

**REPORT OF THE
BC COMPETITION COUNCIL
EXECUTIVE SUMMARY**

**Enhancing the Competitiveness
of
British Columbia
June 2006**

Table of Contents

OVERVIEW OF REPORT	PAGE 3
RECOMMENDATIONS FOR ENHANCING COMPETITIVENESS	PAGE 4
CONTRIBUTIONS FROM INDUSTRY FOR ENHANCING COMPETITIVENESS	PAGE 4
CROSS SECTOR RECOMMENDATIONS FOR ENHANCING COMPETITIVENESS	PAGE 5
<i>Enhancing British Columbia’s Human Resources</i>	PAGE 5
<i>Enhancing Access to Markets, Land and Resources</i>	PAGE 8
<i>Enhancing the Competitiveness of the Business Climate</i>	PAGE 11
3. INDUSTRY SECTOR REPORTS.....	PAGE 15
<i>Resource Industries</i>	PAGE 15
<i>Technology Industries</i>	PAGE 17
<i>Manufacturing, Construction and Transportation</i>	PAGE 19
<i>Tourism.....</i>	PAGE 21
4. MARKETING BRITISH COLUMBIA’S ADVANTAGES	PAGE 22

BC COMPETITION COUNCIL REPORT EXECUTIVE SUMMARY

This document is an Executive Summary of the submission of the BC Competition Council to the Premier on recommendations for enhancing the competitiveness of British Columbia. The Council made its recommendations based on analysis and discussion within the Council of the input of 12 Industry Advisory Committees (IACs) and other stakeholders. In addition to this submission, the Council also made a separate submission on the Wood Products and Pulp and Paper IAC reports on April 16, 2006 (included as an appendix to the full report).

OVERVIEW

Importance of Business and Industry to British Columbia

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)¹.

This revenue is derived from all forms of taxation and fees paid by business, its employees, its contractors and service providers, and all forms of taxes paid by employees of the public sector whether in health, education or government whose income is derived indirectly from business and industry. There is, therefore, a direct relationship between the prosperity of business and its employees and the ability of the provincial and municipal governments to provide the quality of health, education and service that the citizens of British Columbia expect.

Importance of British Columbia Industry Being Competitive

Businesses are competitive when they “are able to sell their products and services in a competitive market place while earning a sufficient return for their shareholders”.

British Columbia’s existing competitiveness can be improved by industry and government working together to:

- (a) maximize the potential of the Province’s human resources through education, training and professional development.
- (b) improve services to ensure timely and cost effective access to land and resources through tenuring and permitting and ensuring that the infrastructure is in place for efficient production and delivery of products to market through a competitive transportation and energy system.
- (c) enhance the friendliness of British Columbia’s business climate to welcome investment through competitive corporate and personal taxation, regulatory policy and support for innovation.

British Columbia’s Relationship with Alberta

The economies of British Columbia and Alberta are complementary in many ways. This is recognized by the recently signed Alberta/British Columbia Trade Investment and Labour Mobility Agreement that provides free trade and labour mobility between the two provinces.

¹ Vancouver Board of Trade: *The Anatomy of the B.C. Economy* – November 30, 2001.

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. 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. British Columbia 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 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 the 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.

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 Industry Training Organization (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.

Page 15 of this Executive Summary outlines the top three recommendations from each IAC submission and briefly indicates the position of the Council with respect to these recommendations.

Cross Sector Recommendations for Enhancing Competitiveness

Enhancing Human Resources

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.

In addition, it is estimated that only 10 percent of future job openings will be for unskilled personnel. Thirty 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.

Skills Training and Professional Education

Skilled Trades

In order to increase the availability of skilled trades people in the Province, the following actions are recommended by the Council:

- ***to ensure industry involvement in the design and delivery of training programs, the launch of ITOs should be accelerated. In 2006, ITOs for the industrial, commercial and institutional construction, hospitality and tourism, heavy industry and***

transportation sectors should be launched by industry and the Industry Training Authority (ITA). Together with the existing three ITOs, these 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 new trade programs at an estimated cost of \$7 million in 2007/08 and \$8 million by 2009/10.*
- *industry must provide commitment and real support to apprenticeship training and ITOs must ensure that member companies release employees for skills training to increase completion rate of apprenticeship programs.*

Professional and Graduate Education

A number of IACs requested that there should be an expansion in the supply of under-graduate 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.

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 graduates or fellowships for post doctoral students. As a result, British Columbia's graduate student enrolment per 10,000 population is below the above mentioned provinces and the national average.

