

## CANADA

The GDP-per-capita gap with the United States has not improved in recent years due to weak productivity developments. Over the past few years, corporate income and capital taxes have been cut, but reforms are still needed, notably in the areas below.

### Priorities supported by indicators

#### **Reduce barriers to competition in network industries**

Substantial barriers to competition and innovation remain in network industries, such as postal services, telecommunications and electricity. Besides negatively affecting consumer choice and welfare, these raise the cost of doing business in other industries and hamper productivity growth.

**Actions taken:** There has been no significant progress in integrating electricity markets and opening them up to competition. In telecommunications, the recent auction of wireless spectrum should help to enhance competition. There has been no progress on liberalising postal services.

**Recommendations:** Move toward more competitive wholesale and retail electricity markets. Encourage competition in regulated telecommunications markets by implementing the recommendations of the Telecommunications Policy Review Panel. Undertake postal-sector reform by reducing or eliminating legislative monopoly protections and by privatising Canada Post, while maintaining universal service obligations through targeted regulatory or financing schemes.

#### **Further reduce barriers to foreign ownership**

Restrictions on foreign direct investment remain higher than in the majority of OECD countries, in particular in telecommunications, broadcasting and air transport. These hamper investment and slow the diffusion of new technology and best management practices, with adverse effects on productivity.

**Actions taken:** The Competition Policy Review Panel released its report in July 2008, with recommendations to liberalise the review process for all foreign investments, notably by lifting the financial threshold and ending discrimination in certain sectors by transferring the onus from the investor to the minister, who must show why a transaction should not take place.

**Recommendations:** Further reduce barriers by eliminating ownership restrictions in telecommunications and transport, and by allowing a majority of board members to be non-residents in sectors where this is currently not allowed. Implement the Panel's recommendations to end most sectoral restrictions on foreign direct investment.

#### **Further reduce barriers to competition in professional services**

Around 50 professions and 100 trades are regulated in one or more provinces. This limits inter-provincial trade in services and impedes the geographical mobility of skilled labour.

**Actions taken:** Implementation of the Trade, Investment and Labour Mobility Agreement (TILMA) between Alberta and British Columbia is helping to reduce barriers to trade in these two provinces, notably in professional services. This agreement is also encouraging the federal government and some provinces (such as Quebec and Ontario) to renew efforts to fully implement the Agreement on Internal Trade (AIT), which commits to remove all such barriers in all provinces by April 2009.

**Recommendations:** Continue to work towards full labour mobility as stipulated in the AIT. Beyond that, aim for a new pan-Canadian agreement with TILMA's basic architecture, which features a presumption that all measures fall within its scope unless explicitly excluded.

### Other key priorities

- **Employment insurance.** Reform the Employment Insurance system by introducing a firm-level employer experience rating or scaling back access to unemployment insurance for seasonal and temporary workers, and by eliminating regionally differentiated provisions.
- **Tax system.** Reduce remaining non-neutralities in the business tax system, notably by eliminating the tax preferences for small firms, and move the tax base further toward a consumption base.

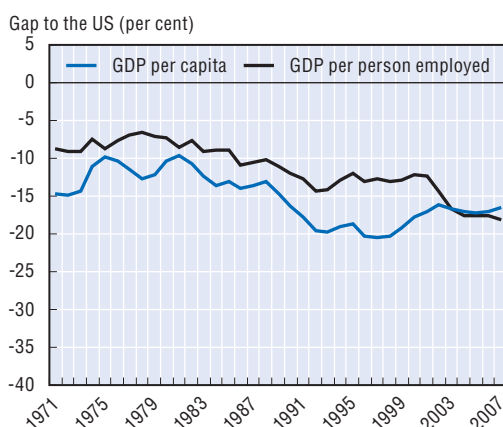
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## Structural indicators

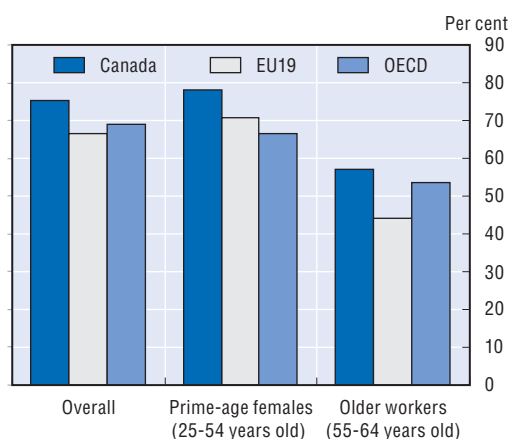
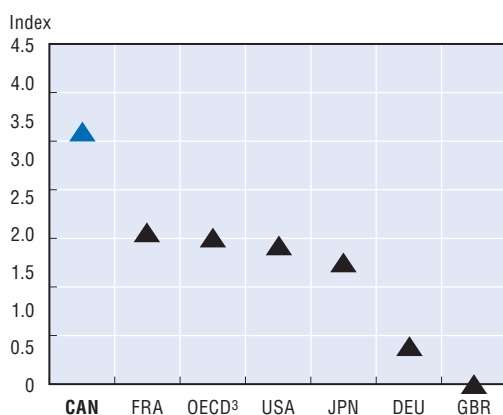
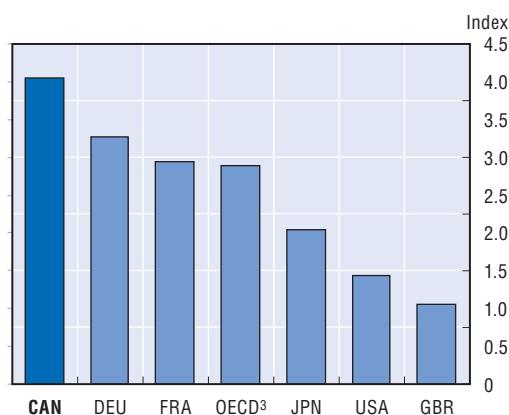
Average annual trend growth rates, per cent

	1997-2007	1997-2002	2002-2007
GDP per capita	1.9	2.2	1.6
Labour utilisation	0.6	0.6	0.6
of which: Employment rate	0.8	0.8	0.8
Average hours	-0.2	-0.2	-0.1
Labour productivity	1.3	1.6	1.0
of which: Capital intensity	0.8	0.9	0.8
Multifactor productivity	0.4	0.6	0.2

Source: Estimates based on OECD Economic Outlook, No. 84, Vol. 2008/2.

A. The gap in GDP and productivity has persisted in recent years<sup>1</sup>

B. Employment rates are relatively high, 2007

C. Regulatory barriers to competition in the electricity sector are high, 2008<sup>2</sup>D. Entry regulations in professional services are restrictive, 2008<sup>2</sup>

1. Percentage gap with respect to US GDP per capita and per person employed (in constant 2000 PPPs).

2. Index scale of 0-6 from least to most restrictive.

3. Excluding Greece, Ireland and the Slovak Republic.

Source: Chart A: OECD, National Accounts Database; Chart B: OECD, Labour Force Statistics Database; Charts C and D: OECD, Product Market Regulation Database.

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