

**CABINET DECISION DOCUMENT  
SUMMARY DECISION DOCUMENT**

**MINISTER:**

**Honourable Rick Thorpe, Minister of Competition, Science and Enterprise**

**IDENTIFIER NUMBER: 02/02A**

DATE: August 13, 2001

**TITLE:**

Eliminating Subsidies to Business - scope of review.

**DECISION DOCUMENT**

This submission has a series of decisions to set the scope of the review, including:

- Definition of a subsidy;
- Definition of a business;
- Treatment of indirect subsidies;
- Treatment of tax credits and holidays;
- Treatment of federal government cost-sharing programs;
- Treatment of past expenditures; and
- Treatment of exemptions based on those offered by competing jurisdictions.

Depending on the options chosen, subsequent submissions will be developed to further advance these decisions.

**CURRENT STATUS/BACKGROUND:**

In A New Era for British Columbia, the Government stated that within 90 days of being sworn into office, the Government will act to initiate a commitment to "eliminate all government subsidies to businesses that give some companies an unfair advantage over their competitors in British Columbia."

**OPTIONS:**

Options are presented for each of the seven issues noted above. The options frequently centre on whether certain measures are to be included in the review or considered elsewhere (i.e., Core Review process).

**RECOMMENDED DECISIONS:**

**Definition of a subsidy:** Option 1 - focus on direct financial benefits to businesses provided on a selective basis.

**Definition of a business:** Option 2 - include in the review both for-profit businesses and sector organizations, community or regional development programs. Subsidies for sector organizations, and community or regional development groups will be the subject of a separate Cabinet Submission.

**Treatment of indirect subsidies:** Option 3 - do not include R&D fellowships and scholarships in the review, but do include venture capital tax credits, in so far as the issue of fairness among these programs is concerned.

**Treatment of tax credits and holidays:** Option 2. Do not review tax policy as a business subsidy.

Any consideration of tax credits and holidays would be done as part of normal Ministry of Finance budget process.

**Treatment of federal government cost-sharing programs:** Option 2 - Include in the review those federal cost-shared programs where they are perceived to provide a subsidy to an individual business.

**Treatment of past expenditures:** Option 2. Review past expenditures to determine which can be recovered by government. Ministries will be asked to provide a list of possibilities within 15 days of Cabinet's decision.

**Treatment of exemptions based on those offered by competing jurisdictions:** Option 1. Exempt subsidies to industry sectors where required for British Columbia companies to compete on a level playing field nationally and internationally. Do not provide any individual business subsidies, even when there are no direct competitors within the province.

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**GOVERNMENT VALUES/PRIORITIES:**

The New Era document outlines a ten-point vision, which includes a thriving private sector economy that creates high-paying job opportunities and the fastest growing technology industry in Canada. Measures to help attain this encompass personal and corporation tax changes, reducing the regulatory burden and ensuring the workforce has the needed education and skills.

**DECISIONS ON SETTING SCOPE OF THE REVIEW**

Government plays many roles in today's economy and interacts with many different groups and sectors, using a range of policy instruments. Some of these are seen as possible direct subsidies but others are less apparent. As a result, opinions can vary widely about what constitutes a subsidy and this creates challenges for this review. To carry out the review in a consistent and comprehensive manner, a series of initial decisions is being sought.

## **Decision 1. Definition of a Subsidy**

A subsidy is a government program or activity, which transfers a benefit to an individual for-profit business, or a selected group of businesses, beyond that which would be provided by the marketplace. A subsidy could be financial or non-financial. Non-financial subsidies include provision of information and services, which are widely available to businesses in general or within a sector (e.g., export market development, investment promotion and film location services).

Two elements are needed for a subsidy to be present: (a) economic advantage - there is a benefit being provided to an individual, specific company or organisation at less than commercial terms and (b) selectivity - the government is exercising some discretion in selecting which firms within an industry or sector will receive the benefit.

### **Options:**

1. Focus review on direct financial benefits to businesses provided on a selective basis.
2. Include both direct financial benefits and non-financial benefits derived from government economic development services. If non-financial benefits are to be reviewed, this will be the subject of a new Cabinet Submission.

**Recommended Decision: Option 1 - focus on direct financial benefits to businesses provided on a selective basis as opposed to non-financial benefits.**

## **Decision 2. Definition of a Business**

Businesses typically include for-profit enterprises such as incorporated companies, proprietorships, partnerships and cooperatives.