Alberta and Ontario have both announced significant expansions in their funding of post graduates. In the case of Ontario, \$1.6 billion will be spent by 2010 to fund 14,000 graduate places.

The Council recommends that:

- *the Province fund 2,500 graduate places 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 provincial government fund 1,000 scholarships for post graduate students including 100 for Ph.D. and post doctoral students at a total cost of \$10 million per year.*

Immigration

As a result of the projected shortfall in the supply of skilled and graduate personnel, the Province will require additional supplies of labour from immigration, both inter-provincial and international.

Between 1996 and 2005, approximately 80,000 skilled workers immigrated to British Columbia from other countries. An additional 14,000 immigrants in the economic class (entrepreneurs, self employed and investor) also came to British Columbia during this period. As well, after a period of net migration out of the Province, British Columbia has, over the last few years, attracted migrants from other provinces. However, more effort is needed to ensure the attraction through inter-provincial and international migration of skilled trades and professionals to meet increasing demand in these areas that will not otherwise be met through education and development of British Columbia's current population.

Inter-provincial

Inter-provincial immigration has the advantage of language fluency and knowledge of Canada. A British Columbia web-based portal could provide potential migrants from other provinces 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.

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).

International

The Provincial Nominee Program (PNP) operated by the Ministry of Economic Development enables employers to expedite the immigration of foreigners they have selected as employees. It is an employer driven program in that it enables employers to expedite the immigration of skilled foreign tradespeople and professionals that the employer has selected as an employee to meet a specific workforce need.

The Program is used extensively by certain industries while other industries are scarcely aware of the Program. It is well regarded by the companies using this Program. It is low cost, efficient and appears to have a high rate of success. In 2005, about 790 immigrants were brought to British Columbia through the PNP.

The Council recommends that industry step up its recruitment efforts using the PNP and that the provincial government increase the capacity to process applications for the immigration of skilled workers and professionals under the PNP program to 2,000 per year at an additional annual cost of approximately \$1 million.

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.

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 BC 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.

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 regarded such disruption as symptomatic of the confrontational attitude that was prevalent while the Province was primarily a producer of basic 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.*

Access to Markets, Land and Resources

Transportation

The transportation system is a critical element of the British Columbia, and the national economy. 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, British Columbia “*has the most competitive port system on the west coast of the Americas.*”² 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’s report is concerned with the efficiencies of the existing system. The report states, British Columbia “*will only have an efficient transportation system when there is*

² Pacific Gateway Strategy Action Plan – April 30, 2006

coordinated problem solving, data collection, benchmarking and performance measurement. At this point in time, there is no organization charged with that responsibility.”

Industry plays a role with government in the coordination of the overall transportation system to improve system efficiency.

The IAC proposes the establishment of an Agency to work with all players “to optimize the efficiency of the overall transportation system.” The Council supports this recommendation.

The Federal/Provincial Task Force set up after the trucker’s dispute in 2005 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.*”³ 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, can British Columbia hope to become “*the most competitive port system on the west coast of the Americas.*”

For this reason, the Council supports the IAC’s recommendation that there should be a merger of the three ports of Vancouver⁴ and that the merger should proceed as soon as there is a clear indication that the competitive position of the Port of Vancouver is improving.

The transportation land corridor is of national and provincial importance and rezoning in the corridor should be prohibited. ***The Council therefore 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.”***

To support regional economic and community development throughout the Province, as well as the tourism industry, ***the Council recommends that government provide additional support to ensure the development of a province-wide regional airport system⁵.***

Land

Access to crown land is of vital importance to the resource industries and for tourism. All the IACs have welcomed the provincial new relationship with the 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 Council supports the following recommendations from the IACs:

³ Federal & Provincial Task Force on Transportation & Industrial Relations Issues related to the Movement of Containers at B.C. Lower Mainland Ports – October 26, 2005.

⁴ Supported by China/H.K. Market Advisory Group.

⁵ Extending the existing efforts under the Transportation Partnerships Program; funding may also 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).

- *in the North-East, the provincial government should in an expeditious way renew the Treaty 8 Revenue Sharing Agreement and renew and enter into Memorandums 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 purchases, 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 development⁶.*

Energy

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

World energy demand is forecast to increase by 60 percent in the next twenty years and energy prices are likely to continue to rise. The Province can maintain its relative price competitiveness by ensuring that its cost of power rises less than its competition. The Council believes that British Columbia can do this while 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. It is understood that BC Hydro plans to increase its ‘Calls for Power’ by Independent Power Producers from 2,500 GWh in 2006 to 10,000 GWh over the next two years.

