

Strengthening Canadian Supply Chain Resiliency

The economic fallout from COVID-19 has brought into focus the need to strengthen supply chain resiliency. Work by Statistics Canada and the Canadian Chamber of Commerce through the Canadian Survey on Business Conditions found widespread COVID-19 disruptions to supply chains. A key finding was that only 16.8% of companies reported no disruption to their supply chains, while just over half of business reported an inability to move goods due to disrupted supply chains.

However, supply chain resiliency cannot take a monolithic approach. The needs for each sector of the Canadian economy are different. The principle of advancing national interests should be what guides the federal and provincial government's approach to supply chains in the context of our market-oriented economy, where government does not control supply chains but instead incentivizes private sector behaviour.

Those national interests include the need to have a sufficient base in critical industries, ensure a reliable flow of consumer products and business inputs, and the ability to be involved in global supply chains. Additionally, our approach to supply chains needs to include services alongside the traditional focus on physical goods. The role of services includes not only R&D and engineering, but also after-sales servicing and enablers such as financing and transportation.

Taking tangible steps also requires government to think holistically about domestic and international policy measures to increase supply chain resiliency and ensure our country can weather economic disturbances in order to remain competitive. The attached document outlines actions that need to be undertaken as a matter of urgency to bolster our economic security.

Canadian Chamber of Commerce

Alberta Chamber of Commerce

Atlantic Chamber of Commerce

BC Chamber of Commerce

Fédération des chambres de commerce du Québec

Manitoba Chamber of Commerce

NWT Chamber of Commerce

Ontario Chamber of Commerce

Saskatchewan Chamber of Commerce

Yukon Chamber of Commerce

Recommendations to Strengthen Supply Chain Resiliency

Domestic Policy

- **Tax and access to capital:** Fiscal incentives for companies are critical in order to grow domestic production supply chains. A keystone in developing an efficient policy regime is the pressing need for a comprehensive review of Canada's tax system, which has not occurred since the 1960s. Capital expenditure is also important for growing domestic production and the government should leverage policy tools to ensure companies can mobilize wider pools of capital. Alongside this, the government should introduce a 100% capital cost allowance deduction in the first year of all tangible capital investments for all sectors of the economy.
- **Procurement:** Government led demand side factors are a crucial component for stimulating investments in domestic supply chains, particularly for innovative and R&D intensive products. Remaining at the cutting edge of technological development enables Canadian businesses to remain competitive. The government should also explore how to deploy procurement levers - that are compliant with our trade obligations - to encourage domestic capacity.
- **Intellectual property:** Canada also needs a new intellectual property strategy to encourage private sector investment in the development of leading technologies that support the early innovation phase in a product's supply chain. A key component is the adoption of an "innovation box" that would reduce the corporate tax rate for income derived from patented inventions and other intellectual property connected to new or improved products, services and related innovative processes developed in Canada. Our country also needs an improved approach to increase technology transfer and commercialization of research from academic, research, and government institutions.
- **Interprovincial trade:** The current crisis has shown the fragility of current rules that enable the movement of goods and people across provincial boundaries, and the effect this can have on supply chains. An example was the disparate patchwork of how essential services were defined during the early pandemic response. The economic recovery efforts from COVID-19 provide a unique catalyst for renewing efforts to tackle interprovincial trade. The federal government must work with provinces and territories to dedicate additional resources to the Regulatory Reconciliation and Cooperation Table under the Canada Free Trade Agreement to deliver regulatory mutual recognition and/or harmonization. Efforts should also increase to have provincial and territorial

governments commit to automatic mutual recognition of professional and trade qualifications.

- **Infrastructure:** Companies' supply chains depend on resilient trade-enabling infrastructure to ensure they are able to move products to their customers and minimize bottlenecks. To help support the ability of companies to move goods and services expeditiously and in a cost-effective manner, the government should bring forward budgeted infrastructure funds from future years of its long-term infrastructure plan to recapitalize the oversubscribed National Trade Corridors Fund, while simultaneously leveraging funds from the private sector. Additionally, the government should enact already passed amendments to the Insurance Companies Act to unlock investment dollars for infrastructure.
- **Investment Canada Act:** The Investment Canada Act remains a vital legislative tool to ensure acquisitions of Canadian companies by foreign entities are not adverse to our national interests. Although the legislation enumerates various factors involved in the net benefit test, intellectual property is absent. The government should consider amendments to the legislation to make explicit considerations for intellectual property and data. This would provide a basis for ensuring high-value, innovative, and sensitive supply chain components remain within Canadian control.
- **Free Trade Zones (FTZs):** The establishment of real FTZs would contribute to Canada's competitiveness in global supply chains, support the maintenance of value-added production within Canada, and help local economies in terms of job creation and stimulation of cargo flows. There needs to be a review of Canada's free trade zone legislation and policies, including simplifying access to existing programs, removing restrictions on value added manufacturing, and considering parameters for companies selling a proportion of their FTZ production in Canada among other policy changes.

