

The Intersection of Main and Bay: Driving Canada's Competitive Advantage

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for

The Economic Club of Toronto

Wednesday, September 26, 2007

Toronto, Ontario

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CANADIAN BANKERS ASSOCIATION
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Introduction:

Good morning and thank you Tim (Hockey) for the warm introduction. And thank you Mark for the invitation to speak at the Economic Club of Toronto.

I am pleased to see so many old and new friends and colleagues in the room, particularly those of you from the banking community.

Now, many of you have been working in the financial services sector for many years, whereas I am just reaching my 100th day as the head of the Canadian Bankers Association. I'm not sure if I should worry about the significance of 100 days, but I'm hoping it means that I've passed muster and I get to stay on for many more 100-day terms!

Even though I've only been at the CBA for such a short time, I recognize that the opportunities and challenges facing Canadian businesses, such as banks here on Bay Street, are very similar to those facing businesses on Main streets throughout Canada. In fact, we're all much more alike than we sometimes realize with respect to the issues we face.

With that in mind, I want to focus on one such issue today – that is, Canada's competitiveness and how to drive a Canadian advantage. And, how to ensure that this advantage can be sustained over time in a fiercely competitive global environment.

Driving Competition:

What does it mean for Canada to become one of the most competitive jurisdictions and its businesses global champions? And, what will it take to achieve it?

It means creating quality jobs, attracting investment and talent, encouraging innovation, and building a strong tax base that can support the social programs we hold dear.

Canada's advantage is not simply an advantage for business, but for all Canadians. The success of business, no matter the size and regardless of location, is important to the success of Canada's economy and ultimately the standard of living of all Canadians.

We all have a role to play in improving Canada's competitiveness.

The Banking Sector: Contributing to the Economy and Prosperity

If we look at the banking sector, I can tell you that we are a major driver of Canada's economy and of local economies across the country. In fact, many people think of the banking sector as a Bay Street business – and we should be proud of our presence here in Toronto – but it also has a vital presence on Main streets in just about every community in Canada.

Let's look at the numbers for a moment.

Banks directly employ a quarter of a million Canadians in communities large and small in every province and territory. While the banking industry represents 1.4 per cent of all employees in Canada, our employees generate over 3 per cent of the country's GDP.

And here in Ontario, banks are a major force in the economy. If we examine the past ten years, the economy grew by almost 36 per cent whereas the banking sector grew by more than 44 per cent.

While banks have a solid foundation in Canada, they also have a window on the world. Last year, over 40 per cent of Canadian bank earnings were generated outside of Canada. At the same time, over 80 per cent of bank employees were located in Canada and 80 per cent of taxes were paid here.

The six largest banks paid more than \$6.4 billion in taxes in Canada in 2006. This amount is equivalent to the budgets for the federal departments of Agriculture, Foreign Affairs and International Trade combined in 2006, with some money left over. In fact, the banking industry pays more in corporate income taxes than any other industry in Canada.

Last year, banks helped nearly 1.2 million Canadian entrepreneurs turn their ideas into reality with more than \$81 billion in financing.

Virtually every Canadian shares in this success. Bank stocks are an important part of many public and private pension plans. Every member of the Canada Pension Plan is, whether they know it or not, a shareholder in Canada's banks. Canadians are more than just bank customers, they are bank owners.

I would also like to brag for a moment by saying that our banking system is the envy of the world. We are respected globally and we have a reputation that is second to none. All Canadians should be proud of our banking sector.

The Banks – Competition within the Sector:

There are some who may say, oh, but who are the banks to talk about competitiveness at all? Aren't there really only five banks in Canada?

My response to them is: maybe you haven't been paying attention. There has been a massive change in banking in the past few years with an array of new entrants and brand new financial institutions that we couldn't even have imagined 10 or 15 years ago.

Today we have over 70 banks in Canada including several virtual banks like ING, and Citizens Bank of Canada. Some of the largest banks in the world are here in Canada such as HSBC. We also have banks that are owned by a grocery store chain, an automotive and house wares retailer, a network of insurance brokers, and by credit unions and a life insurance company.

In short, there is a great deal of competition in Canada's banking industry and the intensity is only going to increase. And who is the beneficiary? The Canadian consumer, with access to a growing array of products and services, prices that are among the most affordable in the world, and wide choice among providers.

But, can more be done to enhance the environment in which banks and other businesses compete? Can government and business, working together, really drive a Canadian advantage? With all hands on the wheel, I believe the answer is a clear yes.

