



**Calgary  
Chamber**

# **2019 Alberta Election Platform**

**Businesses Drive  
Cities that Thrive**

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## Businesses drive cities that thrive

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### Business friendly policies are key to building community vibrancy

Plastered along the sides of rink boards across any local prairie hockey arena is clear evidence of the importance of commerce to community vibrancy. Whether it is big business sponsorship in NHL arenas or small business support of a local novice team, business is at the centre of healthy communities.

We create jobs, pay taxes, invest in the province and give back to our communities. As businesses prosper so do communities and households. Much of the reason this relationship between commerce and community has worked especially well in Alberta is because historically governments largely provided the conditions to enable business risks to be rewarded.

However, due to actions of successive governments, business competitiveness has eroded, and investors see Alberta as too risky. This must change. In our 2019 Provincial Election Policy Platform, the Calgary Chamber has identified five key areas the next provincial government must address to build a better business environment because **businesses drive cities that thrive.**

### 1. Create stability through fiscal responsibility

The Alberta government’s use of royalty revenue has created fiscal policies that are not sustainable. Successive governments failed to put forward a long-term path towards fiscal stability. This has resulted in multiple credit downgrades, accumulating debt and expensive debt servicing. Rising debt and deficits lower investor confidence and expose businesses and taxpayers to the risk governments will raise taxes to generate revenue. To stabilize the fiscal situation, the next provincial government must lay-out a long-term fiscal action plan for the province.

#### Recommendations:

1. Commit to the following principles to create stability and accountability in Alberta’s fiscal management:
  - a. Balance operating budgets
  - b. Develop long-term budget plans
  - c. Commit to annual spending growth limits
  - d. Benchmark service delivery
  - e. Reduce reliance on resource revenues. Instead use royalties to grow Alberta’s savings

## 2. Drive productivity through regulatory and tax reform

The regulatory environment has become a challenge for businesses in Alberta. Inefficient regulations impact Alberta businesses' ability to get things done and create employment. Alberta's corporate income tax rate is no longer among the most competitive in Canada, and we are becoming less competitive globally. Together, these issues are hurting Alberta's investment climate.

### Recommendations:

2. Implement "layered cost" economic impact assessments on provincial policy initiatives which also considers overlap, duplication and additional regulatory burden from all levels of government. As part of the regulatory review process the government should also look to reduce the overall regulatory burden by removing two regulations for every new one that is added on business.
3. Initiate a comprehensive review of Alberta's corporate tax system within the first year of forming government. This should include:
  - a. Reducing the corporate tax rate.
  - b. Broadening and streamlining the Alberta Investor Tax Credit to include all sectors and making it a permanent part of the tax code.

## 3. Support growth through internal trade and access to markets

Policymakers must continue to promote international cooperation and seek new markets for Canadian businesses abroad. The next government will have its greatest influence addressing the many barriers deterring trade at home. Along with internal trade barriers, a lack of market access across many sectors has limited Alberta businesses from getting their products to foreign markets.

Additionally, the inability to move major energy projects to market has resulted in extreme measures from governments to nationalize midstream energy infrastructure and intervene in free markets. These cause uncertainty and cost the Alberta government billions of dollars in expenditures and potential tax revenue.

### Recommendations:

4. Take a leadership role and champion interprovincial free trade. This includes leading by example to eliminate trade and labour barriers within its control and working within the framework of the Canadian Free Trade Agreement (CFTA) to increase trade and remove non-tariff barriers.
5. Continue to communicate the national importance of Alberta's resources while working with the federal government to facilitate private development of export infrastructure that moves Alberta's products to new and diverse markets.

## 4. Increase certainty through good governance and accountability

We have seen provincial governments create uncertainty when they do not honour agreements or comply with contracts. We have also seen all levels of government layer costs on business through policy development and a lack of consultation when considering legislative changes. If we want to attract significant and long-term business investments, it is crucial for governments to make it clear to business that contracts and agreements will be followed. Further, sound environmental policies must support business competitiveness and innovation.



### Recommendations:

6. Respect the rule of law and honour contracts that have been signed and increase business confidence in the process.
7. Provide reasonable time for consultation before implementing new policies, with appropriate implementation timeframes for businesses and the marketplace to adjust.
8. Ensure climate policy promotes business competitiveness while also working to support innovative technologies and helping to achieve our environmental objectives.

## 5. Prepare for the future by developing and retaining a skilled workforce

There is a mismatch between the skills being obtained by our workforce and the skills needed by business. Alberta businesses are struggling to find the right people, with the right skills, that they need to grow. Ironically, this is occurring at a time when Calgary's unemployment rate is among the highest in Canada. There are also barriers limiting Alberta's ability to develop and attract skilled workers, then subsequently retain the talent once it has been developed.

### Recommendations:

9. Work with industry to identify and address skills gaps that currently exist. This should include:
  - a. Eliminating unnecessary barriers to access and promote the availability of job training programs like the Canada-Alberta Job Grant and the Summer Temporary Employment Programs to help workers develop the skills needed to increase productivity in the workforce.
  - b. Facilitating accountable partnerships between business and post-secondary institutions to ensure that we are teaching the right skills to the workforce of the future.



### Introduction

#### Business friendly policies are key to building community vibrancy

Plastered along the side of rink boards across any local prairie hockey arena is clear evidence of the importance of commerce to community vibrancy. Whether it is big business sponsorship in NHL arenas or small business support of a local novice team, business is at the centre of healthy communities.

We create jobs, pay taxes, invest in the province and give back to our communities. As businesses prosper so do communities and households. Much of the reason this relationship between commerce and community has worked especially well in this province is because Alberta has always encouraged and rewarded business risk.

*“Much of the reason this relationship between commerce and community has worked especially well in this province is because Alberta has always encouraged and rewarded business risk.”*

Our frontier spirit has helped dreamers, scientists and entrepreneurs build an economy on a winning formula of ingenuity, hard work, self-reliance, independence and dogged persistence to solve any challenge in our way. Whether it was settlers who worked the hard soil and battled the elements to build a world-class agriculture industry or the technology and innovation that went into turning sand into the third largest oil reserves in the world, Alberta risk takers have always defied the odds.

The formula worked well because governments largely provided the conditions to enable business success. We were a stable place to invest because of strong provincial finances, low taxes and a reliable regulatory system. The revenue generated by healthy businesses helped pay for the schools, health care, and infrastructure to attract talent. We enjoyed a competitive advantage for investors because of reputable public institutions and a stable legal system to enforce the rule of law.



