

REPORT OF THE
BC COMPETITION COUNCIL

**Enhancing the Competitiveness
of
British Columbia**

June 2006

PREFACE

In March 2005, the Premier established the BC Competition Council to review the Province's "competitive position and to recommend workable private sector and public sector actions to improve British Columbia's competitiveness".

This report presents the Council's recommendations to the Premier for action by industry and government to make British Columbia a highly competitive jurisdiction.

The specific recommendations of the Council have been developed after an extensive process involving Industry Advisory Committees (IACs) representing 12 industrial sectors and consultations with industry, business and professional organizations. That input has been distilled into recommendations that cut across all sectors. The Council has also identified a number of actions recommended by the various industry sectors that are intended to improve the competitiveness of those industries. The Council made a separate submission on the Wood Products and Pulp and Paper Industry Advisory Committees Reports on April 16, 2006.

In developing its recommendations, the Council drew on the expertise of its members and considered the IAC's suggestions, and the suggestions of other stakeholders. The Council tested each suggestion against criteria including whether it supports growth, encourages efficiency, stimulates innovation and spurs productivity. As well, the recommendations are designed to be practical and workable, contribute to a level playing field, reduce barriers to entry or exit, enhance industry's ability to operate, and promote certainty and predictability.

The Council acknowledges the work of the IACs and expresses its deep appreciation for the time and effort given by IAC members. It also wishes to thank the BC Progress Board and the Business Council of British Columbia, as well as other business, industry and professional organizations and representatives, who provided input to the Council.

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SUMMARY OVERVIEW of REPORT

This report presents the recommendations of the BC Competition Council to the Premier for action by industry and government to make British Columbia a highly competitive jurisdiction. The report is the product of the work of the Council based on analysis and discussion within the Council of the input of 12 Industry Advisory Committees (IACs), combined with input from representatives of a number of other industry, business and professional groups.

Context

Importance of British Columbia Industry Being Competitive

The standard of living and the opportunities available for British Columbians are dependent on a competitive and productive economy. In the context of strong values of respect for the environment, public health and safety, and effective social policy, it is important that government, industry and labour work together to improve the overall welfare of all British Columbians.

If British Columbia is to have the resources to address pressing social issues, we must have a strong competitive business base. Wealth is generated by business and reallocated by government.

Where British Columbia Stands Today

The Province is experiencing a period of strong economic growth with real GDP growth in 2005 of 3.4 percent and record low unemployment expected over the next few years. The Province ranks amongst the top two or three provinces in Canada in terms of most economic and social measures.

However, British Columbia must not be complacent. British Columbia is recovering from a period of economic decline that occurred throughout the late 1980s and 1990s and which saw British Columbia's growth and productivity drop significantly. During the period from 1984 to 2004, British Columbia's annual growth in real GDP per capita averaged 1.44 percent (27th in world rankings). Though real GDP per capita has grown at an annual rate of 2.1 percent over the past few years, British Columbia's real GDP per capita is equal to only 94 percent of the national average.

British Columbia's Competitive Pressures

British Columbia's industries compete with industries in many other jurisdictions. British Columbia competes with jurisdictions such as Boston and San Francisco in industries such as high technology and biotechnology. The transportation industry in British Columbia competes with other inter-modal centres located in US states located on the west coast of North America. China and India have emerged as low cost suppliers and increasingly major economic forces in the global economy.

Key among opportunities and challenges is British Columbia's competitive position compared to Alberta. The economies are similar and they are natural competitors. It is critical that the Province maintain its competitive position with Alberta in order to retain people and businesses. Benchmarking competitiveness against Alberta will position British Columbia to successfully compete with the rest of Canada.

Opportunities for a Competitive British Columbia

British Columbia has a number of comparative strengths on which it can build. These include the foundations of a competitive business environment and infrastructure, a highly educated workforce and a strategic location linking North America with Asia.

British Columbia also has opportunities to cooperate with other jurisdictions in a way that enhances mutual competitiveness. For example, the Trade, Investment and Labour Mobility Agreement between British Columbia and Alberta, signed in April 2006, establishes British Columbia as a leader in breaking down barriers to trade. British Columbia should actively seek out entering into similar agreements with other Canadian provinces and with its US neighbours. The Province should become actively involved in federal initiatives to break down trade barriers.

There is no better time than one of growth and prosperity to make enhancements that build on strengths and opportunities. Now is the time for British Columbia to take concerted and specific action to bolster the competitiveness of its economy and to position itself to take advantage of future opportunities for growth and diversification.

Recommendations for Enhancing Competitiveness

Contributions from Industry for Enhancing Competitiveness

Enhancing British Columbia's competitiveness is the primary responsibility of the business and industries that constitute the economy of the Province. The actions of business and industry, enhanced and enabled by appropriate support from government, as well as other stakeholders such as organized labour, will determine the relative health of our economy and its ability to renew and grow.

The Council, reviewing and building on the recommendations of the IACs, makes the following recommendations for action by industry sectors:

Wood Products, Pulp and Paper, Manufacturing Industries - These industries must invest in new plant and technology, invest more in workforce training; invest in research and development (for example, new products from hemlock species in forest industry); and develop new products that can compete in export markets. The pulp and paper sector must consolidate and rationalize.

Oil and Gas and Mining Industries - These industries need to take an active role in providing economic benefits to First Nations, increase investments in exploration and actively participate in funding new infrastructure to enable development.

Technology and Biotechnology Industries - These sectors need to work more closely with research institutes to increase the rate that technologies being developed in the universities are commercialized and must collaborate in the development of research and development infrastructure. These sectors must also make more student placements available through cooperative education and internship programs.

Film and Media Industry - These sectors must transition from a service industry model (which is supported by tax credits) to a model that is driven by revenues from the ownership and exploitation of intellectual property.

Professional, Scientific and Technical Services Industry - These sectors must move up the value chain to provide the services requiring applications of very sophisticated knowledge and expertise. They must work closely with the research arms of universities and other academic and research and development agencies and institutions to promote efforts in commercialization. This industry must increase its utilization of cooperative education and internship programs.

Construction and Housing Industries - This industry needs to invest more heavily in research and development to introduce new technologies to improve productivity. It also needs to support the ITO model and make a real commitment to industry-wide skills development and increasing the number of qualified trades people.

Transportation and Warehousing Industry - This industry is responsible for playing a role with government in the coordination of the overall transportation system to improve system efficiency. The Transportation industry must also invest in information and communication technology for ports to be competitive globally.

Tourism Industry - The tourism industry needs to coordinate its marketing activities. It needs to develop new products that can compete regionally and internationally. The industry also needs to support the ITO model and make a commitment to more industry wide training and skills upgrading. It should collaborate in regional airport investment and marketing of regional transportation infrastructure.

A list of the above recommendations for actions by industry sector follows this overview.

As well, the report summarizes the top three recommendations from each IAC submission and briefly indicates the position of the Council with respect to these recommendations. Many of the recommendations made by the 12 IACs in their reports to the Council are also covered in the broader themes for action outlined below -- ensuring a competitive business environment, enhancing access to human resources and ensuring effective infrastructure and efficient and timely access to resources. A copy of the full IAC reports is contained in an appendix to the report.

Cross Sector Recommendations for Enhancing Competitiveness

In addition, to the actions required by industry sectors, based on its analysis of the issues and the current environment, the Council believes that, British Columbia's competitiveness can be improved by:

1. *Enhancing British Columbia's Human Resources* – maximizing the potential of the Province's human resources through education, training and professional development.
2. *Enhancing Access to Land, Resources and Markets* – provision of services to ensure timely and cost effective access to land and resources and infrastructure to ensure efficient production and delivery of products to market through a competitive transportation and energy system.
3. *Enhancing British Columbia's Business Climate* - improving the competitiveness of corporate and personal taxation, continued regulatory reform and support for innovation.

The following highlights the Council's key recommendations under each of these three major themes for action by industry as a whole and government to enhance British Columbia's competitiveness. A full list of recommendations follows this overview.

Enhancing British Columbia's Human Resources

Perhaps the single most important thing that British Columbia can do to enhance its competitiveness is to focus on its people. People are the cornerstone of innovation, productivity and economic growth. The development of British Columbia's human capital – enhancing the knowledge, skills and abilities of its workforce - is both a huge opportunity and a challenge requiring significant attention and investment of resources on the part of both government and industry. It is an opportunity because British Columbia is an attractive location to work and live with a highly skilled workforce in place. It is a challenge because there is already excess demand for skilled workers in many fields, a trend that the demographics of British Columbia's population and the pace of economic growth will exacerbate.

The Council recommends that industry and government must work together to increase the capacity to develop a highly skilled and qualified work force that meets future demand for workers.

Skilled Trades Training

In the area of skilled trades training, the Council recommends:

- the accelerated launch of Industry Training Organizations (ITOs) for the industrial, commercial and institutional construction, hospitality and tourism, heavy industry and transportation sectors under the umbrella of the Industry Training Authority (ITA);
- that the ITA, ITOs and industry work with First Nations to develop training programs for First Nations members;
- that industry support a significant increase in apprenticeships and government support the corresponding apprenticeship seats in colleges and training options for immigrants and new trade programs;
- that industry demonstrate commitment to supporting apprenticeship training programs.

Professional and Graduate Education

In the area of graduate and professional education, the Council recommends that:

- the Province increase funding for graduate student capacity to meet current and future demand for engineers and other professionals;
- the Province reassess the program to expand under-graduate spaces;
- industry provide funding and active support for co-operative and internship programs to increase the development of highly qualified individuals;
- the Province eliminate the “tuition inflation cap” imposed on tuition at professional schools;
- the Province provide funding for scholarships for professional students.

Immigration

The current and expected shortfall in the supply of skilled trades and professionals cannot be resolved through domestic training alone and requires additional supplies of labour from both inter-provincial and international immigration. The Council recommends that:

- industry step up its recruitment efforts for skilled and professional workers using the Provincial Nominee Program and that government significantly increase the capacity to process applications under the Program;

- increased resources be devoted to enhancing the capacity of the credentialing system in British Columbia to cope with increased demand and address systemic problems;
- the provincial government request that the federal government liberalize the current working visa requirements to extend the period of time that foreign students graduating from British Columbia post secondary institutions may work in the Province.

Enhancing Access to Land, Resources and Markets

A key to a competitive economy is that there is the necessary infrastructure – transportation systems, communications networks, utilities - to support economic activity and access to markets, land and natural resources.

Transportation

The Province's transportation system plays a crucial role, both to support domestic economic activity and as a national gateway for Canada to and from the Asia Pacific and world markets.

Industry is responsible for playing a role with government in the coordination of the overall transportation system to improve system efficiency.

To ensure a stable and sufficient infrastructure promoting economic development and access, the Council recommends that:

- the following recommendations of the Transportation IAC be adopted:
 - an agency be established to coordinate and optimize the operation of the transportation and port facility network;
 - the three lower mainland ports be merged to enhance efficiencies; with the Council's caveat that the Vancouver Port Authority must first, however, enhance its competitive position;
 - the provincial government work with the federal government to protect port and industrial lands to ensure long-term access;
- the provincial government take additional efforts to fund and support regional airports throughout the Province.

Land

Access to crown land is of vital importance to resource industries and tourism. Timeliness and certainty of decision-making processes are crucial. To enhance decision making processes, the Council recommends that the Province move forward on implementing the New Relationship Initiative, including renewing the Treaty 8 Revenue Sharing agreement and Memoranda of Understanding (MOUs) with other First Nations in an expeditious way.

In addition, to support future development of crown lands and economic activity, the Council supports the recommendations of several of the IACs that:

- the provincial government should undertake geo-scientific surveys for oil and gas in the two Interior Basins. This is needed to assess the potential for economic activity in regions affected by the mountain pine beetle infestations; and
- access along the Highway 37 corridor should be expanded; the Council recommends that the industry and government consider cost sharing options.

Energy

It is imperative to the competitiveness of British Columbia that its relative price competitiveness for energy with respect to other jurisdictions be maintained and that this be a cornerstone of the Province's new energy plan.

Ensuring access to sufficient sources of power will involve both public and private sector solutions. The Council encourages the Province to consider, among other issues, in the development of its 2006 Energy Plan the need for BC Hydro to identify additional firm and reliable electricity resources including offers from the private sector and consideration of the Site-C Dam on the Peace River.

Enhancing British Columbia's Business Climate

Government policies – economic, taxation, regulatory, fiscal and social, education - contribute to an overall competitive business climate. British Columbia has the foundations of a competitive business climate, but actions can be taken to build on this and improve the competitiveness of the British Columbia economy.

Taxation

The Council recommends that the provincial government:

- Ensure that the corporate income tax rate will not exceed 125 percent of the Alberta corporate tax rate in order to maintain its competitive position with Alberta.
- Lower personal income tax rates for taxable incomes between \$67,500 and \$150,000 to make British Columbia's personal taxes under \$150,000 the lowest in Canada.
- Address the disincentive to investment as a result of high municipal property taxation rates for the major industry property class (pulp and paper mills, smelters, ports) in some municipalities.
- Increase investment, spur innovation and boost productivity by industry through,
 - introducing Provincial Sales Tax exemptions for certain information communication technology expenditures;
 - extending the existing research and development tax credit on its expiration for a further five years at the same rate, extend the existing refundable tax credit to all companies with operations in British Columbia, and encourage the federal government to do the same;
 - making representations to the federal government to change the rate of depreciation for Capital Cost Allowances.
- Phase out the capital tax on financial institutions over a specified time period and, in the shorter term, amend the International Financial Activity legislation to provide that no capital tax is levied on banking activity undertaken in a registered International Financial Centre.

Regulation

Though the Province has made improvements through its regulatory reform initiative, it must continue these efforts.

A specific area of focus for the future should be land use and environmental requirements and processes. In particular, we urge the provincial government to continue to work with stakeholders, including the federal government, to make changes to the federal *Fisheries Act* and its administration, to maintain and enhance the achievement of environmental objectives, while supporting economic development.

The government should also require that all regulations requiring a decision have clear time limits, that regulations are based on outcome or performance rather than the traditional prescriptive approach, and that the cumulative impact of regulation on an industry is considered whenever a new regulation is proposed.

Innovation

Innovation is central to the competitiveness of an economy. Industry is the core player in innovation and commercialization. The Council calls on industry to step up its role in research and development, including entering into more collaborative efforts with universities and other research institutions.

To promote greater commercialization of research, the Council recommends that:

- industry support and provide funding, in conjunction with the provincial and federal governments, for initiatives that bring university researchers, business developers and entrepreneurs together to support commercialization in scientific areas, such as the Centre for Drug Research and Development;
- the Premier's Technology Council be directed to assess and make specific recommendations on how to improve the system of venture capital funding in the Province to ensure sufficient quantity and quality to meet growing opportunities, meet the needs across the funding spectrum, and ensure integration with global venture capital markets.

While the majority of effort rests with industry, the government can undertake certain select actions to support growth and productivity including, as discussed earlier under taxation, to improve conditions for private research and development, and, under the section "Enhancing British Columbia's Human Resources", to produce needed skilled workers.

Marketing British Columbia's Advantages

Implementation of the recommendations in this report will enhance the competitiveness of the British Columbia economy spurring investment, growth and innovation.

