caused by non-payment of foreign buyers and against risks to new Canadian investment overseas. Export insurance allows Canadian exporters to manage prudently the commercial and political risks inherent in international trade and allows them to be more aggressive in pursuing export markets.

DEPARTMENT OF EXTERNAL AFFAIRS

Canada Export Trade Month

Canada Export Trade Month is a federal-provincial campaign to encourage private sector export awareness. Conferences, seminars, workshops, expositions, and media programs take the message "exports build Canada" to all regions of the country. A variety of special initiatives and events are held, including: Marketplace Export (one-on-one interviews between companies and trade specialists from Canada's missions abroad, workshops and seminars on subjects of interest to exporters); and Export Awards (a program to honour Canada's top exporters in cooperation with the Canadian Exporters Association and to showcase the winners as examples for exporters and export-ready companies).

Investment Development Program (IDP)

Provides assistance to prospective investors through the Investment Counsellor and Trade Commissioner Services at posts in the United States and

selected posts elsewhere. This includes general information on business conditions in Canada and contacts and incentives programs at appropriate provincial and municipal levels. Promotional events, such as seminars, information booths at trade fairs, and incoming missions of selected investors, are funded under the IDP.

National Trade Strategy (NTS)

Provides funding for various export promotion activities, including WIN exports (a computerized data base of exporters), NEBS (New Exporters to Border States) activities, market studies (import replacement in the United States), an industry / sector directory (to identify products that are ready for export), and other promotional activities. The NTS also helps set up new trade offices in response to increased demand for services from Canadian businesses.

Program for Export Market Development (PEMD)

Assists Canadian exporters in a number of activities including: assistance for visits, trade missions, and fairs; bidding on specific foreign projects; establishing export consortia; and establishing permanent sales offices in foreign markets. Financial assistance is provided for both government-initiated and industry-initiated activities. Contributions for industry-initiated activities are repayable based on sales generated. PEMD is jointly administered by the Department of External Affairs and Industry, Science, and Technology Canada.

Technology Inflow Program (TIP)

Canadian TIP officers abroad respond to specific requests from Canadian businesses to identify sources of new and emerging technology and explore opportunities for licensing / joint ventures. The TIP may also provide financial support to defray costs of short-term missions, visits, and working assignments abroad of up to one year.

International Trade Centre Services

The nature of assistance provided depends on what the client needs and includes: counselling on export readiness; provision of information on markets abroad; coordination with respect to External Affairs missions abroad; and provision of financial assistance through local delivery of the Program for Export Market Development (PEMD). These centres are jointly administered by the Department of External Affairs and Industry, Science and Technology Canada.

FEDERAL BUSINESS DEVELOPMENT BANK (FBDB)

Export Receivable Financing

Assists small and medium-sized businesses by providing them with a means to finance their export receivables through conditional guarantees of lines of credit obtained from financial institutions that are secured by those export receivables.

Term Loans and Loan Guarantees

Loans are provided to finance the acquisition of fixed assets, such as land, buildings, machinery, and equipment, as well as the purchase of an existing business. In some cases, term loans can also be made to replenish or increase the working capital of a business when it has been depleted by recent capital expenditures. Working capital loans can also be granted to finance increasing sales. The FBDB can also act as guarantor for a client in its dealings with a chartered bank or other financial institutions.

INDUSTRY, SCIENCE AND TECHNOLOGY CANADA (ISTC)

Industry Competitiveness Programs

SECTOR COMPETITIVENESS INITIATIVES

Provides assistance to improve the competitive position of Canadian industry in sectors where there is likely to be significant economic payoff, by means of intensive information gathering and analysis of sector needs through consultations with the private sector. Assists industry with the cost of market and diagnostic studies, technology enhancement or transfer, investment promotion, research and development, and strategic alliances.

Strategic Technologies

Provides assistance to support alliances among companies to undertake pre-competitive research and development or leading-edge technology applications in order to create technological capabilities and position Canadian firms to capture future markets in a variety of industrial sectors profiting directly from advances in biotechnology, information technology, and advanced materials.

Defence Industry Productivity Program (DIPP)

Assists Canadian firms in defence-related industries in Canada to capitalize on opportunities promising a high rate of return but which pose significant risk to the applicant firm. Assistance is provided towards the eligible costs: of research and development projects; for establishing Canadian firms as qualified suppliers; for acquiring advanced production equipment to modernize or upgrade manufacturing capabilities; and for market feasibility studies.

