



GREATER VANCOUVER
BOARD OF TRADE

Policy Resolution Book

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Language may differ from final adopted resolutions.

Credit Card Merchant Fees

Issue

Every year, \$44 trillion dollars worth of payments are made in Canada. Only 20% of this value is done with cash, down from 50% in the 1990s. This signals the growing reliance and importance of credit card and debit transactions, not only for consumers, but also for the businesses that rely on these methods to accept payments. However, at \$5 billion per year, the current system has resulted in Canadian merchant businesses paying some of the highest credit card acceptance fees in the world, costs which trickle down to the consumer regardless of their payment method.

Background

Many of the businesses accepting credit card payments for goods and services are unclear on the inner workings of merchant services providers (MSPs). The current system has resulted in many businesses paying higher fees for credit card acceptance than necessary. Businesses are enticed to switch service providers on the premise of lower rates. However, as most businesses are unaware of the actual VISA and MasterCard rates - the actual Merchant Discount Rate (MDR) - they are misled to believe that a lower MDR results in savings on their actual credit card transactions. On the contrary, a lower than actual MDR means that the MSP is losing money on every transaction and, thus, has to recoup its losses through the card brand fee and/or non-qualified surcharges, which can vary substantially across different service providers.

The 3 Components to Credit Card processing:

1. Merchant Discount Rate (MDR): Interchange plus acquiring bank fees. This is the base rate charged by the provider. Any rate below the rate VISA charges the MSP for processing one of its credit cards causes the MSP to take a loss on the transaction. In order to recoup this loss the MSP thus has to bump up the rates in 2. and 3.
2. Card Brand Fee (CBF) - 0.10% or more (the actual cost is 0.08% but is rounded up by most MSPs): This fee is used by VISA and MasterCard to advertise their brands, as well as to improve the stability of their networks
3. Non-qualified Surcharge (NQS) - 0.30% is the average value of this surcharge. However, it can vary greatly depending on the base rate offered by the MSP. Certain MSPs will undercut the Merchant Discount Rate (MDR) and then increase the Non-qualified surcharge (NQS) to make up for the loss they incur. Monies raised through this rate are used by major banks to promote their credit card programs and to pay for benefits received by credit card holders. The rate is also charged on keyed transactions, which are considered higher risk, as well as on all Infinite credit cards (i.e. Avion, Aeroplan, etc.)

In 2010, the federal government introduced a voluntary code of conduct for the credit and debit card industry in Canada aimed at alleviating issues of asymmetric information and flexibility. When this code of conduct is adopted by the MSPs, they are expected to:

- to ensure that merchants are fully aware of the costs associated with the acceptance of credit and debit card payments;
- to provide the merchant with increased pricing flexibility to encourage consumers to choose the lowest-cost payment option (i.e. clearly show all components of the total fees, as most credit card agreements do not allow merchants to use incentives to discourage the use of credit card or premium credit cards); and
- to allow merchants to freely choose which payment options to accept.

However, this remains a voluntary code of conduct and, therefore has been adopted only by a limited number of service providers. Its voluntary nature stands to undermine any real benefits to merchants these policy proposals may have. In a 2013 decision, which dismissed a complaint against two large credit card service providers, finding that they had not violated the Competition Act, the federal Competition Tribunal acknowledged the issues in the country's credit card payment system and called for a regulatory solution. They stated that despite finding that the MSPs had not violated the Competition Act, "...we note that the Tribunal found that Visa's and MasterCard's conduct is influencing the price of credit card services in Canada upwards and having an adverse effect on competition. At the same time, the Tribunal felt that regulation of the industry would provide a more appropriate solution than any remedy that it could provide."¹

Providing merchants with greater flexibility in choosing their MSPs and discriminating against more expensive transactions is seen as an OECD international best practice, a practice currently not allowed in Canada.²

In April 2015, the federal government released *Balancing Oversight and Innovation in the Ways We Pay: a Consultation Paper*, aimed at seeking comments on national retail payment systems. However, there has been no movement on this issue since then, or an indication of the actions the government plans to take post-consultation.

Recommendations

That the federal government:

1. Consult with the banking industry in changing from a voluntary to mandatory code of conduct, as introduced in April 2010 for the credit card and debit card industry in Canada, thereby ensuring that all parties are required to abide by and comply with the existing code's guidelines for greater transparency, disclosure and flexibility

1 <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03614.html>

2 <http://www.oecd.org/competition/PaymentSystems2012.pdf>

2. Provide merchants with increased pricing flexibility to encourage consumers to choose the lowest-cost payment option
3. Work to better educate merchants on their rights and options to battle any informational asymmetry
4. Enact legislation requiring full disclosure by service providers of all costs associated with acceptance of credit and debit payment

SUBMITTED BY THE GREATER VANCOUVER BOARD OF TRADE

Co-sponsored by the Greater Langley Chamber of Commerce

THE ECONOMIC POLICY COMMITTEE SUPPORTS THIS RESOLUTION.

