SASKATCHEWAN
CHAMBER *of* COMMERCE

BEYOND 2020

A BLUEPRINT FOR SASKATCHEWAN BUSINESS COMPETITIVENESS

CONTENTS

INTRODUCTION

Over the past several years, a series of events have come together to diminish the competitiveness of businesses in Saskatchewan as well as in western Canada more generally. US tax reform, tax increases at the provincial level, interprovincial trade barriers, constrained pipeline and rail capacity, lagging productivity, and anemic investment in research and development (R&D) have all contributed to a growing experience that Canada is becoming a difficult place to do business. Anecdotal evidence from SCC member businesses suggests that many are diverting their capital investment dollars to operations in other countries, most notably the United States. The cumulative effect of these drivers will be unpacked throughout this paper to uncover the challenges and opportunities that they create for business operating in Saskatchewan. In order for the Saskatchewan economy to grow and thrive, it must not only attract new businesses and capital investment, but also retain existing businesses and their capital investment. To do this, governments at both the provincial and federal level must create a taxation, policy, and investment framework that enables businesses in Saskatchewan to compete both at home and abroad.

RATIONALE FOR THE SCC BUSINESS COMPETITIVENESS STUDY

In response to the competitiveness challenges referenced earlier, the Saskatchewan Chamber of Commerce (SCC) Board of Directors in late 2018 recommended that a study on business competitiveness be carried out. A study of this topic is both timely and relevant given the current circumstances the province's business community is in. The aim of this study aligns with Key Strategic Theme #3 of the SCC's *2019-2021 Strategic Plan*, which is to ensure the competitiveness of Saskatchewan business - both internally and externally.

This study seeks to identify areas in which the province performs well, and where there is room for improvement. While this study identifies some areas of competitive advantage, the focus will be on how the province could improve its competitiveness position. This study aims to create value for the Saskatchewan business community, the Government of Saskatchewan, and the Government of Canada by identifying existing barriers and challenges to inform recommendations that are capable of improving business competitiveness in Saskatchewan and thereby growing the provincial economy.

PURPOSE AND SCOPE OF THE SCC BUSINESS COMPETITIVENESS STUDY

The main objectives of this study are to:

1. Identify the existing competitiveness barriers and challenges that are constraining individual businesses and industries from growing and scaling up;
2. Understand *why* these barriers and challenges continue to exist; and
3. Formulate policy recommendations that would help make businesses and industries more competitive.

The scope of this study encompasses the following areas: taxation; regulatory policy; interprovincial trade barriers; international trade; infrastructure; procurement; innovation; workforce development and access to skilled labour.

METHODOLOGY

This study opted for a *mixed methods* research design, drawing upon both quantitative and qualitative sources of information. The three main sources of information that informed the content of this study included:

- Primary research gathered through consultations with member businesses, industry associations, and large city Chambers of Commerce (Regina and Saskatoon) from March – April 2019;
- A *2018 Economic Outlook* survey open to SCC members from March 21st - April 4th, 2018 containing 36 questions with 185 responses; and
- A review of the existing literature on competitiveness from various sources, including academia; think-tanks; trade publications; the Canadian Chamber of Commerce; the Government of Canada; the Government of Saskatchewan; the Senate of Canada Standing Committee; individual businesses, etc.

The primary research gathered by SCC staff in the field involved current and prospective members answering a series of semi-structured interview questions. Participation in the *Environmental Scan* phase was voluntary and included representation from the following sectors:

- Upstream petroleum;
- Downstream petroleum;
- Construction;
- Trucking;
- Manufacturing;
- Potash mining;
- Insurance services;
- Renewable energy;
- Technology; and
- Large city Chambers of Commerce

Participants were afforded the opportunity to answer the semi-structured interview questions either in writing, through an in-person meeting, or by telephone. To ensure for reasonable comparisons, the list of questions was kept relatively consistent across participants. However, situations arose where the wording of questions had to be slightly modified to accommodate whether the participant was an individual business, an industry-specific association comprised of member businesses, or a large city Chamber of Commerce in Saskatchewan. Among thirteen total participants, seven chose to provide written answers to the questions; four chose to answer the questions by telephone; and two opted for in-person meetings. The SCC Director of Research and Policy Development was responsible for coordinating the semi-structured interview process.

BACKGROUND

CANADIAN COMPETITIVENESS SNAPSHOT

As one of the most trade-dependent provinces in one of the most trade-dependent countries, Saskatchewan relies on attracting and retaining both foreign and domestic direct investment to grow its economy and maintain its high standard of living.[1] This reliance on direct investment also applies to the rest of Canada. Until recently, the Canadian economy relied on three major competitive advantages: a competitive corporate income tax environment; its proximity and preferential access to the US market; as well as political, policy, and regulatory stability. All three of these advantages have been challenged in recent years.[2]

In 2017, the newly elected Trump Administration passed the *Tax Cuts and Jobs Act* which brought the federal US corporate tax rate down from 35% to 21% and temporarily allowed for the full and immediate expensing of capital costs (depreciation) for a range of different business asset classes These measures drastically reduced, and in some cases eliminated

1 David Tkachuk and Joseph A. Day. 2016. "Tear Down These Walls: Dismantling Canada's Internal Trade Barriers." *Senate of Canada Standing Committee on Banking, Trade, and Commerce*. (June): 17.
2 Price Waterhouse Cooper. September 2018. "The Impacts of US Tax Reform on Canada's Economy." 4.

altogether Canada's corporate income tax advantage vis a vis the United States.[3] A 2018 study by Price Waterhouse Cooper found that the 2017 US tax changes threatened 2.8% of Saskatchewan's annual total GDP or about $1.8 billion.[4]

Throughout 2017 – 2018, the often tense renegotiations around NAFTA put Canada's preferential access to the US market in jeopardy. While all three signatory countries reached a deal and signed an agreement-in-principle on NAFTA's successor, the *United States-Mexico-Canada Agreement* (USMCA) in September 2018, the US has yet to ratify the agreement and Canada's continued preferential access to the US market is not guaranteed.

Canada's well-earned reputation for political and regulatory stability has also come under fire. Since 2015, the Federal Government has proclaimed several pieces of new legislation, most notably a bill that drastically overhauls the environmental assessment and permit-granting process for major resource development projects (Bill C-69), as well as another bill that creates a temporary ban on oil tanker traffic off the coast of northern BC (Bill C-48). Industry reaction to these bills has been largely negative. The general consensus among the business community is that both pieces of legislation do nothing to reduce regulatory uncertainty or improve investor confidence. Also contributing to Canada's declining competitiveness position are delays and uncertainties around high-profile pipeline projects, like Trans Mountain, and Enbridge Line 3.

There is also credible data suggesting that Canada is becoming a less attractive location for capital investment. Statistics Canada reports that foreign direct investment (FDI) in 2017 plunged 26% to its lowest levels since 2010, with a disproportionate amount of the decrease occurring in the energy and resource sector.[5] Given the outsized role that the energy and resource sector plays in Saskatchewan and in western Canada more generally, this trend in FDI is concerning. For the first time in a decade, foreign companies sold more Canadian businesses than they bought.[6]

Other established indices paint a similar picture. In the latest version of the World Bank's *Ease of Doing Business Index*, Canada dropped four spots from 18th to 22nd; the United States ranked 8th. While Canada performed well in terms of conditions for starting a business (3rd), it fared poorly in other areas, like dealing with construction permits (63rd), and getting electricity (121st).[7] In the World Economic Forum's *Global Competitiveness Index* (GCI) for 2017-2018, Canada managed to improve its overall ranking one spot from last year, earning the 14th spot, but still lagging behind the 2nd place US.[8] On the GCI, Canada performed well in the areas of labour market efficiency (7th) and attraction of talent (3rd), but performed poorly in business sophistication (23rd) and capacity for innovation (23rd). Other problematic areas for Canada identified in the GCI were an inefficient government bureaucracy, tax rates, and insufficient capacity to innovate.[9] In the 2018 Bloomberg Innovation Index, Canada ranked 22nd, while the United States ranked 11th.[10]

SASKATCHEWAN COMPETITIVENESS SNAPSHOT

An aspect associated with business competitiveness is productivity. Productivity is the *efficiency* of production typically measured as a rate of output (goods and services) per unit of input (land, labour, capital). Gains in productivity enable businesses to

3 Ibid.11
4 Ibid. 7.
5 Theophilos Argitis. "Foreign Direct Investment in Canada Plunges to Lowest in Eight Years." Financial Post. March 1, 2018.
6 Ibid.
7 Doing Business 2018: Reforming to Create Jobs. *The World Bank*.
8 Schwab, Klaus. 2018. The Global Competitiveness Report 2017-18. *World Economic Forum.* 82 – 83.
9 Ibid. 82.
10 Canada's Economic Strategy Tables. 2018. "The Innovation and Competitiveness Imperative: Seizing Opportunities for Growth." *Innovation and Science, and Economic Development Canada.* (September): 6.

operate more efficiently. When businesses become more efficient, they can offer a better quality good or service at a lower cost and gain market share relative to its competitors. Higher productivity is the key to increased competitiveness and a higher standard of living.

The three main measures of productivity are labour productivity; capital productivity; and multifactor productivity, which combines both labour and capital productivity using a mathematical equation.[11] Data from a 2017 edition of *Sask Trends Monitor* (STM) report suggests that overall business productivity in Saskatchewan experienced a steady decline over a ten-year period from 2005 – 2015, with an average decline of about 3% per year.[12] Among the three components that comprise multifactor productivity, the capital productivity component declined the most. In fact, Saskatchewan was the second worst performing province on productivity overall. Newfoundland and Labrador took the top spot, registering a 3.2% average annual decline over the same ten-year span.[13]

A closer look at the data reveals the three business sectors that registered the sharpest average annual change in capital productivity between 2005- 2015 were mining and oil and gas extraction (-9.1%), construction (-4.1%), and utilities (-3.2%). While business cycle volatility in the resource sector certainly played a large role in these changes, it does not explain the whole story. STM author Doug Elliott suggests there are deeper structural issues at play here that account for Saskatchewan's largely dismal productivity metrics.[14]

Boosting overall business productivity in Saskatchewan will become increasingly necessary in light of emerging demographic trends. Saskatchewan's *dependency ratio* – the number of economically dependent people (typically children under working age and seniors) as a proportion of the working age population is relatively high. This trend is expected to increase over the next several years.[15] Based on 2016 data, 100 people of working age (15 to 64 years old) support 54.2 people classified as either under 15 or older than 65 years of age.[16]

This is the second highest dependency ratio among all provinces in Canada.[17] Assuming this trend continues as more baby boomers retire, combined with the possibility of little to no growth in the 15 to 64 years of age demographic, the financial burden placed on the province's working age population will continue to intensify. This is why promoting business competitiveness and boosting productivity needs to be a priority.