# 1

## Creating stability through fiscal responsibility

Due to the actions of successive governments, many advantages Alberta businesses and communities have come to appreciate have been eroded. A lack of long-term fiscal management has resulted in credit downgrades, diminished provincial savings, and led to uncertainty over future tax increases and new tax measures. Meanwhile, other jurisdictions are improving their tax competitiveness and putting our ability to attract investment, business and skilled people at risk.

*“Due to the actions of successive governments, many advantages Alberta businesses and communities have come to appreciate have been eroded.”*

A lack of market access is costing tens of millions a day because we cannot get access to global prices for our products. We are seeing changes in the regulatory environment that are putting the future of major projects being built in our province at risk. Increasing policy costs from all levels of government are also putting the future of our small businesses in jeopardy.

We have also seen policy changes that occurred without meaningful business consultation having unintended consequences and are layering growing costs on business. Taken together, these have all reduced the certainty and confidence among the business community to take risks.

To grow Alberta’s economy, we need the next provincial government to build a better business environment. Our platform identifies five areas the government must address to build a better business environment because **businesses drive cities that thrive.**

Alberta’s access to and reliance on revenue from royalties has created fiscal policies that are not sustainable. Excessive spending during high growth periods have set expectations that are not sustainable when the Alberta economy is not globally competitive. The debt government is taking on also risks creating a household debt burden for families robbed of opportunities and jobs that disappear when economic conditions don’t foster business competitiveness. If continued, our ability to save for the future and sustainably fund the social programs and community initiatives that households rely on for their wellbeing will be compromised by the burden of rocketing interest payments on a rapidly-increasing debt load.

Total government spending is forecasted to rise above inflation plus population growth in upcoming years. According to Budget 2018, spending will rise at a rate of 3.7% per year between 2015 and 2019.<sup>1</sup> Had spending increased in line with inflation plus population growth from 2015 onwards, Alberta would be spending roughly \$2 billion less by the end of 2019, and the deficit that year would be 30% smaller.<sup>2</sup>

Furthermore, successive governments have not put forward a long-term path towards fiscal stability that can weather the resource royalty rollercoaster.

*“Furthermore, successive governments have not put forward a long-term path towards fiscal stability that can weather the resource royalty rollercoaster.”*

This has resulted in multiple credit downgrades, accumulating debt and expensive debt servicing. As a result, billions of dollars that could go into savings for future generations or into community vibrancy are instead going just to pay interest on growing debt. To stabilize the fiscal situation and prevent future downgrades, the next provincial government must lay-out a long-term fiscal plan for the province. In this plan the government should look to address areas where services aren’t being delivered efficiently by benchmarking Alberta with other provinces in Canada.

*“As a result, billions of dollars that could go into savings for future generations or into community vibrancy are instead going just to pay interest on growing debt.”*

By following the five principles of fiscal responsibility that the Chamber has laid out, the Alberta Government can demonstrate stable fiscal management conducive for business and investment growth. We can no longer spend our way to economic stability. Investor confidence must be restored to enhance global competitiveness.

## Five Principles of fiscal responsibility

### Balanced operating budgets

Balancing the budget should be a top priority for the government. A balanced budget signals that the province is a stable place for investment, as continued deficits add to the uncertainty about future tax increases to service and repay government debt. Balanced operating budgets must be a requirement with limited allowances for deficits to finance defined capital expenditures.

### Long-term budget planning

One of the most significant issues facing Alberta is our lack of long-term reporting on our public finances. Without a long-term-outlook, a government cannot show whether decisions made today are likely to be sustainable in the long run. This requires Albertans to accept on faith that we can carry on borrowing indefinitely, or that government has an acceptable plan to increase revenues or reduce expenses.<sup>3</sup> A 2018 Auditor General of Alberta report found that no government in Alberta has reported about Alberta's financial condition in the long-term, and that in every year since 1981 the province would have run a deficit if oil and gas revenues were excluded.<sup>4</sup>

In recent years, the lack of long-term planning has resulted in multiple credit downgrades. This has made it more expensive to service the provincial debt, and has reduced certainty for business investment. Turning the current budget around while dealing with an ageing population, increasing debt levels, and continued volatile resource royalties, will take time. However, it is crucial that the provincial government provide a long-term plan so that Albertans can be given an understanding of the state of our public finances.

### Limitation on annual spending growth

Between 2004 and 2015, Alberta's program spending increased by an average rate of 7.2% per year,<sup>5</sup> nearly twice the combined rate of inflation plus population growth. During this period, program spending in Alberta doubled, growing from \$24 billion to \$48 billion. In contrast, had program spending been increased in line with inflation plus population growth over this period, spending would have amounted to \$39 billion in 2015, \$9 billion less than actual spending.<sup>6</sup>

While the current Alberta Government inherited a difficult fiscal situation, they have continued the trend of greater spending. Between 2015 and 2018, operating spending in Alberta has increased by roughly 15%.<sup>7</sup>

Total government spending is also forecasted to rise above inflation plus population growth in upcoming years. According to Budget 2018, spending will rise at a rate of 3.7% per year between 2015 and 2019.<sup>8</sup> This surpasses the 3.0% inflation plus population growth projected over this same period.<sup>9</sup>

*"While the current Alberta Government inherited a difficult fiscal situation, they have continued the trend of greater spending. Between 2015 and 2018, operating spending in Alberta has increased by roughly 15%."*

To ensure necessary services can continue to be provided, while guarding against inefficient program delivery and greater debt, the Alberta government must make a long-term commitment to limit spending increases below the combined rates of inflation plus population growth.

Other jurisdictions, such as British Columbia have been successful in reducing spending and staying within these limits by enacting Tax and Expenditure Limitations (TEs), which place legislative limits on government spending growth. Enacting TEs would be a good first step in showing Albertans that their government is committed to fiscal responsibility, supports competitiveness, and offers a stable investment environment.<sup>10</sup>

Limitations on spending will also provide larger incentives for departments to critically review where they decide to spend money and allocate resources more efficiently, as any spending increase on any one program will limit the amount of available funds to spend on other programs.

Addressing spending growth by finding efficiencies in public service delivery is a significant concern for Calgary's business community. In fact, spending cuts and savings in public service delivery was indicated in the Chamber's Spring 2018 Business Leader Market Perceptions survey as the second-best way government can better support business – falling just behind reducing corporate income taxes. And as illustrated in Table 1, Alberta can achieve large cost-savings without removing necessary public services by bringing spending levels in line with other comparable provinces.