However, it is not enough to have a competitive business climate and workforce – British Columbia must make sure the world knows about the Province's competitive advantages. British Columbia needs to design and implement a clear, strong and focused marketing and communications strategy to extol the qualities that make British Columbia **the** place to live, work, learn, visit, and invest. The 2010 Winter Olympics provides a unique opportunity to market all aspects of the Province, including promoting British Columbia competitiveness to generate, not only tourism, but, immigration, investment and business opportunities.

RECOMMENDATIONS

Industry Actions to Enhance Competitiveness

Wood Products, Pulp and Paper, Manufacturing Industries – must invest in new plant and technologies, must consolidate and rationalize (pulp and paper), invest more in workforce training, invest in research and development (e.g. new products from hemlock species in forest industry) and develop new products that can compete in export markets.

Oil and Gas, Mining Industries – need to take an active role in providing economic benefits to First Nations, increase investments in exploration and actively participate in funding new infrastructure to enable development.

Technology and Biotechnology Industries – need to work more closely with research institutes to increase the rate that technologies being developed in the universities are commercialized, must collaborate in the development of research and development infrastructure and must make more student placements available through cooperative education and internship programs.

Film and Media Industry – must transition from a service industry model (which is supported by tax credits) to a model that is driven by revenues from the ownership and exploitation of intellectual property.

Professional, Scientific and Technical Services Industry – must move up the value chain to provide the services requiring applications of very sophisticated knowledge and expertise, must work closely with research arms of universities, and must increase utilization of cooperative education and internship programs.

Construction and Housing Industries – needs to invest more heavily in research and development to introduce new technologies to improve productivity. It also needs to support the ITO model and make a real commitment to industry-wide skills development and increasing the number of qualified trades people.

Transportation and Warehousing Industry – is responsible for playing a role with government in the coordination of the overall transportation system to improve system efficiency; and must invest in information and communication technology for ports to be competitive globally.

Tourism Industry – needs to coordinate its marketing activities. It needs to develop new products that can compete regionally and internationally. It also needs to support the ITO model and make a commitment to more industry wide training and skills upgrading. It should collaborate in regional airport investment and marketing of regional transportation infrastructure.

Cross Sector Actions to Enhance Competitiveness

Enhancing British Columbia's Human Resources

Skills Training and Education

Industry Training Organizations (ITOs) for industrial, commercial and institutional construction, hospitality and tourism, heavy industry and transportation should be established in 2006.

The Industry Training Authority (ITA), ITOs and industry should work with First Nations to develop training and capacity building programs.

Over the next three years, industry should sponsor an additional 7,000 apprenticeships, supported by college programs.

Additional funding should be provided for training of immigrants and for new trade programs.

Industry must demonstrate commitment to apprenticeship training; ITOs must ensure that members release employees for skills training.

The Province should fund 2,500 graduate places over the next five years at the rate of five hundred additional places per year.

The Province should reassess the program to expand undergraduate spaces by 25,000 at post secondary institutions to ensure seats are being created in priority skill areas.

Industry should commit to fund cooperative and intern programs for the development of professional and post graduate students.

The Province should eliminate the “tuition inflation cap” imposed on tuition at professional schools.

The Province should fund 1,000 scholarships for post graduate students including 100 for doctoral and post doctoral students.

Immigration

Inter-provincial migration should be facilitated by active internet marketing of the Province (See also Marketing recommendation).

Industry should step up its recruitment efforts using the Provincial Nominee Program and the provincial government should allocate more resources and increase its capacity to process immigration applications under the Program to 2000 from 790.

Additional resources should be devoted to enhancing capacity in British Columbia's credentialing system in order to cope with the increased demand and more effectively address systemic problems in credentialing.

The provincial government should request the federal government liberalize the working visa requirements to extend the time that foreign students graduating from British Columbia post secondary institutions can work in the Province.

Industrial Relations

The Province and the federal government must be prepared to act immediately to resolve any disruption that threatens the reliability of the transportation system.

Enhancing Access to Land, Resources and Markets

Transportation

The Council recommends adoption of the Transportation IAC's proposal to establish some form of agency to work with all players “to optimize the efficiency of the system”.

The Council recommends adoption of the Transportation IAC's recommendation that there be a merger of the three ports of Vancouver; this is subject to the Vancouver Port Authority improving its competitiveness.

The Council recommends adoption of the Transportation IAC's recommendation that the industrial and transportation corridor should be protected using a structure similar to that of the Agricultural Land Reserve.

Government should provide additional support to the development of a province-wide regional airport system.

Land

The provincial government should move forward in an expeditious way to renew the Treaty 8 Revenue Sharing Agreement and renew the Memoranda of Understanding with other First Nations in order to move to fully implement the New Relationship initiative, thereby facilitating industry agreements and arrangements with First Nations.

The provincial government should undertake geo-scientific surveys for oil and gas in the two Interior Basins, to attract industry purchases of leases, exploration and investment.

Access along the Highway 37 corridor should be expanded; the Council recommends that the industry and government consider cost sharing options to provide power, transmission, and new roadways.

Energy

The provincial government consider the following issues in the formulation of its 2006 Energy Plan:

- The private sector should continue to be a major factor in the future supply of power.
- BC Hydro needs to “identify additional firm and reliable electricity resources” beyond the next ten years. As well as offers from the private sector, the Province should also consider the construction of the Site C Dam on the Peace River.
- B.C. Hydro must embrace demand side management including such methods as the Conservation Program emphasizing incentivised pricing, particularly to handle periods of peak demand.
- The transmission system should be expanded regionally to both Alberta and the US.
- The terms of reference of the British Columbia Utility Commission should be amended to reflect not only “least cost”, but also the importance to the Province of obtaining increases in power supply on a timely basis.

Enhancing the British Columbia Business Climate

Taxation

The provincial government should ensure that the British Columbia corporate income tax rate does not exceed 125 percent of the Alberta corporate income tax rate.

The provincial government should reduce personal income tax rates between \$67,500 and \$150,000 per year.

Municipalities must reduce the tax burden on the Class 4 major industry sector particularly where the ratio of industry versus residential rates is high; if this is not done, the Province needs to take the lead in consulting on and implementing required changes.

At the present time, the PST and GST should not be harmonized.

The provincial government should introduce an incentive for expenditures on certain industry investments in information and communications technology in order to accelerate the industry productivity improvements.

The provincial government should request the federal government to accelerate Capital Cost Allowances as a proven method of increasing investment and productivity.

The Province should extend the scientific research and development tax credits for a further five years beyond 2008 at the same rate and extend the existing refundable tax credits to all companies with operations in British Columbia and should request that the federal government do the same.

The proposed training tax credit should be outcome based and should be paid on the completion of each module of an apprenticeship.

The Province should phase out its capital tax on financial institutions over a specified period of time.

No capital tax should be levied on any financial activity that is undertaken in a registered International Financial Centre.

Regulation

British Columbia and other provinces affected should request that the federal government adopt changes to the *Fisheries Act* and its application.

The provincial government should ensure that:

- reasonable time limits for decisions are incorporated into all provincial and municipal enactments affecting business activity;
- regulations are based on outcome or performance rather than the traditional prescriptive approach; and
- the cumulative impact of regulation on an industry is considered whenever further regulation is proposed for introduction.

Innovation

Industry should support and fund, in conjunction with the provincial and federal governments, the development of initiatives that bring together researchers, business developers, and entrepreneurs to support commercialization in scientific areas such as the Centre for Drug Research & Development.

The provincial government should request that the federal government change its tax rules in the treatment of private equity capital and to bring them in line with other competitor jurisdictions.

The matter of venture funding should be directed to the Premier's Technology Council that has the expertise and mandate to make appropriate recommendations in this area.

Marketing

Industry should initiate, with government support, a system of accreditation for British Columbia educational services and the Province should create a network of representatives to promote the British Columbia brand of education in select Pacific Rim markets.

The Province should design a state of the art "portal" on the internet to provide easily accessible information to a variety of users – tourists, students, prospective immigrants, businesses and investors.

1. BRITISH COLUMBIA'S COMPETITIVENESS – The CHALLENGES and the OPPORTUNITIES

1.1 Understanding Competitiveness

The Council was asked to review and make recommendations on the Province's competitiveness. To clarify this task it is necessary to be clear about what is meant by competitiveness.

Generally, when people consider competitiveness they are thinking about the concept at the individual business or enterprise level, or the micro level. In this context the concept is fairly straightforward – a competitive business is one that produces and sells goods in a free market while earning a profit. Firms that are able to do this over the longer term will remain in business and those that are not able to will either go out of business or be acquired by another firm.

At the macro, or jurisdictional level - province, state or country - the concept of competitiveness is less clear but, a jurisdiction's competitiveness is generally measured by economic growth factors and whether businesses in that jurisdiction are expanding and investing. There is also an element of inter-jurisdictional comparison in considering competitiveness at the jurisdictional level – in order to be considered competitive one jurisdiction must do better than another jurisdiction¹.

Achieving a competitive economy is a shared responsibility between industry and government, with industry taking primary responsibility. It is government's role to create and maintain a business climate and the infrastructure conducive to investment and healthy competition. It is industry's responsibility, building on this, to develop and produce goods and services that are competitive in world markets through innovation, investment, management and promotion. A competitive economy supports growth, stimulates innovation and spurs productivity, which, in turn, is the key to building income, raising living standards and improving the overall welfare of its citizens.

1.2 The Case for a Competitive British Columbia

Importance of British Columbia Industry Being Competitive

Being competitive means being productive. "At a broad societal level productivity growth holds the key to funding critical public services such as infrastructure, health care, education and other social services that are fundamental to a high quality of life. Simply put, productivity growth is a vital component of increasing economic prosperity, not only in business, but also for individuals within society at large"².

It is estimated that business and industry provide 65 percent of the revenues of the provincial government and 82 percent of the gross domestic product (GDP)³. There is a direct relationship

¹ Summarized from "Submission of the Business Council of British Columbia to the BC Competition Council", February 14, 2006".

² BC Progress Board, "Boosting Incomes, Confronting Demographic Change: B.C.'s Productivity Imperative", April 2006, page 1.

³ Vancouver Board of Trade: "The Anatomy of the B.C. Economy" – November 30, 2001.

between the prosperity of business and its employees and the ability of all levels of government to provide the quality of health, education and service that the citizens of British Columbia expect. The economic health of the province has a profound impact on the well-being of British Columbians, including providing the fiscal capacity for government to effectively play its role in achieving social objectives. Growing the economic pie within this context is good for everyone.

If British Columbia is to have adequate resources to address pressing social issues, we must have a strong competitive business base. Wealth is generated by business and reallocated by government. The opportunities for our future generations are heavily dependent upon our competitiveness today.

Where British Columbia Stands Today

British Columbia is currently experiencing a period of strong economic growth. In 2005, the Province experienced real GDP growth of 3.4 percent (after hitting a low of 0.6 percent in 2001) and record employment levels (an unemployment rate of 4.5 percent is expected before 2010).

However, this growth follows a period of decline from which the Province has yet to completely recover.

Throughout the late 1980s and 1990s, British Columbia's growth and productivity dropped significantly. During the period from 1984 to 2004, British Columbia went from an above average productivity performer to having one of the lowest levels among the major provinces. During this period, British Columbia's real GDP per capita averaged 1.44 percent (27th in world rankings).

British Columbia is now making some progress in narrowing the prosperity gap. Real GDP per capita has grown at an annual rate of 2.1 percent over the past few years, slightly beating the Canada-wide average⁴. Though significant, this positive trend has not yet erased the prosperity gap - British Columbia's real GDP per capita is still equal to only 94 percent of the national average⁵.

Facts About the BC Economy

- A small open, trade-dependent economy (1 percent of North America GDP)
- External trade is becoming increasingly important to the BC economy – exports of goods and services to external markets directly amount to about 45 to 46 percent of total provincial output
- Increased dependence on US market since NAFTA, rapid growth in trade with China, trade with Japan has declined but remains substantial
- Export base still strongly rooted in resource extraction/processing
- One of the largest service sectors in Canada
- A large commercial transportation sector that occupies a vital place in the economy due to province's industrial structure, export orientation and gateway role
- Strong entrepreneurial base
- Burgeoning technology sector (4 percent of GDP)
- Small non-resource based manufacturing sector
- Four – fifths of employment is now in service industries, including non-market services, fairly evenly divided between high and low wage service industries

[Source: BC Economic Overview; presented to Competition Council, April 21, 2006 by Business Council of British Columbia]

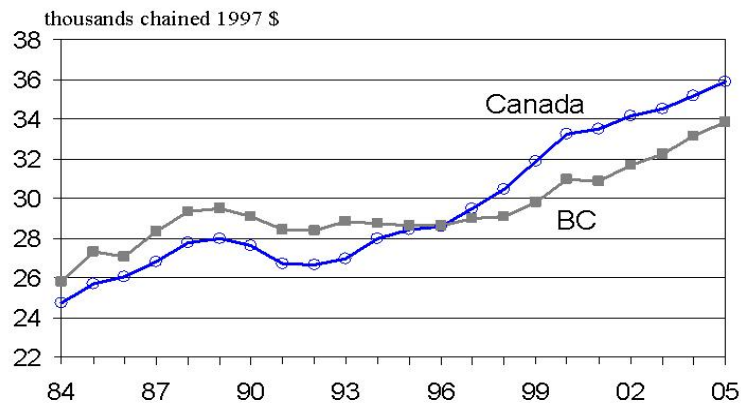
⁴ *Statistics Canada.*

⁵ Sources: BC Progress Board, BC Stats, Statistics Canada, OECD.

As well, this growth has not yet been translated into appreciable gains in real incomes for most British Columbia households - in other words, it has not caught up in the pocket books of our citizens⁶.

Table 1 – British Columbia’s Real GDP per Capita Compared to Canada

Real GDP per Capita, BC and Canada



Source: Statistics Canada, Provincial Economic Accounts

Despite its recent economic upswing, as a small, open, trade dependent economy operating in world markets that feature readily expanding trade and capital flows, British Columbia must not grow complacent. The Province needs to “strengthen its competitive position to secure a high and rising standard of living” for British Columbians⁷.

British Columbia’s Competitive Pressures

The British Columbia economy is under pressure from sharp appreciation of the Canadian dollar and the higher costs for energy and other production inputs which are creating a cost and revenue squeeze for many export-oriented businesses, notably pulp and paper, tourism and large parts of the secondary manufacturing sector.

The Province faces strong competitive pressure from Alberta, many US states and a number of innovative foreign jurisdictions that are aggressively working to improve their productivity and attract new investment and high-value business activity. British Columbia competes with jurisdictions such as Boston and San Francisco in industries such as high technology and biotechnology. The transportation industry in British Columbia competes with other inter-modal centres located in US states on the west coast of North America. The emergence of China, and to a lesser extent India, as low cost suppliers and increasing major economic forces is having a dramatic impact on the global, competitive economy in a range of manufacturing and service industries.

⁶ Business Council of British Columbia Submission to the BC Competition Council, page 14.

⁷ Business Council of British Columbia Submission to the BC Competition Council, page i.

British Columbia's relationship with Alberta is particularly critical to its competitiveness – it represents both a competitive pressure and an opportunity. The economies of British Columbia and Alberta are complementary in many ways as is recognized in the recently signed Alberta/British Columbia Trade Investment and Labour Mobility Agreement. A strong British Columbia economy will benefit greatly from the boom conditions that exist in Alberta but, to do so, British Columbia itself must remain competitive with Alberta. A number of recommendations contained in this report are premised on the need for British Columbia to retain its competitiveness with Alberta. If British Columbia becomes uncompetitive, there is a real possibility that both people and businesses will leave the Province and move to Alberta.