Incentivizing Integrity: Adoption of a Canadian False Claims Act

Issue

Fraud committed against the government within the context of public sector procurement is a serious crime that undermines competitive markets, unduly excludes honest businesses, has significant economic consequences for businesses and the public, and costs taxpayers millions of dollars annually. Despite these consequences, the protections afforded to the Government of Canada under Canadian law are deficient. As the scale and scope of federal spending is set to increase, the federal government should institute a series of reforms, including a more powerful incentive to support whistleblowers, in order to more effectively ferret out fraudulent conduct.

Background

Governments across Canada spend billions each year providing a variety of public goods and services including health care, defense, transportation, education, infrastructure and other services for businesses, workers, veterans, the elderly and the young. Most of this public sector procurement is conducted through competitive processes. While the overall value of public procurement as a proportion of the Canadian economy is difficult to approximate, we can come to appreciate its scale by studying the activity of the federal department of Public Works and Government Services Canada (“PWGSC”), which provides federal government departments and agencies with procurement services. It is the federal government’s central purchasing agent and Canada’s largest public purchaser of goods and services. PWGSC’s purchases account for more than 85 per cent of the total value of federal government procurement, buying, on average, \$15 billion (CAD) worth of goods and services each year, through approximately 60,000 transactions.³

Hidden among honest providers of these goods and services, however, are individuals and organizations that defraud the government for private gain. Fraud can take many forms, from bid-rigging and kickbacks, to illegal subcontracting, prevailing wage violations, and other schemes that not only defraud the government of taxpayer dollars, but can allow a perpetrator to obtain an unfair competitive advantage over honest competitors when vying for government contracts. Regardless of their design, fraud schemes share two important characteristics; they can be very difficult to identify without critical and salient inside information, and they can be resource-intensive to investigate and prosecute.

The potential for fraud and malfeasance within the context of public procurement is heightened when one considers the ambitious infrastructure spending plan tabled by the Government in the 2016 Federal Budget. Each year over the next decade, the Government has committed to steadily increasing federal infrastructure investment. At full implementation, this will represent an annual additional investment of \$9.5 billion per year. These outlays will almost double federal

³ Public Works and Government Services Canada’s (PWGSC) Report on Plans and Priorities 2016-17. Available online at <http://www.tpsgc-pwgsc.gc.ca/rapports-reports/documents/rpp/2016-2017/tps-gc-pwgsc-rpp-2016-2017-eng.pdf>.

infrastructure investment to nearly \$125 billion – from \$65 billion – over ten years, which will be the largest new investment in infrastructure in Canadian history.⁴

Much of this spending will be directed to the construction industry, an industry we know to be particularly susceptible to bid-rigging and other fraudulent practices.⁵ In fact, the Competition Bureau of Canada recently conducted a review of bid-rigging matters investigated since 1990. The review indicated that, while hardly the only industry to be active in fraudulent conduct, the highest number of allegations of big-rigging between 1996 and 2009 related specifically to the construction services sector. Approximately 40 per cent of the total number of cases investigated by the Bureau in that period involved the construction industry, a finding that is consistent with the experience of other OECD member states.⁶

Fiscal stimulus through increased and accelerated infrastructure spending has raised the specter of possible fraud in the past. In 2009, in its Second Report to Canadians on its Economic Action Plan, the federal government indicated that it was accelerating and increasing expenditures on infrastructure, including \$12 billion (CAD) in new stimulus funding announced in the January 2009 budget.⁷ At the time, the Commissioner of Competition indicated that “bid-rigging and other fraudulent practices are areas where we reasonably fear we may see an up-tick in activity in view of the likely significant increase in public infrastructure spending.”⁸ More recently, current Commissioner of Competition John Pecman commented on the billions proposed to be spent on infrastructure beginning in 2016, saying “I think it is fair to say that when procurement is done in haste and perhaps the competitive bidding process is done quickly and there is not a lot of care taken, it increases the likelihood of bid-rigging...[K]nowing what we do, that the construction sector and the whole infrastructure sector is susceptible to bid-rigging, it is incumbent on us to prioritize our awareness and work to help deter this type of conduct from happening.”⁹

The False Claims Act (FCA)

While Canadian law does provide some baseline protections for whistleblowers in both the public and private sectors¹⁰, and public procurement agencies do have established steps that they can take to promote more effective competition in public procurement to reduce incidents

4 Finance Canada. *Growing the Middle Class*. [Ottawa], 2016. Available online at <http://www.budget.gc.ca/2016/docs/plan/budget2016-en.pdf>

5 OECD Policy Roundtables: Construction Industry 2008. Available online at <http://www.oecd.org/daf/competition/cartels/41765075.pdf>

6 OECD Policy Roundtables: Collusion and Corruption in Public Procurement 2010. Available online at <http://www.oecd.org/competition/cartels/46235884.pdf>.