Saskatchewan's competitiveness challenges are evident in other areas. In 2018, the province received a D- grade and ranked 24th overall internationally on the Conference Board of Canada's *How Canada Performs: Innovation Report Card.* In the same study, Canada ranked 14th overall.[18] At face value, Saskatchewan's results are surprising given the province's reputation for innovation in areas like ag-bio, nuclear research, and others. While Saskatchewan performed well on a number of entrepreneurship-related indicators, most notably on entrepreneurial ambitions (A grade) and enterprise entries (B grade), the province performed middling to poor on several innovation-related measures.[19] This includes C grades in both scientific articles and labour productivity; D grades in venture capital investment and public R&D; and D- grades in business-related R&D, information communication

11 Doug Elliott. 2017. *Sask Trends Monitor* 34, no. 3 (March): 7.
12 Ibid.
13 Ibid.
14 Ibid.
15 Doug Elliott. 2017. *Sask Trends Monitor* 34, no. 4 (April): 5.
16 Ibid.
17 Ibid.
18 "How Canada Performs: Innovation Report Card." *Conference Board of Canada.* May 2018.
19 Ibid.

technology (ICT) investment, as well as patents and researchers.[20] On ICT investment, Saskatchewan is the lowest ranked in Canada.

The results of the Conference Board of Canada study confirmed what many in the Saskatchewan business community suspected; while the province possesses a vibrant entrepreneurial spirit in which *starting* a business is a relatively straight-forward affair, significant barriers emerge when businesses attempt to expand or scale up their operations. In addition, the study results indicated that both public and private R&D investment activity in the province is anemic. This is regrettable considering that robust R&D activity is typically associated with productivity growth. Saskatchewan's lagging R&D performance also has consequences for the commercialization of homegrown ideas and technologies. The report also flagged the province's inefficient conventional retail sales tax as the main impediment to business investment and attraction.[21]

Despite Saskatchewan's competitiveness challenges in various areas, there are some positive trends that warrant discussion. A 2016 report from the Conference Board of Canada that benchmarked provincial tax burdens found that Saskatchewan had the lowest provincial net business tax burden and the second-lowest provincial net tax burden on individuals. The report also highlighted that Saskatchewan benefits from low non-residential property taxes and the absence of a payroll tax.

Further, Saskatchewan maintains a 10% corporate income tax for the manufacturing and processing sector, the lowest corporate income tax in Canada for that sector.[22] In addition to a low 10% corporate income tax for manufacturers and processors, the province also offers tax incentives to the manufacturing and processing sector geared toward investment in machinery, equipment, and materials, and hiring workers.[23]

And in the Fraser Institute's *Annual Survey of Mining Companies* for 2018, Saskatchewan ranked as the 3rd most attractive jurisdiction for mining investment globally and placed 1st in the *Policy Perception Index* (PPI).[24] The PPI measures policy-related factors that impact business and investment decisions, such as environmental regulations; legal processes; taxation regimes; uncertainty over disputed land claims; infrastructure; socioeconomic development conditions; trade barriers; political stability; availability of workers; labour regulations; and more.[25]

"...while the province possesses a vibrant entrepreneurial spirit in which starting a business is a relatively straight-forward affair, significant barriers emerge when businesses attempt to expand or scale up their operations."

While factors completely unrelated to government policy can influence business investment decisions, policy *does* matter and, in the case of the mining sector, can account for up to 40% of a firm's investment decisions. [26] It is worth noting that while Saskatchewan performed admirably in the 2018 Fraser Institute's *Annual Survey,* the province actually ranked 2nd in the 2017 survey. Whether Saskatchewan dropping one spot can be attributed to normal fluctuations in the survey rankings or is symbolic of a larger downward trend is too early to tell.

20 "How Canada Performs: Innovation." *Conference Board of Canada.* May 2018. Accessed May 15, 2019. https://www.conferenceboard.ca/hcp/provincial/innovation.aspx
21 Julie Ades. 2016. "Benchmarking Provincial Tax Burdens." *Conference Board of Canada.*
22 Government of Saskatchewan. 2018. "Think Big. Think Saskatchewan." (July): 12.
23 Ibid.
24 Ashley Stedman, and Kenneth P. Green. 2018. "Fraser Institute Annual Survey of Mining Companies 2018." *Fraser Institute.*
25 Ibid.
26 Ibid.

When it comes to addressing and reducing administrative red tape for businesses, Saskatchewan has made some important strides in this area. In the 2018 edition of the Canadian Federation of Independent Business' (CFIB) *Red Tape Report*, Saskatchewan received an A- grade on red tape awareness and reduction, above the national average grade of B-.[27] The CFIB's report for 2018 notes the province's strong public leadership on reducing red tape, its implementation of comprehensive public measures like the direct cost estimator (DCE) tool implemented in 2017, along with a clear cap on government rules. Over the course of several years, Saskatchewan has demonstrated steady progress on red tape reduction, improving gradually from a C+ grade in 2011, to a B grade in 2014 – 2017, culminating with an A- grade for 2018.[28]

Publicly, the Government of Saskatchewan has embraced CFIB's red tape reduction challenge. The now defunct Ministry of Economy's *Annual Regulatory Modernization Progress Report for 2017-18* stated that ministries, agencies, and Crown corporations in Saskatchewan are responsible for administering 654 individual regulations containing 230,000 compliance requirements.[29] The Report outlines in detail 44 key initiatives throughout the 2017-18 fiscal year that are expected to generate almost $134 million in cost savings to businesses over the next ten years.[30]

Saskatchewan has the largest proportion of self-employed individuals in the workforce at approximately 18%, with the national average being approximately 15%.

Should these savings materialize, the Government of Saskatchewan should be applauded for its proactive approach to red tape reduction. However, recent and dramatic increases to crown resource land lease fees forced upon the oil and gas, mining, and outfitter industries in Provincial Budget 2019-20 have prompted the business community to question the sincerity of the Government of Saskatchewan's stated commitment to maintaining an attractive business investment climate. The process around

27 "Red Tape Report Card 2018." *Canadian Federation of Independent Business.* (January 2018): 3.
28 Ibid.
29 Government of Saskatchewan. Ministry of Economy. 2018. *Annual Regulatory Modernization Progress Report 2017-18.* 7.
30 Ibid.

crown resource land lease fees also runs counter to the Province's pledge to phase in fee increases with business cycle considerations in mind and its voiced commitment to broader consultations. The impact of the Province's decision to increase taxes on the potash sector in Provincial Budget 2019 is not fully known yet, however the move has been criticized by a number of sectors, including mining.

SASKATCHEWAN BUSINESS AT A GLANCE

This section of the report will attempt to illustrate for the reader what Saskatchewan's overall business composition looks like by using the most recent publicly available data from the Ministry of Economy's *Saskatchewan Small Business Profile 2017* report. The report's data points reveal that Saskatchewan is indeed an entrepreneurial province. Analyzing by size, 98.8% percent of Saskatchewan businesses are defined as small businesses with 0-49 employees; 1.1% percent are defined as medium-sized businesses with 50-499 employees; and 0.1% are defined as large businesses with over 500 employees.[31] Taken together, small and medium-sized enterprises (SMEs) account for 99.9% of the businesses operating in Saskatchewan.

In terms of quantifying the distribution of Saskatchewan employment by business size, small businesses accounted for 31.1% of employment; medium-sized businesses accounted for 21.8% of employment; and large businesses made up the remainder 47.1% of employment. Despite the fact that large businesses make up a tiny fraction of the total number of businesses operating in Saskatchewan, they punch above their weight in regard to proportion of total payroll numbers. By way of comparison, nationally, small businesses accounted for 69.7% of employment, medium-sized businesses accounted for 19.9%, while large businesses accounted for 10.4%.[32]

In Saskatchewan over a ten-year span from 2006 – 2016, the percentage change for small business' share of payroll employees increased by 11.2%; medium-sized business' share increased by 25.3%; and large business' share increased by 14.8%. Between 2015 and 2016, the percentage change as a share of payroll employees *decreased* for small, medium, and large businesses at 2.1%, 0.8%, and 0.9% respectively.[33] This can be attributed primarily to the downturn in the economy resulting from falling commodity prices and the ensuing recession.

31 Government of Saskatchewan. Ministry of the Economy. 2018. "Saskatchewan Small Business Profile 2017." 3.
32 Canada. Industry Canada. "Key Small Business Statistics – January 2019."
33 Ibid. 9.

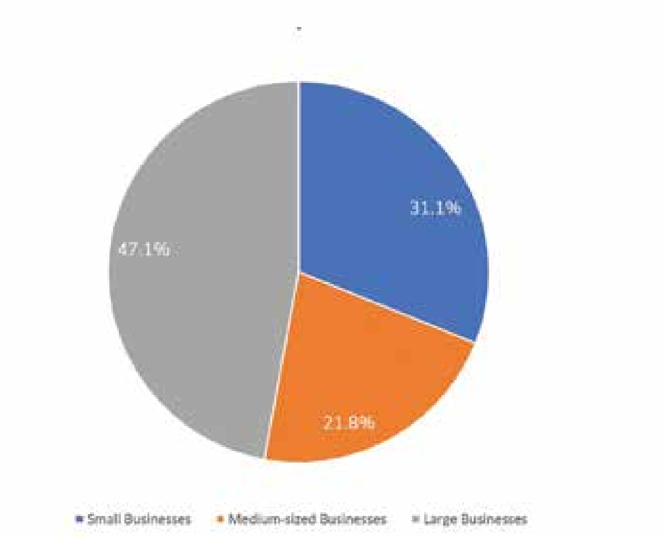

Figure 1. Distribution of Saskatchewan Business Size (2017)

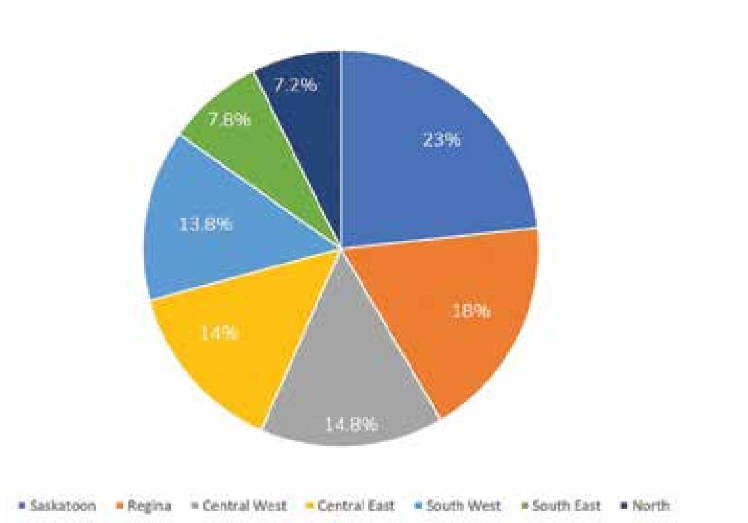

Figure 2. Distribution of Saskatchewan Business by Region (2017)

