Crisis Working Group Report: Business Continuity and Trade

Communiqué #8: Accelerate Infrastructure Projects and Adapt Restructuring Processes

To help Canadian governments confront the public health and economic crisis resulting from COVID-19, the C.D. Howe Institute has established several working groups to rapidly distill expert policy advice. The Working Group on Business Continuity and Trade is co-chaired by Dwight Duncan (Senior Strategic Advisor at McMillan LLP and former Ontario Minister of Finance) and Jeanette Patell (Vice-President of Government Affairs and Policy for GE Canada). Its membership includes industry experts and economists. Daniel Schwanen, Vice-President, Research, and Grant Bishop, Associate Director, Research, at the Institute support the group. Meeting weekly, it identifies and prioritizes policy challenges and communicates members' views in published communiqués. The group met on May 26 and June 2, 2020.

In previous communiqués, this working group emphasized significant headwinds facing recovery.[1] These include: the risk of a "second wave" and tightening of restrictions; "scarring" from widespread business insolvency and frictions on business restructuring; and slow recovery of economy-wide aggregate demand, resulting in idle capacity and protracted levels of high unemployment. As well, many uncertainties surround the post-pandemic "new normal" and much investment activity – particularly large capital spending in key industries – is likely to be sidelined until businesses have greater clarity around future conditions.

To enhance prospects for a resilient recovery, the working group considered:

1. Stimulus through accelerated infrastructure spending – specifically:
   - the possible role of infrastructure spending to boost depressed aggregate demand through a protracted period of weakness, and
   - the need to rigorously target any infrastructure stimulus to boost productivity and address specific social and environmental objectives;

1 Crisis Working Group on Business Continuity and Trade. 2020. *Financing Bridge Needed to Protect At-Risk Sectors as Canada Faces a Long, Hard Road to Recovery*. C.D. Howe Institute. May 19. Available online: https://www.cdhowe.org/council-reports/financing-bridge-needed-protect-risk-sectors-canada-faces-long-hard-road-recovery

2. The adaptability of Canada's bankruptcy and restructuring processes to widespread insolvencies;
3. The importance of expedient merger review and open access to foreign capital, as well as the need to "sunset" government interventions in markets and restore competitive forces as soon as practical; and
4. Governments' use of tools for assessing risk versus economic cost in order to stage re-opening and better calibrate any "second wave" re-tightening of activity restrictions.

First, while various working group members questioned whether spending on public infrastructure could be effectively and rapidly deployed as a near-term stimulus, Canada faces a likely prolonged period of weakness in economy-wide aggregate demand – including in goods-producing sectors for which export demand may remain depressed. In order to employ idle industrial capacity and trades, governments should consider accelerating spending on those public infrastructure projects that boost long-run Canadian productivity and align with social or environmental objectives. Facing a protracted recovery in private-sector non-residential investment, Canada should seize this near-term opportunity to address its maintenance backlog for aging public infrastructure assets – for example, repairing the large shares of bridges, roads and linear water infrastructure that are in poor condition (i.e., at or past projected life).

However, boosting aggregate demand should not be an excuse to relax rigorous cost-benefit evaluation for the value of specific infrastructure projects. Working group members emphasized that many "shovel ready" projects may not be the most effective use of public funds compared with transformative projects that enhance productivity or connect markets. The aim of any public spending should be to build assets and capabilities that enhance Canada's long-term economic prosperity. To guide future national infrastructure priorities, Canada needs a strategic assessment to identify those infrastructure investments that would boost long-run economic growth, enhance social well-being and enhance resilience – particularly in response to risks from climate change.

Nonetheless, while agreeing that public investments today should be consistent with Canada's long-term greenhouse gas targets and climate adaptation, working group members were skeptical of the push for broad "green" stimulus – for example, by subsidizing assets like renewable generation for which market forces and carbon pricing should provide commercial incentives. While reducing Canada's GHG emissions is a critical policy objective, working group members pressed that government should focus spending on "framework" infrastructure or assets with clear positive externalities – for example, inter-regional power transmission or demonstration-scale projects for new technologies like small modular nuclear reactors, hydrogen production or carbon capture, utilization and storage.