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.

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

- (a) The private sector should continue to be a major factor in the future supply of power.*
- (b) 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 the construction of the Site C dam on the Peace River.*
- (c) BC Hydro should actively engage in demand side management. The BC Hydro Conservation Program should emphasize incentivised pricing, particularly to handle periods of peak demand.*
- (d) 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*

⁶ Funding may be available under one of the Development Initiative Trusts.

power and would increase the possibilities for trade between the complementary power systems of British Columbia and Alberta.

- (e) *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.*

Enhancing the Business Climate

Taxation

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

- (a) retain its competitive position with Alberta;
- (b) enhance its productive investment.

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 suggested by the IACs for special tax credits.

In order for British Columbia to retain its competitiveness as a business location, *the Council recommends that the provincial government ensure that the British Columbia corporate tax rate not exceed 125 percent of the Alberta rate. Thus, if Alberta moves eventually to its target rate of 8 percent, a competitive rate for British Columbia should not exceed 10 percent.*

Personal Income Taxation

British Columbia has the lowest provincial tax rate in Canada up to a taxable income of \$67,500 per annum. However, above this income level, the rate rises rapidly and Alberta becomes the lowest personal tax jurisdiction at an income of \$88,000 per annum.

In order to make British Columbia’s personal income taxes the lowest in Canada, thus, providing an incentive for the attraction and retention of a skilled and professional workforce necessary to enhance British Columbia’s productivity, *the Council recommends that personal tax rates between \$67,500 and \$150,000 be reduced in accordance with the following:*

Table 1 - 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		

The cost of this recommendation is estimated at \$200 million per year, but 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. The Council recognizes that the property taxation system is complex and is not easily adjusted. However, the taxation system needs to be adjusted to ensure consistency across the Province and to establish a competitive level of property tax for major industry.

The Council reiterates its position as outlined in its April 2006 submission on the Wood Products and Pulp and Paper Industry Advisory Committees Reports that municipalities must reduce the tax burden on the 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. Some possible solutions include:

- reducing the number of categories of property tax into one or two categories of business tax that would cover both industries 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 (Social Service Tax)

The harmonization of the Provincial 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. *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 target reductions in PST on capital expenditures. In most cases these reductions were too expensive to be recommended, except in the case of an exemption for information and communications technology (ICT) expenditures. *The Council recommends that an incentive be given to certain ICT expenditures 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

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. The report explained the difference between Canada and Sweden in these words: “Sweden provides liberal deductions for

depreciation, inventory and reserve costs and taxes corporate income at 28 percent, lower than the statutory rate in Canada.”⁷

The Council recommends that the provincial government request that the federal government accelerate these allowances as a proven method of increasing investment and productivity.

Tax Credits

The Scientific Research and Experimental Development (SRED) tax credit program provides an incentive for industry to invest in research and development. The existing SRED tax credits expire in 2008. *The Council recommends that the Province should extend these credits for a further 5 years after their expiry in 2008 at the same rate and request that the federal government do the same.*

The Council recommends that the Province extend the existing refundable SRED to all companies with operations in British Columbia and request that the federal government do the same. This would allow domestic and foreign public and private companies to receive equal treatment for their research and development expenditures. The estimated cost of this extension for the provincial government is \$10 million per year.

The Council also 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

Taxes on capital act as a disincentive to investment. A number of jurisdictions, including Canada, are phasing out their capital tax. British Columbia does not have a capital tax generally, but does have a capital tax on financial institutions. That tax produced about \$107 million in revenue in 2005. It is therefore an important source of revenue, but it does impede the growth of the banking sector in the Province. *The Council recommends that the Province phase out the tax over a specified period of years.*

In the shorter term to mitigate the impact a capital tax has on the growth of financial activity, *the Council recommends that no capital tax should be levied on any financial activity that is undertaken in a registered International Financial Centre.*

Regulation

There have been improvements in the regulatory policies of the Province. The principal concern expressed by all the resource industry IACs is the application by the federal government of the *Fisheries Act*. The industries support the application of strict environmental law in order to protect fish habitat. Their concern is that the *Fisheries Act* is outdated and requires legislative amendment. Many small and low risk projects are forced into complex reviews causing considerable unnecessary expense and delay.

The Council recommends that British Columbia and other provinces affected request that the federal government adopt changes to the Fisheries Act along the lines proposed by the

⁷ C.D. Howe Institute: 2005 Tax Competitiveness Report.