Technology Outreach Program (TOP)

Provides financial assistance to technology centres to improve the productivity and competitiveness of Canadian industry especially among small and medium-sized business.

Microelectronics and Systems Development Program (MSDP)

Provides financial assistance to companies to undertake research and development of technologically advanced products and systems to improve the development, transfer, application, and diffusion of new technologies in the field of microelectronics and systems development.

Small Business Loan Program (Small Business Loan Act)

Assists new and existing businesses to obtain intermediate-term loans from conventional lenders to help finance specified fixed assets, for example, the establishment, improvement, or modernization of plant equipment or premises. Assistance under this program for Atlantic Canada and Western Canada is provided by the Atlantic Canada Opportunities Agency and the Department of Western Economic Development, respectively. Assistance under the program for Ontario and Quebec is provided by Industry, Science and Technology Canada.

Regional Development Programs

Canada-Quebec Agreement on the Economic Development of the Regions of Quebec

Enterprise Development Program

Provides financial assistance particularly to small and medium-sized businesses in the manufacturing and service industries for: studies, capital projects, marketing, business development, and common services to encourage industrial diversification of the resource regions of Quebec. Financial

assistance is also provided to the tourism industry for capital projects, events, studies, and common services.

Manufacturing Productivity Improvement Program

Provides assistance to manufacturing enterprises, particularly small and medium-sized businesses, to undertake studies and to acquire state-of-the-art equipment to strengthen the industrial structure in the central regions of Quebec.

Industrial Recovery Program for East-End Montreal

Provides assistance to small and medium-sized businesses for capital projects, innovation, studies and for the establishment of business services to strengthen and diversify the industrial base of East-End Montreal.

Northern Ontario Development Fund (FEDNOR)

Provides contributions and loan insurance for capital projects, and contributions for marketing, innovation, and related studies intended to generate significant new income and employment opportunities in Northern Ontario.

Economic and Regional Development Agreements (ERDA)

These agreements establish a long-term framework for federal-provincial and federal-territorial planning and cooperation which provides for the special economic development needs of each region while reducing regional disparities. Responsibility for ERDAs as well as most ERDA subagreements in Atlantic and Western Canada have been transferred to the Atlantic Canada Opportunities Agency and the Department of Western Economic Development, respectively. Industry, Science and Technology Canada is still responsible for a number of subsidiary agreements involving tourism, science and technology, and industry. Industry, Science and Technology Canada is also responsible for regional development subsidiary agreements in Ontario and Quebec.

Science Programs

The Canada Scholarships in Science and Engineering Program

The scholarships provided under this program to encourage gifted students who wish to pursue careers in science and technology are intended to help develop the science and technology base and qualified personnel required by industry.

Centres of Excellence Program

This program establishes networks of researchers and scientists across Canada to conduct world-class research. Industry, Science and Technology Canada plays a policy role with respect to the program which is administered by the three granting councils, the Natural Sciences and Engineering Research Council of Canada, the Medical Research Council of Canada, and the Social Sciences and Humanities Research Council of Canada.

CANADA AWARDS FOR BUSINESS EXCELLENCE PROGRAM

Provides national recognition and exposure of exemplary performance by Canadian enterprises in the following categories: small business; productivity; quality; marketing; entrepreneurship; labour-management cooperation; innovation; invention; and industrial design.

LABOUR CANADA

Program for Older Worker Adjustment (POWA)

POWA is a federal-provincial program designed to help long-service older workers between the ages of 55 and 64 across Canada who have no prospects for re-employment following major permanent layoffs. Actual benefits paid are determined in the context of the individual layoff and depend on a variety of factors including previous wage levels and benefits available to recipients. The federal contribution is contingent on a provincial financial contribution, and the maximum feasible contribution is sought from the employer in every case.

MEDICAL RESEARCH COUNCIL OF CANADA

Provides grants: to support and promote basic, clinical, and applied research which advances knowledge in areas of national importance in the health sciences; to support and promote the application of scientific research to the prevention, diagnosis, and treatment of disease; to develop a pool of highly qualified health research scientists; and to promote cooperation between industry, universities, and health care institutions in order to enhance the development of knowledge and its application.