7 Canada’s Economic Action Plan: Budget 2009. Available online at <http://www.budget.gc.ca/2009/pdf/budget-planbugetaire-eng.pdf>.

8 Speaking notes for Melanie L. Aitken, Commissioner of Competition to the Northwinds Professional Institute 2009 Competitive Law and Policy Forum. Available online at <http://www.bureaudelaconcurrence.gc.ca/eic/site/cb-bc.nsf/eng/02994.html> at pg. 5.

9 Bill Curry, “Competition Bureau warns of bid-rigging as Ottawa set to spend on infrastructure,” *The Globe and Mail*, May 29, 2016. Available online at <http://www.theglobeandmail.com/news/politics/competition-bureau-warns-of-fraud-as-ottawa-set-to-spend-on-infrastructure/article30200239/>.

10 E.g. Sec. 425.1 of the Federal Criminal Code, Sec. 52 of the Competition Act, and the Public Servants Disclosure Protection Act of 2006.

of fraud or malfeasance, the overall basket of protections under existing statutes afforded to the Canadian government, and ultimately the taxpayer, is woefully inadequate.

One of the most effective tools against such fraud currently missing from Canada's enforcement basket is what is known as the *False Claims Act*, a statutory scheme prevalent in the United States that provides a meaningful incentive structure for whistleblowers to bring credible information forward to government in order to facilitate the investigation of such crimes and the recovery of lost proceeds. Individuals and organizations committing fraud can be assessed with treble damages and whistleblowers can be awarded out of the proceeds. Taxpayers are made whole, crime is deterred, and integrity is incentivized.

The principle of the law is straightforward: any citizen who finds the existence of fraud against the government may initiate and sustain a recovery proceeding against the perpetrator of the fraud in the government's name. The citizen-informer (known as a *relator*) can then expect to receive in return a portion of the sum recovered by the state if successful (between 15% and 30%). The private right of action that the *relator* is entitled to, known as a *qui tam*, or whistleblower, provision, is what makes this approach so effective, providing an innovative and powerful legal avenue that allows the government to leverage the power of the public to detect and punish fraud against the state and recover money embezzled by dishonest companies and individuals.

By any measure, the U.S. False Claims Act¹¹ has been the most effective legal tool in combating fraud against the public purse. Prior to 1986 (when amendments were made to the U.S. law to strengthen its *qui tam* provisions), the U.S. Department of Justice recovered less than \$50 million (USD) a year under the False Claims Act. In the 10 years following 1986, the Justice Department recovered \$1 billion. In 2015 alone, they recovered more than \$3.5 billion, \$2.8 billion of which came from *qui tam* suits brought forth by private individuals and companies. The total recoveries in the past six years to the U.S. Treasury are \$26.4 billion. At a time when people question government efficiency and effectiveness, the False Claims Act has a twenty-to-one return in fighting public sector fraud (for every dollar that the federal government spends on FCA enforcement, it recovers \$20 in return). In fact, the legal tool has been so effective that 30 separate U.S. states have followed suit and implemented their own versions of the legislation.

As has been noted, fraud schemes are complex, and the government concludes thousands of contracts each year to purchase goods and services. It does not always have the information it needs to detect collusion and corruption in the allocation and management of these contracts. Moreover, the state does not always have the resources to act on the information it receives, given the volume of cases and the complexity of the schemes. By providing an incentive for whistleblowers to come forward, as well as a pathway for relators to pursue cases unilaterally, the False Claims Act helps to solve both of these problems in an effective and efficient way, and can bolster the enforcement capacity of the federal government without necessarily expanding the federal workforce or devoting additional financial resources for that purpose.

¹¹ 31 USC 3729-3733.