The pandemic has also underscored the value of digital infrastructure in enabling economic activity – from work-from-home to agricultural production to education – particularly in rural and remote communities. The working group emphasized the deployment of broadband connectivity as a critical "backbone" for long-term national prosperity. While connecting outlying regions may not be presently profitable for private investment, government should consider support to accelerate capital outlays on digital infrastructure for remote communities where long-term social benefits exceed public costs.

Second, continuing business restrictions and weak demand will exacerbate the financial distress facing many businesses. Many creditors are presently forbearing on defaults, recognizing the extraordinary circumstances and the limited pool of buyers for any assets in liquidation. Credit support for businesses from governments also appear to have provided an effective near-term bridge. However, as the crisis persists, widespread insolvency and liquidations could destroy firm-specific production capacity.

Practitioners expect acceleration of restructuring filings for businesses that entered the crisis with weak balance sheets: more filings under the *Companies Creditors Arrangement Act* (CCAA) occurred in May 2020 than in any month during the past decade. Despite this increased load, courts and insolvency practitioners should not be overwhelmed given the flexibility of Canada's bankruptcy and restructuring processes. Nonetheless, while public financing should not displace private creditors, government should consider putting in place backstop facilities for "debtor in possession" (DIP) financing in the event that traditional DIP lenders face constraints through a wave of restructuring proceedings.

Third, working group members agreed with the recent communique from the C.D. Howe Institute's Competition Policy Council that emphasized the need for expedient and flexible review of acquisitions by the Competition Bureau and under the *Investment Canada Act*.[2] As always, the Bureau must be alert to the competitive consequences of mergers but, if limited acquirers exist for a "failing firm," the Bureau should expedite review to facilitate rapid restructuring. Similarly, reviews under the *Investment Canada Act* should not place additional burdens on foreign acquirers: foreign investment will be critical to the recapitalization of distressed Canadian companies. Unless there are legitimate national security concerns, Canada should not restrict commercially driven foreign acquisitions.

Working group members agreed that the current crisis should not license either a sweeping and sustained displacement of market forces nor central management of the economy for the long term.

2 Competition Policy Council. 2020. *Through Crisis and Recovery, Enforce Competition and Safeguard Open Markets*. C.D. Howe Institute. May 27. Available online: https://www.cdhowe.org/council-reports/through-crisis-and-recovery-enforce-competition-and-safeguard-open-markets-cd-howe-institute

Alongside the fiscal cost, support measures can distort market forces, and the federal government should establish timetables for "sunsetting" business supports as economic activity resumes.

Finally, while many business activities have now resumed, the COVID-19 virus appears to continue its spread in various communities. With significant probability of a second wave of intensifying acute caseloads, public health imperatives may require a tightening of restrictions. Governments must both ensure workplace-level measures to mitigate spread of the virus and prepare plans for a second wave.

With deeper knowledge about community spread, future restrictions on business activity should be more carefully calibrated than during the first wave. To develop "second wave" plans, governments should leverage tools for comparing the economic costs of shutdown with the risk of transmission in specific occupations and industries – such as the risk index developed by researchers at the University of British Columbia Vancouver School of Economics (VSE).

(1) Delivering Infrastructure Can Support Resilient Post-crisis Economy

Working group members supported accelerated delivery of infrastructure projects to support recovery, provided spending is targeted effectively to boost productivity or align with social and environmental policy objectives.

Infrastructure as Stimulus for Weak Aggregate Demand

Various working group members were skeptical that governments could effectively deploy capital spending to boost significantly aggregate demand in the near term. However, working group members see the post-crisis recovery as a key window for governments to accelerate delivery of infrastructure projects that will enhance the productivity and resilience of Canada's economy.

Certain commentators have observed that the contraction in aggregate demand is a function of restrictions on economic activity and pointed out that precautionary consumer behaviour may inhibit recovery. In this setting, they question whether conventional stimulus through government spending will be effective to boost aggregate demand.[3]

3 Boothe, Paul, and Christopher Ragan. 2020. "Canada needs a new prescription for the pandemic recession," *Macleans*. June 2. Available online: https://www.macleans.ca/economy/economicanalysis/canada-needs-a-new-prescription-for-the-pandemic-recession/

As well, the size of public spending to move the needle on aggregate demand would be significant. For example, $20 billion in spending is equivalent to 1 percent of Canada's GDP and any outlays in a small open economy involve "leakage" (i.e., purchases of imports).