Further breakdown of the small business data reveals that this segment accounts for roughly 31% of provincial GDP.[34] Saskatchewan small business' contribution to provincial GDP ranks third nationally and Saskatchewan ranks sixth among provinces across Canada when measuring the proportion of provincial employment resulting from small businesses.[35] Roughly 87% of Saskatchewan's small business segment is microbusinesses, defined as having 0-4 employees on payroll. Approximately 71% of microbusinesses are non-employer businesses, such as self-employed owner-operators. Microbusinesses with 1-4 employees on payroll account for approximately 16%, while businesses with 5-49 employees accounted for 12% of small businesses.[36] Compared to other provinces, Saskatchewan has the largest proportion of self-employed individuals in the workforce at approximately 18%, with the national average being approximately 15%.[37]

When farmers are included in the small business category the result is 129 small businesses per 1000 people on a per capita basis. This makes Saskatchewan the province with the highest number of small businesses per capita across all Canadian provinces.[38] When measuring the number of Saskatchewan small businesses by industrial sector, the top five are agriculture; finance, insurance, and real estate; construction; and a catch-all category defined as "other."[39]

Saskatchewan has more small businesses operating in the agriculture sector than any other economic sector, and these tend to skew toward non-employer-based businesses.[40] When measuring the total number of Saskatchewan small businesses by geographic region, Saskatoon and Regina serve as home for about 23% and 18% respectively. The number of small businesses found in the remaining geographical regions of the province are as follows: Central west (14.8%); Central East (14%); South West (13.8%); South East (7.8%); and the North (7.2%).[41]

34 Ibid. 19.
35 Ibid. 11.
36 Ibid. 3.
37 Ibid. 15.
38 Ibid. 4.
39 Ibid. 7.
40 Ibid.
41 Ibid 8.

When taken together, the data points paint a clear picture of the overall composition of businesses in the province. If there was any doubt that Saskatchewan people possessed an entrepreneurial spirit, the information above should dispel such notions. Based on the outsized role that SMEs play in the larger provincial economy, clearly, the entrepreneurial mindset is alive and well in this province. But it is important to keep in mind that while small businesses can be a source of innovation and nimbleness compared to larger, legacy firms, there is great potential in supporting SMEs to scale-up and become larger contributors to the economy. Ultimately, in order to compete and thrive in a global economy, Saskatchewan SMEs in most circumstances need to scale up and expand. The rest of this report will discuss this idea in further detail.

DISCUSSION AND ANALYSIS - WHAT WE HEARD

Rather than address each participant's competitiveness barriers or challenges on a business-by-business or sector-by-sector basis, this discussion and analysis will draw out and synthesize the common themes and issues that cut across multiple participant responses throughout the *Environmental Scan* phase. Themes like taxation, regulatory policy, trade-enabling infrastructure, trade diversification, procurement and innovation, as well as workforce development, and access to skilled labour will be further elaborated on here. And while policy-related factors do have a substantial impact on business investment decisions, there are of course factors unrelated to government policy, like a jurisdiction's mineral potential, exchange rates, supply and demand, natural disasters, physical geography, etc. that can also influence its competitiveness.

CORPORATE INCOME TAXES

Concerns around taxation are always front and centre for the Saskatchewan business community. With the US lowering their federal corporate income tax rate from 35% to 21% and introducing temporary accelerated capital cost measures on select machinery and equipment, Canada's business tax advantage has been drastically reduced. Several participants, particularly those operating in capital-intensive sectors, referenced how recent US tax reforms have incentivized Saskatchewan-based companies to direct their incremental capital investment dollars toward US-based operations. This is not surprising considering that Canada's *combined* statutory corporate income tax rate for 2018 was 27% - one percentage point higher than the United States' post-reform rate of 26%, and three percentage points higher than the non-US OECD average rate of 24%.[42]

"While the business community has generally applauded reductions to the small business rate, the increasing gap between the small business rate and the general corporate rate serves to discourage small businesses from growing and scaling up."

Other participants noted that Canada's two-tier corporate income tax structure inadvertently serves as a barrier to growth and expansion. Each province and territory levies their own small business and general corporate rates on top of the federal rates. The federal portion consists of a lower, small business rate of 9% on the first $500,000 of business income ($600,000 in Saskatchewan) and a higher, *net* general corporate rate of 15%. The combined federal-provincial small business and general corporate rates in Saskatchewan for the 2019 taxable year are 11% and 27% respectively.

42 "The Impacts of US Tax Reform on Canada's Economy." *Price Waterhouse Cooper.* 17.

While the business community has generally applauded reductions to the small business rate, the increasing gap between the small business rate and the general corporate rate serves to discourage small businesses from growing and scaling up.[43] This is regrettable considering businesses that are able to grow and expand typically become more competitive as they achieve greater efficiencies through economies of scale.

PERSONAL INCOME TAXES

Throughout the consultation process, several participants also spoke about the difficulties in attracting highly skilled workers due in part to Canada's relatively high personal income tax rates. At the end of 2015, the Federal Government added a new income tax bracket, raising the top marginal personal income tax rate from 29% to 32% on incomes over $200,000 effective starting the 2016 tax year. Meanwhile, US tax reform measures in 2017 *lowered* personal income rates across the board.

Currently, Canada's top marginal personal income rate is 32% while the US top marginal personal income tax rate is 37%. However, the US top marginal personal income tax rate takes effect at an income threshold of $500,000 and up.[44] When adjusted for purchasing power parity, Canada's top marginal personal income tax rate would take effect at just under $175,000 USD for the 2017 tax year.[45] And while Saskatchewan at 47.50% is not among the seven provinces whose combined federal-provincial top marginal personal income tax rates meet or exceed 50%, our main competition for top talent internationally is the US, where combined federal-state personal income tax rates are generally lower.

Even before recent tax reform measures were implemented in both Canada and the US, the *net income tax gap* between the US and Canada was already large because of the United States' lower personal income taxes and generally higher top end salaries.[46] Canada's punitively high personal income tax rates discourage mobile, highly-skilled workers from accepting top-level positions in Canada. This also has the effect of influencing business decision-making around the location of head offices.[47] Canada's high personal income tax rates currently undermine the ability of Saskatchewan businesses to attract and retain talent.

It is important to point out that discussions around what economic activities should and should not be exempted, the appropriate PST rate, or how such changes should be rolled out miss the larger point. If one were tasked with designing a consumption tax regime from scratch, it would probably not resemble anything like the one that exists today.

APPLICATION OF PROVINCIAL SALES TAXES (PST)

A number of participants, particularly those representing the potash mining, insurance services, upstream oil and gas, and construction sectors, flagged recent changes to the PST as a barrier to competitiveness.

43 Duanjie Chen and Jack M. Mintz. 2015. "The 2014 Global Tax Competitiveness Report: A Proposed Business Tax Reform Agenda." *University of Calgary School of Public Policy* 8, no. 4: 2.
44 Trevin Stratton. 2019. "Fifty Years of Cutting and Pasting: Modernizing Canada's Tax System. *Canadian Chamber of Commerce.* (February): 13.
45 Ibid. 14.
46 Ibid. 13.
47 "Canada's Tax System: What's so Wrong and Why it Matters." 2018. Chartered Professional Accountants of Canada. 11.

For context, in Provincial Budget 2017 the Government of Saskatchewan raised the PST rate from 5% to 6% and expanded the rate base by removing exceptions on a wide range of goods and services, like construction labour, food and hospitality services, and most insurance premiums. While the business community *generally* supports shifting the overall tax burden toward consumption-based taxes, as well as other base-broadening measures, the Government's decision created very uneven impacts across different sectors.

For example, a representative of the potash mining sector commented that removing the PST exemption on construction labour cost their organization tens of millions of additional dollars in the middle of a large-scale construction project. Because mining is an energy-intense and trade-exposed (EITE) sector whereby the final price received for a mined commodity is determined by international markets, firms have little to no ability to pass along any additional costs along the supply chain. For upstream petroleum, the changes to the PST from 2017 had a large negative impact on the sector. There was also little to no consultation or notification before the PST changes were announced.

A representative of the province's construction sector noted that the industry's prolonged stunted growth and recent downturn can partially be attributed to the Government's decision to include PST on construction labour effective April 2017. Moreover, a participant representing the province's insurance sector opined that the addition of PST on *most* insurance premiums created administrative uncertainty for the industry due to the fact that the PST exemption was maintained on life and agricultural (crop, hail, livestock) insurance, but eliminated on others. Other concerns expressed by the insurance sector included poor communication on the part of the Government when rolling out the changes, as well as the lack of transparency around how the PST on insurance premiums was to be collected and billed. For the insurance sector, a lack of predictability and certainty was a major concern overall.

It is important to point out that discussions around what economic activities should and should not be exempted, the appropriate PST rate, or how such changes should be rolled out miss the larger point. If one were tasked with designing a consumption tax regime from scratch, it would probably not resemble anything like the one that exists today. The federal GST is by nature a *valued-added* tax that allows businesses to claim a credit for the GST paid on their business inputs, whereas the PST is a conventional retail sales tax that offers none of the advantages of a value-added tax. Essentially, businesses are forced to pay two separate consumption taxes levied by two separate levels of government, with two separate tax rates, covering different tax bases and economic activities. This approach is extremely inefficient and warrants reconsideration.

Essentially, businesses are forced to pay two separate consumption taxes levied by two separate levels of government, with two separate tax rates, covering different tax bases and economic activities.

RESOURCE SECTOR TAXES AND FEES

Participants from the potash mining and petroleum sectors voiced concern over the structure of the province's resource royalty rates and how the current structure harms competitiveness. In the case of potash mining, the current taxation regime is extremely complex, containing a production-based royalty, along with a two-layer production tax featuring a base payment rate and a two-tiered profit tax.[48] In addition, a *resource surcharge* on three percent of sales value is also levied.[49] Such an approach imposes relatively high cost burdens for mining companies in Saskatchewan, especially when compared to lower cost competitors in places like the US, China, Germany, and Eastern Europe. This makes it harder for Saskatchewan-based mining operations to compete with lower cost subsidiaries in other jurisdictions for scarce capital investment dollars.