It is for these reasons that the final report of the Commission of Inquiry on the Awarding and Management of Public Contracts in the Construction Industry (the Charbonneau Commission) – a Quebec-based commission charged with the task of inquiring into the existence of schemes that entailed activities of collusion and corruption over a 15 year period (1995-2011) in the management of public construction projects, and to examine potential remedial measures to identify, eliminate and prevent collusion and corruption in the awarding and management of public contracts – resoundingly endorsed the adoption of a Canadian False Claims Act. Reflecting on the success and efficacy of both the U.S. federal law, as well as a version of the law effective in New York State, the Commission stated that the FCA “has proven to be formidably efficient at recovering significant sums on behalf of the public treasury without the necessity of added state resources. We recommend that Government adopt such a law.”¹²

As a legal measure to protect taxpayers and businesses alike, the False Claims Act has proven to be effective. The *qui tam* provisions particular to the U.S. legislation have allowed relators to pursue cases that have resulted in billions of dollars of recoveries that would have otherwise been lost and, even more importantly, has served as an action-forcing mechanism encouraging Government to actively pursue the fraud, waste and abuse of taxpayer dollars. The rate at which federal spending is set to increase, and the haste by which such spending will occur, will invariably increase the likelihood of bid-rigging, collusion and other nefarious behaviour. Therefore, it is incumbent that the Government of Canada instills reasonable taxpayer protections to ensure that public dollars are spent wisely and that the penalty for honesty that companies suffer when competing against businesses willing to break the rules is eliminated.

Recommendations

That the federal government:

1. Adopt a federal *False Claims Act* statute that includes *qui tam* provisions which provide the authority and financial incentive to private individuals to enforce the statute on the government’s behalf.
2. Include specific penalties within the statute that deter frivolous and vexatious litigation.
3. Encourage Provincial and Territorial Attorneys General to explore the adoption of false claims statutes at the Provincial and Territorial level

SUBMITTED BY THE CALGARY CHAMBER OF COMMERCE

Co-sponsored by the Greater Vancouver Board of Trade and the Board of Trade of Metropolitan Montreal

¹² See “Rapport final de la Commission d’enquête sur l’octroi et la gestion des contrats publics dans l’industrie de la construction” pp. 166-172 (November 2015). Available online at https://www.ceic.gouv.qc.ca/fileadmin/Fichiers_client/fichiers/Rapport_final/Rapport_final_CEIC_Integral_c.pdf.

41. Enhancing Canada's Air Travel Competitiveness

Issue

Air travel is a crucial economic enabler connecting businesses with opportunities around the globe and across the country. It links visitors with tourism operators and helps international students pursue educational opportunities. It is a major job creator with strong spin offs. It facilitates the movement of people and capital, and ensures that Canadian products, especially high-value and/or time sensitive (i.e. perishable) exports, get to market. However, a lack of competition, barriers to facilitation and a need for greater value from government imposed fees/surcharges have driven up prices for customers - deterring leisure travelers looking to visit Canada, and increasing the cost of conducting both international and inter-provincial business.

Background

In a country like Canada, with low population density, and regional economic diversity, air travel serves as a vital link within a broader national transportation network that includes highways, rail, and sea ways. Canada's economy is very dependent on trade making the facilitation of trade an important issue.

However, the high cost of air travel to, from, and within Canada is significantly hampering our global competitiveness, and stunting aviation as a key economic enabler. A lack of competition, barriers to facilitation, and high structural costs have driven up prices for customers, whom data shows, are increasingly sensitive to price. Canada's poor price performance in these areas is apparent and not only deters leisure travelers looking to visit Canada, but increases the cost of conducting both international and inter-provincial business, which directly impacts job growth.

Furthermore, as agreements such as Comprehensive Economic and Trade Agreement with the European Union (CETA) and the Trans Pacific Partnership (TPP) advance Canada's integration into world markets, it is essential that a country spanning three oceans positions its transportation sectors to take fully take advantage of new opportunities. Without access to affordable and reliable air travel, relationships are not made, business is not conducted, and the economy does not grow.

The 2016 Canada Transportation Act review report, *Pathways: Connecting Canada's Transportation System to the World* (the CTA Review),¹³ underscores the importance of transportation, and the long-term significance of developing a competitive air travel industry. Canada has slipped from 8th to 17th in global rankings for International Tourist Arrivals over the past 15 years, underlining the urgency to this issue.

In order to build the confidence of industry stakeholders it is important to have an open and transparent Air Bilateral priority setting process to guide our single air negotiator. The process needs to be more inclusive of key industry stakeholders so that the limited resources get directed in an efficient way according to industry participants.

¹³ <http://www.tc.gc.ca/eng/ctareview2014/canada-transportation-act-review.html>

There are a number of factors influencing the current condition of Canada's air sector. Therefore, strategies aimed at enhancing the competitiveness of Canadian air travel and strengthening its economic enabling capabilities, must be multifaceted. Primarily, three key areas must be addressed in tandem: competition, facilitation, and value.