Through a protracted recovery, Canada will likely face significant economic slack and elevated unemployment into 2021 and the degree to which demand is impaired will differ sector by sector. For consumption-driven sectors like retail and restaurants, pressures on households' discretionary spending and ongoing physical distancing may dampen the rebound. As the VSE risk index highlights, restrictions can be calibrated to the costs and benefits in different sectors. While workers' skills are occupation-specific in the short run, Canada's goods-producing sectors may be a channel for stimulating economy-wide demand during a period when household spending and demand for consumer services is likely to stagnate.

As well, government capital spending can substitute to some degree for a downturn in private-sector non-residential construction. Construction activity has significantly contracted during the crisis, as shown by the 16 percent decline in construction employment between February and May 2020. While many job losses may be driven by activity restrictions, dampened investment intentions also play a role. Non-residential building permit applications have declined dramatically: the seasonally adjusted value of permits plunged by 44 percent from December 2019 to April 2020 (see Figure 1). This pull-back anticipates continued weakness in non-residential construction activity.

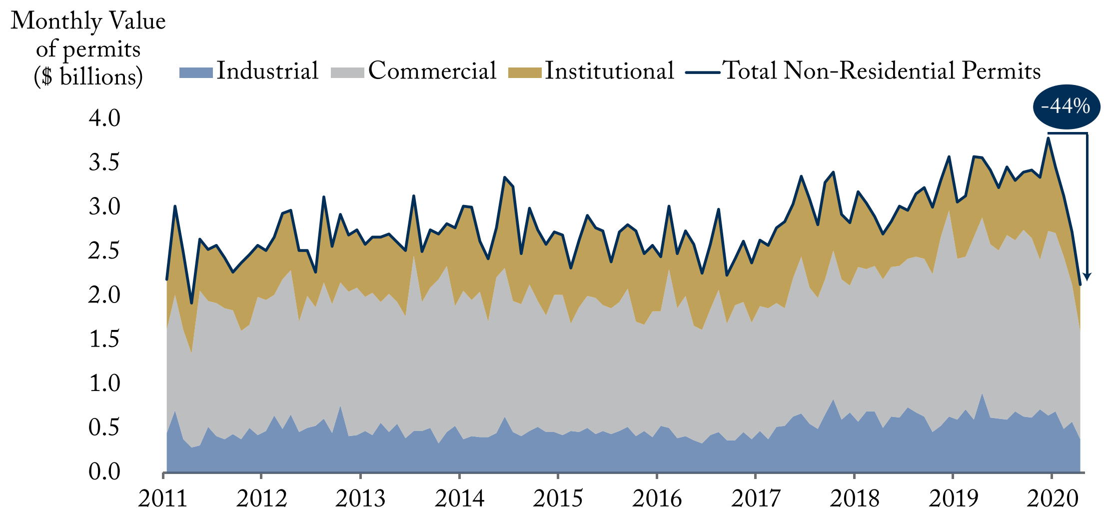
Looking ahead, aggregate private capital investment in key export-focused sectors (e.g., petroleum and manufacturing) could remain depressed given an uncertain outlook for demand. Commentators have also observed that pandemic-driven delays and associated cost overruns may force construction firms into insolvency and risk the failure of in-progress projects.[4]

Simultaneously, the construction sector globally is facing large-scale disruption from digitization, advances in modular construction and consolidation.[5] While construction sector productivity has

4 Murphy, Tim, and Drew Fagan. 2020. *Canada's Infrastructure Bank: An Opportunity to Step Up and Rebuild Canada's Post-Pandemic Economy*. McMillan Vantage Policy Group. May 6. Available online: https://mcmillanvantage.com/canadainfrastructurebank/

5 Ribeirinho, Maria João, Jan Mischke, Gernot Strube, Erik Sjödin, Jose Luis Blanco, Rob Palter, Jonas Biörck, David Rockhill, and Timmy Andersson. 2020. *The next normal in construction: How disruption is reshaping the world's largest ecosystem*. McKinsey & Company. June 4. Available online: https://www.mckinsey.com/industries/capital-projects-and-infrastructure/our-insights/the-next-normal-in-construction-how-disruption-is-reshaping-the-worlds-largest-ecosystem