Table 1: Per person spending by Canada's largest provinces<sup>11</sup>

	Alberta	BC	Ontario	Quebec
2017	\$12,409	\$9,887	\$9,163	\$8,651
2018	\$12,555	\$9,856	\$9,254	\$8,872
2019	\$12,580	\$9,893	\$9,390	N/A

### Benchmark service delivery

Despite some of the highest levels of operational spending in Canada, Albertans do not see the highest performance results in critical areas of public service delivery, including education and health care. In fact, Alberta spends \$3,175 per person more than the average per person spending of comparable provinces. If Alberta were to develop a plan to benchmark per person spending to levels to just half closer to the average of Canada's largest provinces, the Alberta Government would save \$6.6 billion annually.<sup>12</sup>

The OECD's Programme for International Student Assessment Study (PISA) identifies that Alberta spends more on education than any other province, yet students are behind in the areas of math, reading and science. The math skills of Alberta's students declined significantly over the same 10-year period<sup>13</sup> that per-capita education expenditures rose by over 30 per cent (2003- 2012).<sup>14</sup> Similarly, in health care, we trail many of our provincial counterparts on important metrics of service delivery, treatment, and wellness outcomes including overall health system resources and the perceived quality of primary care, despite spending more per patient.

The province should define our competitive peer groups and establish funding associated with comparable peer funding to achieve specific target outcomes. Alberta should allocate future funding in accordance with progress against a defined plan to achieve specific, measurable performance outcomes in defined areas of public service delivery. The Chamber believes that a more performance-driven compensation structure for public-sector employees should be a tactic that is considered to accelerate the achievement of this goal.

Required activities that are funded by the provincial government should perform in accordance with established benchmarks, ones that are comparable and easily measured against competitive jurisdictions. Alberta should neither over nor under-spend to achieve comparable results to its peer jurisdictions.

As part of a commitment to reduce reliance on oil and gas royalties, and invest in future generations of Albertans, the next provincial government needs to put forward a plan to limit transfers from the Heritage Fund to the General Revenue Fund to cover operating expenses and begin assigning a portion of annual energy royalties back to the Fund.

## Reduce budgetary reliance on non-renewable resource revenue, instead use royalties to grow Alberta's savings

Alberta is unique among its peers in that we require a conversation about savings accounts when discussing fiscal responsibility.

Most Alberta governments have talked about getting off the “energy roller coaster” that has ruled the budgeting process in the province. However, very few have taken meaningful steps to achieve this objective. A good first step in this process would be a commitment to transfer a portion of energy royalties to the Heritage Fund.

The Heritage Fund is Alberta's main long-term savings fund; no other province has such a fund. The fund was established in 1976 to collect a portion of Alberta's non-renewable resource revenue for future generations. Currently the Heritage Fund is required to retain a portion of the savings to guard against inflation, with the remaining income being transferred to the Alberta Government's General Revenue Fund. In 2017-18, the Heritage Fund earned \$1.79 billion in net income, \$230 million of which was retained in the Fund for inflation proofing and \$1.56 billion was transferred to the General Revenue Fund.



### Recommendation 1:

Commit to the following principles to create stability and accountability in Alberta's fiscal management:

- a. Balance operating budgets
- b. Develop long-term budget plans
- c. Commit to annual spending growth limits
- d. Benchmark service delivery
- e. Reduce reliance on resource revenues, instead use royalties to grow Alberta's savings

# 2 Drive productivity through regulatory and tax reform



Healthy businesses create bustling communities and households. Families enjoy going to the local ice cream shop or out for a nice dinner at a local restaurant, and many enjoy meeting up with friends at the local pub. These are all experiences that are created by local businesses. Historically there has been no shortage of entrepreneurs looking to start and grow businesses that build communities, however in recent years we have unfortunately seen businesses closing their doors because they can't weather the growing regulatory and tax burden that has been layered upon them. This creates holes in communities, not just in a physical sense from empty storefronts, but also through experiences that families miss out on. It is imperative that the next provincial government improve the business environment so that those businesses can, in turn, help build communities across Alberta.

## Regulatory reform

The regulatory environment has become a challenge for many businesses in Alberta. Canada's regulatory system impacts Alberta businesses' ability to get things done. While Canada's overall ranking in the World Economic Forum's 2018 Global Competitiveness report is a respectable 12<sup>th</sup> of 140 countries, Canada has room for improvement in the sub-ranking of burden from government regulation, ranking 53<sup>rd</sup>.<sup>15</sup> Reports from the OECD show similar concerns. According to a survey of global business leaders, the single most problematic factor for doing business in Canada is “inefficient bureaucracy.”<sup>16</sup>

In 2018, Alberta companies are dealing with the introduction of carbon pricing, methane and clean fuels standards, minimum wage increases, costly changes to labour laws, the phase out of coal-fired generation, a limit on oil sands emissions, along with delays and uncertain approval timelines for major projects and pipelines.

One specific issue area hampering the development of large hydrocarbon projects is the cost associated with preparing an application and gaining approval with the Alberta Energy Regulator. According to a WorleyParsons survey, the costs associated with the application and approval process is \$2 million or more in Alberta. In comparative jurisdictions such as Norway, the UK, and North Dakota these costs can be as much as \$1.6 million lower.<sup>17</sup>

The regulatory issues facing Alberta businesses are not limited to the energy sector. The time required to construct infrastructure, build new facilities, and expand production and grow sites have all increased. According to an OECD survey of 190 countries, Canada ranks 54<sup>th</sup> in dealing with construction permits and 46<sup>th</sup> in trade across borders.<sup>18</sup> Increasing regulatory burdens, concerns over regulatory duplication, and uncertainty around environmental regulations are also areas that have been identified as being a deterrent to investment. Between 2015 and 2016, the province saw drops in investment in accommodation and food services, manufacturing, oil and gas services and oil and gas extraction.<sup>19</sup>

“Between 2015 and 2016 the province saw drops in investment in accommodation and food services, manufacturing, oil and gas services and oil and gas extraction.”

Alberta businesses have also seen increasing regulatory burdens from recent labour reforms. Recently, the Alberta Government has made changes to the employment standards and labour relations code, the rules governing occupational health and safety, along with workers compensation. Taken together, these changes have increased financial costs for business, added administrative burdens – especially on small businesses – and were implemented without adequate business consultation and input.