NATIONAL RESEARCH COUNCIL CANADA (NRC)

Industrial Research Assistance Program

Provides technical advice, guidance, and financial assistance to firms whose business can be enhanced through knowledge, access, acquisition, development, and exploitation of appropriate new technology.

NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL OF CANADA (NSERC)

Supports advanced university research in the natural sciences and engineering by providing research grants and scholarships for professors and students. Offers an incentive program for companies to hire recent doctoral graduates. Supports research projects in fields identified as "strategic" to the future of Canada. Funds collaborative research and development and the development of research partnerships between universities and the private and government sectors.

SOCIAL SCIENCES AND HUMANITIES RESEARCH COUNCIL OF CANADA (SSHRCC)

Supports scholarly research in the social sciences and humanities through a range of granting programs including: grants for disciplinary research; grants for research on key national issues; doctoral and postdoctoral fellowships; subsidies for scholarly associations, learned journals, and scholarly publishing; and grants for development of library collections and research tools.

DEPARTMENT OF WESTERN ECONOMIC DIVERSIFICATION

Western Diversification Program

Encourages the development of new products, new markets, new technology, productivity improvements, and import replacements to help diversify the economy of Western Canada.

Western Procurement Initiative

An initiative involving several components, the purpose of which is to increase the purchasing of goods and services for the federal government from Western Canada.

ERDA Subsidiary Agreements

The purpose of these agreements is to support projects and priorities in specific sectors or industries on a federal-provincial cost-shared and administered basis, which contribute to the development of the economies of the Western provinces.

Appendix E
ADJUSTMENT EXPERIENCE IN OTHER FREE TRADE AREAS AND POLICIES IN SELECTED COUNTRIES

During the consultative process, the attention of the Council was directed to the successful adjustment experiences of other free trade areas and the constructive adjustment policies of other countries. The Council concluded that it would be useful to review how other countries had adjusted to free trade agreements. The Council also thinks that Canadians can learn from adjustment policies in other industrialized countries. This appendix presents the international adjustment experience in other free trade areas, followed by an examination of adjustment policies in other countries.

ADJUSTMENT EXPERIENCE IN OTHER FREE TRADE AREAS

The formation of the European Community (EC), the European Free Trade Area / European Community (EFTA / EC) trade agreements, and the Australia-New Zealand Agreement for Closer Economic Relations (CER) are reviewed in this section to outline the experience of other free trade areas.

The European Community

1958 – 1988

The 1957 Treaty of Rome, the EC's founding document, provided for the removal of internal tariffs and other trade restrictions, and the establishment of a common external tariff and a common agricultural policy. Other important provisions established the basis for a system of ensuring competition, and a procedure for cooperation on domestic economic matters.

A European Social Fund and a European Investment Bank were created to assist individuals and companies in the adjustment to the new trading environment. The European Social Fund extended assistance of about $26 million over the 1960-68 period, while the European Investment Bank made loans and guarantees of $100 million per year on average during the 1958-68 period. This relatively modest use of the

two funds resulted at least in part from buoyant economic conditions and stable employment. Eventually, participating countries decided to advance the tariff cuts by 18 months.

Although one must exercise caution in attributing positive economic benefits entirely to economic integration, it is, nonetheless, relevant to note some of the developments in the EC economies following integration. The volume of trade among the Community members increased by 347 per cent over the 1959-69 period. Real output, productivity, and real wages rose more rapidly in the Community than in the United States during the same period. In 1969, industrial production was 84 per cent above the 1958 level in the EC, compared with 64 per cent for the United States and 39 per cent for the United Kingdom (Lane, 1985, p. 19).

Britain, Denmark, and Ireland integrated with the EC in 1973, and Greece joined in 1981, years that coincided with cyclical downturns in the major industrial nations. In the case of Britain, for example, this general situation, coupled with the relatively lower competitiveness of the British economy, induced the EC Commission to provide substantial financial assistance to Britain – about 8 billion pounds in grants and loans during the 1973-82 period – to promote industrial restructuring and investment. During the first half of 1982, the Community made up 43 per cent of Britain's world trade, compared to just over 30 per cent in 1972. Between 1972 and 1980, exports from Britain to the other EC members rose by 28 per cent a year on average and imports by 24 per cent (Commission of the EC).