Figure 1: Monthly Value of Non-Residential Building Permits



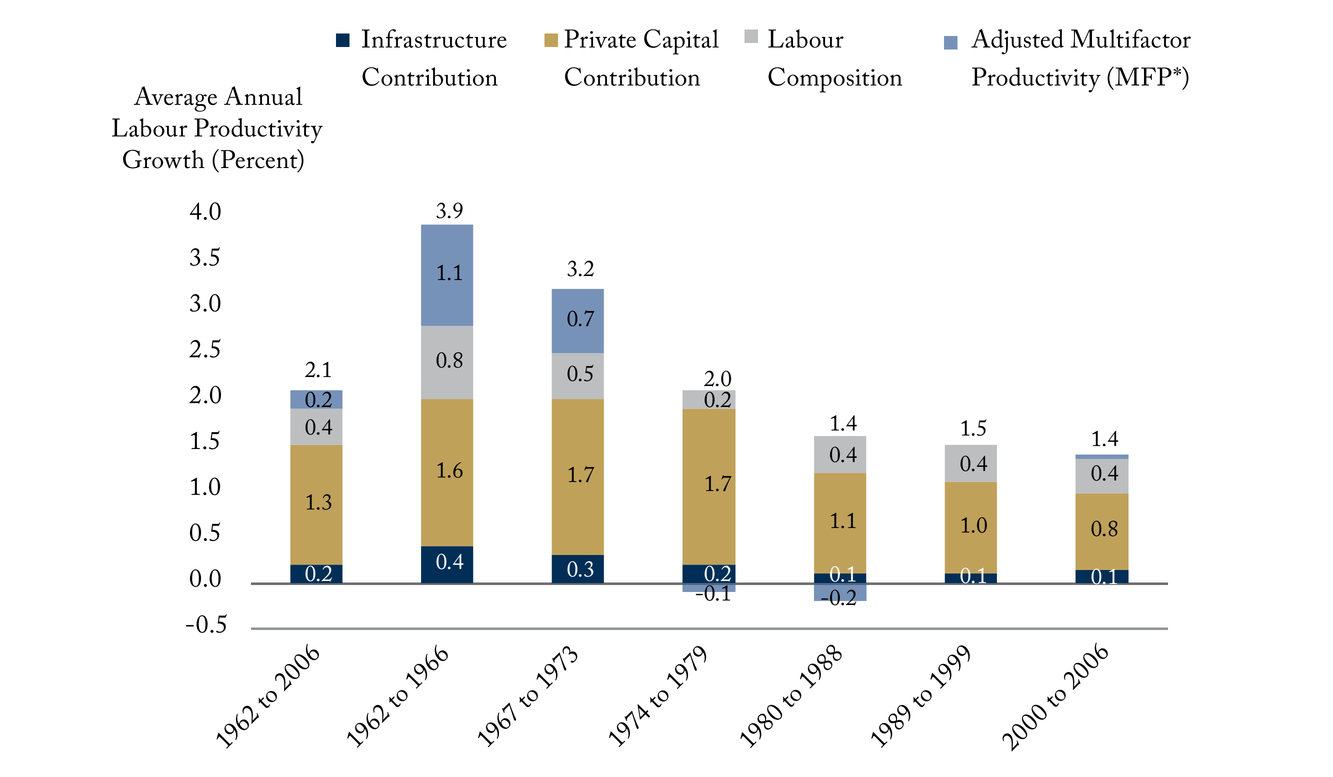
Source: Statistics Canada (Table 3410006601).

long languished, innovation is now driving rapid change in the sector worldwide and post-pandemic restructuring is likely to accelerate this transformation. Canadian construction firms face a significant risk of falling behind and displacement if they cannot seize this moment to learn by doing and adapt to intensified competition. Large-scale and sustained capital investment programs could provide opportunity for Canadian engineering and construction firms to reinvent themselves.