Opportunities for a Competitive British Columbia

British Columbia ranks amongst the top two or three provinces in Canada in terms of most economic and social measures – including fiscal position and tax competitiveness⁸. It also has a number of comparative strengths on which it can build. These include a highly educated work force, a world-class infrastructure, competitive sources of energy, an abundance of natural resources and a strategic location linking Asia with North America.

A competitive British Columbia economy will be able to benefit from its traditional ties with the United States and from the high growth rates being experienced by some Asian countries, particularly China. In its submission to the Asia Pacific Trade Council, which plans to release its report shortly, the China/Hong Kong Market Advisory Group made a number of excellent recommendations as to how British Columbia could strengthen its trade links with China.

The Trade, Investment and Labour Mobility Agreement between British Columbia and Alberta, signed in April 2006, is a ground-breaking initiative that firmly establishes British Columbia as a leader in breaking down barriers to trade. British Columbia needs to build on this success by seeking broader accession of other Canadian provinces and exploring similar agreements with its US neighbours. The provincial government should also become strongly involved in federal initiatives to break down trade barriers that hamper access of British Columbia companies to foreign markets.

⁸ Toronto Dominion Economics, "British Columbia's Golden Decade", March 29, 2006, www.td.com/economics

2. RECOMMENDATIONS FOR ENHANCING COMPETITIVENESS

2.1 Contributions from Industry for Enhancing Competitiveness

In competitive jurisdictions around the world, it is successful businesses and industries that lead the way in building competitiveness. It is the responsibility of business and industry to operate efficiently and effectively in the pursuit of existing and new business opportunities and, in particular, have competitive management practices, invest in plant, equipment, training and innovation, and ensure that corporate and industry strategies are in line with marketplace opportunities and that they have the proper scale and scope of activities. Government plays a role in providing a nurturing environment for investment and business opportunities. It is government's responsibility to establish the fiscal, taxation, regulatory and economic foundations and provide the necessary infrastructure to support a competitive business environment, but not to take the lead in choosing opportunities, making specific business investments, or choosing winners.

Twelve IACs were established by the Council to provide input on the competitive issues facing each of these industry sectors and to make recommendations to the Council on ways to address these issues, as well as improve the competitiveness of the sector. Many of the IAC recommendations are directed at the broad cross sectoral competitive issues, discussed below, of ensuring a competitive business environment; enhancing access to human resources; and ensuring effective infrastructure and efficient and timely access to resources. Some recommendations of the various IAC deal specifically with industry specific competitive issues.

Section 3 of this report provides more detail on the 12 industry sectors and the reports of the IACs, including outlining the top three priority recommendations for each IAC and the Council's position with respect to those recommendations. Based on the IAC recommendations and its analysis of the issues, following is a list of the Council's recommendations for action by industry sector to enhance the competitiveness of those sectors.

Wood Products, Pulp and Paper, Manufacturing Industries

These industries must invest in new plant and technology, invest more in workforce training; invest in research and development (for example, new products from hemlock species in forest industry); and develop new products that can compete in export markets. The pulp and paper sector must consolidate and rationalize and the industry on the coast must lower the cost of production.

Oil and Gas and Mining Industries

These industries need to take an active role in providing economic benefits to First Nations, increase investments in exploration and actively participate in funding new infrastructure to enable development.

Technology and Biotechnology Industries

These sectors need to work more closely with research institutes to increase the rate that technologies being developed in the universities are commercialized and must collaborate in the development of research and development infrastructure. These sectors must also make more student placements available through cooperative education and internship programs.

Film and Media Industry

These sectors must transition from a service industry model (which is supported by tax credits) to a model that is driven by revenues from the ownership and exploitation of intellectual property.

Professional, Scientific and Technical Services Industry

These sectors must move up the value chain to provide the services requiring applications of very sophisticated knowledge and expertise. They must work closely with the research arms of universities and other academic and research and development agencies and institutions to promote efforts in commercialization. This industry must increase its utilization of cooperative education and internship programs.

Construction and Housing Industries

This industry needs to invest more heavily in research and development to introduce new technologies to improve productivity. It also needs to support the ITO model and make a real commitment to industry-wide skills development and increasing the number of qualified trades people.

Transportation and Warehousing Industry

This industry is responsible for playing a role with government in the coordination of the overall transportation system to improve system efficiency. The Transportation industry must also invest in information and communication technology for ports to be competitive globally.

Tourism Industry

The tourism industry needs to coordinate its marketing activities. It needs to develop new products that can compete regionally and internationally. The industry also needs to support the ITO model and make a commitment to more industry wide training and skills upgrading. It should collaborate in regional airport investment and marketing of regional transportation infrastructure.

2.2 Cross Sector Recommendations for Enhancing Competitiveness

In addition to the above industry actions, based on its analysis of the issues and British Columbia's current environment, it is the Council's position that British Columbia's competitiveness can be improved by:

1. *Enhancing British Columbia's Human Resources* – through maximizing the potential of the Province's human resources through education, training and professional development.
2. *Enhancing Access to Land, Resources and Markets* – through improving services to ensure timely and cost effective access to land and resources and ensuring that the infrastructure is in place for efficient production and delivery of products to market through a competitive transportation and energy system.
3. *Enhancing British Columbia's Business Climate* – through improving the competitiveness of corporate and personal taxation regimes, continued regulatory reform and support for innovation.

Under these three broad themes, the Council has made a number of specific recommendations for action by both industry and government that are designed to improve the competitiveness of British Columbia and position it for the future.

2.2.1 Enhancing British Columbia's Human Resources

Skills Training and Education

Context

British Columbia's people, its human resources, are essential to the competitiveness of its economy. People are the cornerstone of innovation, productivity and economic growth. However, British Columbia is currently facing a critical shortage in the supply of skilled workers and professionals. The skills shortage being faced by certain trades, industry occupations and science and engineering professionals has the potential to limit the growth of specific industries and, ultimately, the provincial economy.

The difficulty that British Columbian business and industry is having in recruiting skilled workers and professionals was the number one issue raised by the majority of the IACs.

Workforce demands will be exacerbated by demographic trends. Projected job openings in British Columbia are one million over the next 12 years, as compared with the present K-12 school population of 650,000. Retirements are estimated to comprise 50 percent of the vacancies, while new job growth will comprise the other 50 percent. Filling retirement job openings will be crucial for ensuring British Columbia businesses have a strong foundation on which to expand and create new jobs. Filling those jobs cannot be achieved by relying solely on natural population growth – not only is there a gap today but the gap will be widening in future years as the number of school age children in British Columbia is projected to decline. Thus, the natural population growth would only fill 30 percent of the projected employment opportunities.

In addition, it is estimated that only 10 percent of future job openings will be for unskilled personnel. 30 percent of job openings will be for professional and managerial skill sets and 60 percent of job openings will need to be filled by technical, skilled, and semi-skilled workers.

The responsibility for developing and maintaining a skilled and professional workforce is shared by government and industry.

A number of initiatives have already been taken by the provincial government to address the need for growing and developing skilled trades, including the industry training tax credit (discussed later in the "Taxation" section); the establishment in 2004 of the Industry Training Authority (ITA) with legislated responsibility to govern and develop the industry training system in British Columbia and the creation of 25,000 new spaces in post secondary institutions⁹.

Industry also has a key role to play in the workforce training and continuing education. The taxation incentives recently provided at both the federal and provincial level are designed to encourage employers and employees to step forward; industry must take a key leadership role in the area of developing and training a skilled workforce.

⁹ In 2004, the government announced that between 2004 and 2010, 25,000 new undergraduate spaces would be added at colleges, university-colleges, universities and institutes across the province: 4,500 seats in the lower mainland, 8,000 seats in Surrey/Fraser Valley, 4,000 seats on Vancouver Island, 6,300 seats in the Okanagan/Central Interior, 700 seats in the Kootenays, 1,000 seats in North Central region, 250 seats in the Northwest and 250 seats in the Northeast. These new seats are being created particularly in priority skills areas like forestry, oil and gas, mining, technology, health care, trades and vocational programs to expand the supply of skilled workers.

However, more must be done by both industry and government to ensure a sufficient supply of skilled workers and professionals to support future demand and contribute to a competitive economy.

Recommendations

Skilled Trades

In order to increase the number and availability of skilled trades people in the Province, the Council recommends a number of actions to be taken by industry and government.

Recommendations: The Council recommends that:

- to ensure industry involvement in the design and delivery of training programs, the launch of the Industry Training Organizations (ITOs)¹⁰ under the ITA should be accelerated. ***ITOs for industrial, commercial and institutional construction, hospitality and tourism, heavy industry and transportation sectors should be established in 2006.*** Together with the existing three ITOs, this would cover 80 percent of the registered apprentices in the Province;
- ***the ITA, working with ITOs and industry, should develop training and capacity building programs with First Nations;***
- over the next three years, ***the industry should sponsor an additional 7,000 apprenticeships supported by college programs,*** amounting to a 42 percent increase over current levels at an estimated cost of \$7 million in 2007/08 and \$16 million by 2009/10;
- ***additional funding should be provided for training for immigrants and for new trade programs*** at an estimated cost of \$7 million in 2007/08 and \$8 million by 2009/10;
- industry demonstrate strong commitment and real support to apprenticeship training. ***ITOs must ensure that member companies release employees for skills training to increase completion rate of apprenticeship programs.***

The Council also suggests that the provincial government address barriers that inhibit colleges from adding capacity in their trades programs where there is demand for spaces that exceed the supply. As well, efforts should be made to ensure that there is greater coordination of training spots throughout the system. The Council believes that this is most appropriately a role to be played by the system and suggests that this could be undertaken by the Consortium of Colleges, in consultation with the Industry Training Authority.

Professional and Post Graduate

A number of IACs requested that there should be an expansion in the supply of undergraduate engineering students in virtually all engineering disciplines. The High Technology, Biotechnology and Professional, Scientific and Technical Services IACs, all requested an expansion in the supply of post-graduates in science, medicine, and engineering.

¹⁰ ITOs are established under the umbrella of the ITA. They are not-for-profit legal entities co-funded by the ITA and industry with responsibility for designated industry training programs. Currently there are three ITOs in place: Automotive Industry Training Association, Horticulture Education BC, and Residential Construction Industrial Training Organization.

Unlike our provincial competitors - Alberta, Ontario, and Quebec - British Columbia does not fund graduate student places at its research universities. Nor does it provide any scholarships for post graduate students, or fellowships for post doctoral students. As a result, British Columbia's graduate student enrolment per 10,000 of the population is below the three major provinces and the national average. Alberta and Ontario have both announced significant expansions in their funding of post graduate programs. In the case of Ontario, \$1.6 billion will be spent by 2010 to fund 14,000 graduate places.

British Columbia must step up its efforts in order ensure sufficient numbers of highly qualified science and engineering students and skilled professionals (in all fields) are trained within our universities and are available to support research and development and an entrepreneurial, knowledge intensive economy.

Recommendations: The Council recommends that:

- *the Province fund 2,500 graduate places in the areas of engineering, science and technology over the next five years at the rate of five hundred additional places per year.* The cost of these places is estimated at \$10 million in year one rising to \$50 million in year five;
- *the Province reassess the program to expand undergraduate spaces by 25,000 at colleges, university colleges, universities and institutes to ensure that seats are being created in priority skill areas to meet market demand;*
- *industry commit to fund and actively support cooperative and intern programs for the development of professional, scientific and engineering students at graduate and post graduate levels;*
- *the Province eliminate the "tuition inflation cap" imposed on tuition for professional schools* in order to provide institutes, colleges, university colleges and universities with the ability to increase the supply of highly skilled professionals to meet demand;
- *the Province fund 1,000 scholarships for post graduate students including 100 for doctoral and post doctoral students* at a total cost of \$10 million per year. This will ensure that British Columbia is competitive with other provinces in attracting graduate students.

Immigration

Context

British Columbia is facing a critical labour shortage of skilled trades people and professionals. Recommendations discussed in the earlier section on "Skills Training and Education" are designed to enhance the training and education of skilled workers and professionals in British Columbia. However, these efforts will not be sufficient to meet demand and British Columbia will require additional supplies of labour from immigration, both inter-provincial and international.

There are federal and provincial programs specifically designed to support the international immigration of skilled workers and professionals to Canada on either a temporary or permanent basis.

One such program is the Provincial Nominee Program operated by the Ministry of Economic Development. Representations to Council by various industry groups indicate that the Provincial Nominee Program is a valuable program that positively contributes to industry's need for recruiting

skilled workers and professionals from foreign jurisdictions to meet demand that cannot be met within the British Columbia and Canadian workforce. The Provincial Nominee Program is an employer driven program. It enables employers to expedite the immigration of foreigners they have selected as employees. Under the Program, the Province has control over all aspects of immigration except for references and checks on health, crime and security that are handled by the Canada Immigration Commission. As a result immigrants through the Program can enter Canada within weeks of selection rather than months or years it can take under the other federal programs. In 2005, approximately 790 immigrants were brought to British Columbia through the Provincial Nominee Program.

Table 4 – International Immigration to British Columbia – 2000 to 2005

IMMIGRANTS TO B.C. BY CATEGORY
P.A.= Principal Applicant Dep.+ Dependant

Class		Category	2000	2001	2002	2003	2004	2005	1996-2005
ECONOMIC CLASS	Business		3,794	3,751	3,667	3,011	4,160	6,464	49,251
			1,775	1,616	1,193	917	693	871	18,419
	Entrepreneur	P.A.	495	440	325	247	198	243	5,146
		Dep	1,280	1,176	868	670	495	628	13,273
	Self-Employed		632	444	526	335	246	289	6,691
		P.A.	227	153	183	115	84	89	2,215
		Dep	405	291	343	220	162	200	4,476
	Investor		1,387	1,691	1,948	1,759	3,221	5,304	24,141
		P.A.	366	462	524	473	920	1,477	6,505
		Dep	1,021	1,229	1,424	1,286	2,301	3,827	17,636
	Skilled Worker		18,938	19,765	15,614	16,241	17,089	21,838	193,138
		P.A.	8,198	8,273	6,532	6,612	6,883	8,418	79,886
	Dep	10,740	11,492	9,082	9,629	10,206	13,420	113,252	
Provincial Nominee		13	24	206	441	598	788	2,081	
Live-in Caregiver		1,070	880	504	758	1,083	1,082	10,025	
	P.A.	638	635	345	533	598	706	6,674	
	Dep	432	245	159	225	485	376	3,351	
TOTAL ECONOMIC CLASS			23,815	24,420	19,991	20,451	22,930	30,172	254,495
TOTAL NON-ECONOMIC CLASS*			13,688	14,072	14,086	14,805	14,096	14,562	146,217
SUM			37,503	38,492	34,077	35,256	37,026	44,734	400,712

* Includes: Family, Refugee and others> Others include: Retired immigrants, Public Policy IRPA, Humanitarian and Compassionate case, DROC and permit holders applying for permanent residence.

Although internationally qualified workers will become an important source for net labour force growth, it is understood that some self-regulating credentialing bodies do not have the capacity to deal with assessing the number of people who are coming from increasingly diverse source countries. The failure to recognize foreign credentials means that immigrants are often under-employed in their chosen field of work, at considerable economic cost to themselves and the country.

