



**Helping Canadian Businesses Achieve Sustainability, Innovation and Growth:
UPS Canada's Pre-Budget Submission for Federal Budget 2017**

Presented to the Department of Finance

By

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INTRODUCTION

UPS welcomed announcements in the federal government's inaugural 2016 budget which set important groundwork for advancing Canada's sustainability, trade and growth objectives. As the federal government continues to shape its growth and innovation priorities in the 2017 budget, UPS respectfully submits the following recommendations, aimed at positioning Canadian businesses to experience sustainable global growth, innovation, and interconnectedness through technology and fluid supply chains.

Summary Recommendations:

1. Work with the provinces to align purchase incentives for alternative fuel fleet across Canada.
2. Invest in Canada's trade infrastructure.
3. Help Canadian businesses succeed online.
4. Set conditions for Canadian businesses to succeed as importers and exporters.

Recommendation #1: Work with the provinces to align purchase incentives for alternative fuel fleet across Canada

UPS applauds the Government of Canada's proactive investment in last year's federal budget of \$62.5 million over two years to Natural Resources Canada to support the deployment of infrastructure for alternative transportation fuels, including natural gas and hydrogen fueling stations. This investment will go a long way in helping transportation companies transition to alternative fuels and adapt to new regulations and standards for clean transportation technology.

While this investment is significant, UPS believes new infrastructure must be complemented with financial incentives to help transportation companies make the costly transition to alternative fuel vehicles. For example, each new CNG package car will cost UPS approximately \$91,700 CAD as compared to a new gasoline-powered package car cost at \$72,000 CAD. A new CNG tractor costs approximately \$230,500 CAD, and an LNG tractor costs \$214,800 CAD, compared to a diesel tractor which costs approximately \$159,783 CAD.

UPS has successfully transitioned many fuel fleets around the world; however, our most comprehensive and effective transitions have happened in partnership with governments. Companies like UPS will be able to offset some of the capital cost associated with transitioning by working in partnership with Quebec and Ontario, under incentives provided by Ontario's Climate Change Action Plan, and Quebec's Écocamionnage program and Energy Policy 2030. Unfortunately, Quebec and Ontario are the only provinces offering varied incentives.

In last year's federal budget, Transport Canada, and Environment and Climate Change Canada, were allotted \$56.9 million over two years, starting in 2016–17, to support the transition to a cleaner transportation sector, including through the development of regulations and standards for clean transportation technology. UPS recommends that the two departments leverage their national leadership and focus part of that investment on a pan-Canadian strategy in support of stable, consistent incentives to help Canada's transportation sector transition to alternative fuel

fleet, including LNG, CNG and propane vehicles. Specific policies could include federal tax credits and/or tax exemptions on natural gas vehicles, federal grants, and/or purchase vouchers.

Recommendation #2: Invest in Canada's trade infrastructure

UPS commends the work the Minister of Transport has undertaken to consult Canadians on the future of Canada's transportation system. As the government looks to open Canada's trade corridors to global markets, it is essential that future federal budgets allocate funding to enable Canada's aging trade infrastructure to stay competitive with other regions that are rapidly scaling up their respective trade infrastructure.

Not only do new trade infrastructure projects provide immediate stimulus, they provide lasting employment for Canadians by opening the doors for Canadian exports to rapidly growing middle class markets in India, China and Vietnam. UPS supports the recommendation put forward by the Canadian Chamber of Commerce in their June 2016 paper, *The Infrastructure that Matters Most: The Need for Investment in Canada's Trade Infrastructure*, to make trade infrastructure an equal priority in the \$120-billion Federal Infrastructure Plan, and to renew the federal commitment to trade corridor strategies to improve the efficiency of Canada's national supply chains.