Ensuring Value for Infrastructure Spending

Working group members stressed that long horizons for planning and executing infrastructure projects – often years – create practical problems for synchronizing government spending on high-value capital assets with periods of weakness in aggregate demand. Canada's lengthy timelines for regulatory approvals and jurisdictional frictions (e.g., conflicts between federal and provincial governments) slow development of transformational national infrastructure. As a result, any rush to deploy stimulus risks focusing on "easy" local projects with limited productivity impact.

Figure 2: Estimated Contributions to Canadian Labour Productivity Growth

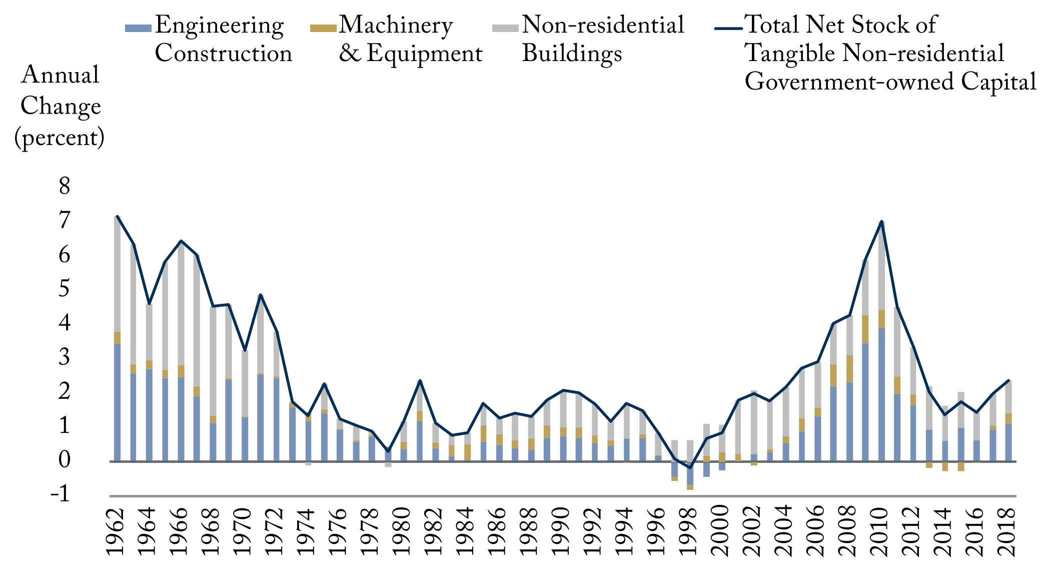


Source: Gu & MacDonald. 2009. *The Impact of Public Infrastructure on Canadian Multifactor Productivity Estimates.*

Historically, spending on public infrastructure has delivered significant benefits for Canadian productivity. A study by Gu and MacDonald (2009), published by Statistics Canada, estimated that investment in public infrastructure had contributed to approximately 10 percent of growth in labour productivity between 1962 and 2006 (see Figure 1).[6] The period from the 1960s to early 1970s saw significant government outlays on tangible, non-residential capital (see Figure 2) – particularly engineering construction (e.g., the completion of the Trans-Canada Highway). The delivery of this public infrastructure complemented intensive private-sector capital investment and contributed significantly to the rapid growth in labour productivity during this period.

6 Gu, Wulong, and Ryan MacDonald. 2009. *The Impact of Public Infrastructure on Canadian Multifactor Productivity Estimates*. Statistics Canada. Available Online: https://www150.statcan.gc.ca/n1/pub/15-206-x/15-206-x2008021-eng.htm

Figure 3: Annual Change in Government-Owned Net Stock* of Tangible Non-Residential Capital



* Based on depreciation of capital stock.

Source: Statistics Canada (Table 3610009701).

Working group members stressed that access to high-quality and reliable infrastructure is a major factor in the location decisions for many activities. For example, in developing new processing or manufacturing facilities, companies are highly attuned to access to transportation, power, digital connectivity and water. Such infrastructure determines a region's competitiveness by influencing the costs and speed of accessing upstream inputs and getting product to downstream markets.

Targeting Government Capital Spending for Value

Working group members stressed that aligning infrastructure spending with economic benefit occurs at the project level and requires rigorous evaluation of the returns on particular projects. Public spending is economically justified where the net benefits to society exceed the costs of the outlays. The private sector is well equipped to deliver projects that will yield profits across the life of the asset. In contrast, governments justifiably deliver or contribute to capital investments when a project provides benefits for society that exceed the net present value that would accrue to a private owner.