Competition

Greater competition, particularly for international travel, comes from liberalized bilateral air access agreements. In order for an aircraft to fly between two countries both governments must negotiate bilateral air transport agreements, regulating frequency, capacity, ownership, tariffs and other commercial aspects. Currently, there is an international trend toward more liberal aviation regimes known as 'Open Skies', where bilateral—or in some cases multilateral—agreements generally include unlimited capacity between, and beyond the countries involved, and market driven pricing regimes.¹⁴

The Canadian government has adopted a Blue Sky policy¹⁵ committed to liberalizing air access. Since 2006, of the country's 85 Air Transportation Agreements, about half include more open international air policies. However, many current air access agreements still contain restrictions that significantly limit competition. Mutually beneficial agreements and the liberalization of air access provide an opportunity for increased competition for international travel to-and-from airports around the country. This offers consumers the benefit of greater choice and potentially lower prices.

The benefits of liberalizing Canada's air policy would significantly improve economic opportunities throughout Canada by increasing connectivity of global business. Further liberalized air access agreements would open new international markets, allow more carriers to operate in Canada, and improve price competitiveness of Canada as a destination. It would provide foreign carriers with greater access to the Canadian market, creating jobs on the ground, and provide domestic carriers more opportunities abroad.

However, liberalized air access policies must be perused in conjunction with domestic reforms which allow Canadian carriers and airports to compete in a more-open market. While greater competition will lead to more efficient, market-based outcomes. The process of liberalization should also be mindful of the strategic importance of the domestic industry. Therefore, Canada must also address barriers to facilitation and ensure value for costs placed on travelers and industry.

Facilitation

14 While the term Open Skies is sometimes used interchangeably with more Liberalized Bilateral Agreements, it is important to note that in many cases incremental steps may be taken to prove benefits to Canada. For example, Open Skies agreements may be 'sun-setted' after a period of trial, or they may transition to full Open Skies over a period of time. These steps would serve to protect the parties to the negotiated agreement from unintended consequences.

15 <https://www.tc.gc.ca/eng/policy/air-bluesky-menu-2989.htm>

Facilitation refers to the movement of people, cargo, and planes through an airport. It encompasses physical, legal, and technological procedures and systems. Enhancing facilitation at Canadian airports improves outcomes for airports, airlines, and customers alike.

Today, significant facilitation barriers are preventing Canadian airports from acting as more viable international hubs. Under-resourced and underequipped security procedures delay passengers and their belongings from entering and leaving airports. Strict visa screening requirements for transiting passengers, who have generally already been vetted by their destination country, prevents first-class airports such as YVR and Pearson from attracting more business. Much like road congestion, these delays and inefficiencies hinder the effectiveness of industry, and slow down the economy.

A robust facilitation strategy can push Canada toward becoming a global hub of passenger aviation traffic—growing volume, lowering costs and providing new opportunities for industry. The CTA review estimates transit facilitation benefits from easing transit visa requirements alone can increase airline volume by 25-50%.

Value

Finally, reviewing and ensuring value for already imposed government fees and surcharges on passengers and the industry would further improve Canada's ability to develop a more competitive air travel sector. Canadian air travelers face significantly higher fees and prices compared to their U.S. counterparts. This has historically driven some traveling in-and-out of Canada to use nearby U.S. airports such as Sea-Tac and Buffalo-Niagara International Airport; however the trend has been tempered with the depreciation of the Canadian Dollar relative to the USD. Therefore, it is important to ensure that the industry and consumers are receiving greater direct value for these costs.

The current regime of fees and surcharges has created an environment of "user-pay plus," where users are charged more than the services they are provided. For example, fees such as the Air Travelers Security Charge are taken into general government revenue, rather than directly funding airport security procedures. In other jurisdictions, services such as security are seen as a public good and funded by the broad tax base. Just as highway policing is funded by the general public—as it serves a significant economic and social purpose—so should essential air travel services.

Government revenues from the air sector 2013-14 (M)			
Airport Rent	Air Travellers Security Charge	Fuel Tax	Total
\$294.4	\$661.9	\$97.2	\$1,053.5
Government investment in the air sector 2013-14 (M)			
Airport Capital Assistance Program	Canadian Air Transport Security Authority Budget	Subsidy for 18 TC-owned and operated airports	Total
\$29.8	\$559.1	\$38.2	\$627.1
Difference (M)			\$426.4

CTA Review (Appendix K, p. 142)

Furthermore, airports pay significant fees to by the governments in the form of Ground Rent. These costs inevitably trickle down to travelers, and raises prices. This is in stark contrast to the United States where the government subsidizes air terminals. While a subsidy may lead to a different sort of market distortion, Canadian air travel still requires more-level a playfield which allows it to compete. High-cost structures lead to higher prices, and risk pushing travelers and revenue to other modes of transport, or to not travel at all.