Recommendation #3: Help Canadian businesses succeed online

Next to its competitors, Canada has been relatively slow to innovate in the digital commerce sphere. Canadian businesses have been reluctant to adopt the technologies necessary to keep up with the growing demand amongst Canadian consumers for purchasing products and services online. In 2013—the most recent year for which Statistics Canada completed a study on digital technology and Internet use in the country—just 13% of Canadian businesses were selling online¹. Not only is it essential that Canadian businesses do better at accessing the domestic market, it is also imperative that they do not miss opportunities to capitalize on emerging markets abroad. In 2014, global business-to-consumer (B2C) e-commerce sales hit \$1.5 trillion, driven by growth in emerging markets, while Asia-Pacific surpassed North America to become the world's largest regional e-commerce market.²

Canadian retailers and businesses as a whole are not prepared to take on the digital imperative required to survive and compete in today's rapidly changing economy. In Canada, 18% of retailers still do not have a website, while 89% of Canadians are making digital purchases. Only 36% of retailers plan to increase their online investment in the next two years.³ Canadian businesses need support in expanding their online and mobile user bases, understanding e-commerce marketing, advancing shipping and payment options, and pushing their brands into

¹ Canadian Business, February 2016. <http://www.canadianbusiness.com/innovation/canada-ecommerce-innovators/>

² eMarketer, February 2014. <http://www.emarketer.com/Article/Global-B2C-Ecommerce-Sales-Hit-15-Trillion-This-Year-Driven-byGrowth-Emerging-Markets/1010575#sthash.wyMdzj1f.dpuf>

³ Report: "Cities as Warehouses: The Survival of Main Street Retail in a Digital World", Yellow Pages 2016, <https://futureoflocalretail.yip.ca/en/#form>

emerging markets. As the federal government continues to earmark funding under its \$800 million commitment to the new Innovation Agenda, UPS recommends funds are allocated to help Canadian businesses enhance their digital strategies, to ensure Canadian companies are positioned to take full advantage of new global markets that are only accessible online.

Recommendation #4: Set conditions for Canadian businesses to succeed as importers and exporters

In today's highly integrated economy of cross-border supply chain clusters, imports *and* exports play a vital role in Canada's productivity. At the end of 2015, Canada's exports of goods and services were 31% as large as Canada's gross domestic product (GDP) and amounted to \$611 billion.⁴ While exporters still contribute the bulk of the economic activity, imports are an increasingly important factor in Canada's productivity growth. Between 2000 and 2007, a remarkable two-thirds of Canada's effective productivity growth can be attributed to intermediate inputs produced abroad.⁵

Undoubtedly, pro-active export policies remain essential. To that end, the government can position Canadian businesses for success through continued investment in the Canadian Trade Commissioner Service to help small-to-medium businesses expand their global footprint. However, the above-mentioned figures also emphasize the need for policies that recognize an increasing number of Canadian businesses are importing in order to export. As more of Canada's successful exports involve foreign inputs, it is important for customs import policies to avoid what Joy Nott, President of I.E. Canada, the Canadian Association of Importers and Exporters, describes as "supply chain echo", whereby "much of the thinking in Canadian trade policy mistakenly presumes that the supply chain ends with customs clearance. In reality, the red tape that occurs after firms import is a tangled web of regulations that can feel overwhelming for many Canadian businesses that trade internationally."⁶

UPS Canada supports I.E. Canada's recommendation⁷ for an international trade policy that includes imports as an important part of the supply chain, and supports a more fluid, less-siloed approach to Canada's import/export policy where administrative policy; export policy; international trade negotiations; and tariff policies do not fall under four separate government departments, as they do currently.