Government Framework:

Which brings me to my next point – the role governments play in setting the framework for success, for keeping Canada competitive and creating long-term prosperity.

Our tax system, our regulatory system and other key areas such as competition rules, both domestically and internationally, as well as regulations governing the labour market all have an impact on business decisions.

Let's take a minute and look at the federal level where there are several opportunities for increasing Canada's competitiveness, or at least have the discussion and get some good ideas on the table. Next month, Prime Minister Harper will be introducing the government's new priorities in the Speech from the Throne.

Finance Minister Flaherty is also scheduled to provide an economic and fiscal update this fall, and then there is the federal budget in early 2008.

And with a minority government we could even have an election in the coming months. Whenever it happens, we certainly expect our federal leaders to put forward sound proposals for making Canada more competitive.

In the meantime, the federal finance and industry ministers together have recently created the Competition Policy Review Panel. Through it, the country will have an opportunity to explore in-depth what we can do to foster a Canadian advantage.

In addition, there are two other panels we are expecting the federal government to announce – the tax fairness and competitiveness panel and the Common Securities Regulator Panel. These three panels give us an opportunity as business, to discuss how we can work cooperatively with the federal government to ensure Canada's place in the global economy.

The Competition Policy Review Panel is starting off on the right foot, with some very good questions, such as: What will make for strong Canadian-based and headquartered companies that can compete internationally?

If we look at Canada's competitiveness from an international perspective, we see many challenges.

Canada ranks 16th in the World Economic Forum's global competitiveness index with the biggest of the G-7 ahead of us. Canada also dropped from 13th position in the year before. This is based on a survey of over 11,000 business leaders. The World Economic Forum also ranks Canada poorly in terms of tax rates and regulations.

While there are many aspects to competitiveness that I could discuss, such as trade policies and labour market issues, I would like to take a moment and talk about our country's tax structure and our regulatory policies.

Taxes:

Let's start with taxes, one of my favourite topics. Regardless of the industry, regardless of the location in Canada we need to ensure that our tax environment is as competitive as possible. In fact I believe we should be aiming to make Canada the most competitive country – ensuring that we have a competitive tax advantage over other countries, which we certainly don't have at the moment.

Indeed, The C.D. Howe Institute's 2007 Tax Competitiveness Report noted that Canada has the eleventh highest effective tax rate on capital among 80 industrialized and leading developing countries.

I can't emphasize enough that corporate taxation in Canada should, at a minimum, be competitive with other key jurisdictions, but preferably create an advantage for Canadian firms. We all know that global competition reaches into every community in Canada. This means that if we as a country are to give our businesses a competitive tax edge, then all levels of government in Canada need to participate and contribute to achieving this goal.

Unfortunately, Canada still has a relatively high combined federal-provincial corporate income tax rate at 34.2 per cent. Even though it is scheduled to fall to closer to 30 per cent by 2011, the current average in OECD countries is already lower at 28 per cent. Of course other countries are not likely to remain static as they continually compete to attract investment.

In the face of such competition, we believe that Canada must continue on the path already started by the federal government of reducing taxes, but if we are to create the tax advantage that we all want, then these tax cuts must be deeper and happen sooner. At the federal level, the CBA is recommending that the scheduled reductions in the corporate income tax rate should be accelerated and then reduced even further to 16.5 per cent by 2012.

Turning to Ontario, I see that the NDP is suggesting higher taxes on business and banks. Mr. Hampton must remember that businesses create jobs, pay taxes and create wealth for the province and the country. You can't raise taxes without consequences.

Instead of raising corporate taxes we are encouraging the next government in Ontario to speed up the elimination of the capital tax and make corporate income tax rates more competitive. Ontario is not alone on this front. More can be done by other provinces as well, such as British Columbia.

And when it comes to personal income tax, we need to be more competitive as well to attract and retain a viable labour force. Perhaps even more urgently, we need to make the best use of the resources that we have, and that includes creating incentives to work. A tax system that encourages a strong work ethic through economic rewards will increase Canada's global competitiveness.

While relief for all tax brackets should be addressed in the future, we believe that the short-term focus should be on reducing the tax burden for the lowest income tax bracket. You might be surprised to know that there are workers in this bracket who face the highest marginal effective tax rate on their income. It's time for governments to leave more money in the taxpayers' pockets.

We at the CBA will continue to make a competitive tax regime a priority for Canada. As long as other countries are ahead of Canada on this front we will continue to put forward suggestions about how to create a Canadian advantage.