A wider definition of the business sector could also include economic development organizations (e.g. Economic Development Association of British Columbia), industry associations (e.g. Wine Institute of British Columbia), and regional or community business groups (e.g. Greater Vancouver Economic Partnership). In this latter group, benefits of a program are usually shared among a group of businesses and may, therefore, not be considered a subsidy that creates an unfair advantage.

Some programs, however, provide an identifiable financial benefit passing through to some businesses but not all of their competitors (e.g. business loan programs).

### **Options:**

1. Focus review only on individual for-profit businesses.
2. Include in the review programs that support sector organizations and community or regional development groups.

**Recommended Decision: Option 2 - include in the review both for-profit businesses and sector organizations, community or regional development programs. A separate Cabinet Submission will deal with programs for sector organizations, and community or regional development groups.**

## **Decision 3. Treatment of Indirect Subsidies**

This type of subsidy does not involve a direct financial benefit to a business, although the business receives a benefit as a result of a government program or activity. Two examples are:

- In the high technology area, scholarships, fellowships and university grants managed by the Science Council may provide research assistance of benefit to a company or assist a company in the cost of an applied research project. These are typically in the high tech, engineering or science fields.
- In the venture capital area, tax credit programs provide equity capital for small enterprises, usually in targeted sectors, and sometimes matched by the federal government. Although individual businesses benefit, the credits themselves flow to individual investors, not the businesses.

There is, however, a possible issue of fairness and equity in the way in which different venture capital tax credit programs are dealt with by government, and this should be reviewed.

Minister Collins has stated that: "government-funded research and technology grants, such as those dispensed by Genome British Columbia and the Science Council of British Columbia, will not be affected because they do not benefit one company over another.

As well, having an independent body decide who gets these funds takes politics out of the process, ensuring qualifying standards are based on merit and not favouritism." (Business in Vancouver, May 29, 2001)

#### **Options:**

1. Include indirect subsidies in the review. An additional Cabinet Submission will be prepared to reflect this option.
2. Do not include in the review indirect subsidies, such as R&D fellowships and scholarships and venture capital tax credits.
3. Do not include R&D fellowships and scholarships in review, but do include venture capital tax credits in the review, in so far as the issue of fairness among these programs is concerned.

**Recommended Decision: Option 3 - do not include R&D fellowships and scholarships in the review, but do include venture capital tax credits in so far as the issue of fairness among these programs is concerned.**

#### **Decision 4. Treatment of Tax Credits and Holidays**

Tax credits are available to businesses within some sector groups (e.g. manufacturing, mining exploration, film) to encourage investment in the province.

In addition to tax credits, the government also provides tax exemptions or holidays for some sectors (e.g. farm fuel tax, mining exploration tax credit, oil and gas royalty holiday, etc.) and a two-year income tax holiday for new small businesses.

Minister Collins has stated that: "there is in British Columbia, for example, a competitive tax structure set up for the film industry, which is something we are comfortable with because it does not favour any one company. We are trying to make sure that a sector can compete globally. That is not a subsidy." (Business in Vancouver, May 29, 2001)

#### **Options:**

1. Include tax policy in the review of business subsidies. A Cabinet Submission will be prepared in consultation with the Ministry of Finance to reflect this decision.
2. Do not review tax policy as a business subsidy. Any consideration of tax credits and holidays would be done as part of normal Ministry of Finance budget process.

**Recommended Decision: Option 2. Do not review tax policy as a business subsidy. Any consideration of tax credits and holidays would be done as part of normal Ministry of Finance budget process.**

#### **Decision 5. Treatment of Federal government cost-sharing programs**

Some projects funded under these programs may disproportionately benefit some companies (e.g., proposed cruise ship terminal at Prince Rupert), but may have additional spin-off benefits to the economy. Canceling provincial participation in programs cost-shared with the federal government will usually result in the loss of federal funding to British Columbia; however, the Province needs to ensure that the federal government does not drive provincial policy positions.

#### **Options:**

1. Do not include cost-shared programs with the federal government but examine projects on a case-by-case basis to determine their effect on the competitive business environment. Decisions would be based on provincial strategic priorities.
2. Include in the review those federal cost-shared programs where they are perceived to provide a subsidy to an individual business.