To further complicate matters, in Provincial Budget 2019-20, the Government of Saskatchewan made the decision to phase-in sudden and dramatic increases to crown resource land lease fees. This decision negatively impacted uranium mining, oil and gas activities, recreational communities, and outfitting camps. The rationale given by the Provincial Government was to achieve parity with resource land lease fees charged on privately held lands for similar types of activity.

The Ministry of Agriculture's decision alone to increase fees for oil and gas dispositions will cost those businesses $10.8 million in 2019-20. Between the Ministry of Agriculture and the Ministry of Environment, the total cost of increased fees for oil and gas dispositions is estimated at over $11 million. For an oil company operating in a sector already hit hard by volatile commodity prices, this means added costs of upward to over $1 million based on data collected through member feedback by the Canadian Association of Petroleum Producers (CAPP).

Furthermore, impacts resulting from the Ministry of Environment's changes to disposition fees will cost businesses in the outfitting and mining sector $4.3 million in 2019-20. The impact on individual mining companies could be as much as $1 million over two years at a time when the uranium market is very soft, while, one outfitting operation reports that it faces $25,000 in incremental costs this season after already having sold its packages at rates using known lease fees.

Businesses do expect costs to *gradually* rise over time, and when done in a predictable and consultative manner, they are able to adjust operations to deal with those incremental cost increases. However, as it relates to the changes to crown resource land lease fees, the consultation process was lacking. The other lesson to take away based on the feedback received is for policymakers to understand that investment decisions made by businesses operating EITE sectors are based on the most cost-competitive jurisdiction. In other words, taking a strictly national-level approach

48 Duanjie Chen and Jack Mintz. 2015. "Potash Taxation: How Canada's Regime is Neither Efficient nor Competitive from an International Perspective." *University of Calgary School of Public Policy* 8, no. 1: 5.

49 Ibid.

when developing policies around EITE industries is problematic in light of the fact that these industries must compete against competitors operating in lower-cost jurisdictions outside of Canada.

RECOMMENDATIONS:

- That the Federal Government appoint a Royal Commission to undertake a comprehensive review of the tax system, in light of significant changes to the Canadian economy since the last Royal Commission almost 50 years ago. The overarching principles guiding the review should be enhancing competitiveness, broadening the base, neutrality, simplicity, and fairness. Ideally, business tax structures should be reformed to incentivize companies to grow and expand, not stay small.
- That the Federal Government provide a dedicated service for small business to resolve ongoing disputes with the Canada Revenue Agency (CRA).
- That all levels of government establish a pathfinder concierge service that creates a single point of contact to assist businesses navigate regulations, support programs, and tax incentives. The Federal Government's announcement in June 2019 regarding the launch of the Canada Business App designed to help businesses more easily interact with the federal government is a positive step in this regard.
- That the Provincial Government in consultation with the Federal Government and business stakeholders look to reform Saskatchewan's current GST/PST consumption tax regime by means of a harmonized sales tax (HST) or at very least, provide a quazi-refund option for Saskatchewan businesses to receive a credit on their inputs.
- That the Provincial Government avoid sudden and drastic increases to crown resource land lease fees, as well as other resource sector taxes and fees by engaging in regular, predictable, and meaningful consultations with stakeholders well *beforehand* so that businesses have time to adjust to gradually phased in fee increases. This could be accomplished through the establishment of a formal, pre-budget consultation process with industry stakeholders similar to that of other provinces. Such a process should employ a whole-of-government approach.
- That the Provincial Government convene a panel of independent experts to review the effectiveness of the current potash royalty rate regime. The overarching principles of such a review should be ensuring competitiveness, fairness, simplicity, efficiency, and minimizing distortionary economic behaviour.

REGULATIONS

Like taxation, government regulations occupy a prominent place in the minds of businesses across the province. It is worth mentioning at the outset that regulations are not bad per se; in fact, when properly designed and implemented, regulations can actually *improve* business competitiveness by remedying market failures. Well-designed regulations can also foster a level playing field with clear expectations for everyone in the marketplace.[50] Unfortunately, there are more examples of poorly designed regulations than well-designed ones. A general criticism of the current state of regulations made by several participants was that regulations tend to be overly prescriptive, top-down, and are slow to adapt in response to changes in the industry. Some of the costs associated with regulatory misalignment include higher prices, reduced capacity for innovation, less consumer demand, and a misallocation of resources.[51] This section draws upon examples found in different sectors to further drive home this point.

50 Ryan Greer. 2018. "Death by a Thousand Cuts: Improving Canada's Regulatory Competitiveness." *Canadian Chamber of Commerce. (May): 4*
51 Ibid. 22.

OBPS AND CFS

Saskatchewan's own Output-Based Performance Standard (OBPS) and the Federal Government's Output-Based Pricing System (OBPS) both came into effect January 1, 2019 and regulate large emitters by assigning covered facilities with an annual, sector-specific carbon intensity performance standard. Most industrial sectors in Saskatchewan are regulated under the provincial OPBS, whereas electricity generation (SaskPower) and natural gas pipeline transmission (SaskEnergy) activities are regulated under the federal OBPS. The provincial OBPS applies to facilities that have reported annual emissions of over 25,000 tonnes of C02e[52] per year, whereas the federal OBPS applies to facilities that have reported emissions over 50,000 tonnes of C02e per year.[53] In both the federal and provincial program, facilities that emit over 10,000 tonnes of C02e per year can voluntarily opt-in to the program.

In terms of compliance, for both the provincial and federal OPBS, if a regulated facility outperforms its annual emissions intensity performance standard, it can earn and bank a credit; if it simply meets the standard, it will avoid having to pay a penalty; and if it cannot meet the standard, it will have to pay a penalty based on the established carbon price per tonne of C02e at that time. Regulated emitters will have the ability to acquire or purchase offsets to satisfy their performance obligations. Both the provincial and federal OBPS regimes are considered outcomes-based regulatory approaches. The intent of both the provincial and federal OBPS is flexible compliance that allows regulated emitters to pursue GHG emissions reductions at the lowest possible cost. It should be noted that industrial sectors currently regulated under the provincial OPBS that participated in this study are generally content with its design, as it balances environmental goals with the sector-specific realities of industry in Saskatchewan. Both the provincial and federal OBPS are designed to factor in EITE competitiveness challenges and mitigate carbon leakage concerns.

In contrast, the Clean Fuel Standard (CFS) is a prescriptive regulatory approach rather than outcome-based approach like the OBPS. Between the OBPS and the CFS, the CFS was the main source of concern for participating industry stakeholders in this study. The CFS is supposed to incentivize the use of low carbon fuels, energy sources, and technologies. The proposed CFS would establish carbon intensity requirements over the lifecycle of different kinds of fuels. These regulations would go beyond the transportation sector and would also cover fuels used in the industrial and building sectors. Expanding the scope beyond transportation fuels is unprecedented and has elicited significant criticism from industry. In addition to the CFS being proposed at the federal level, several provinces (British Columbia, Alberta, Saskatchewan, Manitoba, and Ontario) across Canada already have renewable fuel standards (RFS) in place that mandate a minimum average amount of renewable fuel content.

Before delving further, it should be noted that this section discussing the OBPS and the CFS will require a more nuanced analysis than other sections of this report. This is because members participating in this study are diverse and operate in both low and high emissions-intensive sectors. And depending on the degree of emissions intensity, both the OBPS and the CFS could pose short-term challenges for some businesses and industries, while offering a competitive, long-term advantage to others. Advocating for a balanced approach that helps support Saskatchewan businesses successfully compete, while growing businesses that will give the province a competitive advantage in the future low-carbon economy is key.

Industry participants representing both upstream

52 Note: CO2e here refers to *carbon dioxide equivalents*. It is the standard unit in carbon accounting to measure and quantify GHG emissions over a defined time period. Because each GHG has its own global warming potential (GWP), Carbon Dioxide (CO2) is used as the reference GHG that all other GHGs are compared to. CO2e places all GHG emissions in relation to Carbon Dioxide, which is considered to have a GWP of 1. C02e translates emissions into a common unit that can be reported as a single combined quantity.

53 Huzaifa Saeed. 2019. Check Engine Light: Climate Policy Overheats Transportation Costs in Canada." *Canadian Chamber of Commerce*. (April): 14.

and downstream petroleum expressed serious frustration with the proposed design of the federal CFS. The main concern is a lack of clear understanding on how the CFS will interact with the OPBS and other environmental regulations. Preliminary evidence suggests that not only does the CFS not complement the OBPS, the former actually works against the latter.[54] For example, petroleum sector representatives noted that there is considerable duplication and overlap between the CFS and the OBPS on covered emissions sources, which suggests the potential for high hidden costs typically associated with regulatory stacking.

Moreover, provinces that continue to layer their own RFS or biofuel mandates on top of the proposed federal CFS are supporting the stacking of inefficient, high-cost GHG reduction policies. Based on feedback received from the downstream petroleum sector, biofuels have yet to be a cost-effective GHG reduction mechanism. Citing a study by the Ecofiscal Commission, RFSs across Canada have reduced GHG emissions at roughly 3 megatonnes per year from 2010 – 2015.[55] However, those emissions reductions have come at a very high cost. The Ecofiscal Commission estimates the cost of reducing emissions with ethanol policies was about $180 - $185 per tonne of C02e and $128 - $165 per tonne with biodiesel policies. To put these costs into context, this is more than two and a half times the cost of the federal carbon fuel levy of $50 per tonne of C02e scheduled for 2022.[56]

The layering of “complimentary” climate change policies, like the CFS, in addition to other carbon pricing systems will significantly impact the province’s competitiveness position. To better illustrate the notion of *regulatory stacking*, in addition to complying with an OBPS and eventually the CFS, regulated emitters are also subject either directly or indirectly to the following environmental regulations: GHG limits on coal-fired electricity production; GHG limits on natural gas-fired electricity generation; the fuel charge portion (Part 2) of the federal *Greenhouse Gas Pollution Pricing Act* (GGPPA); methane regulations applied to the upstream oil and gas sector; and GHG limits on heavy duty vehicles. All the regulations referenced above with the exception of the OBPS and the federal fuel charge are found under the *Canadian Environmental Protection Act* (CEPA). And under CEPA, non-compliance is considered a criminal offence.