In 2001, the Province established an International Qualifications Program to help reduce the time required to recognize foreign credentials. To date, this program has supported a number of specific projects to address credentialing barriers, helping expedite processes and increase the number of applicants being assessed. However, no comprehensive program targets for self-regulating credentialing bodies have been identified to deal with issues such as consistency and timeliness of completing assessments of immigrant credentials.

In May 2006, the Province introduced the Skills Connect for Immigrants Program to deliver assessment and bridging services to immigrants leading to more rapid access into the workforce. This three-year, \$14.5 million program, co-funded with the federal government, addresses

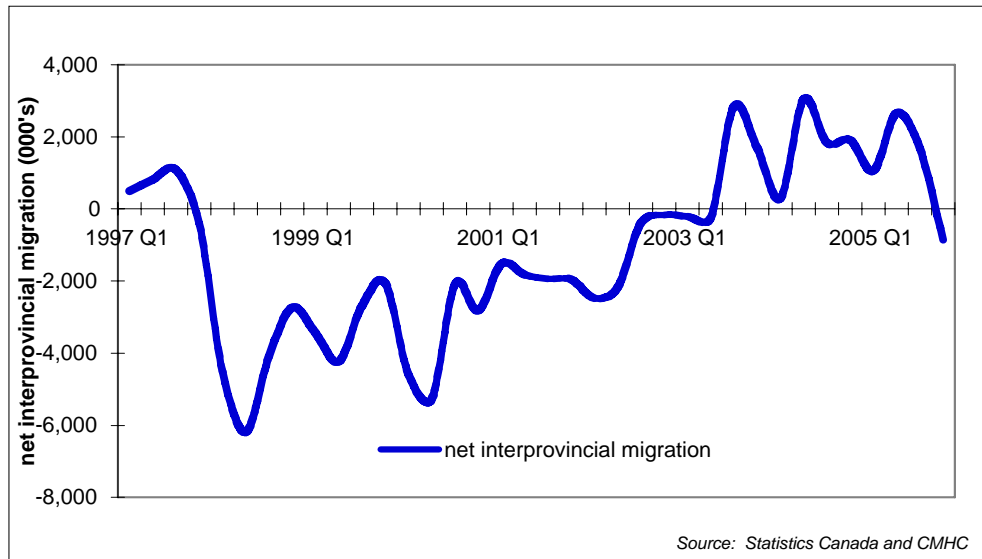
problems of individual immigrants accessing the labour market in key sectors (e.g. construction, energy, tourism, and transportation), including those problems related to credentialing.

Recommendations

Inter-provincial

The strong economy of British Columbia has been attracting migration from other provinces in the past few years after a period of negative net migration from British Columbia.

Chart 1 – Net Inter-provincial Migration to BC – 1997 to 2005



Recommendation: The Council recommends *that inter-provincial migration should be facilitated by active internet marketing of the Province on the basis of British Columbia being the best place to “live, work, visit, and invest”*. (See Section on Marketing below) Inter-provincial migration has the advantage of language fluency and knowledge of Canada. A British Columbia portal could provide potential migrants with useful information on such matters as accreditation, taxation, housing, education, and health facilities, as well as providing linkages to recruitment agencies and industry associations.

International

The Provincial Nominee Program is used extensively by certain industries while other industries are scarcely aware of the Program. It is well regarded by the companies using it, and given its low cost, efficiency and perceived high rate of success should be enhanced.

Recommendation: The Council recommends *that industry step up its recruitment efforts using the Provincial Nominee Program and that the provincial government increase the capacity to process applications for the immigration of skilled workers and professionals under the Program to 2,000 per year* at an additional annual cost of approximately \$1 million. Use of the Program by industry should be monitored and increased funding provided as required to handle increased need for services.

To address the projected shortfall in the supply of skilled and professional workers, the Province must take both proactive efforts to promote the immigration of a skilled workforce as well as breaking down current barriers to employment.

Recommendation: The Council recommends that *increased resources be devoted to enhancing the capacity of the credentialing system in British Columbia in order to cope with increased demand and more effectively address systemic problems in credentialing.* This more systematic focus would complement the efforts made to date with individual people and projects.

Foreign Graduates of British Columbia Universities

Foreign graduates of British Columbia universities are permitted to work in the Province for one year in Vancouver or two years in the Interior. These graduates will have language fluency and are potentially permanent citizens.

Recommendation: The Council recommends that *the provincial government request that the federal government liberalize the working visa requirements along the same lines as other countries, by extending the period of time that foreign students graduating from British Columbia post secondary institutions can work in the Province.*

Industrial Relations

With the exception of the coastal forestry industry, no IAC has made any recommendations on industrial relations within their own industry. However, four IACs expressed serious concern at the extensive disruption of the “supply chain” caused by contractor and labour disputes in the Port of Vancouver. The Pulp and Paper IAC summed up the IACs concerns by noting that such disruption is symptomatic of the confrontational attitude that was prevalent while the Province was a producer of primary commodities. Today, all the major export industries are judged by their customers on their reliability in meeting just-in-time delivery schedules. Once the supply chain, from manufacturer to customer is considered unreliable, customers will seek alternative transportation routes. This will have a devastating impact on the industries of the Province.

Successful industrial and labour relations are primarily the responsibility of the management of the private and public transportation organizations. In order to ensure the long-term competitive position of the Province, it is imperative that the government supports a culture and a regulatory framework that promotes constructive relationships between unions and employers and other participants as appropriate to the industry. Having said that, *the Province and the federal government must be prepared to act immediately to resolve any disruption that threatens the reliability of the transportation system.*

2.2.2 Enhancing Access to Markets, Land and Resources

Transportation

Context

The transportation system is essential to the British Columbian and the national economy. British Columbia is the national gateway to the Asia Pacific and the world. A reliable, efficient transportation structure is required to support British Columbia’s role as a national gateway and to strengthen economic and community development in all regions of the Province.

The Council strongly supports the Pacific Gateway Strategy and the capital investment in infrastructure that the Strategy requires to ensure that by 2020, “B.C. is the preferred gateway for Asia-Pacific trade and has the most competitive port system on the west coast of the Americas.”¹¹

¹¹ Pacific Gateway Strategy Action Plan – April 30, 2006.

The target is to increase British Columbia's share of west coast container traffic from 9.3 percent in 2005 to 12 percent in 2010 and 17 percent in 2020, which would mean a quadrupling of present container volumes. Rapid implementation of the infrastructure program is necessary if British Columbia is to meet the Strategy's ambitious target of more than quadrupling present container volumes by 2020.

The Transportation IAC raised concerns with the efficiency of the overall industrial transportation system in the lower mainland – the interface of ports, rail and road. The report states that British Columbia *“will only have an efficient transportation system when there is coordinated problem solving, data collection, bench marking and performance measurement. At this point in time, there is no organization charged with that responsibility.”*¹²

Concerns regarding the efficiency and effectiveness of ports operations were highlighted in the report of the 2005 Vancouver Port's Task Force set up after the dispute in 2005. The Task Force found that the Port of Vancouver was behind its competitors on the West Coast of North America in its application of technology. The report of the Task Force states that *“it is clear, from our research, that advanced technology is a driving force in achieving world class productivity in port operations both on and off the dock.”* There has to be an improvement in the port's existing operations if it is to be competitive with west coast ports of the United States. Only by a vigorous and concerted effort by the board and management of the Port of Vancouver, strongly supported by the federal and provincial governments, could British Columbia hope to become *“the most competitive port system on the west coast of the Americas.”*¹³

Government plays the critical role in ensuring transportation infrastructure is in place to support British Columbia as critical hub in the national transportation system and a portal to world markets as well as economic development throughout the Province. The recently announced Gateway Program to improve the movement of goods and people throughout the Greater Vancouver region is an example of the infrastructure investments needed by government to support both commuter traffic, but also industrial and business traffic throughout the region. Those responsible for the operations and functioning of the system also have a role to play in terms of ensuring its efficiency and effectiveness.

Recommendations

The transportation system and network in the Province needs to be given significant support by both the provincial and federal governments and all players in the system to ensure efficient and effective transportation networks. Industry plays a role with government in the coordination of the overall transportation system to improve system efficiency.

Recommendation: *The Transportation IAC proposes establishment of an Agency to work with all players “to optimize the efficiency of the overall transportation system.”* The Council supports this recommendation as a way to address coordinated problem solving, data collection, bench marking and performance measurement.

¹² Transportation and Warehousing Industry Advisory Committee Report to BC Competition Council, April 2006.

¹³ Federal & Provincial Task Force on Transportation & Industrial Relations Issues related to the Movement of Containers at B.C. Lower Mainland Ports – October 26, 2005.

Recommendation: *The Council supports the Transportation IAC's recommendation that there should be a merger of the three ports of Vancouver¹⁴ and further recommends that the merger should proceed as soon as there has been a clear indication that the competitive position of the Port of Vancouver is improving* as a necessary condition to ensure that British Columbia "has the most competitive port system on the west coast of the Americas".

Recommendation: The transportation land corridor, particularly in the lower mainland, is of national and provincial importance and rezoning in the corridor should be prohibited. *The Council supports the IAC's recommendation "that the industrial and transportation corridor should be protected using a structure similar to that of the Agricultural Land Reserve."*

Recommendation: To support regional economic and community development throughout the Province, as well as the tourism industry, the Council supports the enhanced development of the regional airport system¹⁵. The Council recognizes the existing efforts of the provincial government through the Transportation Partnerships Program to support the development of airports for the economic benefit of the community or region, but recommends *that the government provide additional support to ensure the development of a province-wide regional airport system.*

Land

Context

Access to crown land is of vital importance to resource industries and for tourism. Ongoing, unresolved land use issues create uncertainty and inhibit investment in economic opportunities.

All of the IACs expressed strong support for the provincial new relationship with First Nations. It is particularly important to the resource industries that processes are developed, as envisaged by the New Relationship, that will achieve workable arrangements both for land and resource decision making and for resource revenue sharing. It is understood that the government has just signed an "Economic Benefits Agreement" with the Blueberry River First Nations to strengthen land use certainty in the Province's North-East region and provide the foundation for Blueberry members to share the benefits of resource activity and play a role in the regional economy.

The resource sector IAC reports (Oil and Gas, Mining, Wood Products and Pulp and Paper) expressed concerns with the current land management system and have recommended actions to simplify and streamline regulatory and approval processes. The section on "Regulation" later in the paper recommends that the Province lead a regulatory reform process aimed at land use decision-making.

Recommendations

The Council supports the following recommendations from the IACs.

¹⁴ Supported by China/H.K. Market Advisory Group.

¹⁵ Funding may for regions and communities for airport development and improvement may be available under one of the Development Initiative Trusts (Northern Development Initiative Trust, Southern Interior Development Initiative Trust and North Island – Coast Development Initiative Trust).

Recommendations:

- In the North-East, *the provincial government should move forward in an expeditious way to renew the Treaty 8 Revenue Sharing Agreement and renew or enter into agreements or Memoranda of Understanding (MOUs) with other First Nations* in order to fully implement the New Relationship initiative thereby allowing industry to move forward in establishing agreements and arrangements with First Nations.
- *The provincial government should undertake geo-scientific surveys for oil and gas in the two Interior Basins in order to attract industry lease purchase, exploration and investment.* Extending oil and gas operations from the North-East to the Interior could, in the longer term, provide potential new activity in those regions impacted by the mountain pine beetle infestation. However, the work needs to be done first to assess the potential for oil and gas activity in this area.
- *The Highway 37 corridor needs to be developed to provide power, transmission, and new roadways. The Council suggests that industry and government should consider cost sharing options to undertake this development*¹⁶.

Energy

Context

The Council agrees with the BC Progress Board that “growing the energy sector will underpin economic growth in the Province over the long term.”¹⁷

A great deal of heavy industry in British Columbia is based on its access to low cost hydro power. Even today, one percent of BC Hydro’s customers account for 21 percent of its revenue and a greater proportion of power usage. World energy demand is forecast to increase by 60 percent in the next twenty years¹⁸ and energy prices are likely to continue to rise. It is imperative to the competitiveness of the Province that its relative price competitiveness for energy be maintained, which requires security of supply. The Council believes that British Columbia can retain its relative price advantage by accelerating the development of new sources of power supply.

To meet the goal of energy security, additional supply must be provided from a variety of sources, including conservation and independent power projects as well as public projects. After a slow start in which only 1,100 GWh of capacity was installed in the last four years by the Independent Power Producers, BC Hydro has increased its Call for Power to 2,500 GWh in 2006. The Council welcomes BC Hydro’s announced intention to increase its Calls to 10,000 GWh over the next two years. The Province is energy rich and it should therefore be possible to produce power from these new sources at competitive rates.

The hydroelectric system in British Columbia offers a huge advantage by allowing needed imports to be purchased at the lowest prices and stored as water behind dams and used when needed. The Council encourages the Province to consider all options to ensure that the hydroelectric portion of

¹⁶ Funding may be available under one of the Development Initiative Trusts.

¹⁷ BC Progress Board, Strategic Imperatives for British Columbia’s Energy Future, November 9, 2005.

¹⁸ BC Hydro: Challenges & Choices - Integrated Electricity Plan, 2006

the system is sufficient to support an optimal diverse and environmentally sound system that maintains a secure and relatively competitive energy supply.

Recommendations

BC Hydro is operating under the 2002 Provincial Energy Plan. The provincial government intends to produce a new Energy Plan by the end of 2006.

Recommendation: The Council recommends *that the provincial government consider the following issues in the formulation of its 2006 Energy Plan:*

- *The private sector should continue to be a major factor in the future supply of power.*
- BC Hydro states that it “will need to identify additional firm and reliable electricity resources” beyond the next ten years. *As well as offers from the private sector, the Province should also consider construction of the Site C Dam on the Peace River.*
- *BC Hydro should actively engage in demand side management.* This should include approaches such as the *B.C. Hydro Conservation Program emphasizing incentivised pricing, particularly to handle periods of peak demand.*
- *The transmission system should be expanded regionally to both Alberta and the United States.* This would provide regional flexibility in the supply and demand for power and would increase the possibilities for trade between the complementary power systems of British Columbia and Alberta.
- *The terms of reference of the BC Utility Commission should be amended to reflect not only “least cost” but also the importance to the Province of obtaining increases in power supply on a timely basis.*

2.2.3 Enhancing the Competitiveness of the Business Climate

British Columbia has the foundations of a competitive business environment -- a relatively competitive taxation structure, balanced regulatory environment, sound fiscal policy and free trade policies and agreements that allow goods and services to move with ease across boundaries, and effective infrastructure, including transportation systems, utilities and communication networks.

However, actions can be taken by government to enhance these foundations to improve the overall competitiveness of the British Columbia business climate.

Taxation

Context

A competitive taxation regime is a key foundation of an overall competitive business environment.

In order to attract investment and be considered one of the best places in North America to do business, British Columbia must have a competitive taxation regime. This is relative, it does not mean being the lowest taxation jurisdiction, but it does mean being within a reasonable range of British Columbia’s major competitor jurisdictions, in particular, Alberta.

British Columbia has made strides in the area of taxation reform and good progress toward becoming a competitive tax jurisdiction. Currently, its tax and fiscal picture is relatively

competitive. However, there are a few targeted areas where the taxation regime could be adjusted to enhance the competitiveness of the Province.

The Council has used the following criteria to determine its recommendations on taxation. These are that British Columbia should:

- retain its competitive position with Alberta; and
- enhance its productive investment.