Both Spain and Portugal joined the EC in January 1986. That May the EC Commission authorized some $207 million in social aid funds to train unemployed persons in Portugal. Another $269 million was also provided to Portugal from the Commission's development fund as of mid-1986 (Grayson, 1986). Both the Portuguese and the Spanish economies have strengthened since the integration with the EC. The Portuguese economy grew by 4.3 per cent in 1986, up from 3.3 per cent in 1985, exports to the EC accounted for 68 per cent and 71 per cent of total exports in 1986 and 1987, respectively. Inflation fell from 19.3 per cent in 1985 to 11.7 per cent in 1986 (Bank of Portugal, 1988). Spanish exports to the EC increased from about 50 per cent of total exports in 1985 to about 61 per cent in 1986, while 48 per cent of Spain's imports originated from the EC in 1986 compared to 35 per cent in 1985 (Dutrow, 1987).

1992

The EC Internal Market is a program designed to remove all remaining trade barriers among the EC countries by 1992. This concept is not new in the Community, since the 1957 Treaty of Rome provided a legal basis for forming the Internal Market. In 1985, Jacques Delors, president of the EC Commission, presented the European Council with a "White Paper on Completing the Internal Market by 1992" specifying some 300

measures designed to complete the European integration. The measures are designed to establish the so-called "four freedoms" among the countries of the European Community: free movement of people, capital, goods, and services.

The European Commission disclosed results of a study which was commissioned to evaluate the benefits of a single market (Cecchini, 1988). It shows that, after about five or six years, an increase of about 5 per cent in gross domestic product and a decline of 6 per cent in prices can be expected. This would add an extra ECU 200 billion or more, expressed in 1988 prices (some $290 billion Cdn), to the Community's gross domestic product. In the medium term about 2 million new jobs are projected.

The EFTA / EC Agreement

The European Free Trade Area (EFTA), founded in 1960, is an association of a number of countries which did not want to join the EC; nevertheless it has always attached great importance to its relations with the EC. Among the EFTA countries, trade barriers including tariffs and quotas were abolished by 1966 for most goods, three years ahead of the negotiated schedule (Hurni, 1986).

In July 1972, the European Community and each of the EFTA members signed a series of free trade agreements. The initial agreements were primarily aimed at a general reduction of tariffs, over a transitional period of less than five year's duration, with five tariff cuts of 20 per cent each (with exceptions for certain goods). The tariff-cutting process proved much easier than expected and the structural problems that did arise were related to other factors, such as oil price shocks or increasing import competition from the newly developing countries (Price, 1987, p. 19). During the 1984-86 period, technical barriers to trade were reduced further, and border controls simplified through the introduction of the Single Administrative Document. Progress has also been made in other fields, such as increased cooperation on research and development between the two blocs.

The trade dependence between EFTA / EC resembles the one that exists between Canada and the United States. Trade with Western Europe has traditionally dominated the EFTA countries' trade. For example, in 1987, the EC countries took 55 per cent of the EFTA countries' exports and provided 61 per cent of their imports.

Australia-New Zealand Closer Economic Relations Trade Agreement

The Australia-New Zealand CER came into force on 1 January 1983, with the purpose of eliminating tariffs between the two by 1988 and other trade barriers by 1995. From 1983 to mid-1988, New Zealand's exports

to Australia increased by 118 per cent, while Australia's exports to New Zealand rose by 68 per cent. In terms of trading partner rankings, as of June 1988, Australia was New Zealand's second largest export market receiving about 17 per cent of New Zealand's exports.

Encouraged by the success of the initiative, the agreement was revised in 1988 to remove the remaining non-tariff barriers by 1 July 1990, five years ahead of the originally scheduled date. The other main changes included the expansion of the agreement to most service industries as of 1 January 1989. Memoranda of understanding have also been reached to harmonize customs policies and practices, business laws, standards, certification, and labelling.

Five years into the CER, the evidence points to the fact that the smaller trading partner – New Zealand – has reaped many benefits and experienced few adverse effects. In New Zealand, the CER is seen as one of a number of mechanisms which have been introduced to make their companies competitive in a market-driven economy. New Zealand did not put in place any large-scale adjustment program after signing the CER. As well, there have been no specific Australian government programs to take advantage of the CER.

Summary

During the first 10 years or so of the EC integration, when adjustments might be expected to occur, the EC experienced a more rapid increase in real output, productivity, and incomes than did the United States. Eventually, tariff cuts were accelerated by 18 months. Britain, Portugal, and Spain, which joined the EC later, also enjoyed a period of trade expansion within the Community. Encouraged by these and other positive results, the Community has launched the Internal Market initiative, designed to remove all remaining trade barriers among the EC countries by 1992.