Provinces have before them an opportunity to reduce red-tape and the administrative burden for governments and industry by hitting the pause button on any increases to RFS mandates or the creation of a low-carbon fuels standard (LCFS) until the proposed federal CFS is developed. Suffice to say, there are additional levels of complexity and cost associated with having a patchwork of different federal and provincial renewable/clean fuel mandates that could be passed onto businesses and consumers. A single federal standard would allow for more equitable treatment across jurisdictions and remove regulatory duplication.

Other noteworthy concerns about the CFS expressed by the petroleum and mining sectors included renewable fuels not meeting current standards for occupational health and safety in underground mines and other workplace settings, as well as infrastructure planning issues for refineries around the introduction of biofuels into the feedstock supply chain. A representative from the downstream petroleum sector commented that a core component of the CFS should be affordability and reliability of product for consumers in order for the standard to be as successful as possible, as well as to ensure favourable uptake from Canadian consumers.

As already mentioned, participants in this study were generally content with the design of the provincial OBPS. However, some participants did flag potential issues regarding the viability of the accompanying carbon offset framework protocols

54 Aaron Henry. 2019. “The Unsavory Pancaking of Canada’s Climate Regulations: A High Cost Climate Strategy Canadian Businesses Find Hard to Swallow.” Canadian Chamber of Commerce. (March): 9.
55 Chris Ragan et al. October 2016. “Course Correction: It’s Time to Rethink Canadian Biofuel Policies.” *Canada’s Ecofiscal Commission.*
56 Ibid.

being developed in Saskatchewan. As of June 2019, discussions are currently underway with the Government of Saskatchewan around the development of a carbon offset framework. Under such a framework, regulated emitters can acquire carbon offsets generated by other parties to satisfy their annual emissions performance obligations.

The major concern expressed by participants is that Saskatchewan is too small of a market on its own to be viable with a likely insufficient supply of carbon offsets available at the outset unless the province's program links up with a nationwide offset and credit exchange. Artificial restrictions around the use and supply of credits and offsets within the provincial and federal OBPS could hamper the establishment of a sustainable credit and offset exchange program.[57] Borrowing an example from the federal OBPS, if a regulated facility exceeds underperforms its sector-specific emissions target, it can only achieve 75% of its compliance in credits and offsets, while the remaining 25% must be paid in cash.

This measure contradicts the spirit and intent of flexible compliance pathways.

Another aspect of this issue highlighted by the downstream petroleum sector was the understanding that only parties not subject to the provincial OBPS regime (non-regulated community) could generate credits for sale. Such a measure serves to artificially restrict supply and undermines the viability of an exchange. First and foremost, participants recommended that Saskatchewan's program link up and be interchangeable with a national-level offset and credit exchange to ensure viability through sufficient supply and enhanced efficiency. Second, participants also recommended the interchangeability of offsets and credits across different fuels streams within the CFS, as well as interchangeability of offsets and credits between the CFS and the OBPS to help promote efficiency and more flexible compliance pathways for businesses.[58]

INTERPROVINCIAL TRADE BARRIERS

As many businesses across Saskatchewan will attest to, regulatory duplication and misalignment through interprovincial trade barriers have become commonplace in areas like transportation, alcoholic beverages, pharmaceuticals, agri-food, dairy, securities regulation, regulated professionals, and interprovincial energy transmission.[59] In an ideal world, governments would actively *facilitate* the movement of trade in goods, services, and workers nationally, not impede it. Interprovincial trade barriers create substantial costs for businesses that tend to be disproportionately borne by SMEs. Aside from reducing unnecessary costs for businesses, the dismantling of interprovincial trade barriers also acts a hedge against rising protectionism being witnessed in other jurisdictions, most notably the US and the EU. And while the Saskatchewan Chamber of Commerce applauds

57 Aaron Henry. 2019. "The Unsavory Pancaking of Canada's Climate Regulations: A High Cost Climate Strategy Canadian Businesses Find Hard to Swallow." 13.
58 Huzaifa Saeed. 2019. Check Engine Light: Climate Policy Overheats Transportation Costs in Canada." 19.
59 David Tkachuk and Joseph A. Day. 2016. "Tear Down These Walls: Dismantling Canada's Internal Trade Barriers." *Senate of Canada Standing Committee on Banking, Trade, and Commerce.* (June): 3.

federal and provincial government efforts on the *New West Partnership Trade Agreement* (NWPTA) and the *Canadian Free Trade Agreement* (CFTA) in 2010 and 2017 respectively, more work needs to be done. The frictions associated with interprovincial trade barriers cut across a wide array of sectors so focusing on a few key ones here can provide us with some illustrative examples of the detriments associated with these interprovincial trade barriers. A representative of the province's renewable energy sector spoke about the challenges that existing interprovincial trade barriers have posed for the sector's long-term growth in Saskatchewan and Western Canada. From a renewable energy perspective, strengthened transmission interties across Canada and into the United States, along with stable trade and interjurisdictional export regulations that enable trade of renewable energy east-west and north-south would not only create a more robust renewable energy industry in Saskatchewan, but also achieve a low-carbon energy system, enabling electrification as a key climate change mitigation measure, across Canada sooner and more cost effectively.

Interprovincial trade barriers have created significant challenges for the province's trucking industry as well. The trucking industry in Saskatchewan is especially vulnerable to upward cost pressures. This is primarily because trucking has a large number of small, family-owned firms with a low concentration ratio. This sector is relatively price inelastic due to Canada's vast geography and its outsized role in the industry supply chain. In response, industry consolidation through vertical integration is becoming increasingly common as a means of achieving economies of scale to reduce costs. For these reasons, trucking is highly trade-exposed and extremely vulnerable to competitiveness challenges.

Like other industries, the trucking industry in Canada is subject to both federal and provincial regulations. Each jurisdiction reserves the right to implement agreed regulatory changes as they deem fit in their respective jurisdiction. This approach has led to tremendous regulatory duplication and misalignment.[60] Specific issues typically revolve around licensing and training requirements; weights and dimensions; technology and equipment; reporting and safety oversite; oversite of international carriers; and regulatory enforcement.[61] On top of this, the pace of regulatory change is far too slow in an era of rapid technological change and disruption.

As a representative of the trucking sector noted during consultations, regulatory misalignment between provinces and the federal government has hampered the voluntary adoption of more fuel-efficient technology and equipment, such as wide-base tires, drag-reducing body panels, and new trailer configurations. The adoption of such cutting-edge technology would help lower the costs for carriers, and thus improve their competitiveness. The Federal Government's uncoordinated regulatory

60 Huzaifa Saeed. 2019. Check Engine Light: Climate Policy Overheats Transportation Costs in Canada." 7.
61 David Tkachuk and Joseph A. Day. 2016. "Tear Down These Walls: Dismantling Canada's Internal Trade Barriers." 7.

approach vis a vis the provinces often creates barriers to further regulatory harmonization with the US, where trucking industry regulations fall squarely under the domain of the federal government.

The general consensus among participants is for the federal government and the provinces to harmonize regulations in the long run. Having said that, it is important to point out that both business and labour groups believe that adopting lowest-common-denominator principles is ill-advised. In the meantime, governments at both the federal and provincial level should pursue *mutual recognition of standards*. Mutual recognition ensures "that a person, good, service, or investment that conforms with an equivalent standard or standard-related measure of another jurisdiction is valid in that other jurisdiction without the need for modification, testing, certification, re-naming, or any other additional assessment procedure."[62] Such an approach in the interim would act as a catalyst for more meaningful and long-lasting change.

BILL C-69

Bill C-69 was identified by a several participants as a major competitiveness issue during the consultations. Bill C-69 seeks to overhaul Canada's regulatory process for major development projects by replacing the existing Canadian Environmental Assessment Agency (CEAA) with a broader scope *Impact* Assessment Agency of Canada. It would also replace the current lifecycle regulator, the National Energy Board, with a newly proposed Canadian Energy Regulator. In addition, the Bill also seeks to make consequential amendments to other acts, most notably The *Navigation Protection Act* and *The Fisheries Act*. Bill C-69 would extend to oil and gas pipelines, mining, interprovincial transmission lines, hydroelectric projects, renewable energy development and more.

It is important to frame the discussion on Bill C-69 within its proper context. The SCC's 2018 Economic Outlook member survey asked respondents if they believed the Federal Government was creating a more competitive and attractive environment for business over the past year. One hundred eighty-five (185) members answered the question with 74% of respondents saying no; 18.4% saying they were unsure; and 7.57% stating yes. When a similar question was asked about whether the provincial government was creating a more competitive and attractive environment for business, respondents painted a mixed picture with 38.6% answering yes, 36.4% stating they were unsure, and 25% saying no. Qualitative responses provided by members indicate that Bill C-69 played a major role in members' increasingly negative view of the Federal Government. For the Saskatchewan business community, debate over the Bill C-69 is taking place during a time when the Saskatchewan business community's confidence in the Federal Government's ability to manage resource development projects is at an all-time low.

The main issues of concern with the Bill are the broadened scope of the assessment process to encompass factors beyond the bio-physical environment; the bundling of the impact assessment regime with the lifecycle regulator that will lead to the Bill taking on too much and doing neither aspect well; the concentration of decision-making

62 Ibid. 36.

authority with the Minister of Environment and Climate Change; virtually unlimited opportunity for the Crown to delay what should otherwise be a final decision on a project; and the removal of the National Energy Board's *Standing Test* that would significantly increase the likelihood that stakeholder groups not participating in good faith could derail the hearing process without consequence.

Bill C-69 in its final form contains significant deficiencies and offers no real improvement upon the current legislation, The *Canadian Environmental Assessment Act*, 2012. Consultation participants and Chamber members have generally stated that Bill C-69's deficiencies are so great, that it requires a major rewrite rather than small amendments. Incremental tinkering at the margins simply will not suffice here. As of June 2019, the Federal Government announced that only a minority of the over 180 amendments offered by the Senate Standing Committee on Energy, the Environment and Natural Resources will be adopted. Bill C-69 received royal assent in June 2019. Unfortunately, the Bill's many deficiencies remain, as does the risk that many high-profile projects will be subjected to continuous litigation and delays.