We have seen other governments in Canada undertake regulatory reform to reduce the burden on business and help foster economic growth. In 2017, Manitoba brought in legislation requiring one regulation to be removed for every new one that is added on business. They then added a stronger two for one version of this policy until 2021. In addition, the legislation requires that the effectiveness of regulations be evaluated within three years after their coming into force.<sup>20</sup> In 2001, the B.C. government committed to reducing one-third of the regulatory burden in just three years. This commitment was surpassed in 2004 with a reduction of over 40%. In 2004, the B.C. Government also introduced a regulatory cap, “Net Zero Increase” commitment, to ensure the regulatory burden does not increase.

When looking at the process of how to achieve regulatory reform, it is also important to understand the benefits of an efficient regulatory system.

Looking at B.C. we can see that between 1994 and 2001 (prior to their regulatory reform initiative) economic growth was 1.9% below the Canadian average. Following the regulatory reform initiative in 2001, economic growth in B.C. was 1.1% above the Canadian average between 2002 and 2006. Similarly, B.C.’s real GDP growth was lower than Canada’s in six of nine years between 1992 and 2000 but grew faster than Canada’s every year between 2002 and 2008.<sup>21</sup> While there are likely a variety of factors that contributed to the economic changes in B.C., a dedicated focus on improving the regulatory system clearly played a part.

### Layered costs of government policies

Over the past several years government policies have been making it harder for business to succeed. This is a problem that all levels of government need to address. It is crucial that as the next provincial government develops policy, they not only consider the impact that policy changes at the provincial level will have, but also the cumulative effect changes from the federal and municipal governments will have as well.

In recent years a myriad of policies, from all three levels of government, have layered costs on the business community. By making it harder to run a business this “layered cost impact” is resulting in fewer job opportunities, higher prices, and is discouraging investment. It is reducing the ability of current businesses to expand and new businesses to start-up. By making it harder to run a business, especially during tough economic times, these costs have contributed to the permanent closing of Alberta businesses.

“...this “layered cost impact” is resulting in fewer job opportunities, higher prices, and is discouraging investment.”

At the provincial level, Alberta businesses are facing many changes that will increase the cost of labour. Alberta’s minimum wage has gone up 47% in just three years. Compared to 2016, the median cost increase that an impacted Calgary restaurant and hospitality business surveyed in Chamber’s layered cost assessment will face due to the minimum wage is \$51,720.

Alberta businesses will also be impacted by the province’s newly legislated Bill 17: The Fair and Family-friendly Workplaces Act, which changed the Employment Standards and Labour Relations Code. Taken together, these rules govern most of the employer-employee relationship.

The issue with the changes to the Employment Standards Code (ESC) and the Labour Relations Code (LRC) is not only that they will increase costs for business, but also the lack of consultation with the business community as they were developed. In Ontario, the government spent two years reviewing their workplace legislation. In Alberta, there was a 36-day consultation period.

Alberta businesses are also facing greater costs from energy regulations. The carbon levy is one of these policies that are increasing costs for business. The median cost increase for impacted restaurants and hospitality businesses surveyed in the Calgary Chamber’s layered cost assessment due to the carbon levy in 2018 is \$36,408.

The layering of regulatory costs has been a key factor that has deterred large capital investments, especially in Alberta’s energy sector. There are up

to 50 policy and regulatory initiatives currently being considered by the federal and provincial governments that could undermine investor confidence in Canada’s energy sector.



### Recommendation 2:

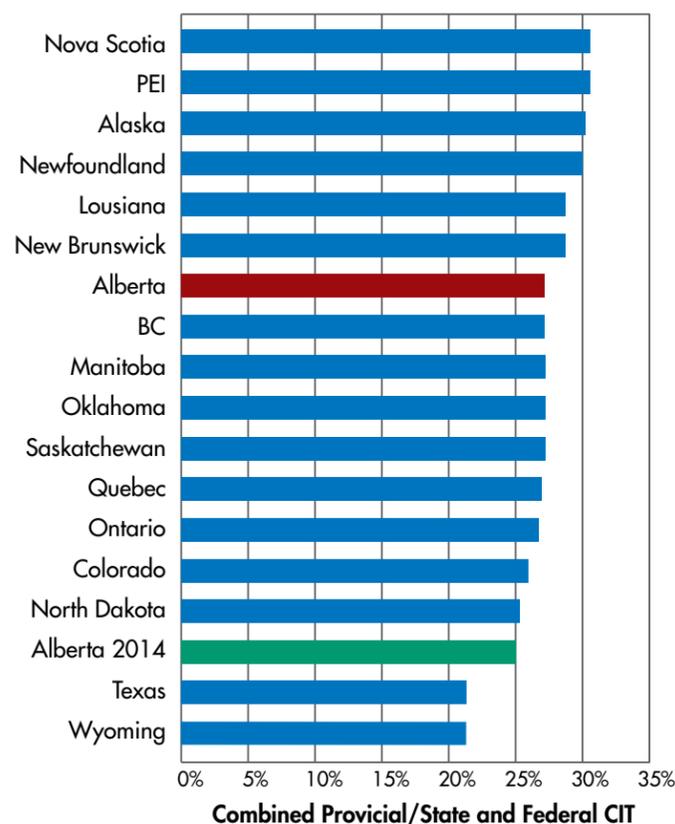
Implement “layered cost” economic impact assessments on provincial policy initiatives which also considers overlap, duplication and additional regulatory burden from all levels of government. As part of the regulatory review process the government should also look to reduce the overall regulatory burden by removing two regulations for every new one that is added on business.

## Tax reform

Alberta's tax advantage has been declining in recent years.

As Figure 1 shows below, Alberta's corporate income tax rate is no longer among the most competitive in Canada, or among energy producing U.S. states. Not only has our competitive advantage been impacted by tax decisions made at the provincial and state levels in North America, it is also impacted by national-level tax reforms made around the world.

Figure 1: Corporate Income Taxes in Canada and U.S. Energy States



Sources: Tax Foundation, "State Corporate Income Tax Rates and Brackets For 2018"; PwC, "Tax Facts and Figures Canada 2018".

With pro-business reforms being made in the U.S. and around the world, it is crucial for the next provincial government to ensure that reforming Alberta's business tax system is a top priority. Making our tax system more competitive will encourage economic and business activity, improve lagging business investment, foster competitiveness, and increase the tax base.

