International Financial Centre
BRITISH COLUMBIA
newsletter

September 2007

Thanks to Deloitte and Raymond James for sponsoring the 12th Annual Golf Tournament and to all members who donated prizes.

Congratulations to the winning team

Pictured from left to right: David Grewal, Alban Lo, Bob Fairweather, Mo Larson, and Mike Thorpe.

Congratulations to the contest winners

Winners of the longest drive and KP contests collect their prizes from Bob Fairweather.

At the 2007 BIO International Convention

Pictured from left to right: Bob Fairweather, York Guo (Welichem), and John Webster (Welichem).

'Green' Credit Trading: A New *IFAA* Activity?

Bob Fairweather, President, IFC BC

The IFC BC is exploring ways in which the *International Financial Activity Act (IFAA)* can be used to help establish British Columbia as a market leader in emissions trading, making it an important North American centre for 'green' trading.

The goal of emissions trading is to reduce greenhouse gases that cause climate change. Companies emitting pollutants are issued credits for the right to emit a specific amount of a pollutant, and those polluting beyond the issued allowance must purchase credits. The underlying assumption is that supply is generated by companies that can easily reduce emissions; alternatively, demand is created by firms that have difficulty meeting targets. In essence, firms that are slower to reduce emissions subsidize companies that achieve emission reduction, and greenhouse gasses are reduced for all at the lowest possible costs. The cap can be lowered over time or a portion of traded credits retired, causing a net reduction in emissions each time a trade occurs.

By including profits earned on trading emissions credits as a qualifying activity under the *IFAA*, companies would find British Columbia a cost effective location to transact this global business. Not only does the West Coast time frame give it an added advantage, but the province is known for its leadership in promoting environmental protection and action on climate change.

Green Brain Currency: The ROI for New Media

Lynda Brown, President, New Media BC

The green movement is making great strides towards environmental awareness and demonstrating the need for sustainability. We are now in a reactive state to hopefully repair some of the damage done to our shared planet. That said, what kind of sustainable, new industries will leave a lighter footprint on the earth? Where are these promised knowledge economies and does their potential hold true?

In a knowledge economy, brains are the currency. New media is all about brains and we have a lot of them right here in British Columbia. But we're starting to lose some of our assets and our currency is starting to slide. One of our most promising, green, sustainable, knowledge based industries is facing a crisis of their own.

Digital media – often called new media – is basically interactive digital content. It makes up the products and services that Canadians use every day to educate, inform and entertain themselves. Digital media includes mobile content, e-learning, interactive design, Web 2.0, digital film and animation, and digital entertainment. Canadian digital media companies are even developing groundbreaking products for medical simulation, defense applications and lifelong learning.

There are over 3000 companies that employ more than 52,000 people in Canada, generating strong annual revenues upward of $5.1 billion. These companies are recognized as some of the world leaders in digital media, developing products and applications that include electronic games, digital animation and film, e-learning, interactive design, web development and mobile content.

In British Columbia alone, there are over 1100 digital media companies that employ approximately 15,000 people generating $1.7 billion annually. The majority of these jobs are located in Vancouver, which is recognized as one of the biggest game development clusters per capita in the world – with over 160 game-related companies. Although Vancouver is home to the largest global game development studio, most digital media companies are small to mid-size enterprises struggling to compete in an aggressive global marketplace.

The digital media sector has bootstrapped its way to success and shouldered the risks inherent in a new industry. The sector has not asked for handouts or subsidies, privileges nor priorities. But as the sector has grown, so has the competition.

Within Canada, other regions provide substantial training, apprenticeship, wage and labour subsidies. These initiatives have attracted new business, talent and international partnerships to strengthen considerably smaller clusters. They

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Canada's Capital Taxes

Capital taxes were originally instituted in Canada as a means of ensuring that all corporations would pay tax—even those shifting profits to another jurisdiction. Canada is one of the few countries imposing a tax on capital; only five other OECD countries levy this tax.

By its very nature, the capital tax discourages investment and may be at least partly responsible for Canada's lagging productivity. According to a recently published 44-year study by Statistics Canada, "Investment in capital, rather than gains in worker skills or technological change, was the most important factor in the growth in labour productivity in the business sector during the past four decades." *(Statistics Canada, Study: Investment And Long-Term Growth In Labour Productivity June 2007).* In addition, capital intensive industries are called upon to bear a greater share of the tax burden, resulting in fewer and smaller capital intensive companies—precisely the type of investment that Canada needs to encourage. And unlike income tax, capital taxes are payable whether the business is profitable or not.