Recommendations

Corporate Income Tax

Corporate income tax should be broad based and have a lower rate rather than a relatively higher rate with numerous exemptions and credits. For this reason, the Council has chosen not to support a number of individual industry proposals for special tax credits.

There are many diverse reasons that a business chooses to locate in a particular jurisdiction, however, one key determinant of that decision is the corporate income tax rate. Alberta is British Columbia's most serious and immediate competitor and, as such, British Columbia needs to maintain parity in terms of the competitiveness of its taxation structure. A way to ensure its competitiveness with Alberta is for British Columbia to maintain its relative competitive position in terms of its provincial corporate income tax rate.

Recommendation: In order for British Columbia to retain its competitiveness as a business location, *the provincial government should ensure that the British Columbia corporate income tax rate does not exceed 125 percent of the Alberta corporate income tax rate.* Thus, if Alberta moves, as planned, to its target rate of eight percent, a competitive rate for British Columbia should not exceed 10 percent.

Personal Income Tax

If British Columbia is to be competitive in a global economy, we must be able to retain and attract the people with knowledge and skills to develop, commercialize and successfully market new products and services to the world. The pressing need for sufficient numbers of skilled workers and professionals in certain industry sectors, and the recommendations for addressing this issue, is discussed earlier in the section on "Enhancing British Columbia's Human Resources". In addition, in order to attract and retain the people it needs from Canada and from the world, British Columbia needs to consider changes to its personal income taxation structure.

At present, British Columbia has the lowest provincial income tax rate in Canada up to a taxable income of \$67,500 per year. However, above this income level, the British Columbia rate rises rapidly and Alberta becomes the lowest personal tax jurisdiction at an income of \$88,000 per year. Our tax bracket for the highly skilled and professional workforce is not competitive and needs adjustment to make it more competitive with other jurisdictions allowing British Columbia to attract and retain needed workers in this critical labour market group.

Recommendation: In order for British Columbia to attract and retain a skilled and professional workforce, the Council recommends *that the provincial government reduce personal income tax rates for taxable incomes of \$67,500 to \$150,000 consistent with the table below.*

Table 2 - Personal Taxation – Existing & Proposed Tax Rates

Tax Bracket	Taxable Income Range		Taxpayers ('000s)	Existing Tax Rates	Proposed Tax Rates
1	\$0	to \$33,755	931	6.05%	6.05%
2	\$33,755	to \$67,511	760	9.15%	9.15%
3	\$67,511	to \$77,511	85	11.7%	9.15%
4	\$77,511	to \$94,121	71	13.7%	10.9%
5	\$94,121	to \$125,000	53	14.7%	10.9%
5	\$125,001	to \$150,000	13	14.7%	10.9%
5	\$150,001	to \$200,000	13	14.7%	14.7%
5	over	\$200,000	15	14.7%	14.7%
Total			1,941		

This rate needs to be monitored and adjustments made, as required, to ensure that British Columbia maintains its competitive position.

The cost of this recommendation is estimated at \$200 million per year. This reduction would mean that 99 percent of all employees and self-employed taxpayers in British Columbia would have the lowest personal tax rates in Canada.

Municipal Property Taxation

The property tax imposed on major industry (Class 4) by some municipalities has reached the point where it is having a serious impact on the competitiveness of industry in those regions.

In some municipalities, despite the fact that the industries' revenues may be in decline, or the value of the property may have substantially decreased, the municipal government has raised the tax rate to ensure a constant rate of tax payable by those industries while maintaining or even reducing the tax paid by the residential class. In 2004, the weighted average tax rate for the major industry class in British Columbia was \$40/\$1000 of assessed value, whereas the weighted average tax rate for the residential class was just over \$4/\$1000 of assessed value. The fact that rates can be adjusted each year also creates significant uncertainty and there is no reconsideration process to the Province or other authority to appeal perceived unfair tax rates.

In its April 2006 submission on the Wood Products and Pulp and Paper Industry Advisory Committees Reports, the Council commented on the impact of the municipal property taxation on the competitiveness of business, and specifically, on the pulp and paper industry.

For illustrative purposes, the following table from the Pulp and Paper IAC report, is referenced to show the share of municipal tax revenue paid by major industry as compared against assessed value in those municipalities with pulp and paper industries.

This table shows that although major industry's share of total assessed value in these municipalities amounts to an average of 16 percent, major industry's share of municipal taxes is an average of almost 40 percent.

Table 3 – Major Industry Share of Municipal Tax Revenue in Pulp and Paper Municipalities

Pulp & Paper Municipalities	Major Industry Share of Municipal Taxes (%)	Major Industry Share of Total Assessed Value (%)
Port Alice	85.2	46.2
Kitimat	79.1	35.5
Chetwynd	73.7	40.3
Taylor	72.2	45.6
Mackenzie	66.8	40.1
Quesnel	65.7	22.8
North Cowichan	51.3	6.6
Castlegar	48.8	17.4
Powell River	45.1	12.5
Port Alberni	43.2	11.2
Prince Rupert	35.0	21.5
Campbell River	32.8	6.1
Squamish	24.0	3.4
Prince George	17.6	5.9
Kamloops	9.0	1.5
Delta	8.0	2.0
Nanaimo	7.1	2.0
New Westminister	6.9	1.6
Burnaby	3.8	0.4
Coquitlam	1.3	0.1
Average	38.8	16.1

Source: Pulp and Paper IAC Report

The level of property tax imposed on industries in certain municipalities has become a significant factor in making investment decisions. The increasing property tax burden as a proportion of costs of production, combined with the cost of investment in capital, technology and new equipment, is often uneconomic given the increase in valuation that will result. This acts as a disincentive to investment and puts British Columbia at a competitive disadvantage for investment dollars with other jurisdictions.

The Council recognizes that the property taxation system is complex and is not easily adjusted. Because it needs to serve the purpose of providing a stable source of revenue for key infrastructure and services for communities, change should be approached with diligence and care. But the need for change is clear and present nonetheless. The system needs to be adjusted to ensure consistency across the Province and to establish a competitive level of property tax for major industry.

Recommendation: The Council reiterates its position as outlined in its April 2006 submission and recommends *that municipalities reduce the tax burden on the major industry class particularly where the ratio of industry versus residential rates is high.*

If this is not done, the Province needs to take the lead in consulting on and implementing required changes. Some possible solutions include:

- reducing the number of categories of property tax into one or two categories of business tax that would include both industry and services;
- imposing a ratio by which the municipal tax rate on industry and business cannot exceed that of the tax rate on residential homes.

It is estimated that of the 200 municipalities in British Columbia, 15 would lose a major source of revenue. This may require some form of assistance from the provincial government to allow affected municipalities sufficient time to adjust their revenue and cost structures.

Provincial Sales Tax

The harmonization of the provincial retail sales tax (PST) with the federal goods and services tax (GST) would be of considerable benefit to business and industry. However, approximately 40 percent of the PST (\$1.6 billion) in 2005/06 was paid by business and industry. Under GST harmonization a considerable portion of this would have to be borne by individual retail purchasers.

Recommendation: The Council believes that such a transfer would not be in the interests of British Columbia and, therefore, recommends that, *at the present time, the PST and GST should not be harmonized.*

The Council considered targeted reductions in PST on capital expenditures. In most cases, it is the view of the Council, that these reductions were too expensive to be recommended, except in the case of an exemption for information and communications technology (ICT) expenditures.

Recommendation: The Council recommends that *an incentive be given to expenditures on ICT* in order to accelerate industry productivity improvements. This could be either by an exemption for PST or an equivalent credit against income tax. The annual cost of this recommendation is estimated at \$75 to \$85 million.

Federal Capital Cost Allowance

The Capital Cost Allowance is a tax deduction for business related capital property that provides for the depreciation of assets. Businesses can deduct up to a fixed percent of depreciated costs each year according to standardized classes of assets.

An acceleration of the Capital Cost Allowance on new plant and equipment is considered one of the most effective tax measures to achieve greater investment. In September 2005, the CD Howe Institute calculated that Canada had the highest marginal effective tax rate on capital in the western world whereas Sweden had one of the lowest. According to the report, the difference between Sweden and Canada is that “Sweden provides liberal deductions for depreciation, inventory and reserve costs and taxes corporate income at 28 percent, lower than the statutory rate in Canada.”¹⁹

Recommendation: the *provincial government should request that the federal government accelerate Capital Cost Allowances* as a proven method of increasing investment and productivity.

Tax Credits

Expansion of SRED:

The Scientific Research and Experimental Development (SRED) tax credit program provides an incentive for industry to invest in research and development²⁰. The existing SRED tax credits expire in 2008.

¹⁹ C.D. Howe Institute: 2005, Tax Competitiveness Report.

²⁰ The federal tax credit program provides a 35 percent refundable tax credit for qualifying research and development expenses of Canadian Controlled Private Corporations (CCPC) up to first \$2 million of eligible

In order to spur innovation and boost investment and productivity by industry, the Council recommends *that the provincial government should extend the SRED credits at the same rate for a further five years after their expiry in 2008 and request that the federal government do the same.*

To provide that all domestic and foreign public and private companies receive equal treatment for their research and development expenditures *the provincial government should extend the existing refundable SRED to all companies with operations in British Columbia and, again, request that the federal government do the same.* The estimated cost of this extension for the provincial government is \$10 million per year.

Training Tax Credit:

The Government of British Columbia, in *Budget 2006* committed to a training tax credit program to help meet the demand for skilled workers²¹. The Council has reviewed proposals for training tax credits from several IACs. The need for more resources for industry training is clear. It is the Council's view that industry specific training is the primary responsibility of industry but supports this incentive to encourage industry efforts.

Recommendation: The Council recommends that *the proposed training tax credit should be outcome based and should be paid on the completion of each module of an apprenticeship.*

Capital Tax on Financial Institutions

In the Council's opinion, any form of capital tax is unfriendly to investment and an inhibitor to growth. A number of jurisdictions are phasing out their capital tax or making adjustments²².

British Columbia does not have a capital tax generally, but has retained its capital tax on financial institutions. It is recognized that the capital tax on financial institutions is a major source of revenue, but does impede the growth of the financial sector in the Province. Representations made to the Council indicate that this tax has played some role in the retraction of the sector in British Columbia.

Recommendation: the Council recommends that *the Province should phase out its capital tax on financial institutions over a specified period of time*, with the goal of eventual elimination of this sole remaining capital tax in British Columbia²³. In the shorter term, to spur banking activity in the Province, the Council recommends *that no capital tax should be levied on any financial activity that is undertaken in a registered International Financial Centre.*

expenses in the year incurred. Other Canadian corporations that are not CCPCs (public corporations) or foreign controlled corporations receive only a non-refundable²⁰ tax credit of 20 percent. The BC government provides a 10 percent "top-up" of the federal SRED tax credit and parallels the federal program in that the refund is provided to CCPCs on a refundable basis and to the non CCPCs on a non-refundable basis.

²¹ \$90 million over the next three years for a new program of tax credits directed at employers; the program will be designed in consultation with industry representatives from around the province.

²² Alberta does not have a capital tax and Ontario has a capital tax of 1 percent. In its 2006 Budget, the federal government announced that it is phasing out its capital tax by 2008 and that, in order to take into account the growth in size of financial institutions, it will modify its minimum tax on financial institutions from 1 percent on taxable capital between \$200 –\$300 and 1.25 percent on taxable capital of over \$300 million to a single tax rate of 1.25 percent on taxable capital of over \$1 billion.

²³ Capital tax on financial institutions provides \$107 million in revenue to Province annually.

Regulation

Context

An effective and efficient regulatory system encourages economic opportunities, innovation, and prosperity, while preserving and protecting the public interest. The presence of regulation is not necessarily “bad” and the absence of it “good”. Rather, regulation must be imposed appropriately and judiciously to minimize the costs to administer regulation, the costs of compliance, and the economic costs from lost opportunities or stifled innovation²⁴. Moreover, the cumulative burden of these costs and the potential for ‘cost creep’ over time needs to be recognized. Finally, to be effective, regulation must be crafted in a way that it achieves the desired end rather than simply prescribing a series of actions that may or may not contribute to a desired outcome in all situations.

The government of British Columbia has embarked on a deregulation and regulatory reform initiative to create a modern, effective, and responsive regulatory regime. Many of the IAC reports to the Council have remarked on this initiative and have encouraged the government to continue to create better regulation. The oil and gas sector, for example, recognized the significant strides British Columbia has made in recent years to improve the competitiveness and attractiveness of its investment environment²⁵, while urging the government against complacency and pointing to areas where more needs to be done.

On the other hand, some industry sectors expressed strong reservations about their regulatory environment. The forest sector, for example, is concerned that the current regulations, while lower than before, “remain substantial and excessive”²⁶.

Several IACs raised concerns over coordination of regulatory effort between levels of government – federal, provincial, municipal and First Nations. These IACs recommended that the Province increase efforts to work with other levels of government to secure changes to promote ease of compliance, timeliness and certainty.

Recommendations

The Council suggests that an area for future, concerted government regulatory reform is land use. This is a broad area of regulation involving all levels of government – provincial, municipal, federal and First Nations - and needing extensive effort to resolve jurisdiction, rationalize policies, streamline processes, eliminate duplication of effort and coordinate decision-making between all levels of government to meet economic objectives without compromising environmental standards. Reaching agreement on coordinated regulatory review and approval processes is particularly critical in the development of major industrial projects, including natural resource projects, transportation and infrastructure projects.

The Council understands from representations made to it by resource industry IACs, and others, that a principal issue in this area is the interpretation and administrative application of the federal *Fisheries Act* by the federal Department of Fisheries and Oceans in British Columbia. It is understood that there are various joint processes currently underway at the officials’ level, but

²⁴ BC Progress Board, Economic “Growth through Regulatory Reform, A Discussion Paper”, February 23, 2005, p.1.

²⁵ Oil and Gas Industry Advisory Committee, Final Submission to the BC Competition Council, April 2006, p.19.

²⁶ Wood Products Industry Advisory Committee Report to the BC Competition Council, April 2006, page 91.

efforts are hampered by the multiplicity of agencies and the inherent limitations in the federal *Fisheries Act* (an out-dated and anachronistic statute).

Recommendation: The Council recommends that *British Columbia, and other provinces affected, request that the Federal government adopt changes to the Fisheries Act and its application* to support achievement of environmental and fish habitat objectives while eliminating unnecessary expense and delay for small and low risk projects.

Key issues to be addressed in an updated *Fisheries Act* include distinguishing between temporary and permanent hazardous disruption and providing for “permissible” disruption that does not have long term harmful effects and providing for a system of recourse that includes a higher level appeal process that is able to weigh environmental and habitat considerations against broader public and economic interests. The provincial government may wish to build on the work that is currently being undertaken by the Business Council of British Columbia, the BC Chamber of Commerce and the British Columbia forest and mining industries in this area²⁷.

In addition to focusing on land use reform, the government should direct its attention to ensuring that continued effort is undertaken to ensure an effective regulatory framework in the Province.

Recommendations: The Council recommends that *the provincial government should ensure that:*

- *reasonable time limits for decisions (approvals, permits, licenses, authorizations, etc) are incorporated into provincial and municipal enactments affecting business activity;*
- *regulations are based on outcome or performance* rather than the traditional prescriptive approach; it is recognized that the move to an outcomes based approach will require additional resources to implement and over the longer term the approach may require a different skill set among regulators;
- *the cumulative impact of regulation on an industry is considered whenever further regulation is proposed.*

The provincial government should advocate for stronger recognition at the federal Bureau of Competition Policy that the forest sector in British Columbia operates in a global environment, in which consolidation in the wood products and pulp and paper industries is essential to the ability of firms to continue to operate.

