Comments by the Conseil du patronat du Québec as presented to the Telecommunications Policy Review Panel

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PRESENTATION

The Conseil du patronat du Québec (CPQ) is a not-for-profit association that consolidates most of the employer and sector-based associations present in Québec as well as over 300 of the largest. It therefore represents the employers of the vast majority of the Québec labour force.

It is through its intervention that the business sector makes itself heard by society, governments and various bodies and makes the general public aware of the needs of Québec businesses, in order to enable them to fulfil their primary mission: to create the prosperity needed to improve the standard of living of all Québecers.

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The CPQ is fully engaged in public debates that serve to improve the business environment. In view of the telecommunication sector's importance in today's economy and the essential role it plays in the expansion of both the Canadian and Québec economy, the CPQ wishes to present to the Telecommunications Policy Review Panel its observations on the approach we believe the government should take in this sector.

Standard of living, productivity and Communications and Information Technologies

The Québec business community is concerned by the globalization of the economy and the gap in the standard of living of Québecers and Canadians in comparison with their counterparts in other developed countries. This situation calls for reforms to our laws and our institutions.

Standard of living is frequently used as an indicator of our relative prosperity and well-being. Even though the Canadian standard of living, which stood at $38,400 in 2003, continues to compare somewhat advantageously to that of other developed countries, it suffers in comparison with that of the Americans at $52,783. One component of their success is greater productivity, a key standard of living variable. It is therefore crucial to create the winning conditions needed to boost our productivity.

That being the case, Canada's performance in terms of productivity is cause for concern. Productivity growth in Canada has been somewhat weak since the 70s, more so than in most OCED countries. Canada performed well between 1996 and 2000, but since that time its growth has been among the lowest.[1] .

Weak productivity growth explains why Canada has gradually relinquished its lead in this area. According to official statistics, Canada, whose per-hour productivity was among the highest in the 60s, currently posts lower levels than most OECD countries.

Hourly productivity in 1968 and 2004

(Measured by GDP, by hour worked in 2002 US$ in OECD countries)

	Australia	**Austria**	**Belgium**	**Canada**	**Denmark**	**Finland**
1968	18,44	15,07	17,24	**20,91**	16,77	13,15
2004	35,81	43,81	48,12	**34,71**	41,65	39,60
	France	**Germany**	**Greece**	**Iceland**	**Ireland**	**Italy**
1968	17,92	17,18	10,58	13,93	10,01	17,68
2004	50,08	43,22	28,14	33,34	46,26	39,27
	Japan	**Luxemburg**	**Netherlands**	**New Zealand**	**Norway**	**Portugal**
1968	10,20	22,72	21,78	20,23	19,07	8,97
2004	32,74	56,84	44,48	27,45	55,85	22,53
	Spain	**Sweden**	**Switzerland**	**Turkey**	**United Kingdom**	**United States**
1968	10,42	18,63		3,85	16,08	24,29
2004	32,59	39,24	37,79	12,86	39,28	44,34

Sources : Groningen Growth and Development Centre and the Conference Board, Total Economy Database, August 2005, http:/www.ggdc.net

Information and communications technologies (ICT) play a vital role in improving productivity levels. Studies show that implementation of information and communications technologies is key to improved productivity. Many studies indicate that the sustained growth achieved by countries like the United States since the early 90s is largely attributable to the introduction of these new

[1] Someshwar Rao, Andrew Sharpe and Jeremy Smith (2005). "An Analysis of the Labour Productivity Growth Slowdown in Canada since 2000" in the International Productivity Monitor, n° 10, Spring 2005.

technologies. Other sources claim that Canada's productivity slowdown is largely attributable to the time it has taken Canadian businesses to implement these new technologies.[2]

The CPQ has developed an action plan to inform the public of the initiatives it believes the government should introduce to help companies improve their productivity performance. Our comments are largely drawn from this action plan.[3]

In our comments, we invite the federal government, and Industry Minister David Emerson in particular, to provide Canada with a proactive ICT strategy. The CPQ believes that this strategy should focus, notably, on taxation, reducing ICT regulations and, lastly, developing skills in the ICT sector. We will discuss each of these elements in turn in the following pages.

Taxation: a tool for increasing ICT deployment

As previously mentioned, there is a direct link between ICT and productivity. It is also obvious that ICT investments would help spur productivity growth.

Business investment, notably in machinery and equipment, is one of the best ways to boost productivity. As a rule, investments of this kind are generally made to deploy new technologies in order to improve performance and productivity. This is clearly the case when the investment is earmarked for the utilization, transformation or development of ICT.

What can we do to encourage investments of this kind? An investment decision is based on a number of elements: taxation, regulations and the quality of the labour force and infrastructures.

