

## CANADA

*Despite buoyant employment in recent years, the GDP-per capita gap vis-à-vis the United States remains substantial, reflecting to a large extent lower productivity levels.*

### Priorities supported by indicators

#### **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.

**Actions taken:** In April 2006, Alberta and British Columbia signed a comprehensive agreement to enhance trade in goods and services between the two provinces, providing mutual recognition of occupational certifications in both provinces. In September 2006, the federal government, all provinces and two territories agreed to achieve, by April 2009, compliance with the labour mobility provisions of the Agreement on Internal Trade for all existing regulated occupations.

**Recommendations:** Dismantle the remaining obstacles to inter-provincial trade and reduce the number of “regulated occupations”.

#### **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 management practices.

**Actions taken:** In late 2006, the government made a commitment to review its foreign investment policy framework, including the screening mechanism under the Investment Canada Act. Earlier in 2006, the Telecommunications Policy Review Panel recommended a phased liberalisation of foreign-ownership restrictions in that sector. Also the 2005 “open-skies” agreement with the United States has been up-dated and expanded.

**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.

#### **Liberalise the electricity market**

Electricity markets are exposed to limited competition in most provinces, suppliers are often vertically integrated and public ownership is prevalent. Only two provinces have well-developed retail markets.

**Actions taken:** Modest progress has been made in some provinces. In October 2005, Ontario introduced peak-load pricing for residential consumers through the Regulated Price Plan.

**Recommendations:** Develop competitive retail markets in all provinces and allow markets to set prices. Increase integration across both provincial and North American electricity markets.

### Other key priorities

- Reform the Employment Insurance system by introducing firm-level employer experience rating or by imposing longer waiting periods for benefit entitlement so as to reduce cross-subsidies between businesses that have favoured those engaged in temporary or seasonal activities.
- Further improve the tax system by abolishing remaining provincial taxes on firms’ ownership of capital and by switching from provincial retail sales taxes to value-added taxes. The corporate tax base should also be broadened and the same effective tax rates be applied to all businesses, regardless of size or sector of activity. Such measures would complement the recent and announced future reductions in federal and provincial corporate tax rates and provide additional stimulus to business investment.