Taxes have a large effect on the overall level of business and economic activity. A Canadian federal department of finance study analyzed tax cuts between 2000 and 2004, finding that each 10% reduction in the after-tax cost of capital lead to a 7% increase in the amount of capital.<sup>23</sup>

Like overall economic activity, an uncompetitive tax system discourages business investment, whereas having a competitive tax system is one of the main factors that attracts investment. In 2017, non-residential capital investment in Alberta fell by 6%, with spending on machinery and equipment falling nearly 10%.

Wage and productivity growth are other positive outcomes that can be achieved by improving Alberta's global tax competitiveness. While there is a perception that business taxes are paid exclusively by corporations and shareholders, onerous business taxes also harm employees. Estimates suggest that workers bear between 30% and 35% of the burden of corporate income tax increases.<sup>24</sup>

Between 1981 and 2014, for each additional dollar of tax revenue brought by an increase in provincial corporate tax rates, wages were reduced between \$1.52 and \$3.85.<sup>25</sup> When the federal government reduced their corporate income tax rate from 28% to 12%, wages increased faster than they had in the previous decade, and faster than wages in other industrialized countries.<sup>26</sup>

Higher tax burdens on business not only slow the pace of economic investment and wage growth, they can have negative impacts on the necessary public services Albertans demand. Estimates suggest that for Canada as a whole, a one percentage point increase in the provincial corporate income tax rate results in a reduction in the business tax base by 3.67% in the short term, and 13.60% over the longer term. This suggests that a jurisdiction's business tax burden can impact tax revenues, with slight increases in the corporate tax rate resulting in reductions in the tax base.<sup>27</sup>

"Higher tax burdens on business not only slow the pace of economic investment and wage growth, they can have negative impacts on the necessary public services Albertans demand."

Reducing the general corporate income tax rate would be a good first step to improving Alberta's tax competitiveness. The next Alberta Government also has other policy options to further reduce business tax burdens and ignite the province's businesses competitiveness.

### Alberta Investor Tax Credit (AITC)

One of the mechanisms the government can use to lower tax burdens is the Alberta Investor Tax Credit (AITC). With help from the Calgary Chamber, the Alberta Government introduced the AITC in 2016 to help smaller Alberta businesses access capital. The AITC is a 30% tax credit to investors who provide capital to Alberta small businesses (no more than 100 employees) doing research, development or commercialization of new technology, are within the tourism sector, or are in new digital media development.<sup>28</sup> While, the AITC has helped reduce the tax burden on business investments, it is

significantly limited in the type of investments that are eligible for the tax credit, and is only funded until 2022. Expanding the scope to all sectors and making the AITC a permanent part of the tax code in Alberta would be a significant way the Government can reduce tax burdens and encourage investment. The Chamber has also heard that applying for the program can be complex and we suggest the next provincial government streamline the application process.

### Capital Investment Tax Credit (CITC)

The Alberta government has also introduced the Capital Investment Tax Credit (CITC) which provides a tax credit on 10% of eligible capital expenditures, up to \$5 million. Like the current AITC, the CITC is only eligible for certain business sectors – manufacturing, processing, and tourism infrastructure – and is applied on the purchase of machinery, equipment, and buildings. The program guidelines specifically outline ineligible activities including farming, construction, petroleum and natural gas extraction, energy generation, along with others.<sup>29</sup> By removing the ineligible business activity guidelines, while keeping other program requirements in tact, the Alberta government can significantly reduce tax burdens on capital investments and allow market forces to encourage business decisions.



### Recommendation 3:

Initiate a comprehensive review of Alberta's corporate tax system within the first year of forming government, this should include:

- Reducing the corporate tax rate.
- Broadening and streamlining the Alberta Investor Tax Credit to include all sectors and making it a permanent part of the tax code.



# 3

## Support growth through internal trade and access to markets



Trade within Canada and access to international markets are crucial to business growth. But it goes beyond simply wanting to grow a business in Alberta. Decisions made by Canadian governments to create barriers to internal trade are estimated to be costing every household across the country \$7,500 per year.<sup>30</sup>

*“Decisions made by Canadian governments to create barriers to internal trade are estimated to be costing every household across the country \$7,500 per year.”*

For a family that could be a couple months worth of mortgage payments or helping children out with tuition. Sadly this cost is a direct result of governments across Canada choosing to make it harder to do business. Unfortunately, it doesn't stop there. In Alberta our inability to get our products to market has resulted in the loss of tens of thousands of jobs. For families that have been impacted this can mean cutting back on activities for children, or worse losing the family home. Compounded, these two issues have had a dramatic impact on households in Alberta in recent years.

*“In Alberta our inability to get our products to market has resulted in the loss of tens of thousands of jobs.”*

### Internal trade

As a city with a relatively small market, many businesses must sell outside of Calgary and Alberta to be successful.

Given our reliance on external markets, there is no wonder that calls for protectionism across the globe are becoming very concerning. While policymakers should continue to promote international cooperation and seek new markets for Canadian businesses abroad, international trade issues often lie outside Alberta's influence.

We can, however, address the many barriers deterring trade at home. While the Canadian Constitution prohibits provinces from imposing tariffs on goods sold within Canada,<sup>31</sup> provinces have been able to implement regulations that significantly increase the cost of internal trade. In fact, economists suggest that an open and free Canadian market would benefit Canadians by up to \$130 billion per year.

Unfortunately, in 2018 we saw a Supreme Court of Canada (SCC) decision that granted provincial governments significant leeway to restrict trade within Canada in the “Comeau Case.” Under the SCC decision, a provincial government can avoid violating section 121 of the Constitution by illustrating that their law is “rationally connected” to some other purpose, such as protecting public health or the environment.

As we saw in the “Comeau Case” rules around transporting alcohol across provincial borders are excellent examples of the types of non-tariff barriers that exist in Canada. With strict limits imposed on alcohol transportation across the country, the SCC decision appears to make it easy for governments to restrict internal trade by simply offering another reason for creating a barrier. While this decision was disappointing for businesses in Calgary, what was even more disheartening was that the Alberta government, along with seven other provinces and the federal government, intervened against the removal of Canada’s liquor restrictions in the “Comeau Case.”