Innovation

Context

Innovation can be defined as a process by which “value is extracted from knowledge through the generation, development, and implementation of ideas to produce new or improved products, services or processes.” Research and development leading to innovation and then commercialization – the ability to transform and use knowledge and turn it into marketable goods and services - is essential for increasing our value added and productivity, thereby, raising the standard of living of British Columbians.

²⁷ “Fisheries Act Renewal 2006: Draft Position Paper”, prepared by COFI, MABC, Business Council of British Columbia & Chamber of Commerce.

Industry itself is the “core player in the innovation game” – and “the core player in commercialization”. A number of research and/or innovation intensive industries, including biotechnology, high technology, new media and engineering, are critical to the growth, competitiveness and continued diversification of the British Columbia economy. While the majority of the effort related to the success of these industries lies with the management and private sector, selective government investments directed at enhancing the growth and productivity of these industries is appropriate.

While industry remains the core player in the innovation game, federal and provincial investment in research and development is very significant. Canada has a disproportionately large amount of basic research and development funded by the government sector. Much of this research and development funding is invested in efforts within and around the Canada’s universities, particularly the primary research-based universities. Efforts to increase the economic value created through commercialization of innovation will naturally need to have strong linkage with the universities.

Government’s role can be viewed as the “enabler” of innovation. This includes ensuring the foundations are in place to support research and development and innovation, including a competitive business environment achieved through an overall competitive tax structure and effective regulatory frameworks. Both federal and provincial levels of government in Canada also play a more direct role in stoking the engine of innovation by using the tax system to provide incentives to the private sector to undertake research and development leading to innovation and by providing capital and operating funds to universities and research institutes.

British Columbia has been doing a relatively good job on establishing the key research and development and innovation “building blocks” such as research infrastructure (the BC Knowledge Development Fund), establishing a business climate conducive to investment (through tax reductions and de-regulation) and financing (through support for venture capital programs and SRED tax credits). It has established the BC Innovation Council, a provincial crown agency, responsible for accelerating and expanding science and technology based economic development.

In the end, however, British Columbia does need to enhance its efforts, at both the private and public levels, to ensure the pursuit and capture of the available economic opportunity in research and/or innovation intensive industries. While we are reasonably competitive with other major jurisdictions in Canada in many areas – though lagging in some – we need to step up our level of activity if we are to achieve the full benefits of the available opportunity.

Given the relative scarcity of large companies and/or corporate headquarters, British Columbia must distinguish itself by its ability to foster growth-oriented entrepreneurial enterprises. To do this, arguably, the Province needs to be one of the most competitive jurisdictions in Canada in our efforts to convert ideas to business. Additional effort is required to maximize the Province’s significant investments in research by facilitating the commercialization of that research through enhanced tax incentives, efforts to develop, recruit and retain highly skilled and qualified people and to build greater linkages between universities and industry to facilitate commercialization of university research.

Developing, attracting and recruiting a highly skilled workforce, is discussed earlier in the section on “Enhancing British Columbia’s Human Resources”. Tax credits to support investment in research and development are discussed in the section on “taxation”. Specific recommendations to facilitate the leveraging of innovation are discussed below, including changes that can be made by government to aid the process.

Recommendations

Commercialization

The Council believes that returns on university research and development can be improved by increasing commercialization efforts in the research universities of the Province and by monitoring and measuring the universities efforts in commercialization.

Industry plays a key role in research and development leading to innovation and commercialization and in the joint development of technology by universities and British Columbia and Canadian businesses. The Council supports the proposal of the High Technology IAC for the need for more industry / university collaborative facilities and greater effort to collaborate and partner between industry and academic and research and development agencies and institutions.

Recommendation: The Council recommends *that industry support and provide funding, in conjunction with the provincial and federal governments, for initiatives that bring together university researchers, business developers and entrepreneurs to support commercialization in innovative areas of technology, such as the Centre for Drug Research & Development.*

Funding

In order to be a highly competitive jurisdiction in commercialization and entrepreneurship, British Columbia needs to ensure access not only to resources from Canada but also access to investment resources from around the globe. Access to venture capital from the United States and Europe is hindered by Canada's uncompetitive treatment of foreign private equity capital.

Recommendation: To address the uncompetitive treatment of foreign private equity capital, the Council recommends that *the provincial government request that the federal government change its tax rules in the treatment of private equity capital* and to bring them into line with European countries and the United States.

The three IACs involved in new ventures and corporate start-ups all expressed concern as to the quality and quantity of venture capital and its availability at various stages of a project development. There appear to be several different ways that incentives for venture capital formation can be provided.

Recommendation: Given the complexity of the issues around the funding options, the Council recommends that *the matter of improving venture capital funding should be directed to the Premier's Technology Council that has the expertise and mandate to make appropriate recommendations in this area.*

3. INDUSTRY SECTOR REPORTS

The 12 IACs established to provide input to the Council were:

- Wood Products
- Pulp and Paper
- Oil and Gas
- Mining
- High Technology
- Biotechnology
- Film and Media
- Professional, Scientific and Technical Services
- Manufacturing
- Construction and Housing
- Transportation
- Tourism

Each of the IACs undertook consultations with representatives within its industry sector and produced a report that was presented to the Council for consideration. A copy of the full industry advisory committee report for each sector is included as an Appendix to this report.

3.1 Snapshot of Industry Sectors

There is considerable variation in competitive position and momentum across the twelve sectors examined in detail. Following is a brief snapshot of the current state of each of the industry sectors.

In the wood products sector, there are acute regional differences. The industry on the Coast is in crisis; without action by both government and industry, there is a risk that it will crumble. The wood products sector in the Interior has been booming but only in the short run due to massive increases in supply of Mountain Pine Beetle fibre. A comprehensive industry-government strategy is required to ensure smooth transition to a longer run situation with new supply-demand factors at play.

The pulp and paper sector (across Canada) is facing severe challenges from international competitors and is not sustainable in its current structure.

The oil and gas sector is a 'bright light' in the provincial economy but is heavily reliant on predictable, stable access to land-based resources and appropriate infrastructure, without which it will be unable to realize potential growth.

The mining sector is currently a 'bright light' for British Columbia but will require predictable, stable access to land-based resources in order to ride out cyclical downturns.

The technology sector in British Columbia is relatively small compared with other jurisdictions but offers strong potential for growth. The key input to this sector is people and the Province has much to offer.

The biotechnology sector has strong potential, ranking third in Canada behind Quebec and Ontario in terms of the number of firms and second behind Quebec in terms of capitalized value. The majority of British Columbia companies are small and early stage.

The film and media sector is strong but faces challenges in moving to the stage of controlling investment in product creation and development.

The professional, scientific, and technical services sector (focus on engineering, architecture, and learning and training services) is relatively large and represents the strong service orientation of the British Columbia economy.

The manufacturing sector is facing a cost-price squeeze, due in part to the rising value of the Canadian dollar, and requires investment in innovative technologies as well as workforce and management skills in order to be competitive.

The construction and housing sector is experiencing rapid growth, which creates its own problems such as skills shortages. It also faces problems inherent in a mostly small business environment such as slow creation/adoption of innovative technologies.

The transportation sector is critical to the competitiveness of the Province, and Canada, as a gateway to North America. The transportation sector requires intra- and inter-modal (or system) efficiency gains and new investments if it is going to be able to meet projected increases in demand in the near future.

The tourism sector is exposed to global forces, including military and bio-security, and is currently facing adjustment to a stronger Canadian dollar. For the last several years, the sector has been performing poorly in terms of volumes and revenues and has yet to recover.

The following table indicates the relative contributions for each section to the British Columbia economy. Values in the table are presented in “real” or constant 1997 dollars, as reported by BC Stats. These numbers are not directly comparable with values reported, typically in current dollars, by the IACs in their reports to the Council.

Table 5 - Sector-Specific Data Summary Table for 2004

SECTOR	GDP ²⁸ (\$ millions)	EXPORTS ²⁹ (\$ millions)	EMPLOYMENT ³⁰ (thousands)
Forestry Total	8,115 ³¹ 6%	9,794	68.4
Forest & Logging	3,386 3%	444	21.5
Wood Product Manufacturing	4,729 4%	9,350	46.9
Pulp & Paper	1,668 1%	4,878	12.0
Oil & Gas Extraction ³²	2,120 2%	2,530 ³³	4.4
Mining ³⁴	1,771 ³⁵ 1%	2,587 ³⁶	6.8
High Technology Total ³⁷	7,305 6%	2,184	52.8
High Tech Manufacturing	1,521 1%	458 ³⁸	12.3
High Tech Services	5,784 5%	1,726 ³⁹	40.5 ⁴⁰
Biotechnology	not available	215	0.8 ⁴¹
Film & Media Total	-	3,809	27.2
Film ⁴²	not available	1,019 ⁴³	13.2 ⁴⁴
New Media ⁴⁵	not available	2,790 ⁴⁶	14.0
Professional, Scientific & Tech Services ⁴⁷	5,103 4%	not available	89.9 ⁴⁸
Manufacturing ⁴⁹	15,023 12%	22,873	211.2
Construction & Housing	7,472 6%	nil	144.0
Transportation & Warehousing	8,072 6%	3,334 ⁵⁰	116.5
Tourism ⁵¹	5,306 4%	4,130 ¹³	117.9

²⁸ GDP by industry in millions of dollars chained 1997 dollars.

²⁹ International exports.

³⁰ Except when otherwise specified, data in this column are from the Labour Force Survey (LFS) that is sample-based.

³¹ All data are listed for 2004 unless otherwise specified.

³² GDP and employment from 'support activities for mining, oil and gas' were pro-rated to oil and gas at 39.7%, based on the sectors' employment ratio.

³³ 2005 exports=\$3,818 million.

³⁴ Comprises coal, metal ore, and non-metallic mineral mining and quarrying. GDP and employment from support activities for mining, oil and gas' were pro-rated to mining at 60.3%, based on the sectors' employment ratio.

³⁵ 2001.

³⁶ 2005 exports = \$4,684 million.

³⁷ Excludes motion pictures and engineering.

³⁸ Excludes manufacturers related to biotechnology and life sciences.

³⁹ Excludes communications and film services.

⁴⁰ Excludes services related to film and engineering.

⁴¹ Biotech employment is based on the Survey of Employment, Payrolls and Hours (SEPH) for pharmaceutical and medicine mfg and medical equipment and supplies mfg'.

⁴² 5-yr average sector expenditures of \$1,274 million estimated by Intervistas (2005); (BC Stats estimates GDP for motion picture production and post production (not sound recording) at \$160 million).

⁴³ Exports estimated at 80% of expenditures (BC Stats exports of communications and film=\$360 million).

⁴⁴ Film industry direct employment estimated by Intervistas (2005).

⁴⁵ Revenues of \$3.1 billion in 2002 estimated for the New Media 'cluster' by PricewaterhouseCoopers.

⁴⁶ Exports estimated at 90 percent of revenues.

⁴⁷ Includes legal, accounting, architectural, engineering, specialized design, computer system, scientific research and development, advertising, and other services.

⁴⁸ Employment of Professional, Scientific and Technical Services minus Computer System Design Services and Management, Scientific and Technical Services (which were included in High Tech Services).

⁴⁹ Estimate includes all goods sectors, e.g. wood, pulp and paper, and high technology.

⁵⁰ 2000.

⁵¹ Tourism comprises retail, transportation and related, accommodation and food, other; proportions in 2004 = 12 percent, 35 percent, 37 percent and 16 percent in order; the industry estimates its contribution at over \$9 billion.

3.2 Industry Sectors - Overview and Recommendations

Virtually all IACs identified the creation of a positive and entrepreneurial environment as a shared responsibility for industry and government. Characteristics of that environment include a balanced and stable policy environment, leadership and vision, and adequate human and physical resource inputs as critical to the ability to compete successfully.

Section 2.1 of this report highlights the Council's key recommendations for action for each industry sector to enhance the competitiveness of that sector.

This section provides more detail on each industry sector, including a short overview of the industry and a list of the top three recommendations from each of the IAC reports as well as the position of the Council with respect to these recommendations. As noted earlier, many of the proposals of IACs are directed generally at addressing the three cross sector themes for action identified by the Council and outlined in section 2.2 -- a competitive business climate, addressing human resource requirements and ensuring adequate infrastructure. However, a few IACs also raise competitive issues particular to their sector in their top three priorities and these are highlighted in this section.

3.2.1 Resource Industries

Wood Products

In April 2006, the Council made a submission regarding the reports from the Wood Products and Pulp and Paper IACs (included as an appendix to this report). The following two sections, Wood Products and Pulp and Paper, reiterate key recommendations contained in that submission and the position of the Council with respect to those recommendations. The position of the Council with respect to additional recommendations made in that report continue to stand.

In 2004, the Wood Products industry contributed \$8.1 billion (or 6 percent) to GDP, of which 42 percent came from primary forestry and logging and 58 percent from wood product manufacturing. The industry exported \$9.8 billion and employed 68,400 people.

The Wood Products Industry Advisory Committee distinguished between the Interior and Coast situations, making separate recommendations for each locale, as well as a set of province-wide recommendations. All recommendations are prefaced by a call for industry to lead necessary change and for the resolution of the softwood lumber dispute with the United States. The Wood Products IAC also recognizes its vital relationship with the pulp and paper industry and supports recommendations of this IAC.

Interior

The British Columbia Interior forest industry is a world competitive industry with current costs in the first quartile. Revenues grew by 28 percent from \$4.3 billion in 2000 to \$5.5 billion in 2004, accounting for 74 percent of British Columbia's timber revenues. The Interior companies have consistently invested in state of the art equipment and large scale automated mills. As a result, despite the severe impact of the Softwood Lumber Dispute, which has cost the Interior companies more than \$2.6 billion in tariffs and deposits, the industry has been able to maintain its share of the US market.

The Interior industry benefited from the Forestry Revitalization Plan in 2003 that reduced regulation and streamlined procedures. Its unions were supportive of workplace changes that

permitted significant productivity gains. As a result, the industry was able to continue its program of heavy reinvestment.

The Interior now faces the huge impact of the Mountain Pine Beetle (MPB) infestation. Already, ten million hectares and over 420 million cubic metres of Lodgepole Pine have been attacked. This volume is equivalent to more than six years Annual Allowable Cut of the whole Province. It is estimated that the eventual impact of the MPB could amount to more than double the area and volume so far affected.

The top three IAC recommendations for wood products in the Interior include⁵²:

- 1) *Mountain Pine Beetle Action Plan* - a province-wide forestry industry strategy is needed to provide coordinated regional planning to identify ways to diversify and stabilize community economies.
- 2) *Timber Pricing and Value Slide* - the existing method of calculating the stumpage rate (comparative value pricing) should be replaced with a new market based method which would incorporate a mechanism to reflect the decline in the value of beetle attacked pine.
- 3) *Rationalization and Consolidation* - the provincial and federal governments should create “a single window provincially led review” to remove barriers of exit to the industry.

Position of Council:

The Council supports these recommendations. It is understood that the government has introduced a market based pricing method in the Interior. The Council’s suggestion under its submission on the Wood Products and Pulp and Paper IAC reports with respect to recommendation (1) is that a task force should be created to oversee the creation and implementation of the recommended plan that would be drawn from representatives of the provincial and federal governments, First Nations and the stakeholders.