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[2] OECD (2003). ICT and Economic Growth – Evidence from OECD Countries, Industries and Firms. Also see studies by the Center for the Study of Living Standards: http://www.csls.ca

[3] Conseil du patronat du Québec. *Pour créer la richesse et le mieux-être* (to create prosperity and well-being) [Translation], Action Program 2004-2006, September 2004. http://www.cpq.qc.ca

Investments by companies already established in Canada, made by foreign companies, are largely performance-driven. Corporate taxation plays a major role in the economic feasibility of an investment. The heavier tax burden here drives away foreign investment and prompts Canadian companies to invest elsewhere. In addition, the taxation structure may or may not play a motivating role, depending on the situation. For example, capital tax that the company must pay, regardless of its financial statement, curbs productivity growth because it taxes investment. The federal government has promised to abolish this tax and the CPQ believes it must move forward with its abolition plan.

The government of Canada might also demonstrate more resolve in the matter of the capital gains tax, and reduce the rate to 17%, not 19%, in 2008. It could also strengthen tax measures for accelerated depreciation on new investments. More specifically, the depreciation deduction could provide an investment incentive by allowing companies to take a full depreciation on ICT investments on the basis of a pre-determined ceiling.

Fewer controls and productivity

The CPQ believes that the economic controls presently governing ICT are excessive and benefit neither consumers nor society in general. They are based on an economic model of natural monopoly, which is no longer relevant to the ICT sector where technological changes have outstripped the definitions and traditional economic concepts linked to indivisibility and natural monopolies.

The CPQ believes that the sheer weight of telecom regulatory controls curbs development and limits the competitiveness of Québec and Canadian business. International competition is fierce and fewer regulations are needed to ensure the productivity growth these new technologies make possible. For example, the OECD explained in its 2005 edition of the *Communications Outlook* that advances achieved in Internet technologies call into question the role and traditional economic model of telecom players "…which calls for a new approach to telecom sector controls.” [Translation] For example, companies are increasingly providing telephone services over the Internet, without having a physical presence in the country, which makes them difficult to regulate. Conclusion: a swift review of telecommunications regulations in Canada is essential in order to allow Québec and Canadian business to compete on equal terms in this new market which defines and redefines itself with alarming speed.

The CPQ is therefore of the opinion that ICT regulations are slow to reflect the profound changes at work in this sector, and that without major reforms, the speed of these changes will only serve to broaden the gap between the regulatory vision and competitive environment in which Québec and Canadian companies operate.

Productivity and investments in human resources

The CPQ is of the opinion that education, training and the development of skills are crucial to the deployment of new technologies, innovation and increased productivity. Moreover, investment in human capital allows workers to develop their full potential in the job market and to improve their standard of living.

As regards investing in skills development, particularly in training, the CPQ espouses several basic principles, which we believe should underpin government policies.

- First: the development of skills benefits all players and is a shared responsibility. The individuals undergoing the training are the most intimately involved and it is important to acknowledge the importance of their motivation in this regard. The company benefits equally from skills development of its labour force, since it becomes more profitable; it is therefore to be expected that the company should contribute to the development of its employees’ skills. The government, and society in general, also profit since greater economic growth makes it possible to fund additional services; it is therefore understandable that the governments help finance training programs. In short, because it profits all parties, it is a shared responsibility and government policies must not target one of these three players through coercive measures, as is the case in Québec.

- Second: we must acknowledge the wide array of learning methods now available, which increase with new technology, as well as the plurality of needs that increase with the mobility of human resources at a national and international scale.
- Third: it is important to create conditions conducive to the development of the training sector, while respecting the diverse needs of individuals and companies.
- Fourth: it is crucial to acknowledge skills in order to motivate people to train themselves and to ensure the quality of the training without the need to control the learning process in order to facilitate employee mobility and the integration of the unemployed and immigrants, and permit companies to better plan their training investments.
- Fifth, the CPQ realizes that training is not always available to all individuals and that, at times, it is unavailable to those who need it the most. By the same token, training is not always within the reach of all companies. Not all SMEs are in a position to train their work force. As such, the CPQ believes more focus should be placed on the *request for training* than on the *offer of services*, particularly for less-advantaged individuals and companies.

That being the case, how can the federal government effectively support skills development, without unleashing a provincial backlash? In keeping with the concerns voiced by the Telecommunications Policy Review Panel, we submit the following suggestions:

- Invest in recognizing skills, which would facilitate the inter-provincial mobility of employees and the integration of new arrivals. Sector committees could prove to be valuable partners in this initiative. The federal government could mandate the organization created to promote learning to coordinate employee skills certification and ensure inter-provincial harmonization.
- Begin by investing in recognizing skills for the ICT sector, a new field that is key to productivity. Its workers are highly mobile at an international level, and many people train themselves.

Equally, we cannot over stress the fact that education is also a necessary condition for improving our productivity and participating in a value-added global economy. In order to ensure better utilization of our human resources, the CPQ recommends increased funding for our universities, whose chronic under-funding handicaps our economic development. We must also acknowledge the importance of professional and technical teaching institutions that also contribute to the development of the labour force. Whether at the secondary, college or university level, the training of future workers must ensure closer harmonization between skills development and economic need, notably for the new economy.

Lastly, the CPQ believes that it is essential to make attracting qualified immigrant workers a priority. To that end, it might be useful to target and recruit recent engineering graduates from abroad and to make a concerted effort to recognize the skills of these workers, particularly those in the ICT sector.