Trade between New Zealand and Australia has increased significantly since the inception of the Closer Economic Relations Trade Agreement in 1983. Neither country has put in place any large-scale adjustment program to take advantage of the CER.

ADJUSTMENT POLICIES IN OTHER INDUSTRIALIZED COUNTRIES

Most industrialized countries use a broad range of policies and programs to influence the process of adjustment. This section provides a brief, selective sketch of employment and industrial policies in Sweden, West Germany, Japan, and South Korea.

Sweden

Employment Policy

Since the 1950s, four principles appear to have guided economic development in Sweden: a mildly restrictive macro-economic monetary-fiscal policy to prevent excess demand and check inflationary tendencies; an active labour market policy to obtain full employment, absorb labour market slack, and promote structural adjustment; a "solidaristic wage policy" to promote equal pay for equal work and facilitate structural adjustment; and a policy of "welfare capitalism," which implies the pursuit of a growing provision of social services (Standing, 1988, pp. 3-4). The Swedish approach attempts to reconcile the goals of full employment and price stability, and to facilitate structural changes and reduce negative social effects.

The National Labour Market Board (AMS) is a central administrative agency for general labour market matters and is responsible for formulating most labour market policies and programs. A unique feature of the AMS is the important role accorded to both management and labour. Representatives of both sides sit on boards of directors at all levels of the labour market administration and on permanent committees that do research work, provide advice, and prepare various items of business (Swedish Institute, 1988). AMS measures are financed by general taxes and employers' contributions, the latter through a 2 per cent levy on wages (Standing, 1988, p. 98).

Labour market measures include matching employment openings and job seekers (job placement); influencing the supply of labour through training, occupational, and geographical mobility; and retaining or increasing employment at companies by means of subsidies or direct job creation. Aside from these active forms of aid, there are also unemployment insurance benefits. Unemployment insurance in Sweden is administered by unemployment benefit societies which are closely tied to the trade unions and are monitored by the AMS. Government contributes about 95 per cent of benefits. Of this, 35 per cent is financed through a special appropriation approved by parliament, and the remaining 65 per cent is covered by payments from a fund in which special employer payroll fees accumulate (Jangenas, 1985, pp. 54-6).

A series of legislative measures related to employment were introduced in the 1970s, including the Co-determination at Work Act, 1976. The act gives local unions the right to information such as company policy on employment. One important aspect of the act is that employers and employees are to reach agreement on matters pertinent to employer-employee relations. The union can veto a change in terms of subsequent interpretation of such agreements (Standing, 1988, p. 75).

The Renewal Fund offers employees one means of co-determining employment-related matters. A one-time deposit fund, it required all companies to set aside 10 per cent of net profits exceeding 500,000 SEK (approximately $100,000 Cdn) in 1985 to finance the training of employees or to undertake R&D initiatives. A unique feature of the fund is that money cannot be withdrawn without the concurrence of the local trade union. As of mid-October 1986, approval had been given for the use of 1.3 billion SEK by about 1600 contributing companies. Of this amount, 500 million SEK was assigned to educational and retraining purposes, 800 million SEK to R&D activities (Meidner, 1987).

Industrial Policy

One of the main objectives of Swedish industrial policy in the 1980s was to break the trend of costly support to crisis-ridden industries, such as shipbuilding, steel, textile, and clothing. Swedish industry has therefore undergone rapid industrial change, including the scrapping of obsolete production facilities. As a result primarily of heavy cuts in support to shipyards, the net costs of government support to industries during the 1986-87 fiscal year declined to SEK 6 billion from about SEK 10 billion in the previous year (Ministry of Industry of Sweden, 1988). Only two decades ago, Swedish shipbuilding was the second largest in the world, but today, after difficult large-scale shutdowns in many locations, domestic shipyards produce only military or specialty vessels.

The present industrial policy encourages the development of high technology and small businesses. Support for R&D, export promotion, and small businesses compared to support to assist crisis-ridden industries, rising to over 50 per cent of total government assistance to industries during the 1982 / 83 – 1986 / 87 period compared to 32 per cent during the 1977 / 78 – 1981 / 82 period.