Coast

The coastal industry is in serious decline. Its costs are amongst the highest in the world. Revenues have fallen since 2000 by 24 percent from \$2.5 billion to \$1.9 billion in 2004. The Coast wood product industry is just a fraction of its former scale. The region’s industry has been chronically unprofitable and its mills are old, undersized and unproductive. The lack of any likely return on investment has caused significant under investment in the industry for a number of years.

Major markets such as Japan, partly caused by the Kobe earthquake and the resultant change in the Japanese building code, have been lost to European competitors providing the product that the market demanded and the Softwood Lumber Dispute has posed a major obstacle to the industry in competing in the U.S. market.

The top three IAC recommendations for wood products on the Coast are⁵³:

⁵² This is a reiteration of the top three recommendations of the “Interior” Wood Products IAC report included in the April 16, 2006 submission of the Council on the Wood Product and Pulp and Paper IAC Reports.

⁵³ This is a reiteration of the top three recommendations of the “Coast” Wood Products IAC report already referenced in the April 16, 2006 submission of the Council.

- 1) *Land Use Certainty and Crown Forest Management* - changes to regulations and administrative procedures to give the industry access to fibre that can be profitably processed. These changes are intended to simplify regulations and streamline government intervention in the forest products processing industry.
- 2) *Reduce Lumber Production Costs* - take steps to reduce delivered wood costs and mill conversion costs by updating the market pricing system, removing unnecessary operating costs, establishing a Sector Council with the unions and employees to oversee labour cost competitiveness.
- 3) *Transition to Second Growth* - undertake a review of forestry policy to ensure that it supports a market driven transition to second growth harvesting.

Position of Council

The Council supports these recommendations, of which, it believes (1) and (2) will have a significant positive impact on cash flow and improve the industry's competitiveness. The Council understands that the long-term competitiveness of the coastal industry depends on access to economic second growth timber that would have to be supported by major investments in state of the art mills and kiln drying facilities. The Council therefore strongly supports recommendation (3).

Several of the traditional markets for hemlock, which can comprise up to 60 percent of second growth forests, have been lost. There is justification for government and industry supported research and development to improve the competitiveness of products produced from the hemlock species.

Pulp and Paper

In 2004, the Pulp and Paper sector contributed \$1.7 billion (or 1 percent) to provincial GDP, exported \$4.9 billion, and employed 12,000 people.

The Pulp and Paper industry is an essential component of the overall forestry industry in B.C. It depends entirely on the by-products of the Wood Products sector for its raw material, and currently contributes around 30 percent of the revenues of the Wood Products sector.

The transmittal letter from the Chairman of the IAC states that the "industry is facing the most severe economic condition in its history." This is the result of worldwide competition, particularly in pulp, and declining markets for newsprint. As 85 percent of its products are exported, the industry has been severely hurt by the appreciation of the Canadian dollar and the sharp increase in chemical and transportation costs.

The revenue and cost pressures have had a dramatic effect on profitability. The industry's problems have been compounded by uncertainty on its future fibre supply. The coastal pulp industry is increasingly dependent on Interior and U.S. chips which are now cheaper than coastal pulp logs, causing the coastal wood products industry to lose another source of revenue. The supply of Interior chips will decline after the MPB epidemic and this is likely to force contraction in the coastal pulp industry.

In the longer term, the Interior Pulp and Paper industry will face an uncertain future fibre supply. Once the MPB wood has been harvested, the supply of Interior wood chips will shrink and will be insufficient to maintain present levels of pulp production in the Interior.

The three highest priority recommendations affecting the Pulp and Paper industry itself are⁵⁴:

- 1) *Reduce the Cost of Social Rent* - municipal taxation is the principal social rent affecting this industry. The IAC provides a detailed analysis to support its claim that the ratio of the Major Industry Rate to the Residential Rate is extremely high in British Columbia. Competing jurisdictions such as Alberta and rural USA have far lower ratios.
- 2) *Regulatory and Cultural Labour Climate* - the IAC recommends that industries and unions in British Columbia move away from confrontation to a more stable and cooperative labour management culture.
- 3) *Consolidation* - the provincial government should not prop up non-viable assets and should encourage the federal government not to interfere with the industry's attempts to consolidate.

Position of the Council:

The Council supports these recommendations. The Council's recommendations on municipal tax are contained in section 2.2.3 of this report and in section 2.3.1 of the Council's submission on the Wood Products and Pulp and Paper sector (April 16, 2006).

The Council's comments on British Columbia's labour relations climate are included in section 2.2.1 of this report.

Consistent with its earlier submission, the Council suggests that the provincial government should encourage the federal government to use a global industry context for reviewing industry's attempts to consolidate.

Oil and Gas

In 2004, the Oil and Gas sector contributed \$2.1 billion (or two percent) to provincial GDP (which had risen to \$3 billion in 2005, according to the Oil and Gas IAC), exported \$2.5 billion and employed 4,400 people. This data includes exploration and production (primarily of natural gas) and transmission (pipelines for gas and other petroleum products).

The Oil and Gas sector operates in a global environment, where investment capital is extremely mobile and prices are affected by global (oil) and North American (gas) market factors. It is a 'bright light' in the provincial economy but is heavily reliant on predictable, stable access to land-based resources and appropriate infrastructure, without which it will be unable to realize potential growth.

Top three IAC recommendations are:

- 1) *Regulation* - the Province should implement a simplified framework that focuses effort according to risk and complexity and ensures that the agencies have the work force and expertise to deal with the increasing workload.

⁵⁴ This is a reiteration of the top three recommendations of the Pulp and Paper IAC report already referenced in the April 16, 2006 submission of the Council.

- 2) *First Nations Issues* - the Province should complete the Treaty 8 Revenue Sharing Agreement, renew the Memoranda of Understanding and continue the New Relationship initiative to address oil and gas issues.
- 3) *Capturing the Unconventional Resource Opportunity* - British Columbia has a large conventional natural gas resource base that will continue to be the primary focus of industry. However, the Province also has tremendous unconventional resources such as tight gas, natural gas in coal and the offshore that require attention. The Province should bring additional resources to bear in these new areas, beginning with accelerated geo-science expenditures to better define the resource opportunities in the Interior basins.

Mining

In 2004, the Mining sector contributed \$1.8 billion (1 percent) to provincial GDP, exported \$2.6 billion and employed 6,800 people.

British Columbia is home to approximately one-quarter of global mining companies, who are heavy users of local business-related services such as financing. It is currently a 'bright light' for British Columbia but will require predictable, stable access to land-based resources in order to ride out cyclical downturns.

The three top recommendations from the Mining IAC are:

- 1) *First Nations Issues* - industry needs to advance constructive dialogue and develop partnerships with British Columbia First Nations.
- 2) *Coordination with Department of Fisheries and Oceans (DFO)* – industry and the Province should develop and implement a simplified multi-agency approach (coordinated through the Ministry of Energy, Mines and Petroleum Resources) that harmonizes DFO and provincial activities.
- 3) *Highway 37* – the Province and crown agencies need to provide power, transmission and new roadways along the Highway 37 corridor.

Position of the Council – Oil and Gas and Mining:

The Council supports these Committee recommendations and has adopted them (refer to section 2.2.2 and 2.2.3). The Council supports the enhancement of Highway 37, and suggests that industry work with the Province and consider cost sharing options.

With respect to development of oil and gas, the Council is in agreement with the IAC in recommending that the provincial government ensure adequate regulatory resources are available to meet the demand.

3.2.2 Technology Industries

High Technology

In 2004, the High Technology sector, both manufacturing and services functions, but excluding film and engineering, contributed \$7.3 billion to provincial GDP (or 6 percent), exported \$2.2 billion and employed 52,800 people. The industry estimates its current contribution to GDP at \$8.4 billion and employment of 70,400 people.

Recently, focus has been given to six technology clusters: information and communications, wireless, new media, life sciences, sustainability (environment-related), and alternative energy. The sector's contribution to the economy has been growing.

British Columbia has many of the necessary ingredients to grow the sector; however, other jurisdictions are doing more.

The top three IAC recommendations are:

- 1) *Industry Strategy* - industry and the Province should create a strategy for the technology industry that would include all six major technology clusters while providing for new clusters to emerge and grow.
- 2) *Access to Capital* – the British Columbia government should commit \$150 million to a Fund of Funds, matched 2:1 by local/foreign investors. Industry and government should create a small investment loan program with \$10-\$15 million of contributed capital.
- 3) *Brain Gain and Retain* – the Province should create a recruitment portal. By 2010, the Province should increase graduate student enrolment by 2,500. Industry and government should increase co-op and intern student positions.

Position of the Council

The Council supports recommendation (1). The Council has recommended that all venture funding proposals (2) should be directed to the Premier's Technology Council for its consideration (see section 2.2.3 of this report).

The Council supports recommendation (3) as detailed in section 2.2.1 of this report and section 4 (Marketing).

Biotechnology

The Biotechnology sector comprises all health science-related endeavours seeking to produce innovative medicines and medical devices. The British Columbia biotechnology industry ranks third in Canada behind Quebec and Ontario in terms of the number of firms (75) and second behind Quebec in terms of capitalized value (\$4.5 billion). The Biotechnology sector contribution to provincial GDP is included within the High Technology sector and other sectors, including manufacturing (e.g. pharmaceutical and medicine manufacturing, medical equipment and supplies manufacturing), other high technology, and professional, scientific and technical services. In 2004, the sector exported \$215 million. The Biotechnology industry's current estimate of employment is 4,100.

The majority of British Columbia biotechnology companies are small and early stage, with less than 50 employees. The industry depends on "easily transportable human and financial capital" (p.5 of its report).

The top three recommendations of the Biotechnology IAC are:

- 1) *International Risk Capital* - the federal government should provide United States and international venture capital with the same tax treatment as is allowed to them in the United States and the United Kingdom.

- 2) *Funding* – the Centre for Drug Research and Development should be funded by the British Columbia government. A transitional research pool of \$20 million/year should be established.
- 3) *Skilled Professionals* - the Province should create an International Qualifications Authority to add oversight to the recognition processes of the independent professional bodies in British Columbia and expand the role of the Provincial Nominee Program to provide liaison with the licensing bodies.

Position of the Council

The Council supports recommendation (1) and the Council’s recommendation with respect to this area are detailed in section 2.2.3. The Council recommends that industry, in conjunction with the provincial and federal governments, support and fund initiatives, such as the Centre for Drug Research and Development also as outlined in section 2.2.3. The Council’s position on skilled professionals and the Provincial Nominee Program is outlined in section 2.2.1.

Film and Media

British Columbia is the third largest producer of film products in North America, behind Los Angeles and New York, and is home to the world’s largest publisher of electronic games.

GDP data for the Film and Media sector are included in other industry segments, notably high technology goods and services. Over the last five years, the film industry has spent over \$1.2 billion annually in British Columbia, with exports averaging over a billion per year and direct employment in the range of 13,200 people. Revenues in the Media industry are currently over \$3 billion annually, most of which is from exported goods and services. Annual employment in Media is estimated at 14,000 people. Both Film and Media begin with a creative element and move through a production/publishing phase into marketing and distribution to reach an audience (final consumer). British Columbia is strong in providing services to projects owned by others (e.g. major film studios/companies). The Province also creates a “modest” amount of original content (p.14 of IAC report). Maintaining the current critical mass of work is necessary to industry development – which will necessarily involve moving up the value chain to owning/controlling more projects.

The industry currently has a strong visual effects and animation sector. It needs to attract more private capital to invest and retain ownership of intellectual property to move up the value chain.

The top three recommendations of the Film and Media IAC are:

- 1) *Centre for New Media* - industry and the British Columbia government should continue to support the Centre and post-graduate and undergraduate programs in film studies.
- 2) *Capital Access and Investment Incentives* - industry and the Province should establish market risk capital pools or, the Province should provide investment incentives to these industries based on ownership of intellectual property.
- 3) *Tax Credits* - the Province should provide a long-term commitment to the current tax credit program and extend tax credits to emerging game development companies to maintain the service sector as it matures toward wealth creation.

Position of the Council

The Council supports increase in post graduate studies as detailed in section 2.2.1 of this report. Recommendation (2) should be considered by the Premier's Technology Council in accordance with the Council's recommendation in section 2.2.3. The Council's views on tax credits are also contained in section 2.2.3 of this report.

Professional, Scientific and Technical Services

In 2004, the Professional, Scientific and Technical Services sector contributed \$5.3 billion (or 4.2 percent) to provincial GDP and employed 89,900 people. Export data are not available, although the industry believes that the export market is a significant source of revenue (e.g., 30 to 40 percent for consulting engineers). This sector includes legal, accounting, architectural, engineering, specialized design, computer system, scientific research and development, advertising, and other services. The IAC represented engineering and architectural services, as well as the learning and training services industry.

The top three recommendations for Engineering and Architecture services are:

- 1) *Engineering Students* - the number of British Columbia engineering university students should be doubled in the next 10 years.
- 2) *Professional Education* - the Province and industry should encourage and facilitate more students to obtain post graduate degrees. Industry and the Province should support training of professionals by increasing co-op work terms and internships after graduation.
- 3) *Capital Spending* - as 50 percent of the engineering business is the direct result of public sector projects, the Province should have consistent long term capital spending programs that avoid rapid increases or decreases in the rate of spending.

The top recommendations related to the Learning and Training industry are:

- 1) *BC Brand of Education* - industry should create, with government support, a system of accreditation for educational services. This is to protect the quality of the British Columbia brand of education.
- 2) *Network of Representatives* - the British Columbia government should create a network of representatives to promote a British Columbia brand of education in selected target markets on the Pacific Rim.

Position of the Council

With respect to the recommendations for engineering and architecture services, the Council supports increasing the emphasis on engineering and scientific students at both the undergraduate and post graduate level as detailed section 2.2.1 of this report. The Council sympathizes with the IAC's position on recommendation (3) but believes that this would be difficult for the provincial government to accomplish.

The Council supports both recommendations respecting learning and training; these are covered generally in section 2.2.1 and in section 4 on Marketing British Columbia's advantages.

3.2.3 Manufacturing, Construction and Transportation

Manufacturing

In 2004, the Manufacturing sector as a whole (including, for example, high technology and wood products) contributes \$15.1 billion (12 percent) to provincial GDP, exported \$22.9 billion and employed 211,200 people.

The Manufacturing sector is facing a cost-price squeeze, due in part to the rising value of the Canadian dollar, and requires investment in innovative technologies as well as workforce and management skills in order to be competitive.

The IAC Report emphasizes a new paradigm for the sector, which competes globally for markets and inputs, is driven by innovation and is linked more strongly into networks and supply chains. Workers and management need to be able to deal with constant change and complexity.

Top IAC recommendations unique to the Manufacturing industry include:

- 1) *Leadership Forum* - manufacturers should lead the development of a leadership forum that would include government, so that business strategists and public policies are developed and aligned.
- 2) *Skills Training* - manufacturers should double their investment in skills training to five percent of payroll (\$400 million) by 2010. The Province should provide tax incentives for training related to learn manufacturing and process improvement.
- 3) *Innovation* - manufacturers should increase research and development investment to \$750 million by 2010 and the Province should provide tax incentives (similar to SRED) and accelerated tax depreciation on technology, machinery and equipment investments. Government and manufacturers should enhance British Columbia manufacturers' innovative capacity through the creation of a Manufacturing Centre of Excellence.