RECOMMENDATIONS:

- That the Government of Saskatchewan establish a framework for developing regulations that are agile, nimble, and more responsive to changes in the marketplace. Specifically, regulations should be outcomes-based; efficient; consistent, transparent; predictable; technologically agnostic; and a catalyst for driving new and innovative business models (pilots and sandboxes). The Government of Saskatchewan should benchmark its own regulatory system against other jurisdictions.
- That individual regulators and regulatory agencies be given a mandate to factor in economic growth and business competitiveness considerations, in addition to already established health, safety, and environmental considerations.
- That all levels of government be required to carry out a full cost-benefits analysis (CBA) when developing new regulations, with special considerations around the cumulative costs and impacts of regulations and standards, particularly for SMEs.
- That the Federal Government take a leadership role in reducing and/or eliminating persistent interprovincial trade barriers. Regulatory misalignment should be remedied ideally by harmonizing and streamlining regulatory processes where there is duplication and overlap. A mutual recognition approach between all levels of government should be adopted in the interim.
- That all levels of government reduce or eliminate regulatory barriers that prevent the uptake or adoption of more energy efficient machinery, equipment, and technologies.
- That both the Federal and Provincial Government build in greater competitiveness protections for EITE industries in Saskatchewan.
- That the federal and provincial government rectify the overlapping costs and impacts among the OBPS and the CFS before the CFS is implemented. Specific measures include:
  - » Making offsets and credits across different fuels streams within the CFS and between the OFS and the OBPS interchangeable so that businesses can comply at the lowest possible cost, and to ensure a viable offset and credit exchange market.
  - » Ensuring offsets and credits available under the Saskatchewan OBPS are designed with interchangeability with the federal OBPS in mind.
  - » Establishing an improved single CFS nationally so as to minimize duplication and reduce compliance costs for businesses.

TRADE UNCERTAINTY AND CONSTRAINED INFRASTRUCTURE CAPACITY

International trade is extremely important to the Saskatchewan business community and the larger provincial economy. Saskatchewan exports approximately 70% of the goods that it produces. As one of the most trade-dependent provinces in one of the most trade-dependent nations, Saskatchewan is disproportionately affected when trade-related disputes arise with major trading partners, particularly the United States and China. The United States and China are Saskatchewan's largest and second largest export markets, valued at $17.3 billion and $4.6 billion respectively in 2018.[63]

The re-opening of the NAFTA file in 2017-18 eventually culminated in signing an agreement-in-principle in October 2018 between Canada the US and Mexico, but only after a series of often tense negotiations. In January 2018, the US levied tariffs on exported Canadian steel (25%) and aluminum (10%) products, and matters were further complicated in April 2019 when the Government of China banned canola shipments from two Canadian canola companies, allegedly due to quality-related concerns. The Canada-China canola dispute is still ongoing. The US tariffs on steel and aluminum products were rescinded in May 2019.

Concerns about trade uncertainty resonate across several sectors in Saskatchewan, particularly among the Regina and Saskatoon Chambers of Commerce, as well as a business operating in the manufacturing sector that was directly impacted by the Trump Administration's tariffs on steel and aluminum. Concerns expressed by representatives of the Regina and Saskatoon Chambers are warranted, as many larger, trade-exposed businesses operating in the steel, agriculture, mining, and manufacturing sectors have offices located in those cities and employ hundreds, if not thousands of people.

In the case of the prospective member business operating in the manufacturing sector, a representative of the company noted that the US tariffs on steel and aluminum increased the cost of sourcing raw materials by 20% to 25% over the course of the year. The representative also noted that it was not unusual to see raw material costs jump 5% to 7% in one month alone. Because the main customers of this manufacturing and fabrication business are other Saskatchewan-based companies that purchase these products for use in their own final products, the additional costs are passed along the supply chain. This has the effect of hampering competitiveness across the entire value chain.

Another major concern articulated by participants related to trade uncertainty has to do with Canada's inability to get its resources to market due to constrained capacity in transportation-related infrastructure. Delays in the construction of the Trans Mountain pipeline expansion project and Enbridge Line 3, along with the cancellation of other high-profile pipeline projects like Northern Gateway and TransCanada's Energy East, have created challenges for the oil and gas sector in Western Canada. Western Canadian oil and gas producers are seeing their resources being traded at a significant discount compared to the US.

The price spread between American West Texas Intermediate (WTI) and Western Canadian Select (WCS) can be partially attributed to the fact that landlocked oil from Alberta and Saskatchewan is unable to reach tidewater and is exported to an already oversupplied US domestic market, resulting in lower prices fetched by western Canadian producers. A representative from the upstream petroleum sector commented that investors are choosing not to invest in Canadian oil and gas precisely because Canadian producers are not getting full value for their resource. This has had negative consequences for investment attractiveness.

63 Government of Saskatchewan. 2019. "Export and Trade." Accessed May 23, 2019. https://www.saskatchewan.ca/business/investment-and-economic-development/exporting-and-trade

A consequence of insufficient pipeline capacity is that oil which would otherwise be shipped via pipeline is instead being shipped by rail. And since transporting oil by rail is more expensive, oil producers earn less per barrel and therefore contribute less into public revenues in Saskatchewan and elsewhere in Canada. Additionally, allocating rail shipping capacity to oil that would otherwise be shipped via pipeline has created domino effects in other areas of the economy. Canadian grain farmers recently experienced this frustration when their harvest exceeded the limited capacity of Canada's rail infrastructure.[64]

The trade-related uncertainty over the past couple years taught the business community two important lessons. The first is the importance of not being overly reliant on any one particular export market and continuing to pursue trade diversification as an overarching economic policy objective. This is particularly true in the case of the US. According to Tim Macklem, Dean of Rotman School of Management at the University of Toronto, over the past 15 years the American share of world GDP has shrunk from one-third to one-quarter.

This means Canada (and Saskatchewan) is losing market share in a US market that is losing its market share at the international level.[65] Proximity and path dependencies have contributed to Canada ignoring the warning signs and doubling down on a market with decreasing clout internationally. A more prudent approach would be to allocate more resources to accessing non-traditional markets and rapidly emerging economies. The second lesson is that a jurisdiction can have a competitive advantage in natural resource wealth, but if it is unable to get those resources to market in a timely and efficient manner, that jurisdiction is squandering its potential.

RECOMMENDATIONS:

- That both the Federal and Provincial Government work collaboratively to pursue trade diversification as an overarching economic policy objective. This means allocating more resources to accessing non-traditional markets and emerging economies.
- That the Federal Government develop a strategy for a state-of-the-art, east-west, national infrastructure corridor (transportation, communications, energy transmission, etc.) to facilitate the delivery of goods and services throughout Canada. This would serve as a atalyst for businesses to expand and scale up.

PROCUREMENT

Procurement policy was identified by multiple participants during consultations as both a challenge and an opportunity to develop a more competitive business climate in Saskatchewan. For the purposes of this section, procurement primarily refers to the business community's ability to bid on tenders and provide goods, services, and works to the government and Crown corporations. However, the scope of these discussions can be applied to large private sector businesses where appropriate. This report will note from the outset some positive developments taking place within the province on procurement. A representative of the renewable energy sector commented that SaskPower has been in the midst of procuring utility-scale renewable energy and has recently indicated its intent to re-establish a much needed multi-year strategy tied to GHG emissions reduction targets. Priority Saskatchewan has demonstrated various best in-class procurement approaches in the recent past, including the promotion of Saskatchewan's supply chain.

64 Trevin Stratton. 2018. "Crystal Ball Report - The Accelerating Pace of Change: Economic, Business, and Policy Outlook for 2019." Canadian Chamber of Commerce. 19.
65 Doug Black and Carolyn Stewart. 2018. "Canada: Still Open for Business?" *Senate of Canada Standing Committee on Banking, Trade, and Commerce*. (October): 21

Participants in Canada's thriving renewable energy industry who have both invested in development and operating assets in Saskatchewan have expressed the need for a comprehensive, multi-year strategy for the province's electricity and energy system. The clean energy sector is among the fastest growing industries in Canada.[66] The clean energy sector in Saskatchewan accounted for about 1% of provincial GDP ($1.1 billion) and just over 5600 jobs in 2017.[67] Establishing a long-term and integrated policy direction for the energy system that includes electricity supply mix would provide industry with enhanced stability and confidence for companies who are deciding if they should invest their development capital in Saskatchewan or elsewhere.

Furthermore, stakeholders throughout the supply chain, particularly SMEs, would have a better sense of how they fit into the larger equation and how to meaningfully participate in the procurement process.

Based on the findings of a Saskatchewan supply chain study carried out by a renewable energy company participating in this study, the province has a strong, successful supply chain with the expertise to support the construction and operation of renewable energy facilities. This includes, but is not limited to, general contractors and subcontractors with engineering, procurement and construction capabilities, as well as professional services that provide geotechnical services, civil design, collector system cable sizing, etc.

Given that the clean energy sector grew faster than the rest of Canada's economy between 2009 and 2017, employed 298,000 people and accounted for $35.3 billion in investment in 2017 alone[68], ensuring that renewable energy companies have confidence in the Saskatchewan market will also ensure that Saskatchewan benefits from the economic growth potential that this sector promises. In other words, not providing policy stability here at home means that Saskatchewan could miss out on a major economic opportunity.

Energy procurement with an Indigenous participation and ownership component can go a long way in contributing to reconciliation with Indigenous peoples by bringing long-term, stable revenues to those communities through revenue, employment, and training opportunities. SaskPower's ongoing procurement process allocates value for Indigenous partnerships in their formal evaluation process.

Participants also stated that procurement processes should provide a fair and level playing field for all proponents; seek to maximize competition in the marketplace; have clear, transparent rules, timelines, and metrics that are auditable and challengeable; have meaningful qualification requirements; consider full lifecycle costs and benefits; and allow developers to build supporting infrastructure. A representative of the construction sector also recommended that timeframes for government tendered construction projects should be aligned with the *actual* construction season in the province. Because government funded projects are typically tendered in the spring following the annual budget cycle, this results in expensive heating and boarding to accommodate masonry construction and other trades during the winter season. This makes the industry less competitive overall.

Energy procurement with an Indigenous participation and ownership component can go a long way in contributing to reconciliation with Indigenous peoples by bringing long-term, stable revenues to those communities through revenue, employment, and training opportunities.

66 Clean Energy Canada. May 2019. "Missing the Bigger Picture: Canada's Green Energy Sector is Growing Faster than the Rest of Canada's Economy. Why Aren't we Talking About it?" SFU Centre for Dialogue.
67 Ibid. 8.
68 Ibid.

With respect to leveling the playing field, a comprehensive strategy should also consider the adoption of technology agnostic procurements. Procurements that identify the system need(s) in terms of capacity and an ancillary services, for example, would not only create a fair competition for all renewable energy resources, but it would tap into the power of ingenuity. It would allow for companies to bring the most viable technology, including the most technically advantageous application and innovative approaches to best support a made in Saskatchewan clean energy transition.