A potential opportunity for rapid roll-out of spending may be a backlog of maintenance and repair on aging infrastructure. Retrofits to extend useful service life of existing assets should be more rapid to plan and execute than new projects. The 2019 Canadian Infrastructure Report Card, based on responses for the 2016 year through the Canadian Core Public Infrastructure Survey, found a significant share of public infrastructure assets at significant or advanced states of deterioration and approaching or beyond expected service life.[7] In particular, the survey found that 16 percent of roads, 12 percent of bridges and tunnels, 11 percent of wastewater and stormwater pipes, and 16 percent of roads and tracks for public transit were in poor or very poor condition.

Ramping up infrastructure spending could be viable through repair and maintenance initiatives, for which governments should have prioritized inventories and execution plans. Working group members highlighted that governments may tend to focus on "ribbon cutting" for new projects and neglect the ongoing funding required to maintain assets. If so, the depreciation of these assets will diminish the productivity contribution from the earlier investment.

The pandemic has also underscored the value of digital infrastructure in enabling economic activity – from work-from-home to agricultural production to education – particularly in rural and remote communities. The working group emphasized the deployment of broadband connectivity as a critical "backbone" for long-term national prosperity. While connecting outlying regions may not be presently profitable for private investment, government should consider support to accelerate capital outlays on digital infrastructure for remote communities where long-term social benefits exceed public costs.

Working group members also agreed that the recovery presents an opportunity for "no regrets" acceleration of investments in projects that will be required to meet anticipated social service demands, such as affordable housing and long-term care facilities.

However, choices around projects must be made carefully and avoid displacing the role of market forces. For example, various commentators have criticized the push for a "green" stimulus package through government spending.[8] A clear pathway for an economy-wide carbon price should incent private investments in renewable generation without governments subsidizing specific power generation projects.

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7 Federation of Canadian Municipalities. 2019. *Canadian Infrastructure Report Card*. Available online: http://canadianinfrastructure.ca/en/index.html

8 Ragan, Christopher, and Andrew Potter. 2020. "Engineering a 'green recovery' is a terrible idea," *Globe and Mail*. May 31. Available online: https://www.theglobeandmail.com/opinion/article-engineering-a-green-recovery-is-a-terrible-idea/

However, working group members agree that government does have a potential role to play in the sort of "framework" infrastructure that enables decarbonization. Infrastructure that links markets is distinct from assets used for commercial production. For example, infrastructure for long-distance interconnection can help integrate electricity markets between regions, increase the viability of expanded renewable generation and reduce costs for power consumers.[9] By providing a critical link between producers and consumers, such transmission infrastructure may provide wider economic benefits than would accrue to a rate-regulated private owner. Government could provide the funding needed to meet private hurdle rates for projects with public benefits. Indeed, subsidizing the incremental social benefits of private projects is the exact role that the Canada Infrastructure Bank (CIB) should play.[10]

Additionally, government can play an important role in supporting demonstration-scale facilities to pilot transformative new technologies and provide learning-by-doing for future industry-wide deployment. The development of steam-assisted gravity drainage (SAGD) by the publicly funded Alberta Oil Sands Technology and Research Authority (AOSTRA) provides an example.[11] In the present context of facilitating Canada's energy transition, working group members noted small modular nuclear reactors, hydrogen production, and carbon capture, utilization and storage (CCUS) as examples of pre-commercial technologies where government could valuably support demonstrate-scale projects.

As well, working group members agree that adaptation to climate change is an appropriate focus for public expenditures. Infrastructure that reduces risks from extreme weather events presents a classic "public good" role for government. Climate change is expected to increase the physical risks from variable weather patterns.[12] For example, infrastructure to mitigate floods and droughts will be important as communities potentially face increasing variability in weather patterns.