There must be a more direct linkage between the use-fees paid by travelers and the services they are provided by the public sector. Providing greater value for these fees and surcharges is necessary to build a competitive industry, capable of enabling greater economic activity.

Lastly, in addition to current restrictive bilateral agreements, facilitation, and cost structures, existing ownership limitations prevent foreign investment in the Canadian airline industry. This restriction prevents Canadian carriers from supporting their balance sheet through foreign investment, and makes it extremely difficult for new competitors to enter the market place.

Recommendations

That the federal government:

1. Pursue mutually beneficial liberalized air access agreements in all bilateral air passenger transport negotiations, and further liberalize existing bilateral air agreements, especially with Free Trade Partners
 - a. Conduct periodic reviews of Blue Skies policies to ensure that bilateral access matches demand
 - b. Implement 2016 CTA review recommendation of required initial flight frequency with safe and secure partners with progression toward more liberalized air access agreements to provide market certainty

- c. Adopt an open and transparent priority-setting process, inclusive of key industry stakeholders, to determine top priorities as they relate to expanding Canadian bilateral air access agreements.
2. Facilitate the movement of passengers in, out, and through Canadian airports in order to position the Canadian air sector to better compete internationally by implementing the measures set out in Recommendation 6 of the CTA Review, notably:
 - a. Allowing transit without visa for citizens of all but those from a limited list of high-risk countries at all Canadian airports;
 - b. Harmonizing immigration and trusted traveller programs with the U.S. and other trusted jurisdictions; and
 - c. Streamlining visa processing for all visitors to Canada, including expanding the use of the Electronic Travel Authorization instead of visas for low risk travellers.
3. Develop a high level and overarching national aviation hub and travel strategy, to improve airports' cost competitiveness, and thereby enhance Canada's competitiveness, by:
 - a. Examining already imposed government fees and surcharges to ensure value for travelers and industry;
 - b. Allowing airports to operate Arrivals Duty Free to enhance non-aeronautical revenues; and
 - c. Increasing funding, and expanding eligibility, for the Airports Capital Assistance Program in order to support safe and efficient local and regional airports and a healthy and connected national air system.
4. Overhaul the regulatory, financing and delivery models for airport security, as set out in CTA Review Recommendation 8, including:
 - a. Establishing a customer service mandate and performance standards comparable to competing jurisdictions; and
 - b. Ensuring the provision of stable and predictable funding that meets the needs of both increasing passenger volumes and evolving security risks.
5. Increase the foreign ownership investment limit for Canadian passenger carriers to 49 per cent on a bilateral basis, with an initial emphasis on the European Union and the United States.

SUBMITTED BY THE GREATER VANCOUVER BOARD OF TRADE

Co-sponsored by the Richmond Chamber of Commerce, the Whistler Chamber of Commerce, the Prince George Chamber of Commerce, the Calgary Chamber of Commerce, and the British Columbia Chamber of Commerce

This is a 2013 resolution falling off the books.

THE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE SUPPORTS THIS RESOLUTION.

Protecting Our Infrastructure (Asset Management)

Issue

Canadian businesses need the federal government to ensure funding continues in a sustainable consistent manner that accrues to communities for infrastructure improvements and upgrades.

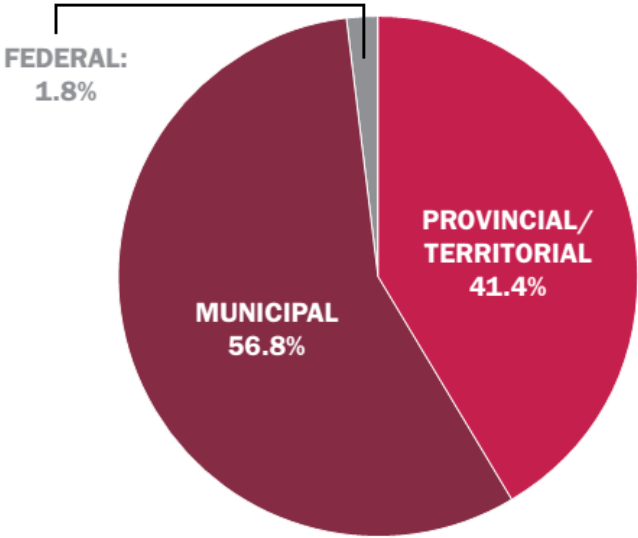
Background

According to a 2016 survey completed by the Canadian Federation of Municipalities (FCM), municipal governments own nearly 60 percent of Canada’s core public infrastructure.¹⁶ The value of these core municipal infrastructure assets is estimated at \$1.1 trillion.¹⁷