When designed and implemented properly, government and Crown corporation procurement policies can promote a competitive business development climate by sending signals to the marketplace through long-term policy direction that will offer businesses and Indigenous communities in the province greater confidence in planning for future investment decisions. Enhanced predictability in this regard can act a catalyst for building out local supply chains. Government and Crown corporations here can serve as the critical first customers or early adopters of Saskatchewan-based solutions. Once businesses in Saskatchewan gain the requisite knowledge and experience bidding on and winning government or Crown tendered projects, homegrown businesses are able to bid competitively on tenders elsewhere.

RECOMMENDATIONS:

- That SaskPower, SaskEnergy, and the Government of Saskatchewan develop a multi-year, comprehensive energy procurement strategy, with a specific focus on how the increased integration of renewable sources will fit into the larger electrical grid going forward. This would provide industry with enhanced predictability and stability for companies making long-term investment decisions in the province. Enhanced predictability can act a catalyst for building out local supply chains.
- That all levels of government ensure their procurement process provide for a fair and level playing field for all proponents; seek to maximize competition in the marketplace; have clear, transparent rules, timelines, and metrics that are auditable and challengeable; have meaningful qualification requirements; consider full lifecycle costs and benefits; and allow developers to build supporting infrastructure.
- That all levels of government, Crown Corporations, and the private sector, engage in meaningful consultation based on mutual respect with Indigenous communities (be it directly or through an arm's length economic development corporation) around government procurement or resource development projects. Doing so will benefit Indigenous peoples by bringing long-term, stable revenues to those communities through equity, employment, and training arrangements. Ultimately, when Indigenous people succeed, we all do.

INNOVATION

As referenced earlier, Saskatchewan and Canada as a province and country respectively have generally performed lacklustre in recent years on a number of different indicators related to capacity for innovation. This includes such areas as productivity, public and private R&D spending, venture capital investment and ICT investment. A May 2019 report from the Institute for Research on Public Policy (IRPP) noted that Canada as a whole faces two innovation-related challenges: declining productivity growth and anemic private and public investment in R&D relative to other OECD countries.[69] The Canadian business community has traditionally been a laggard in embracing and adopting the latest technologies as well.[70] Generally speaking, Canada's relatively well-performing education system, robust scientific infrastructure, and pockets of scientific research excellence have failed to translate into

69 Jakob Edler. 2019. "A Costly Gap: The Neglect of the Demand Side in Canadian Innovation Policy." *IRPP Insight* 28. (May): 2.
70 Ibid. 4

"The nature of work is changing rapidly – globalization, technological advances, and changes to materials and processes are massively disrupting longstanding industries and occupations... In the 21st century economy, staying competent will require continuous, work-integrated learning opportunities."

strong innovation performance on the global stage.[71]

A representative from the province's technology sector provided valuable commentary on the innovation-related challenges facing the province: the tech sector in Saskatchewan has experienced sudden and rapid growth in recent years, particularly in Saskatoon. SaskTech is the newly established association representing the province's tech sector. SaskTech has more than 53 member companies operating across the province that support over 2000 jobs.[72] Due in part to the rapid growth of the sector along with a shortage of available talent, SaskTech is forecasting over 200 possible job openings by the end of 2019. SaskTech companies also averaged 100% year-over-year growth in 2018.[73] Similar to the province's legacy industries of oil, gas, mining, and agriculture, the technology sector in Saskatchewan predominantly serves the export market.

Compared to most other industry associations that participated in this study, SaskTech is unique in that it does not believe taxes are a competitiveness challenge. In fact, SaskTech assumes that existing taxation levels and possibly even heavier taxation is needed to support the infrastructure necessary to attract and retain high-quality workers to the province's tech sector. The employee base of the companies comprising SaskTech are generally well-paid and do not complain about tax rates, and nor do its constituent businesses see taxation as major barrier to innovation or scaling up at this time. So, while concerns around personal and corporate income tax rates certainly do resonate with many sectors within the Saskatchewan business community, it is important to keep in mind that it does not apply uniformly across all business sectors.

At the outset of the consultations, the tech sector representative acknowledged some positive developments taking place regrading innovation in Saskatchewan. The first was the *Saskatchewan Technology Startup Incentive* (STSI), a non-refundable 45% tax credit aimed at investors, as well as the development of the Co. Labs and Conexus Cultivator tech incubators located in Saskatoon and Regina respectively. The representative also noted that Saskatchewan is able to differentiate itself from larger technology clusters in places like Silicon Valley, Kitchener-Waterloo, or Toronto in terms of cost of labour. Tech companies here can hire high-quality employers at lower costs. In fact, the loaded cost of hiring a high-quality tech sector employee in Saskatchewan is about a quarter of the cost compared to that of Silicon Valley.

71 Ibid.
72 "Outlook: Tech in Saskatchewan." *Industry West Magazine*. Spring 2019. Issue 1 vol. 3. 44 - 45.
73 Ibid.

Some of the competitiveness challenges articulated included shortcomings of the Federal Government's *Scientific Research & Experimental Development* (SR&ED) tax credit, as well as the difficulties experienced by the industry around intellectual property (IP) arrangements with the research community. Both Canada and the United States offer tax credits aimed at incentivizing R&D activity. This is because activities associated with R&D typically create well-paying jobs and drive growth in productivity, which is badly needed both at the provincial and federal level.[74] As an aside, it is worth noting that recent tax reforms in the US have eroded the attractiveness of Canada's SR&ED tax credit.

The tech sector representative noted that his own organization made extensive use of the SR&ED tax credit when the company was in its early stages and credits the SR&ED tax incentive as important to the development and survival of many early-stage firms. However, a limitation of the SR&ED tax credit experienced by many businesses, including the technology sector representatives' own firm is that the design of the tax credit prevents large businesses from deriving any benefit after a certain point.[75] This is because Canadians SMEs are entitled to a refund of up to 35% on the first $3 million of qualifying expenditures, but large companies receive considerably less.[76]

The tech sector representative lamented this aspect of the tax credit and recommended that it be available to *all* businesses, regardless of size. Another shortcoming of the SR&ED tax credit is that it is administratively burdensome and time consuming for businesses to comply with. Program administration by the Canada Revenue Agency has earned a reputation for failing to deliver tax credits in a predictable timely and cost-efficient way.[77] The increasing administrative complexity of the SR&ED discourages uptake as well. The second problem articulated by the province's tech sector relates to IP arrangement issues between private industry and the academic research community. The current arrangement structure acts as a disincentive for private industry to partner with researchers on projects because the partnering post-secondary research institution essentially owns everything. This is not surprising as it speaks to the larger problem of Canada's issues with commercializing IP both at the domestic and international level.[78]

Innovation can also be driven through the application of aspirational building codes and standards that signal a move toward increased efficiency, higher safety standards, better quality, and advanced technology. A representative for the construction sector noted that there was a dearth of long-term resiliency and durability standards and architectural controls within the province. The government can leverage its role as both a regulator and major purchaser of construction services to incent industry toward greater innovation in this regard. Some specific measures suggested by the construction sector include establishing best-value procurement guidelines; enhancing required education and training standards for trades; requiring Certificate of Recognition (COR) occupational health and safety standards as a minimum barrier for entry; requiring contractors working on government sites to agree to share data and best practice across projects; and directing investment into industry-led strategic initiatives between the construction industry and the research community on enhancing competitiveness.
By incentivizing the industry to improve their performance through aspirational but feasible codes and standards, businesses can create additional value for money for customers, which is manifested in healthier industry margins.

74 The Impacts of US Tax Reform on Canada's Economy." *Price Waterhouse Cooper*. 7.
75 "The Business Case for Investing in Canada's Remote Communities." *Canadian Chamber of Commerce*. September 2011. 35.
76 Canada's Economic Strategy Tables. 2018. "The Innovation and Competitiveness Imperative: Seizing Opportunities for Growth." *Innovation and Science, and Economic Development Canada.* (September): 18.
77 "The Business Case for Investing in Canada's Remote Communities." *Canadian Chamber of Commerce*. 35.
78 Doug Black and Carolyn Stewart. 2018. "Canada: Still Open for Business?" *Senate of Canada Standing Committee on Banking, Trade, and Commerce.* 18.

RECOMMENDATIONS:

- That the Federal Government reform the administration of the *Scientific Research & Experimental Development* (SR&ED) tax credit to make it attractive for all businesses (large and small) investing in innovation.
- That all levels of government consider driving innovation through the application of aspirational but feasible building codes and standards that signal a move toward increased efficiency, higher safety standards, better quality, and advanced technology. Governments and Crown corporations can leverage their role as both a regulator and major purchaser of construction services to incent the industry toward greater competitiveness. Enhanced codes and standards should be developed with extensive industry consultation.
- That both levels of government facilitate discussions between the province's post-secondary research institutions and private industry to help resolve the existing IP arrangement challenges between both parties. Any reforms should ensure that the private industry partner receives fair and equitable treatment on IP ownership. Incentivizing researchers working in appropriate disciplines (i.e. STEM) to partner with private industry to commercialize new ideas and technologies should be encouraged. Strategic research partnerships between private industry and the research community should be further harnessed to drive innovation.

WORKFORCE DEVELOPMENT AND ACCESS TO SKILLED LABOUR

A reoccurring competitiveness challenge echoed across several sectors is that many recent graduates are not equipped with the necessary work-related skills and competencies that employers today need. According to a Canada's Economic Strategy Tables' report, there is a deep disconnect in Canada between an educational provider's perception of graduate job market readiness and that of employers. The study reported that 83% of education providers believed that recent graduates were adequately ready for the job market. Only 34% of employers agreed.[79] The gap between what employers need from workers versus what is being taught must be addressed.

During consultations representatives across several sectors told the SCC that employers are paying closer attention to essential skills or what were previously regarded as "soft" skills when considering new hires. These include everything from basic literacy, basic numeracy, interpersonal communications, and cultural understanding, to time management, critical thinking, problem-solving, and adoption of new technology. Ninety two percent (92%) of recuiters surveyed in a 2019 study conducted by RBC stated that essential skills mattered as much or more than hard skills.[80] Employees who possess such skills tend to be more competent on the job, are more engaged with their work, enjoy higher levels of productivity, and are more likely to complete tasks safely.[81] The representatives noted that technical skills can be learned on the job, while essential skills are *foundational* and need to be acquired prior to joining the workforce.