Construction and Housing

The Construction and Housing sector is a relatively large segment of the British Columbia economy (more than Wood Products and Pulp and Paper combined), contributing \$7.5 billion (6 percent) to provincial GDP and employing 144,000 people annually. Exports are virtually nil since this industry mainly provides goods and services to the domestic market.

Companies are primarily small and medium-sized enterprises, although some large, export oriented companies exist. Like transportation, construction costs affect base costs of other industries.

The Construction and Housing sector is experiencing rapid growth, which creates its own problems such as skills shortages. It also faces problems inherent in a mostly small business environment such as slow creation/adoption of innovative technologies.

The top IAC recommendations unique to the Construction industry include:

- 1) *Proposed Ministry of Construction* - the Province should create a Ministry of Construction and amalgamate all construction and housing departments and agencies into this new ministry.

- 2) *Skills Training* - speed up the process of establishing a new apprenticeship and training system and increase funding to address labour shortages across industry.
- 3) *Government Procurement* – standardize the procurement process for government construction capital expenditures to make it consistent and more cost effective across all levels of government in British Columbia.

Position of Council – Manufacturing and Construction & Housing:

The Council agrees that it is the industry’s responsibility to develop industry strategies to continue to move it closer to realizing benefits from the new paradigm for manufacturing. Government has a role in creating a positive business climate to complement such a strategy. It may be advantageous for industry and government to collaborate on strategies to capitalize on British Columbia’s advantages.

The Council’s recommendations in the area of skills training are outlined in section 2.2.1. The Council supports the goal of the Manufacturing sector to increase its investment in research and development.

While the Council sympathizes with the need for standardization, the Council does not feel that it is appropriate to make recommendations on contractual matters that exist in a free market between buyer and seller.

Transportation

In 2004, the Transportation and Warehousing sector contributed \$8.1 billion (or 6.5 percent) to provincial GDP, exported \$3.3 billion, and employed 116,500 people. This sector facilitates the entire economy (local, national, and global), while also generating its own sector value added. The health of other sectors depends on a healthy and competitive transportation sector.

In addition to specific recommendations, the report encourages continuation of current provincial actions identified with the Transportation Plan and Ports Strategy.

The top Transportation IAC recommendations are:

- 1) *Consistency, Predictability and Reliability* - the consistency, predictability and reliability of the transportation industry should be improved by:
 - measuring the efficiency of the overall transportation system (the BC Progress Board approach);
 - setting up an agency to work with the transportation industry to optimize the efficiency of the overall transportation system;
 - reducing the opportunity for labour and other disruptions;
 - amalgamating the three port authorities in Vancouver into one.
- 2) *Transportation Corridors* - protect the industrial land and transportation corridors using a similar structure to the Agricultural Land Reserve.

- 3) *Reviews of Canada Marine Act and Canada Transportation Act* – the federal government should implement recommendations from these reviews.
- 4) *Taxation* –
 - change the municipal taxation for port land from the present one based on land values to a new model that uses throughput and other economic measures to set taxes;
 - provide tax credits to facilitate private sector investment in the transportation infrastructure.

Position of the Council

The Council supports recommendations (1) and (2); the Council's recommendations related to transportation competitiveness issues are laid out in section 2.2.2 of this paper. Certain recommendations contained in the reviews of the *Canada Marine Act* and the *Canada Transportation Act* have been addressed specifically by the Council in this report (e.g., merger of the three Vancouver ports, need to optimize efficiencies.) The Council's position on municipal taxation is detailed in section 2.2.3. The Council does not support individual industry proposals for special tax credits for the reasons given in the section on corporate taxation.

3.2.4 Tourism

In 2004, the Tourism sector contributed \$5.3 billion (4 percent) to provincial GDP, \$4.1 billion in exports, and employed 117,900 people. This sector is captured statistically as an amalgam of other sectors such as retail, transportation, accommodation, and food. It is a key sector in the export of services for tourists coming to British Columbia. The industry, itself, estimates its overall contribution to the economy at more than \$9 billion.

Current industry performance is poor – there has been no growth in volumes and revenues over the last four years. At current trends, the industry will not meet its stated target to double tourism revenues by 2015. Competitive forces include changing consumer tastes, and strong publicly funded competition from elsewhere, notably Alberta and the United States as well as global events such as 9/11 and SARS. As a result of changing consumer tastes, the industry is in need of new product and market development in order to attract more visitors, increase the length of a visitor's stay, and generate higher expenditures per visitor.

The top three IAC recommendations to meet revenue targets are:

- 1) *Customer Acquisition and Retention* – the Province should increase the proportion of the hotel room tax dedicated to Tourism BC from 1.65 percent to 3 percent, and rationalize the funding provided to the various tourism agencies within the Province.
- 2) *Infrastructure and regulation* - the Province needs to strengthen the regional airport system by increasing provincial airport funding from \$10 million per year to provide better and more direct services to the major interior airports
- 3) *Human Resource Development* – the Province needs to increase skilled training of British Columbia residents through targeting key skills, formation of a sector organization under the Industry Training Authority, additional college seats, and tax credits. The Province also needs to promote immigration from across Canada and internationally and market tourism training as a career choice for younger residents.

Position of the Council

The Council notes that the 2005/06 allocation to Tourism BC was \$50 million for tourism marketing. Other funds are also dedicated to tourism marketing through a variety of local and regional groups. In addition, the tourism industry also may apply to a Regional Development Trust for marketing assistance. In its section on Marketing, the Council is proposing a coordinated marketing and branding initiative that would complement efforts made by this industry. More coordination rather than more money is the answer.

The Council supports the IAC's recommendation on the need for greater provincial support and funding for the interior airport infrastructure. The Council supports recommendation 3 and has included the formation of an ITO for tourism in 2006 in section 2.2.1. The Council's recommendations for enhancing skill and human resource capacity in the Province generally are also outlined in section 2.2.1.

4. MARKETING BRITISH COLUMBIA'S ADVANTAGES

Marketing BC as the Place to Live, Visit, Work, Learn and Invest

Industry, labour and government working together need to take advantage of British Columbia's current growth to develop ways to increase value added activity and spur productivity at all levels and in all sectors in the Province. The Council believes that the recommendations highlighted in this report will remove obstacles while enhancing the elements that make British Columbia competitive to increase overall productivity and allow the Province to capture new opportunities.

However, it is not enough to have a competitive business climate and workforce – British Columbia must make sure the world knows about British Columbia's advantages. And, these advantages are many:

- *An investment-friendly climate* - solid governance that provides the stability of economy necessary to attract long-term investment; a balanced tax structure between corporate and personal tax rates to attract and retain companies, as well as the individual talent required to make those companies successful;
- *Market access* - strong vibrant ports and efficient transportation systems to reliably move goods and services between markets; convenient air transportation between British Columbia and the major U.S. and Asian markets;
- *Strong infrastructure* - an adequate supply of affordable commercial and industrial real estate; a dependable supply of affordable power and telecommunications; a strong education system to develop tomorrow's leaders;
- *A healthy community* - a solid health care system to look after our employees, families, and friends; a clean environment in which to live; safe neighbourhoods.

There is a need to establish a strong presence of a British Columbia brand in the international marketplace, particularly if it is supported by specific quality standards. For this reason, the Council supports the recommendations of the Learning and Training Industry that "*the industry should initiate, with government support, a system of accreditation for educational services, and*

the Province should create a network of representatives to promote a British Columbia brand of education in selected markets in the Pacific Rim.”⁵⁵

British Columbia certainly has the capability of designing a state of the art portal on the internet which could be accessed by prospective tourists, students, immigrants, businesses, institutions, and investors in order to gain up to date and relevant information on British Columbia. The key to the success of such a portal would be the links that would take an interested party to the particular field and relevant sites that would provide easily accessible information.

Provincial government funding for the marketing of the British Columbia brand already exists through the budget of the Ministry of Economic Development as well as budgets of organizations such as Forest Innovation Investment Ltd., and Tourism BC.

The 2010 Olympics will provide a unique opportunity to market all aspects of the Province, including its business competitiveness. If the actions contemplated in this report are accepted, British Columbia could rightly claim to be the best place in Canada to “live, visit, work, learn and invest.”

⁵⁵ Also supported by the China/Hong Kong Market Advisory Group, Section II: International Education.

APPENDICES

IAC Reports

FORESTRY IAC

Chair - John Allan, President and CEO Council of Forest Industries
Duncan Davies, President and CEO International Forest Products Ltd
Jim Girvan, Executive Director Truck Loggers Association
Ken Higginbotham, VP, Forestry and Environment Canfor Corporation
Rick Jeffery, President and CEO Coast Forest Products Association
Hank Ketcham, Chairman, President and CEO West Fraser Timber
Paul McElligott, President and CEO TimberWest Forest Corp
Mark Semeniuk, Chief Operating Officer Atco Lumber
Al Thorlakson, President and CEO Tolko Industries
Peter Woodbridge, Woodbridge Associates Inc. (advisor)

PULP AND PAPER IAC

Chair - Russell Horner, President and CEO Catalyst Paper Corporation
Dave Coles, Vice President Western Region, Communications, Energy & Paperworkers Union of Canada
Russ Fulton, President, Howe Sound Pulp & Paper
David Gandossi, Executive Vice President, CFO & Secretary, Mercer International
Hank Ketcham, Chairman of the Board, President and CEO, West Fraser Timber Co. Ltd.
Jim Mason, President, Poyry Vancouver Inc.
Jim Shepherd, President and CEO, Canfor Corporation
Doug Konkin, Deputy Minister, Ministry of Forests and Range
Peter Woodbridge, President, Woodbridge Associates Inc.

OIL AND GAS IAC

Co-Chair – Kathy Sendall, PetroCanada
Co-Chair - Doug Haughey, President, Duke Energy Gas Transmission West
Pierre Alvarez, President, Canadian Association of Petroleum Producers
David Pryce, Canadian Association of Petroleum Producers
Richard Dunn, Vice President, EnCana
Don Herring, Canadian Association of Oil Well Drilling Contractors
David MacInnis, Canadian Energy Pipeline Association
Ian Kilgour, Senior Vice President, Exploration and Production, Shell Canada

MINING IAC

Chair - Ron Thiessen, President and Chief Executive Officer, Hunter Dickinson Inc
David Caulfield, Association for Mining Explorations British Columbia (AMEBC)
Lindsay Bottomer, Vice-President, Corporate Development and Director, Entrée Gold
Jon Collins, Teck Cominco
Pierre Lebel, Chairman and Director, Imperial Metals Corporation
Scott Lyons, Ledcor
Terry A Lyons, Chairman, Northgate Minerals Corporation
Donald McInnes, Director, Western KelticMines Inc.
Robert Pease, Chairman, Placer Dome
Michael McPhie, President and Chief Executive Officer, Mining Association of British Columbia
Dan Jepsen, President and Chief Executive Officer, Association for Mining Explorations British Columbia

TECHNOLOGY IAC

Chair: - Rob Cruickshank, President, BC Technology Industry Association
Sang Mah, President, Wireless Innovation Network of BC (WIN BC)
Shannon Byrne, Chief Executive Officer and President, Paradata Systems Inc.
Claudia Ng, President and Chief Executive Officer, FatPort Corporation
Barry Jinks, President and Chief Executive Officer, Colligo Networks
Julian Taylor, Executive Director, PowerTech Alliance
Jonathan Wilkinson, President and Chief Executive Officer,
QuestAir Technologies Inc.
Greg Wolfe , Senior Vice President and General Manager, Americas Operations, Business Objects

BIOTECHNOLOGY IAC

Chair – David Hall, Chief Compliance Officer, Angiotech Pharmaceuticals Inc.
Scott Cormack, President and Chief Executive Officer, OncoGeneX
John De Lucchi, Partner, PriceWaterhouseCoopers
Karimah Es Sabar, Executive Director, BC Biotech
Nancy Harrison, Ventures West
R. Hector Mackay Dunn, QC, Partner, Farris Vaughan Wills & Murphy
Dr. Simon Pimstone, MD, PhD, FRCPC, President and CEO, Xenon Pharmaceuticals Inc.

FILM AND MEDIA IAC

Co-Chair - Crawford Hawkins, Executive Director, Directors Guild of Canada
Co-chair – Rick Mischel, President and CEO Mainframe Entertainment
Chris Bartleman, Studio B Productions
Arthur Evrensel, Partner, Heenan Blaikie
Shawn Williamson, Bright Light Pictures
Gerry Rutherford
Curtis Terry, Relic Entertainment
Mark Prior, Rainmaker
Rick Griffiths, PriceWaterhouseCoopers

PROFESSIONAL, SCIENTIFIC AND TECHNICAL SERVICES IAC

Co-chair - Bob Stanlake, Vice President and General Manager, AMEC
Co-chair – Stan Cowdell, President, Westmar Engineering Consulting Solutions
Barry Carbol, MERIT Learning Corporation
Bill Donald, Keystone Environmental
Alan Hart, VIA Architecture
Don Sherritt, Western Management Consultants

MANUFACTURING IAC

Chair - Ben Hume, President and Chief Executive Officer, Alco Ventures Inc.
Craig Williams, President, Forest Technology Systems Inc. Gary Smallenberg, President, Canadian Autoparts Toyota Inc.
Greg Howard, President, Columbia Plastics Ltd.
Harry McWatters, President, Sumac Ridge Estate Winery
Paul Kalil, President, Avcorp Industries Inc
Peter Jeffrey, President, Whitewater Composites Ltd.
Werner Knittel, Vice president, Canadian Manufacturers and Exporters (facilitator)
Ron Palfery, President, Compass Technologies Inc.

CONSTRUCTION AND HOUSING IAC

Chair - Manley McLachlan, President, BC Construction Association
Robert Lashin, President, Houle Electric
John Cunningham, Columbia Bitulithic Ltd
Chris Erb, SupErb Construction
Dee Miller, VP Finance JJM Group of Companies
Steven Pavelich, Wilson M. Beck Insurance Services
Wayne Peppard, Executive Director BC Yukon Territory Building and Construction Trades Council
Pat Caporale, Canadian Home Builders' Association British Columbia
Anibal Valente, VP and District Manager, PCL Constructors Westcoast Inc
Dale Bekar, President, Pacific Group of Companies
John Knappet, Knappet Projects Inc.

TRANSPORTATION IAC

Chair - Dan Doyle
Jeff Burghardt, President and Chief Executive Officer, Prince Rupert Grain
Bob Wilds, Gateway Council
Don McGill, Secretary Treasurer, Teamsters 213

TOURISM IAC

Chair - Darcy Alexander, Sun Peaks Resort Corporation, Vice President and General Manager
Phil Barnes, Regional Vice President Fairmont Hotels & Resorts
David Brownlie, Intrust Corporation, Executive Vice President and Chief Operating Officer,
James Terry, Executive Vice President and Chief Operating Officer,
Rocky Mountaineer Vacations,
Allen Tozer, The Okanagan Wine Festivals and General Manager, Fernie Best Western Mountain Lodge, and Board Member of Tourism
Kevin Walker, President, Walker Hospitality Group
April Moi, Executive Director, Hello North and Board Member of Tourism British Columbia

***Submission of the BC Competition Council Regarding Reports from
the Wood Products and Pulp and Paper Industry Advisory
Committees, April 16, 2006***