## Canadian Free Trade Agreement

Despite the setback that was dealt to removing internal trade barriers by the SCC decision on the “Comeau Case”, there is a Canadian Free Trade Agreement (CFTA) in place that was signed on July 1, 2017, by the federal and provincial governments. The agreement provides a channel for Canadian governments to work together and reduce barriers, despite the court’s decision that some trade barriers within Canada are constitutional.

While very little red tape has been cut, provinces have made significant commitments to work with each other on regulatory harmonization. A committee – Regulatory Reconciliation and Co-operation Table – has been established to recommend to governments where red tape should be removed, and regulations harmonized.

However, the recommendations are just that – recommendations. Governments can opt out from these recommendations if they decide that “reconciliation is not a desirable option for their jurisdiction.”

These were the same provisions in the last agreement, the Agreement on Internal Trade (AIT), that allowed provincial governments to erect the current regulatory barriers. While the AIT had limits in scope (it did not apply to all industries), it was the public interest provisions that led to its inability to liberalize trade in Canada. Even in the industries that the AIT specifically covered, such as the alcohol industry, internal trade barriers are still widespread.

## Labour mobility

Labour mobility between provinces is hampered by government regulation. The inability of some workers to easily move across provinces not only limits their jobs prospects and economic security, but also makes it harder for businesses to acquire the skills they need. This results in job vacancies in areas that need workers, and higher unemployment in areas willing to supply that labour.

While offering the highest average hourly wage for vacant positions, Alberta is still tied for the third highest job vacancy rate among the provinces. Each of the more than 50,000 vacant jobs in the province represent businesses that are currently unable to reach their potential.<sup>32</sup> Couple Alberta’s high vacancy rate with the high unemployment rate and there is reason to believe that much of the vacancy is due to not being able to find the right talent close to home. Identifying and addressing the barriers limiting interprovincial mobility could help businesses acquire the talent they need to grow.

“Couple Alberta’s high vacancy rate with the high unemployment rate and there is reason to believe that much of the vacancy is due to not being able to find the right talent close to home.”

One of the barriers that limit a business’ ability to attract talent from across Canada is compulsory provincial certification for tradespeople. Alberta currently requires compulsory certification in more professions than other provinces, apart from Quebec. The national average of regulated occupations (excluding Quebec and Alberta) is 13.1%. This is substantially lower than the amount of regulated occupations in Alberta, which is 38.8%.<sup>33</sup> Provincial requirements over compulsory certification increases the cost for Canadians who wish to move to Alberta who may be certified under another province and increases the cost for businesses to hire needed skills that are currently outside of Alberta.

Other jurisdictions have embraced reducing the amount of compulsory certification in their labour markets. British Columbia does not require any compulsory certifications, while Ontario, Manitoba, Saskatchewan, New Brunswick, Newfoundland & Labrador, and Prince Edward Island require certification for less than 17% of occupations.<sup>34</sup>

Increasing tax burdens and higher costs of living also discourages talented labour from staying in or moving to Alberta. In fact, we have heard from Calgary businesses that the sole issue is not just developing the right skills, but difficulties in retaining the right skills once we develop them.

Personal income taxes are one of the tools a government has at their disposal that can encourage or discourage talented labour from staying in Alberta. Like corporate taxes, as personal income taxes increase, people are less likely to either stay in the jurisdiction, or businesses must pay more to compensate for the higher taxes. In fact, a report by the Canadian Labour Market and Skills Research Network found that reducing personal tax burdens in Canada reduced the migration of upper end talent

to the United States. Making Canada’s personal income tax more competitive would decrease this outward flow to the U.S. while increasing interprovincial migration – a benefit to provinces that demand high skill labour.<sup>35</sup>



## Recommendation 4:

Take a leadership role and champion interprovincial free trade, this includes leading by example to eliminate trade and labour barriers within its control and working within the framework of the Canadian Free Trade Agreement to increase trade within Canada.

## Market Access

Along with barriers inhibiting access to markets within Canada, regulatory barriers have limited Alberta businesses from getting their products to foreign markets. Additionally, the inability to move major projects to market has resulted in extreme measures from governments to nationalize midstream energy infrastructure such as government purchases of a pipeline and the planned purchase of oil rail cars. It has also caused the Alberta government to intervene in the free market by curtailing oil production to help drive prices up. These measures not only drive investment uncertainty, but cause billions of taxpayer dollars to be spent in areas that are in the domain of the private sector. It is especially worrisome that these crown expenditures come at a time when governments are deeply in debt.



# 4 Increase certainty through good governance and accountability

## Oil price differential

Oil sold from Alberta continues to be sold at a substantial discount to world prices. In late 2018 this differential reached record levels at times surpassing a discount of \$50 per barrel. This is resulting in substantially lower royalties for Alberta and significant economic losses for Canada. With storage and export capacity completely full, the government of Alberta had indicated that the record setting differential cost the Canadian economy up to \$80 million a day.

The inability to build these pipeline projects has led to a situation where Alberta was producing 250,000 barrels a day more than could be shipped using existing pipeline and rail capacity, resulting in the significant discount that Alberta was facing.

While this uncertainty around pipelines has significant consequences on the energy industry, it also impacts other sectors ability to transport their products by rail. With increasing rail capacity being used to transport oil, the ripple effect makes it harder for other sectors to get their products to export markets on rail.

## Uncertainty around infrastructure projects

The lack of pipeline capacity is not a new issue. Businesses made investment decisions to increase production many years ago - with an expectation that there would be increased export capacity - with several seemingly viable new transportation options in various stages of the regulatory process. Pockets of vocal opposition to these projects has resulted in political interference that have caused the delay, cancellation or rejection of four major pipeline projects.



### Recommendation 5:

Continue to communicate the national importance of Alberta's resources while working with the federal government to facilitate private development of export infrastructure that moves Alberta's products to new and diverse markets.

As Canadians we have a fundamental understanding of fairness. In households across Alberta it is a key value that parents pass down to children. As a result, we don't like to see governments acting in ways that aren't fair. Not abiding by or changing the rules at the last second wouldn't be fair in any sport that we played growing up, and it also isn't fair when governments do it to business. The next provincial government must ensure that they change and implement policy that minimizes political risk and creates business certainty. If policies are changed, it is vital that they are done so in way that is fair for businesses. In a globally competitive environment, Calgary businesses should not be subject to unnecessary roadblocks and political risk from their own governments.