*British Columbia forest industry, the mining industry, Chamber of Commerce, and the Business Council of British Columbia*⁸.

The principal recommendations of the Council with respect to British Columbia’s regulatory environment are that:

- (a) regulations requiring decisions should have specific, reasonable time limits for those decisions;*
- (b) regulations should be based on outcome or performance rather than the traditional prescriptive approach;*
- (c) the cumulative impact of regulation on an industry is considered whenever further regulation is proposed.*

Innovation

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.” Innovation is central to the competitiveness of an economy.

Diffusion of “state of the art” technology in the Province is just as important as research and development, and can be encouraged by tax policies (see page 12 of this Executive Summary for recommendations regarding provincial sales tax on information and communications technology expenditures and for federal Capital Cost Allowance, and page 13 for the Scientific Research and Experimental Development tax credit program) and by increasing the supply of highly qualified personnel (see page 6 of this Executive Summary in the section regarding Human Resources).

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.

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

⁸ “Fisheries Act Renewal 2006: Draft Position Paper”, prepared by COFI, MABC, B.C. Business Council & Chamber of Commerce.

Funding

Access to venture capital from the United States and Europe is hindered by Canada's 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 the United States and European countries.*

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 to provide incentives for venture capital formation. Given the complexity of these issues, *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.*

INDUSTRY ADVISORY COMMITTEE RECOMMENDATIONS

The top three priority recommendations of each of the 12 IACs, and the position of the Council with respect to these recommendations, is summarized below. A copy of the full report for each IAC is included as an appendix to the full report.

Resource Industries

Wood Products

Interior⁹

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) was 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.

⁹ This is a reiteration of the top three recommendations of the "Interior" Woods Products IAC report already referenced in the April 16, 2006 submission of the Council on the Woods Product and Pulp and Paper IAC Reports.

Coast¹⁰

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 the Council

The Council supports these recommendations of which it believes (1) and (2) would 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 Paper¹¹

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 United States have far lower ratios.
2. *Regulatory and Cultural Labour Climate* - the IAC recommends that industries and unions in B.C. 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.

¹⁰ This is a reiteration of the top three recommendations of the "Coast" Woods Products IAC report already referenced in the April 16, 2006 submission of the Council.

¹¹ 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.

Position of the Council

The Council supports these recommendations. The Council's recommendations on municipal tax are contained in both the "Enhancing The Business Climate" section on page 11 of this Executive Summary and section 2.3.1 of the April 2006 submission of the Council on the Wood Products and Pulp and Paper Industry Advisory Committees Reports.

Oil and Gas

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.
2. *First Nation 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

1. *First Nations Issues* - industry to advance constructive dialogue and develop partnerships with British Columbia First Nations.
2. *Coordination with the Department of Fisheries and Oceans* - industry and the Province to develop and implement a simplified multi-agency approach with Ministry of Energy and Mines as a coordinating agency to harmonize the activities of the Department of Fisheries and Oceans and the Province in fish habitat management activities.
3. *Highway 37* - the Province and crown agencies provide power transmission and new highways along the Highway 37 corridor.

Position of the Council

The Council supports recommendations (1) and (2) of both reports and has adopted them (refer to pages 9 and 10 of this Executive Summary for recommendation 1 and page 13 for recommendation 2). The Council supports the enhancement of Highway 37, and suggests that industry work with the Province and consider cost sharing options (see recommendation on page 10).

Technology Industries

High Technology

1. *Industrial Strategy* - industry and the Province to create a strategy for the technology sector that would include all six major technology clusters while providing for new clusters to emerge and grow.
2. *Access to Capital* - the Province should increase the size of the venture capital industry by committing \$150 million to a fund of funds that would be matched 2:1 by local and

foreign investors. Industry and government should create a small investment loan program with \$10-\$15 million of contributed capital.

3. *Brain Gain, Train, and Retain* - increase the graduate student enrolment by 2,500 by 2010 and increase post graduate scholarships. Industry and government should increase co-op and intern student positions. The Province should create a recruitment portal.

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 page 15 section on "Innovation" in "Enhancing the Business Climate" of this Executive Summary).

The Council supports recommendation (3) as detailed on page 6 in the section on "Enhancing Human Resources" of this Executive Summary.

Biotechnology

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 some European countries.
2. *Funding* - the Province should take leadership in funding the Centre for Drug Research and Development.
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 is detailed on page 15 in the section on "Taxation" in "Enhancing the Business Climate" of this Executive Summary. 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 as outlined on page 14 in the section on "Innovation" in "Enhancing the Business Climate". The Council's position on skilled professionals and the Provincial Nominee Program is outlined on page 7 in the section on "Enhancing Human Resources".