International Policy

- **Security of supply agreements:** COVID-19 has shown how quickly countries will enact export controls to ensure security of their own domestic supply. These export controls disrupted the flow of important medical supplies to Canada during the pandemic. The government should explore supply agreements with our closest allies, and use a positive list approach to enumerate products that would not be subject to export bans on bilateral trade in certain products, even on vaguely defined national security or public health grounds. Examples of products that could be covered include medical supplies or rare earth minerals.

- **Export controls:** Canadian companies play a critical role in supplying products to foreign buyers either as the prime contractor or a component supplier. Additionally, by supplying these products Canada contributes to the national and regional security of approved allies and security partners. Canada has rightly imposed export licensing requirements for the trade of sensitive products, however significant backlogs and processing delays are leading to Canadian companies losing business. The government needs to clear the backlog of permits and abide by its service standard to restore predictability as well as improve communications with Canadian companies.
- **Border procedures:** A well-functioning border is a key for businesses to have predictability in terms of facilitating the movement of goods that should be entering the country and those that should not. Greater deployment of paperless procedures would alleviate staffing shortages and enable Canada Border Services Agency staff to be better resourced and trained to focus on high-risk products and the full enforcement of import controls. Looking internationally, we need to continue to support air cargo as a means to enable Canadian business participation in global supply chains. This includes ensuring exclusions for air cargo from travel restrictions and leveraging the International Civil Aviation Organization.
- **Digital trade and e-commerce:** Digitalization, remote provision of services, and the movement of data are key enablers of supply chains for companies both domestically and internationally. The government should continue to advance the principles of cross-border data flows through its multilateral and bilateral trade discussions, as well as seek regulatory alignment where it is in Canada's interest. Canada should also leverage the WTO e-commerce negotiations to reinforce the Trade Facilitation Agreement to ease border problems facing Canadian companies, particularly SMEs, when exporting abroad.
- **Industrial subsidies:** As governments around the world seek to support their domestic economies, this will exacerbate problems with distortive industrial subsidies and create competitiveness challenges for Canadian businesses. Canada needs to prioritize efforts to tackle these distortive industrial subsidies through our participation in multilateral organizations, including particularly the OECD, WTO, G20 and G7.
- **Trade agreements:** Canada's network of free trade agreements has provided export opportunities for Canadian businesses. However, to increase our ability to use these as vehicles to support our export-oriented supply chains, we need to use their regulatory mechanisms to resolve non-tariff barriers. Future trade negotiations should focus on critical markets such as securing a bilateral agreement with the United Kingdom and expanding the Comprehensive and Progressive Trans-Pacific Partnership membership to all candidates who meet the

agreement's criteria and standards.

- **Trade promotion:** Providing hands-on assistance for Canadian companies, particularly SMEs, is vital for their ability to participate in global supply chains. The Trade Commissioner Service should provide advice to companies on contingency sourcing arrangements and consider how soft power tools such as expat networks abroad and Brand Canada programs can support the ability of companies to export.
- **Labour mobility:** The movement of people is critical for Canadian businesses to participate in global supply chains. This means moving talent where it is needed most such as specialists, management and seasonal workers. Companies also need to be able to interact with their customers given that training or attainment of project milestones can be dependent on business travellers coming into Canada. Given that COVID-19 will be with us for some time, it is important for the government to take a targeted and time-bound risk-based approach to travel restrictions to minimize adverse economic consequences. The government should also ensure that where there is a need for key personnel to move despite travel restrictions, clear guidance exists so that companies can operate and request one-off exemptions within clearly defined parameters. It is also imperative for the government to clear backlogs as visa processing capacity resumes.