Net Stock of Core Public Infrastructure by Level of Government, (2013)¹⁸

Figure 1: Net Stock of Core Public Infrastructure by Level of Government, 2013

Notes: Net stock calculated using a depreciation model. 2013 data based on forecast.
Source: *Updating Infrastructure in Canada: An Examination of Needs and Investments. Report of the Standing Committee on Transport, Infrastructure and Communities, June 2015.*



¹⁶ Federation of Canadian Municipalities (2016) *Informing the Future: Canadian Infrastructure Report Card*, page 5.

¹⁷ Federation of Canadian Municipalities (2016) *Informing the Future: Key Messages*, page 2.

¹⁸ *Figure 1 - Federation of Canadian Municipalities (2015) Policy Statement Municipal Infrastructure and Transportation Policy*, page 6.

Municipally owned infrastructure assets include but are not limited to¹⁹:

- water systems,
- roads and bridges,
- buildings,
- sport and recreation facilities, and
- public transit.

FCM estimates that the backlog of upgrade and expenditure of the existing municipally owned infrastructure in Canada to exceed \$123 billion.²⁰

In 2007, the Government of Canada launched the Building Canada Plan (BCP) which included a \$33 billion investment plan for federal, provincial/territorial and municipal infrastructure before 2014.²¹

Spending was accelerated under the Government of Canada's stimulus program in 2009 and 2010. In the 2011 budget, the federal government announced a process to develop a new long-term infrastructure plan to replace the BCP, which resulted in the New Building Canada Plan (NBCP), a 10 year plan for federal investments in building and maintaining Canada.²²

The NBCP was a federal government commitment to invest over \$53 billion in infrastructure across the country over the next 10 years (2014-2024).²³

Two key components of the NBCP included²⁴:

1. the New Building Canada Fund (NBCF) – a \$14 billion dollar fund to support projects of national, regional and local significance that promote economic growth, job creation and productivity and;
2. the Federal Gas Tax Fund (GTF) – to date \$13 billion funding for local infrastructure projects, with close to \$22 billion anticipated to flow over the next 10 years.

¹⁹ Federation of Canadian Municipalities (2016) Informing the Future: Canadian Infrastructure Report Card, page 5.

²⁰ Federation of Canadian Municipalities (2015) Policy Statement Municipal Infrastructure and Transportation Policy, page 2.

²¹ Federation of Canadian Municipalities (2015) Policy Statement Municipal Infrastructure and Transportation Policy, page 1.

²² Federation of Canadian Municipalities (2015) Policy Statement Municipal Infrastructure and Transportation Policy, page 1.

²³ www.infrastructure.gc.ca/regions/bc/bc-nbcp-npcc-eng.html

²⁴ www.infrastructure.gc.ca/regions/bc/bc-nbcp-npcc-eng.html

The permanent and indexed federal GTF was a step toward that goal, laying the groundwork for a national plan to eliminate the municipal infrastructure deficit.²⁵

The federal government's Economic Action Plan 2013, renewed the federal GTF, indexing it at two percent per year, to be applied in \$100 million dollar increments, which means that it will grow by \$1.8 billion over the next decade.²⁶

For the provinces the NBCP contribute is significant. For example, for British Columbia, the NBCP represents almost \$3.9 billion in dedicated federal funding, including almost \$1.1 billion under the NBCF and an estimated \$2.76 billion under the GTF.²⁷

In the 2016 Federal Budget, the new federal government updated the NBCP numbers, increasing their commitment to asset management by an additional \$50 million. There will now be an additional \$60 billion over 10 years, split evenly between public transit, green infrastructure, and social infrastructure. This is in addition to the \$65 billion promised by the previous government for traditional infrastructure such as roads, bridges, and transportation.

Federal funding is provided up front, twice-a-year, to provinces and territories, who in turn flow this funding to their municipalities to support local infrastructure priorities. Municipalities can pool, bank and borrow against this funding which provides financial flexibility.²⁸

With aging infrastructure and limited resources, communities face huge challenges in financing the necessary repair, replacement and upgrade of public infrastructure. Communities, industry and businesses rely on utilities, transportation and power system to sustain business. Business interruptions due to broken water mains, poor roads, inadequate transit and other disruption causes economic loss to businesses and limits our ability to attract new businesses to communities.

Communities also face financial challenges from increasing standards and regulations without adequate financial mechanisms to pay for them. The primary resources at the municipal level are property tax.