## Rule of Law

Respect for the rule of law is vital for business confidence. Upholding this democratic principle will provide certainty for the business community. Recently in Canada we have seen provincial governments in BC, Ontario, and Alberta create uncertainty when they do not honour agreements or comply with contracts related to pipelines, internal trade, green energy contracts, and power purchase agreements (PPAs).

*"Respect for the rule of law is vital for business confidence..."*

Despite Trans Mountain receiving National Energy Board (NEB) approval for the project, the B.C. government used every tool in its toolbox to stop the project. This opposition included proposing new rules that would limit the transportation of diluted bitumen while the province determined their ability to adequately mitigate spills. While B.C. has referred their proposal to the courts, it has widely been viewed as unconstitutional. Even though this proposal is likely illegal, the signal that was sent by B.C.'s actions resulted in Kinder Morgan deeming the project unfeasible due to the political risk beyond their control. All this despite already having spent roughly \$1 billion moving the project through the regulatory process.

B.C.'s opposition contributed strongly to the federal government's decision to step in and purchase the existing pipeline for \$4.5 billion. While the continuation of the Trans Mountain expansion is positive for business, this circumstance illustrates the need for governments to respect the rule of law and begin working to improve investor confidence.

An Alberta example is the PPAs lawsuits that were launched in 2016. These lawsuits were an attempt to overturn contracts that had been signed in 2000 between the companies that held them and the government of Alberta. By challenging contracts that had been previously agreed to, the government created significant uncertainty not only for the companies named in the lawsuits, but also for any company signing an agreement with the Alberta government in the future.



### Recommendation 6:

Respect the rule of law and honour contracts that have been signed and increase business confidence in the process.

To build a stable policy environment in the province it is essential that the next provincial government ensure they engage in meaningful consultation with the business community. Appropriate consultation and having business at the table for the development of regulations will help identify and address potential unintended consequences and demonstrate the government’s support for the business community.

Moving forward, the next Alberta Government can better reach social policy objectives while guarding against the unintended consequences outlined above through greater consultation with the business community and implementing policies in a business-friendly manner.



### Recommendation 7:

Provide reasonable time for consultation before implementing new policies, with appropriate implementation timeframes for businesses and the marketplace to adjust.

### Climate change

There is no doubt that climate change is a critical issue that needs to be addressed. Alberta has long recognized the need to act to combat a changing climate, which was demonstrated when in 2007 Alberta became the first jurisdiction in North America to place a carbon levy on all large emitters across all sectors.

While this is clearly an important issue for Alberta, it is also critical to put it in context. Canada contributes 1.6% of global emissions. This number may be high on a per capita basis; however, it demonstrates that even with the most stringent climate change policies, there is very little impact that our country or province can have on climate change if we act alone.

Therefore, it is crucial that Alberta, and Canada look for opportunities where we can reduce emissions not only at home, but also on a global scale. One way this can be achieved is through displacing higher emissions fuel sources like coal with cleaner and more responsibly produced Alberta energy in other parts of the world.

Historic investments in liquified natural gas, will help to achieve this, however we need to ensure that the Canadian business environment enables producers to compete on a global scale. Oil companies continue to spend billions to reduce emissions intensity and are committed to environmental conservation. This stands in stark contrast to other oil producing jurisdictions who simply don’t live up to the environmental standards that Canadians value. If we can get Canadian energy products that are produced responsibly to world markets, we can reduce global emissions on a much larger scale.

“...we need to ensure that the Canadian business environment enables producers to compete on a global scale. ”

Another way to make a big difference is through exporting game-changing technology that enables other jurisdictions to reduce their emissions. One of the ways Alberta has done this is through the establishment of a technology fund. This fund can support the development of innovative technologies that, if commercialized, can help reduce emissions in Alberta and can also be exported to other jurisdictions.

It is still important that Alberta continues to show leadership and reduce emissions at home. While Canada has seen different approaches to carbon policy taken in different provinces, it is critical that whatever approach the next provincial government decides to take promotes innovation and doesn’t harm global business competitiveness. If these principles are followed, Alberta can continue to reduce emissions while being an attractive place for businesses to invest.



### Recommendation 8:

Ensure future climate policy promotes business competitiveness while also working to support innovative technologies and helping to achieve our environmental objectives.



# 5 Prepare for the future by developing and retraining a skilled workforce



Alberta has always been full of opportunity. These opportunities brought entire households here from across the country. Unfortunately, in recent years we have seen the opposite. Families are dispersing as new graduates are forced to chase opportunities elsewhere as skills and training they receive are not matching local job and career opportunities. To ensure that there are opportunities in Alberta for families to stay together we need to ensure that we are providing the right skills and training in Alberta so that local companies can access the talent that they need to grow.

## Skills gap

### Re-training

There is a mismatch between the skills being obtained by our workforce and the skills needed by business. Alberta businesses are struggling to find the right people, or the right skills, that they need to grow. In 2016, 60% of large Canadian employers surveyed said Alberta is the province where the skills gap is most persistent.<sup>36</sup> There are also barriers limiting Alberta's ability to develop and attract skilled workers, then retain the talent once it has been developed