**Recommended Decision: Option 2 - Include in the review those federal cost-shared programs where they are perceived to provide a subsidy to an individual business.**

#### **Decision 6. Treatment of Past Expenditures**

A number of past government decisions have resulted in funds being deposited in arms-length agencies for disbursement to for-profit businesses, but funds have not been fully committed. For example, agricultural trust funds governed by private sector boards have been established for Vancouver Island and the Peace region. Another example is Green Economy program funds held by the Science Council. The government has, however, been clear that it does not want to break the spirit of legitimate agreements.

#### **Options:**

1. Do not include if government funds have already flowed to the organization or there is a signed contract with the organization, and decisions on future expenditures are made by an arms-length governing entity.
2. Review past expenditures to determine which, if any, can be recovered by government.

**Recommended Decision - Option 2. Review past expenditures to determine which, if any, can be recovered by government. Ministries will be asked to provide a list of possibilities within 15 days of Cabinet's decision.**

#### **Decision 7. Treatment of Exemptions Based on Practices Across Canada or Internationally.**

Maintaining some competitive programs for certain British Columbia sectors may be desirable to ensure they can continue to compete on a level playing field nationally and internationally. In these cases the issues may be about the level of assistance provided by the province relative to that provided by competing jurisdictions or whether the assistance benefits primarily an individual business or the sector as a whole.

Five examples where there has been a long history of federal and provincial government funding:

- Tourism/trade promotion;
- Agriculture;
- TV and film production;
- Culture; and
- Science and technology.

Determining what is a level playing field for British Columbia businesses relative to businesses in other provinces is not, however, always as clear as the examples above. In some areas where an individual business obtains assistance it may be debatable whether that subsidy provides an unfair advantage or it may be desired in order to enhance the Province's strategic competitiveness. For example:

- A British Columbia company wants to diversify and develop a new product or perform value-added work, and there is no other existing company in British Columbia that would be competing in that new niche market. Other jurisdictions provide assistance; should British Columbia?
- A company decides to make a major new "greenfield" investment in British Columbia in an area where no other existing British Columbia firms are active. Other jurisdictions are offering assistance, should British Columbia?
- A company wants to do a pilot project, where government funding can be used to reduce the risks involved in the first commercialization of a new process. This often occurs at an existing firm, but not all in a sector can likely participate.

Tax credits or holidays can sometimes be used to provide a competitive advantage, but there may be cases where a proposed venture has no competitors in the Province, or is a pilot, involving leading edge innovation and does not qualify for a tax credit. In these cases, other forms of assistance or participation may be considered in the context of the Province's strategic vision.

#### **Options:**

1. Exempt subsidies to industry sectors where required for British Columbia companies to compete on a level playing field nationally and internationally. Do not provide any individual business subsidies, even when there are no direct competitors within the province.
2. Exempt subsidies for industry sectors, which are required to enable competition on a level playing field nationally or internationally. Leave open the possibility to exempt assistance to individual businesses where the proposed venture has no competitors in the Province, or is a pilot, involving leading edge innovation, and does not qualify for a tax credit.

**Recommended Decision: Option 1. Exempt subsidies to industry sectors where required for British Columbia companies to compete on a level playing field nationally and internationally. Do not provide any individual business subsidies, even when there are no direct competitors within the province.**

## **CONSIDERATIONS & IMPLICATIONS:**

### **Financial Management Considerations**

As a part of the review, ministries will be asked to identify current program budget levels. Potential budgetary savings can be identified as the review progresses.

### **Legislative and Legal Considerations**

Ministries and agencies will be asked to identify what steps may be required to terminate programs. It is expected most initiatives other than tax measures could be eliminated by administrative direction and will not require legislated amendments.

## **CONSULTATIONS:**

### **Public Inclusion**

As this is a New Era commitment, it has been open to public discussion for a considerable time.

The timeframe proposed for the review does not allow for further significant or extensive public consultation. In some cases, agencies may be able to liaise with industry associations and business groups or a representative sample of stakeholders. In the course of the review, various interested groups will learn the scope and nature of the work. It is expected that some groups will mount campaigns to protect programs and activities that are of particular benefit to them.

### **Inter-Ministry Consultations**

This submission has been reviewed by the following ministries and agencies:

Advanced Education  
Agriculture, Food and Fisheries and Fisheries Renewal BC  
Community, Aboriginal and Women's Services  
Energy and Mines  
Finance/ Treasury Board staff  
Forests and FRBC  
Human Resources  
Skills Development and Labour  
Water, Land and Air Protection  
Crown Agencies Secretariat  
Intergovernmental Affairs

## **RECOMMENDED DECISIONS:**

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(Original signed)  
Minister of Competition, Science and  
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