Regulatory:

One of my other favourite topics getting lots of debate recently is regulatory efficiency and what it means for Canada's competitiveness. This is an issue the banks know all too well. Essentially, banks are affected by everything from bylaws to Basel.

On the domestic side, bank financial groups must comply with some 50 federal, provincial and territorial departments, agencies and authorities. The sector is also affected by another 150 other regulators and agencies. Countless municipal bylaws also touch banks.

On the international side, banks are currently facing an unprecedented number of large complex regulatory compliance projects, for example, to name a few, there are:

- Changes to international accounting standards,
- Adopting updated global capital adequacy standards (Basel II), and
- Anti-money laundering/terrorist financing regulations.

And it isn't just banks that are regulated in Canada. Certainly, the regulatory environment will continue to be a key challenge for all businesses. From City Hall to Queen's Park and of course on Parliament Hill, a new regulation is born practically every day.

Instead of thinking up new regulations we need a system that is more flexible and more focused on market-based solutions. What is needed in Canada is a regulatory environment that is less prescriptive and intrusive. Our governments should recognize that the best regulator is in fact a competitive marketplace.

We would also like to see clear direction from governments that they will regulate only when necessary and only when analysis has shown that the benefits of the regulation outweigh the cost and that there is a real need for it.

When talking about regulatory reform, the country's need for a common securities regulator certainly ranks high. Not only are Canadians paying to maintain 13 separate regulatory bodies, the cost to business of complying with 13 sets of rules is substantial.

The CBA recently did a study of small- and medium-sized firms raising capital in Canada. Based on the results of our research we found that the current regulatory structure imposes unnecessary costs and inefficiencies on SMEs. More importantly, we determined that a common securities regulator would lower the cost of capital for SMEs, reduce their fees for complying with so much regulation and improve their nationwide access to investors.

It is quite unfortunate that some provinces are not willing to give up their local fiefdoms for the benefit of Canadian entrepreneurs and for the economy of Canada as a whole. Their proposals under the passport system of securities regulation may be a step in the right direction – and we do recognize that they are taking important steps to make it easier for firms to raise capital – but it is still a second-best solution. The passport system still imposes the same infrastructure, costs, and fees of the current multiple regulatory system, and builds in a confusing and overlapping enforcement system.

Now, I know some people don't like this reference but it is nonetheless true that the only other country without a national-level securities regulator is Bosnia-Herzegovina. No offence to the people of Bosnia-Herzegovina, but we really should stop our family feud in Canada and come together on a common securities regulator.

It doesn't make sense to put Canadian companies at a competitive disadvantage and expect them to shoulder the burden of supporting a fragmented regulatory system. But that is exactly what is happening right now and we need to put an end to it.

In addition, while free trade in securities is being discussed will Canada be at the table to negotiate arrangements? We have to be. The question is how can Canada – with 13 securities regulators and no single voice speaking on its behalf – negotiate effectively with the US?

The CBA and its members have been advocating publicly for a common securities regulator for quite some time now, as have a wide range of other business, investor and consumer groups across the country. For years, we have called upon the provinces to put aside their differences and make common cause for the good of the economy. Unfortunately, that has not come to pass.

And so, we may be approaching the time when the federal government, when Minister Flaherty, may need to take further action to break the logjam on this issue and undertake the necessary fundamental reforms to how our capital markets are regulated.

Minister Flaherty has shown leadership on this issue – he has endeavoured to work with the provinces on common solutions and he has agreed to form an expert panel to advise on possible approaches. All good steps, but the time may be coming when more concerted action is necessary, and we would fully support him if he took the steps necessary to put in place a single securities regulator.

Conclusion:

My time is running out this morning and I should let you get to the office.

I have covered a lot of ground since there are many elements that make up Canada's competitive advantage. I highlighted just a few areas that we believe should receive the focus of our attention and action.

It would make me very happy if our governments commit to take action in these areas. If they do, then Canada will, without a doubt, be the investment location of choice, and attract head office jobs and we would ensure that Canadian-based companies are able to compete with the best in the world.

And as I've said many times this morning, our competitive advantage must include all businesses whether they are on Bay Street or Main Street.

When I look around this room I know that our firms and our sector are already making a significant contribution to the economy and to Canada's competitiveness. Can we do more? Of course and we will. I am also confident that if we work with governments at all levels we can make Canada not just more competitive but the most competitive economy globally.

Thank you.