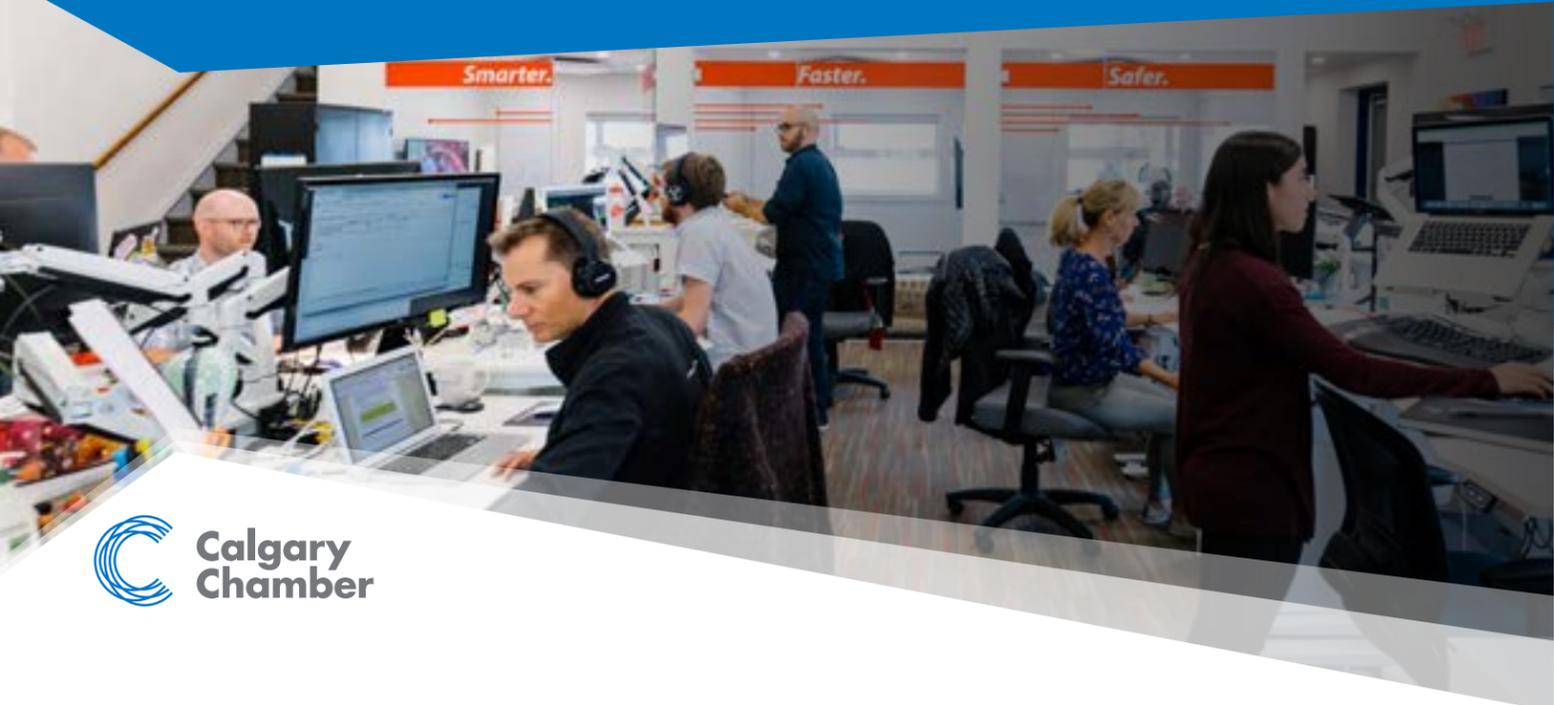
*"Alberta businesses are struggling to find the right people, or the right skills, that they need to grow."*

This presents an opportunity for the next Alberta government to work with industry and address unemployment as well as the skills gap in the province. Investments made by governments and business alike in retraining this underemployed group could further serve the changing needs of employers.

If successfully re-trained, workers hold the potential to contribute to the workforce, providing a significant return on investment. Alternatively, if this problem is not addressed, not only will the economy not get a boost in productivity from a more educated workforce, but there could also be increased social assistance costs for all levels of government, further increasing budgetary constraints.

### Post-secondary

Any discussion of a skills gap faced by the business community must be looked at through the context of the education system and whether the demands of the market are being met. We have heard the sentiment that our current education system is not flexible or dynamic enough to meet the changing skill requirements needed by business. One of the reasons for this is that our current system is not properly connected to the market. This results in little curriculum diversity or business opportunities to offer credits for emerging and in-demand skills, unless approved through a highly bureaucratic process.



While this may have worked in the past, the skills that are in demand in the workforce are shifting. For businesses to grow they need access to the right talent. Despite Calgary continuing to have the highest unemployment of any large city in Canada, 31% of employers are having difficulty recruiting qualified candidates, a clear demonstration of the skills gap.<sup>37</sup>

The provincial government plays an important role in regulating education programs. The next government will have an important role to play to help ensure that Alberta is providing the right training. We need the next provincial government to facilitate the discourse between the business community and Alberta's education institutions to help ensure that the skills produced by the education system match those needed by employers. This will require a focused strategy, along with the ability for the government and education institutions to be nimble to react to changes in the market.



### Recommendation 9:

Work with industry to identify and address skills gaps that currently exist. This should include:

- a. Eliminating unnecessary barriers to access and promote the availability of job training programs like the Canada-Alberta Job Grant and the Summer Temporary Employment Programs to help workers develop the skills needed to increase productivity in the workforce.
- b. Facilitating accountable partnerships between business and education institutions to ensure that we are teaching the right skills to the workforce of the future.

## Summary of recommendations

### Create stability through fiscal responsibility

- 1 Commit to the following principles to create stability and accountability in Alberta's fiscal management:
  - a. Balance operating budgets
  - b. Develop long-term budget plans
  - c. Commit to annual spending growth limits
  - d. Benchmark service delivery
  - e. Reduce reliance on resource revenues, instead using royalties to grow Alberta's savings

### Drive productivity through regulatory and tax reform

- 2 Implement "layered cost" economic impact assessments on provincial policy initiatives which also considers overlap, duplication and additional regulatory burden from all levels of government. As part of the regulatory review process the government should also look to reduce the overall regulatory burden by removing two regulations for every new one that is added on business.
- 3 Initiate a comprehensive review of Alberta's corporate tax system within the first year of forming government, this should include:
  - a. Reducing the corporate tax rate.
  - b. Broadening and streamlining the Alberta Investor Tax Credit to include all sectors and making it a permanent part of the tax code.

### Support growth through internal trade and access to markets

- 4 Take a leadership role and champion interprovincial free trade. This includes leading by example to eliminate trade and labour barriers within its control and working within the framework of the Canadian Free Trade Agreement (CFTA) to increase trade and remove non-tariff barriers.
- 5 Continue to communicate the national importance of Alberta's resources while working with the federal government to facilitate private development of export infrastructure that moves Alberta's products to new and diverse markets.

### Increase certainty through good governance

- 6 Respect the rule of law and honour contracts that have been signed and increase business confidence in the process.
- 7 Provide reasonable time for consultation before implementing new policies, with appropriate implementation timeframes for businesses and the marketplace to adjust.
- 8 Ensure future climate policy promotes business competitiveness while also working to support innovative technologies and helping to achieve our environmental objectives.

### Prepare for the future by developing and retaining a skilled workforce

- 9 Work with industry to identify and address skills gaps that currently exist. This should include:
  - a. Eliminating unnecessary barriers to access and promote the availability of job training programs like the Canada-Alberta Job Grant and the Summer Temporary Employment Programs to help workers develop the skills needed to increase productivity in the workforce.
  - b. Facilitating accountable partnerships between business and education institutions to ensure that we are teaching the right skills to the workforce of the future.



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