Swedish industrial policy assumes that growth and competitiveness require continuous renewal and adjustment. The objectives are to enhance efficiency; to help industries upgrade to create new and better products and reach a higher degree of processing; and to achieve diversification of industry through new company start-ups. These objectives are pursued within a comprehensive strategy, with industrial policy involving such areas as education, research, communication, and taxation. Swedish industrial policy guidelines take this interdependence into consideration.

West Germany

Employment Policy

The Ausbildung, an occupational training system, is reported to be the cornerstone of West Germany's economic success and has developed

through the close cooperation of business and labour. German industry sees a skilled work force as vital to producing advanced and high-quality products. In 1987 alone, industry spent about DM35 billion on training for 1.8 million trainees under the Ausbildung system (Fisher, 1988).

The Federal Institute for Employment is a tripartite, semi-autonomous government body responsible for active labour market policies that prevent and reduce unemployment, ensure an appropriate labour supply, and facilitate labour market adjustment. The operations of the institute are largely funded by equal contributions from employers and employees. The 1988 contribution was 2 per cent of wages from employers and employees, for a total contribution of 4 per cent (Ministry of Employment, Education and Training of Australia, 1988).

An important function of the institute is the promotion of vocational training. The agency gives young workers subsidies and loans for vocational training if they are unable to raise funds. The other function is the promotion of further training or retraining to end unemployment or to acquire job qualifications. Beyond this, the institute also promotes vocational advancement by providing sustenance loans during training. This support helps the unemployed to upgrade their skills to meet changing requirements in the labour market (Lexikon-Institute Bertelsman, 1988, pp. 170-1).

Grants are also provided to the long-term unemployed, provided they are willing to move. These grants include a cash incentive, reimbursement for moving costs, allowances for living costs, and, in some cases, costs of travelling to interviews (Wonnacott and Hill, 1987, p. 114).

A statutory unemployment insurance scheme has existed in Germany since 1927. It is covered today by the Work Promotion Act of 1969. Employees (with some exceptions) are required to contribute to the scheme. The unemployment benefit is up to 68 per cent of the last net pay and is paid for a maximum of one year. In the case of older workers, the benefit period can extend to 32 months. Thereafter, individuals who remain unemployed can apply for further "unemployment support."

Trade unions in West Germany support structural changes and the introduction of new technologies. Reorganization and restructuring are viewed as a means of increasing the competitiveness of firms and avoiding the displacement of workers. One of the main concerns of the unions is that workers whose skills might become redundant are retrained (Schatz and Wolter, 1987, pp. 54-7). Industrial relations in West Germany are characterized by a dual jurisdiction system: industry-wide collective bargaining, and works councils at the level of the firm. The collective agreements concluded by the unions do not focus on firm-specific matters, although they set minimum standards.

The works council, elected by the work force within the firm and considered independent of the trade unions, provides a mechanism for labour-management consultations. Every firm of five or more employees must

set up such a council. The works councils enjoy rights to determine with management how issues of payment, working hours, layoffs, and dismissal are resolved (Schatz and Wolter, 1987, p. 57).

Industrial Policy

West Germany's economy has evolved into a socially responsible market economy coupled with a strong macro-economic management. Market processes take place within a framework of conditions shaped by government economic policy. A major tax reform, to cite one example, has been planned for the year 1990 to improve both growth and employment opportunities by reducing the tax burden, to increase the ability of businesses to finance investment, and to improve international competitiveness.

One of the elements of the government's economic policy is the promotion of industry's capacity to adjust to structural changes. On 1 July 1987, the federal government decided to restructure the existing aid package for shipping and shipbuilding. Building grants for German shipowners were discontinued and the shipbuilding industry received competition-related support instead. This support aims at compensating for the disadvantages German shipbuilders face as a result of subsidies in other countries. However, in budget plans for the next few years, appropriations for this kind of assistance are declining (OECD, 1987).

The excess capacity in steel production in the European Community has induced the German steel industry to implement appropriate adjustment measures. Total employment in the sector has dropped from around 204,000 persons at the beginning of 1980 to 135,000 individuals at the end of 1987. Because of this sharp drop, the creation of replacement jobs is given priority in the federal government's steel policy. Coal mining has long received government support but since 1968 most assistance has been given to promote adjustment through reorganization and closures. Support for the aerospace industry is given on the basis that the industry is important to Germany for research, development, innovation, and employment.