Film and Media

1. *World Centre for New Media* - industry and the Province should continue to support the Centre and undergraduate and post graduate programs in film study.
2. *Capital Access and Investment* - industry and the Province to establish and market risk capital pools, or the Province should provide investment incentives based on intellectual property models.
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 an increase in post graduate studies as detailed in the section on “Enhancing Human Resources”. Recommendation (2) should be considered by the Premier’s Technology Council in accordance with the Council’s recommendation on page 15 in the section on “Innovation” in “Enhancing the Business Climate” of this Executive Summary. The Council’s views on tax credits are contained on page 13 in the “Taxation” section in “Enhancing the Business Climate”.

Professional, Scientific and Technical Services

Engineering and Architecture

1. *Engineering Students* - increase the number of students in undergraduate and graduate engineering programs by up to 100 percent in the next ten years.
2. *Skilled Professionals* - 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. *Public Sector Infra Structure 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.

Learning and Training Industry

1. *Process of quality assurance* - industry with the support of the Province should create a system of accreditation for educational services and schools. This is to protect the quality of the B.C. brand of education.
2. *British Columbia brand of education* - a network of British Columbia representatives in target Pacific Rim markets would provide on the ground support to market British Columbia’s educational services.

Position of Council

With respect to engineering and architecture, the Council supports increasing the emphasis on engineering and scientific students at the undergraduate level and agrees with recommendation (2) as detailed on page 6 in the “Enhancing Human Resources” section of this Executive Summary. The Council sympathizes with the IAC’s position on recommendation (3) but believes that this would be difficult for the provincial government to accomplish.

With respect to the learning and training industry, the Council supports recommendations (1) and (2) and they are covered on page 22 in the Marketing section in this Executive Summary.

Manufacturing, Construction and Transportation

Manufacturing

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 5 percent of payroll by 2010.
3. *Innovation* - manufacturers should increase research and development investment to \$750 million by 2010.

Construction

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 the Council

The Council is not making recommendations on the internal structure of the British Columbia government. However, both the IACs are looking for a more continuous relationship with the Province and a rationalized “one stop” system by which they can interface with the Province. The Council believes that such an approach would lead to greater efficiency and competitiveness for these industries.

The Council generally supports the manufacturing and construction IACs with respect to skills training; the Council’s recommendations on skills training are detailed on page 5 in the section on “Enhancing Human Resources” of this Executive Summary.

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

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) and the Council's recommendations with respect to these matters is set out on pages 8 and 9 in the section "Access to Markets, Land and Resources" of this Executive Summary. 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 does not support individual industry proposals for special tax credits for the reasons given on page 11 in the section "Enhancing the Business Climate" (Corporate Income Tax).

Tourism

1. *Customer Acquisition and Retention* - increase the proportion of the hotel room tax dedicated to Tourism B.C. from 1.65 percent to 3 percent, and rationalize the funding provided to the various tourism agencies within the Province.
2. *Transportation Infrastructure* - 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 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 tourist industry can also apply to a Regional Development Trust for marketing assistance. In the section on Marketing on page 22, 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 (see the section "Access to Markets, Land and Resources" of this Executive Summary). The Council supports recommendation (3) and has included the formation of an ITO for tourism in 2006 on page 5 in the section "Enhancing Human Resources". The Council's recommendations for enhancing skill and human resource capacity in the Province are also outlined in this section.

MARKETING

There is a need to establish a strong presence of a British Columbia brand in the international market place, particularly if it is supported by specific quality standards. For this reason, the Council supports the recommendations of the Professional, Scientific and Technical Services IAC with respect to “Learning and Training” that *“the industry should initiate, with government support, a system of accreditation for educational services, and the British Columbia government should create a network of representatives to promote a British Columbia brand of education in selected markets in the Pacific Rim.”*¹²

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 the Province. The key to the success of such a portal would be the inter links which would take an interested party to the particular field and relevant sites which 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. To quote from Washington State’s Global Competitive Council:

“To recall an old adage, you don’t want to hide your light under a bushel. Washington State has much to brag about and in this newly flat world; we must shout about our assets at the top of our lungs.”¹³

If the actions contemplated in this report are accepted, British Columbia could rightly claim to be the best place in Canada to “visit, live, work, learn, and invest.”

¹² Also supported by the China/Hong Kong Market Advisory Group, Section II: International Education.

¹³ Governor Gregoire’s Global Competitiveness Council – March 2006.