Alan Gershenhorn, UPS Executive Vice President and Chief Commercial Officer, has observed that a sector and a country that finds ways to reduce supply chain costs "now sees their future in increasing value, improving service, driving innovation and integrating with complex customer value chains. That shift drives a rethinking of supply chains toward smarter order fulfillment, easier returns, manageable risk, reduced lead times, more flexibility and more collaborative planning." To that end, UPS recommends that program initiatives under Canada's Innovation

⁴ Statistics Canada, Table 380-0070, Exports and imports of goods and services.
<http://www5.statcan.gc.ca/cansim/pick-choisir?lang=eng&p2=33&id=3800070>

⁵ John R. Baldwin and Beiling Yan, May 28th, 2015, Trade and Productivity: Insights from Canadian Firm-Level Data, Institute for Research and Public Policy. <http://irpp.org/research-studies/aots6-baldwin-yan/>

⁶ Nott, Joy. <http://irpp.org/wp-content/uploads/2016/02/AOTS6-Nott.pdf>

⁷ Nott, Joy. <http://irpp.org/wp-content/uploads/2016/02/AOTS6-Nott.pdf>

Agenda also consider supply chain services, management and processes as a crucial aspect of Canada's innovation goals; programs that encourage adoption of new technologies and efficient practices will contribute to repairing Canada's productivity gap.

POLICY EXAMPLE: FINDING EFFICIENCIES IN THE SUPPLY CHAIN

ONE PRACTICAL MEASURE TO INCREASE SUPPLY CHAIN EFFICIENCY IS TO ALLOW THE CANADIAN BORDER SERVICES AGENCY (CBSA) TO ACCEPT AN ELECTRONIC SIGNATURE UNDER THE CUSTOMS BROKER GENERAL AGENCY AGREEMENT (GAA). THIS WOULD ALLOW FREER MOVEMENT OF GOODS FOR CANADIAN COMPANIES THAT RELY ON IMPORTS. WHEN THE GAA WAS FIRST ESTABLISHED, ELECTRONIC SIGNATURE TECHNOLOGY WAS NOT AVAILABLE. SINCE THEN, IT HAS BECOME COMMON PRACTICE IN BUSINESS TRANSACTIONS TO SUBSTITUTE AN ELECTRONIC SIGNATURE FOR A "WET-INK" SIGNATURE. MODERNIZING CBSA PROTOCOL TO ACCEPT AN ELECTRONIC SIGNATURE FOR A GAA WOULD REDUCE THE NUMBER OF GOODS HELD AT THE BORDER, WHILE HARD COPY FORMS ARE EMAILED, PRINTED, SIGNED, SCANNED AND SENT BACK TO THE BROKER. MOVING TO AN ELECTRONIC GAA REMOVES THE ADMINISTRATIVE BURDEN OR REGULATORY "RED TAPE" FOR CANADIAN IMPORTERS AND IMPROVES THEIR COMPETITIVENESS AS IT HELPS COMPANIES TO EASILY ESTABLISH A CONTRACT WITH A LICENSED CUSTOMS BROKER TO CLEAR THEIR GOODS WITH CBSA.

CONCLUSION

In many ways, UPS is on the front lines of Canadian business development. From the small start-up to the large public company, UPS helps Canadian businesses engage with their customers around the corner, across the country and around the world. As the world's largest operator and supplier of logistics services, UPS connects Canadian businesses with the global community.

UPS shares the federal government's commitment to helping Canadian businesses realize their expansion, innovation and prosperity goals. Similarly, UPS shares this government's commitment to growing Canadian business in a clean, sustainable fashion, so that we may contribute to the health and prosperity of generations to come. We look forward to working in partnership with the Government of Canada to realize our many shared objectives.

ABOUT UPS

Headquartered in Burlington, Ontario, UPS has served Canada since 1975, and was UPS's first expansion outside of the United States. UPS employs more than 12,000 Canadians. UPS has a fleet of nearly 3,000 package cars, tractors and shifters, of which 32 per cent of the power fleet run on low-emission propane.

Through its years of operation in Canada, UPS has built a wide portfolio of services and a strong network infrastructure from coast to coast to coast. UPS has been the United Way's largest corporate contributor since 2000, and UPS employees have donated more than 70,393 volunteer hours to over 400 charitable agencies across Canada.

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