Regional development assistance is influenced by sector-related structural change. Federal funds are available for the purpose of regional economic promotion, including those designed to assist areas hard hit by structural changes.

Japan

Employment Policy

Employment policy in Japan aims to achieve and maintain full employment. Two main programs support this goal. First, the Basic Employment Measures Plan provides medium- and long-term policies to eliminate mis-

matches between labour supply and demand as a result of industrial restructuring. Secondly, the Annual Employment Plan deals with regional employment measures as well as shorter term issues in the labour market (Japan Institute, 1988). The Employment Security Bureau, which is the central body for planning and operations at the national level in the Ministry of Labour, and the Public Employment Security Offices at local level are responsible for the planning and administration of labour force programs.

An array of programs is available to help individuals in the labour market. They include services for development of employees' abilities, an employment stabilization fund to provide subsidies to employers, and an unemployment insurance system.

Services for the development of employees' abilities include aid and assistance to conduct job training in the private sector and to promote public job training. An employment stabilization fund subsidizes employers who carry out measures to prevent unemployment or stabilize employment in situations of economic fluctuation and structural change. The assistance include wage subsidies of about three-quarters of workers' wages for small- and medium-size enterprises and two-thirds of the wages for large-scale enterprises if the workers receive education and training. An individual who loses his job can qualify for unemployment insurance benefits. To be eligible for benefits, workers must be willing to work, capable of working, and looking for work. Unemployment benefits are financed by premiums shared by employers, employees, and the national treasury.

An outstanding feature of the Japanese employment system is the lifetime employment practice wherein a company hires workers, trains them, and tries to retain them on a permanent basis. The government provides a number of incentives to small companies to assist them in this commitment (Labour Canada, 1982, p. 13). Moreover, wages paid to employees include biannual bonuses which can be cut during an economic downturn. This flexibility often permits employers to avoid layoffs.

Most Japanese trade unions are organized on an enterprise basis. Despite this system, the federation of unions coordinates the annual round of collective bargaining in the private sector known as the spring labour offensive. At the enterprise level, however, there is an ongoing consultative mechanism which fosters cooperation between labour and management. This has been set up in most enterprises to improve communication and understanding between the two sides on problems related to production and those matters not normally subject to collective bargaining (Labour Canada, 1982, p. 24).

As the Japanese unions are organized on a company basis, the union has an interest in strengthening the competitiveness of its company. The locals are able to cooperate with the management to achieve a mutually advantageous goal. In this cooperative environment, employers can trans-

fer workers to different areas of their plants, or to a different plant, with little opposition from the unions. When plants are not fully utilized, workers are transferred rather than laid off. In other situations, manufacturers have introduced flexible manufacturing systems under which workers are trained to perform a variety of tasks within the same firm (Dilorenzo, 1988).

Industrial Policy

During the 1960s, Japanese industrial policy evolved significantly. First, the industrial policy debate of the 1960s encouraged large-scale mergers to strengthen international competitiveness. The merger of Yawata and Fuji Steel, for instance, aimed at improving efficiency; at the same time it increased market concentration. Although the government did not intervene directly, the merger was carried out with its encouragement and support (Komiya, Okuno, and Suzumura, 1988, pp. 61, 303). Secondly, the government intervened to guide investment patterns in many sectors, including steel, synthetic fibres, petroleum refining, petrochemicals, paper and pulp. Thirdly, attempts were made at policy intervention to coordinate the manufacture of products among firms and to develop cooperation in production. The 1963 Small and Medium Enterprises Modernization Act aimed at bringing about an appropriate scale and coordinated production.

In later years, increasing import competition led to measures to reduce excess capacity and scrap inefficient plants and equipment in the textile industry. The Structurally Depressed Industries Act of 1978 permitted the establishment of cartels to reduce capacity, and the Ministry of International Trade and Industry coordinated cuts in capacity and provided funds for the scrapping of plant and equipment (Wonnacott and Hill, 1987, p. 117).

Shipbuilding is another example of capacity adjustment, initiated and financed by efficient firms in the industry. The Specified Shipbuilding Stabilization Association, established in December 1978, bought equipment and land from inefficient firms, scrapped the former and sold off the latter. The money spent to acquire equipment from inefficient firms was paid by efficient firms in the industry. This method of raising funds allowed the burden of adjustment costs of the inefficient firms to be shared by efficient firms.