To offer an illustrative example, the construction sector representative noted that individuals and businesses working in the industry frequently lack the adaptiveness skills necessary for the

79 Canada's Economic Strategy Tables. 2018. "The Innovation and Competitiveness Imperative: Seizing Opportunities for Growth." 14.
80 RBC. 2019. "Bridging the Gap: What Canadians Told us About the Skills Revolution." *RBC Thought Leadership*. (May): 4.
81 Janet Lane and Jeff Griffiths. 2017. "A Pan-Canadian Case fir Competency Frameworks." Canada West Human Capital Centre. (February): 3.

evolutionary steps its takes to enhance innovation and competitiveness. This is because the skills required to master any one specific trade or occupation are usually unrelated to skills required to effectively manage other trades or successfully operate a business. As a consequence, talented entrepreneurs and leaders working within the sector often struggle to successfully rise through the ranks or diversify. For the construction sector, this is symptomatic of larger industry fragmentation manifested in silos between the design and construction phase and within the building trades. This leads to highly specialized building trades and companies drawn together on an ad-hoc basis that are not well placed to adapt to changing market conditions. The ad-hoc nature of of such arrangements can lead to inefficiences as well. The province's construction industry in this regard lags behind current labour market trends suggesting the distinctions between and within industries, occupations, and vocational trades will continue to blur or breakdown over time.[82]

The tech sector in Saskatchewan has addressed issues related to workforce development in other ways. Because the tech sector has experienced rapid growth in a very short period of time, attraction and retention of skilled workers has become a top priority due to the need for a critical mass of talent before the sector can sustainably grow and scale up. The tech sector has focused its advocacy and outreach efforts on eliminating barriers through reforms to education, such as reorienting the K-12 system toward technology, robotics, and coding in applied areas; collaborating with curriculum developers to revise secondary school computer science programs; working with both universities, Saskatchewan Polytechnic, and the Saskatchewan Indian Institute of Technologies (SIIT) to develop course offerings and certification programs; and outreach to underrepresented peoples, including women, Indigenous communities, and newcomers.

Despite these promising collaborative efforts between the tech sector, education providers and the research community in Saskatchewan, this is not the norm across Canada – in fact, fewer than 10% of all Canadian employers collaborate on a regular basis with education providers and are usually not involved in conversations around curriculum design.[83] To borrow an example from the construction sector, the industry during consultations with the SCC recommended the government facilitate an industry-led applied research initiative with post-secondary research institutions like the University of Saskatchewan or Saskatchewan Polytechnic. This could take the form of direct investment in research to refine codes and standards, the development of new and better building materials, or even the creation of a local school of architecture.

The nature of work is changing rapidly – globalization, technology, as well as changes to materials and processes are massively disrupting longstanding industries and occupations. Historically speaking, employers have relied on formal education and credentials, like degrees, diplomas, and industry certifications as proxies for assessing skills. However, many employers today are finding that formal credentials do not necessarily translate into competence. For many employers, formal credentials and discipline-specific knowledge are no longer enough.[84] Based on current labour market trends, essential skills, particularly literacy, will become increasingly important in an age where humans will need to compliment and collaborate with technology. In fact, research from the Canada West Foundation's Human Capital Centre suggests that literacy is a better indicator of an individual's ability to learn and adapt than other indicators, including educational attainment, which tends to be a static indicator.[85] As the boundaries between and within industries and occupations continue to blur, future workforce development strategies

82 Ibid.
83 Canada's Economic Strategy Tables. 2018. "The Innovation and Competitiveness Imperative: Seizing Opportunities for Growth." 14.
84 Don Drummond. 2019. "Universities and the New World of Work: A Strong Relationship with Room for Improvement." Johnson Shoyama Graduate School of Public Policy. (June): 1.
85 Janet Lane and T. Scott Murray. 2019. "What Now? The Literacy Hustle: How Learning to Learn Skills Help People Survive in a Changing Workplace." Canada West Foundation Policy Brief. (February): 2.

will need to seriously consider modular, stackable transferable skills and competencies. This can take the form of micro-badging and gamification approaches that are transferrable across different industries and occupations. Staying up-to-date on skills will necessitate lifelong, work-integrated learning (WIL) opportunities. Going forward, workforce development programs should be industry-led, demand driven, outcomes-focused, align tasks with the right skillsets, and employ a competency-based approach.

RECOMMENDATIONS:

- That all levels of government, particularly the Government of Saskatchewan ensure the importance of essential skills are clearly communicated and acted upon with all relevant government ministries. Metrics and other key performance indicators (KPIs) should be established to measure outcomes related to essential skills. A proactive engagement strategy with underrepresented segments of the workforce including women, Indigenous peoples, and newcomers should be developed.
- That the Government of Saskatchewan and post-secondary institutions collaborate with private industry in co-developing redesigned curriculum. In addition to emphasizing essential skills, K-12 curricula should incorporate more STEM and computational based learning opportunities, like coding, robotics, and technology, along with mandatory courses in financial literacy and entrepreneurship. Education and training that incorporates modular, stackable competencies, microbadging and gamification, etc. should also be explored.
- That the Federal Government through Employment and Social Development Canada (ESDC) more regularly review its National Occupation Classification (NOC) matrix as the boundaries between and *within* industries and occupations continue to breakdown.

SUMMARY OF SCC RECOMMENDATIONS FOR ENHANCING BUSINESS COMPETITIVENESS

TAXATION:

- That the Federal Government appoint a Royal Commission to undertake a comprehensive review of the tax system, in light of significant changes to the Canadian economy since the last Royal Commission almost 50 years ago. The overarching principles guiding the review should be enhancing competitiveness, broadening the base, neutrality, simplicity, and fairness. Ideally, business tax structures should be reformed to incentivize companies to grow and expand, not stay small.
- That the Federal Government provide a dedicated service for small business to resolve ongoing disputes with the Canada Revenue Agency (CRA).
- That all levels of government establish a pathfinder concierge service that creates a single point of contact to assist businesses navigate regulations, support programs, and tax incentives. The Federal Government's announcement in June 2019 regarding the launch of the Canada Business App designed to help businesses more easily interact with the federal government is a positive step in this regard.
- That the Provincial Government in consultation with the Federal Government and business stakeholders look to reform Saskatchewan's current GST/PST consumption tax regime by means of a harmonized sales tax (HST) or at very least, provide a quazi-refund option for Saskatchewan businesses to receive a credit on their inputs.
- That the Provincial Government avoid sudden and drastic increases to crown resource land lease fees, as well as other resource sector taxes and fees by engaging in regular, predictable, and meaningful consultations with stakeholders well *beforehand* so that businesses have time to adjust

to gradually phased in fee increases. This could be accomplished through the establishment of a formal, pre-budget consultation process with industry stakeholders similar to that of other provinces. Such a process should employ a whole-of-government approach

- That the Provincial Government convene a panel of independent experts to review the effectiveness of the current potash royalty rate regime. The overarching principles of such a review should be ensuring competitiveness, fairness, simplicity, efficiency, and minimizing distortionary economic behaviour.

REGULATIONS

- That the Government of Saskatchewan establish a framework for developing regulations that are agile, nimble, and more responsive to changes in the marketplace. Specifically, regulations should be outcomes-based; efficient; consistent, transparent; predictable; technologically agnostic; and a catalyst for driving new and innovative business models (pilots and sandboxes). The Government of Saskatchewan should benchmark its own regulatory system against other jurisdictions.
- That individual regulators and regulatory agencies be given a mandate to factor in economic growth and business competitiveness considerations, in addition to already established health, safety, and environmental considerations.
- That all levels of government be required to carry out a full cost-benefits analysis when developing new regulations, with special considerations around the cumulative costs and impacts of regulations and standards, particularly for SMEs.
- That the Federal Government take a leadership role in reducing and/or eliminating persistent interprovincial trade barriers. Regulatory misalignment should be remedied ideally by harmonizing and streamlining regulatory processes where there is duplication and overlap. A mutual recognition approach between all levels of government should be adopted in the interim.
- That all levels of government reduce or eliminate regulatory barriers that prevent the uptake or adoption of more energy efficient machinery, equipment, and technologies.
- That both the Federal and Provincial Government build in greater competitiveness protections for EITE industries in Saskatchewan.
- That the Federal and Provincial Government rectify the overlapping costs and impacts among the OBPS and the CFS before the CFS is implemented. Specific measures include:
    - » Making offsets and credits across different fuels streams within the CFS and between the CFS and the OBPS interchangeable so that businesses can comply at the lowest possible cost, and to ensure a viable offset and credit exchange market.
    - » Ensuring offsets and credits available under the Saskatchewan OBPS are designed with interchangeability with the federal OBPS in mind.
    - » Establishing an improved single CFS nationally so as to minimize duplication and reduce compliance costs for businesses.

INTERNATIONAL TRADE AND TRADE-ENABLING INFRASTRUCTURE

- That both the Federal and Provincial Government work collaboratively to pursue trade diversification as an overarching economic policy objective. This means allocating more resources to accessing non-traditional markets and emerging economies.
- That the Federal Government develop a strategy for a state-of-the-art, east-west, national infrastructure corridor (transportation, communications, energy transmission, etc.) to facilitate the delivery of goods and services throughout Canada. This would serve as a catalyst for businesses to expand and scale up.

PROCUREMENT

- That SaskPower, SaskEnergy, and the Government of Saskatchewan develop a multi-year, comprehensive energy procurement strategy, with a specific focus on how the increased integration of renewable sources will fit into the larger electrical grid going forward. This would provide industry with enhanced predictability and stability for companies making long-term investment decisions in the province. Enhanced predictability can act a catalyst for building out local supply chains.

- That all levels of government ensure their procurement process provide for a fair and level playing field for all proponents; seek to maximize competition in the marketplace; have clear, transparent rules, timelines, and metrics that are auditable and challengeable; have meaningful qualification requirements; consider full lifecycle costs and benefits; and allow developers to build supporting infrastructure.

- That all levels of government, Crown corporations, and the private sector, engage in meaningful consultation based on mutual respect with Indigenous communities (be it directly or through an arm's length economic development corporation) around government procurement or resource development projects. Doing so will benefit Indigenous peoples by bringing long-term, stable revenues to those communities through equity, employment, and training arrangements. Ultimately, when Indigenous people succeed, we all do.

INNOVATION

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- That the Federal Government through Employment and Social Development Canada (ESDC) more regularly review its National Occupation Classification (NOC) matrix as the boundaries between and within industries and occupations continue to breakdown.

CONCLUSION

As Canada enters into a period of slowing GDP growth, profound social and technological disruption, and changing macroeconomic fundamentals, the need for a business competitiveness strategy is more relevant than ever. The policy recommendations contained in this report should serve as a starting point for policymakers and business to work together to build a more competitive business climate in Saskatchewan and across Canada. This document is the blueprint for that action.

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SASKATCHEWAN
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SASKATCHEWAN 2020 AND BEYOND

A BLUEPRINT FOR BUSINESS COMPETITIVENESS

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