As a per cent of revenue collected, Saskatchewan stands alone in that the amount it collects on capital tax exceeds 2 per cent of revenue. In British Columbia, the tax represents less than 1 per cent, 0.35 per cent to be exact. *(Statistics Canada, 2007)* Yet while the amount collected barely registers, its impact can be enormous. According to the OECD, "Welfare gains from cutting capital taxes are more than twice as large as those that would arise from cutting statutory corporate tax rates." *(OECD Economic Surveys: Canada; 2006).* Evidence suggests that capital taxes do indeed result in reduced capital investment. A 1997 paper prepared for the Department of Finance found that the cost of capital was higher in Canada than the U.S. over the 25-year period from 1971 to 1996 due at least in part to taxes, but the increased cost of capital had a negative impact on relative equipment investment. *(Taxes, the Cost of Capital, and Investment: A Comparison of Canada and the United States, 1997).* Given these findings and in light of its low contribution to revenue, why has the provincial government been so slow to reduce or eliminate this tax?

As shown in Tables 1 and 2, the capital of industry and financial institutions are taxed at differing rates. While the federal capital tax was eliminated as of January 1, 2006, two years earlier than originally scheduled, all provinces, with the exception of Alberta, impose capital tax in varying amounts. Many provinces are moving towards reducing or eliminating the capital tax on corporations, although with the exception of Ontario and Quebec, this is not true for financial institutions. In BC, capital tax on general corporations was eliminated in 2002, but the tax for financial corporations remains 3% for companies with net paid up capital in excess of $1 billion. With the recent incentives offered by the federal government, provincial governments may be encouraged to eliminate capital taxes on all corporations—including financial institutions, opening provinces up to capital investment and resulting in future growth.

Table 1: Capital Tax on Corporations

	2007	**2008**	**2009**	**2010**
AB	- %	- %	- %	- %
BC	**-**	**-**	**-**	**-**
NL	-	-	-	-
PE	-	-	-	-
ON	.285	.285	.225	.150
SK	.300	.150	-	-
QC	.490	.360	.240	.120
MB	.500	.500	.400	.400
NS	.250	.250	.225	.200
NB	.200	.100	-	-

Table 2: Capital Tax on Financial Institutions

	2007	**2008**	**2009**	**2010**
AB	- %	- %	- %	- %
ON	.855	.855	.675	.450
QC	.980	.720	.480	.240
BC	***3.00***	***3.00***	***3.00***	***3.00***
MB	3.00	3.00	3.00	3.00
NB	3.00	3.00	3.00	3.00
SK	3.25	3.25	3.25	3.25
NL	4.00	4.00	4.00	4.00
NS	4.00	4.00	4.00	4.00
PE	5.00	5.00	5.00	5.00

Source: TD Economics, Provincial and Federal Governments.

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have also created an uneven playing field that makes the value proposition for BC companies harder and harder to validate. Studio expansions and company growth strategies are looking elsewhere with a resulting loss of jobs and revenues to the province.

From an international perspective, aggressive strategies have been established to artificially grow digital media clusters and attract head offices from around the world. Earlier this year, Singapore announced an investment of more than $200 million dollars in the domestic digital media sector alone. Malaysia and Korea have heavily invested in the infrastructure, training and support to help digital media companies flourish. Australia has been extremely innovative in developing commercialization programs and France has fostered a large videogame sector. In Canada, the digital media sector is still largely misunderstood and effective policy development is lagging.

An industry taskforce was established this past May to identify ways to keep the digital media cluster competitive and strong in British Columbia. Industry leaders from the music, film and digital media sectors are working collaboratively on a progressive strategy for the province. British Columbia can truly be a global leader in digital media but needs recognition from the government that new media is a strategic industry for the province. We have some of the best brains employed in this sector, however we run the risk of letting this talent slip away. The time to act is now. Without strategic and proactive sector development initiatives, we will see employment in this industry decline and companies relocate. Economic growth in sectors that use brain power is the new reality, and digital media is one of the most promising pieces in the sustainability puzzle.