South Korea

Employment Policy

The key to employment policy in South Korea is its attitude to vocational training. Planning and supervision of vocational training is largely done

by the Ministry of Labour and its Vocational Training Bureau (Dawkins, 1988). There are three kinds of vocational training in Korea: public, in-house and "authorised." Public training is given for occupational skills which are difficult to provide in the plant, such as training in export-oriented and advanced technology occupations. The emphasis has shifted, however, from government programs to in-house training by businesses. In-house training is given at the operating level by firms themselves or by inter-plant centres. In addition, some 50 non-profit training bodies provide authorised vocational training, mainly in the service sector. In total, 62,000 individuals were trained under these systems in 1986.

A payroll levy system for training is also in force. Firms covered by the vocational training legislation must either submit a training plan or pay a levy. For 1986, the average levy for all industries was 1.63 per cent of wages. For any firm, the maximum amount of levy is set at 2 per cent of the employer's wage bill (Ministry of Employment, Education and Training of Australia, 1988).

To train technical manpower and expand industrial employment, programs focus on utilizing trained human resources efficiently, fostering a constructive dialogue between labour and management, and revitalizing labour unions at the industrial level (Ministry of Industry and Culture of Korea, 1988).

Korea's labour-management relations have been influenced by the Labour-Management Council Act of 1980. Since the inception of the act, the number of firms having labour-management councils has risen steadily. These councils work to improve the relationship between workers and managers (Economic Planning Board of Korea, 1986, p. 186).

Industrial Policy

The evolution of the industrial structure of South Korea was influenced by a combination of economic measures introduced by the government to create an environment in which market forces would operate. Some empirical studies, however, suggest that state intervention and selective integration into world markets have been important factors as well (Michell, 1988, p. 5).

Between 1960 and 1969, South Korea's GNP grew annually by almost 9 per cent. Most of the initial growth was based on satisfying domestic demand by increasing the rate of utilization of existing resources. Generally good economic conditions in Japan at that time permitted Japanese enterprises to subcontract basic labour-intensive processes to Korea.

Since 1968, the government has stimulated both the machinery and the electronics industries. As part of this thrust, a number of major plants were built. The most successful project was the integrated iron and steel mill (POSCO) with its efficient and effective plant design and use of labour. POSCO reportedly used half as much manpower per tonne of

iron and steel as that used by British Steel. In addition, the 1972 Heavy and Chemical Industry Plan singled out six leading industries: steel, chemicals, non-ferrous metals, machinery, shipbuilding, and the electrical industry, with the objective of raising the proportion of heavy and chemical goods in total exports to 65 per cent by 1981 (Michell, 1988, p. 53).

Until the Industry Development Act came into force in 1985, the government tried to assist industrial development by selecting leading industries and by providing preferential financing, tax exemptions, and other direct policy measures. This selective policy, however, inhibited the establishment of a balanced industrial structure by constraining the market system. The Industry Development Act promotes the capacity of industries to restructure through maximizing private initiatives.

To create a competitive industrial structure, the Korean government enacted another piece of legislation in 1985 to encourage the start-up of many competitive small and medium-size businesses. Under the legislation, such businesses, established in rural areas or high technology fields, were given corporate tax exemptions for three years (Economic Planning Board of Korea, 1986, p. 98.)

The Economic and Social Development Plan for the period 1982-86 redefined government and private sector responsibilities in the economy. Aside from a limited number of large projects, investment decisions were left to the private sector; government only provided an appropriate framework and played a larger role in social, technological, and manpower development.

The sixth five-year plan (1987-91) enshrined four policy principles: promoting competition domestically, broadening external access to the Korean market, increasing the efficiency of the government, and making the best possible use of natural, financial, and human resources.

Conclusions

At least two important conclusions can be drawn from employment and industrial policies in the four countries examined in this section:

- Union-management relationships provide an effective mechanism to foster consultation and cooperation. As a result, structural changes are viewed as a means of increasing competitiveness of firms, thereby avoiding the possibility of layoffs.
- In terms of industrial policies, Sweden, Germany, and Japan took drastic steps to scrap excess capacity and outmoded production facilities. In Korea, the policy has shifted away from selective industrial support towards allowing market mechanisms based on private initiatives.

It is, however, important to stress that the experiences with adjustment policies in one country need not be applicable to another country. Different political systems, economic institutions, and cultural differences make it difficult for one country to imitate the policies of another (OECD, 1988).

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Appendix F
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