Canadian businesses pay a much higher tax rate than residential taxpayers. Significant increases in property taxes are not affordable either for Canadian businesses or for residents. Senior levels of government need to be more involved in renewing the basic fabric of communities. Today communities receive only eight cents on every tax dollar collected by all levels of government, significantly down from 24 cents a decade ago.

²⁵ Federation of Canadian Municipalities (2015) Policy Statement Municipal Infrastructure and Transportation Policy, page 1.

²⁶ www.infrastructure.gc.ca/regions/bc/bc-nbcnpcc-eng.html

²⁷ www.infrastructure.gc.ca/regions/bc/bc-nbcnpcc-eng.html

²⁸ www.infrastructure.gc.ca/regions/bc/bc-nbcnpcc-eng.html

Our built environment or infrastructure is critical to the economic capacity and livability of communities and the viability of Canadian businesses within them. Many communities are struggling with competing financial pressures and aging, failing infrastructure. Municipal budgeting processes currently fail to require accounting for future demands for infrastructure upgrades and replacement. Government support at all levels is required to renew public infrastructure as well as assist with paying for new and increased regulations and standards.²⁹

While funding infrastructure remains a priority of the current federal government, the emphasis continues to be on new infrastructure when communities cannot reasonably cope with existing infrastructure. A core direction of current and new funding programs needs to be directed to upgrade and replacement of existing infrastructure especially in medium and smaller communities with very limited tax bases.

A new report by the Canadian Centre for Economic Analysis (CANCEA) shows that the economic importance of public infrastructure investment is vastly greater than previously found using traditional economic models. Using unique agent-based modelling, CANCEA found that public infrastructure investments generate an economic return on real GDP that is almost eight times as large as the impact predicted by traditional economic models.³⁰

A recent report entitled 'Investing in Ontario's Public Infrastructure: A Prosperity at Risk Perspective' uses Ontario big data/big analytics approach to assess infrastructure impacts. The CANCEA team examined the long-term economic impact of Ontario's 10-year, \$130 billion infrastructure plan using its unique research platform called Prosperity at Risk. The research found that for every \$1 billion invested in infrastructure as part of the Ontario \$130 billion 10 year plan, \$1.7 billion in provincial tax revenue will be generated relative to not making the infrastructure investment.³¹

The power industry estimates their backlog is in excess of \$300 billion for the renewal of the power grid plus unknown generation renewal costs.³² There is also demand by school boards, health care facilities and universities and colleges for public funds for upgrades and replacement along with billions of dollars of assets owed directly by provincial, territorial and federal governments. However, for every dollar municipalities invest in local infrastructure, federal, provincial and territorial governments receive a combined 35 cents, mainly through new income

²⁹ Federation of Canadian Municipalities (2016) Informing the Future: Canadian Infrastructure Report Card, page 6.

³⁰ www.cancea.ca.

³¹ www.cancea.ca.

³² Federation of Canadian Municipalities (2016) Informing the Future: Canadian Infrastructure Report Card.

and sales taxes – 18 cents going to Ottawa and 17 cents to provincial or territorial governments.³³ There are benefits to investing in infrastructure for all levels of government.

Municipal governments are essential to identifying and implementing projects that respond to local needs, while contributing to regional, provincial and federal prosperity. However, municipal governments often lack the resources and expertise to deliver productive and sustainable infrastructure in a cost-effective and timely fashion. The cost and complexity of maintaining public infrastructure introduces significant risk to the effective use of taxpayer dollars. To alleviate this risk, funding programs should require structured project selection criteria that will ensure value for money and continuity of high paying jobs in communities.

All levels of government need to work together to prioritize investments to support trade-enabling infrastructure investment while building capacity of cities and communities to plan, build, and maintain their infrastructure over the long term.

Recommendations

That the federal government:

1. Execute as quickly as possible upon notice of Federal funding, the necessary Provincial-Federal agreements to ensure funding continues in a sustainable consistent manner.
2. Provide increased support for communities to report on the condition and replacement needs of infrastructure.
3. Establish a project selection criteria that prioritizes infrastructure funding requests based on criteria such as national economic interest, return-on investment, and job creation.

SUBMITTED BY THE GREATER NANAIMO CHAMBER OF COMMERCE

Co-sponsored by the Greater Victoria Chamber of Commerce and Greater Vancouver Board of Trade

THE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE SUPPORTS THIS RESOLUTION.

³³ Canada 2020 – “Setting the New Progressive Agenda” June 2015

<http://canada2020.ca/crisis-opportunity-time-national-infrastructure-plan-canada/>