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9 Hastings-Simon, Sara, and Blake Shaffer. 2020. "Beyond pipelines: The nation-building project that could electrify Canada," Globe & Mail. March 17. Available online: https://www.theglobeandmail.com/opinion/article-beyond-pipelines-the-nation-building-project-that-could-electrify/

10 Dachis, Ben. 2017. "The Role for the Infrastructure Bank," C.D. Howe Institute Intelligence Memo. March 31. Available online: https://www.cdhowe.org/intelligence-memos/benjamin-dachis-role-infrastructure-bank

11 Hastings-Simon, Sara. 2019. *Industrial Policy in Alberta: Lessons from AOSTRA and the Oil Sands*. University of Calgary School of Public Policy. November. Available online: https://www.policyschool.ca/wp-content/uploads/2019/11/Industrial-Policy.Hastings.-Nov-1-FINAL-USE-NOVEMBER-CORRECTED.pdf

12 Jonathan Woetzel, Dickon Pinner, Hamid Samandari, Hauke Engel, Mekala Krishnan, Brodie Boland, and Carter Powis. 2020. *Climate risk and response: Physical hazards and socioeconomic impacts*. McKinsey Global Institute. January 20. Available online: https://www.mckinsey.com/business-functions/sustainability/our-insights/climate-risk-and-response-physical-hazards-and-socioeconomic-impacts

Pressing Need for Long-term National Infrastructure Strategy

Canada's lack of any regular and comprehensive assessment of strategic infrastructure needs is a gap in its ability to effectively target spending. Such an assessment would aim to identify broad classes of public investments to (1) enable incremental economic benefits (e.g., through productivity gains) that exceed the costs of delivery and upkeep; and (2) support those public services that align with societal preferences and government objectives. The United Kingdom has established a National Infrastructure Commission with a mandate to publish a National Infrastructure Assessment once during every Parliament.[13] The Commission's inaugural assessment, published in July 2018, outlines a 30-year vision for the country's infrastructure needs, and is complemented by additional studies on specific classes of infrastructure and regional needs.

Working group members agree that any national strategy must be reconciled with the local and regional needs that drive infrastructure priorities. As well, governments face major questions about how working-life adaptations during the pandemic may accelerate certain trends – such as remote work for certain occupations that could dampen use of regional transportation infrastructure and place an additional premium on high-speed digital connectivity.

Finally, working group members agreed that infrastructure building in Canada faces a disconnect between governments' fiscal capacity and responsibility for infrastructure delivery. Working group members believe that, given immediate budgetary stresses facing provincial and municipal governments, the federal government likely will need to increase transfers for infrastructure if local and regional projects are to be delivered. Nonetheless, certain working group members see an immediate opportunity for using federal funds to "break logjams" between different municipal and provincial governments that have slowed the delivery of certain projects.

(2) Insolvency Poses Risk for Recovery – But Canada Has Robust Restructuring Regime

The longer the crisis persists, the greater the risk that widespread insolvencies – particularly of small and medium enterprises – may threaten the pace at which the overall economy can recover, noted working group members.

13 National Infrastructure Commission. 2018. *National Infrastructure Assessment*. Available online: https://www.nic.org.uk/our-work/national-infrastructure-assessment/

Nonetheless, the working group understands that, given current conditions, creditors are often forbearing on defaults by debtors. Although conscious that courts and insolvency practitioners may face a wave of distressed companies, the working group observes that Canada's bankruptcy legislation provides a flexible and efficient set of processes for resolving insolvencies and restructuring businesses. As well, in the face of the crisis, courts have shown remarkable adaptability and progress in adopting digital processes to expedite judicial proceedings.

Widespread liquidation of insolvent businesses could destroy firm-specific knowledge and relationships, impairing the ability of business to resume economic activity as restrictions are lifted. As well, an increased breadth of financial distress could reduce suppliers' willingness to extend trade credit (i.e., since such unsecured credit will have low priority in any bankruptcy).

Notably, more filings under the *Companies' Creditors Arrangement Act* (CCAA) occurred in May 2020 than in any month during the past decade and the second quarter of 2020 will likely see more filings than any prior quarter in the past decade (see Figure 4). Additionally, because receivers are generally appointed under secured credit agreements, rather than through judicial proceedings, insolvency statistics may not capture the extent of financial distress, default of credit and recourse by creditors. However, the number of actual business bankruptcies and proposals (i.e., filings by businesses under the Bankruptcy and Insolvency Act rather than larger restructurings under the CCAA) in April 2020 were 35 percent lower than in March 2020 and 55 percent lower than in April 2019.[14]

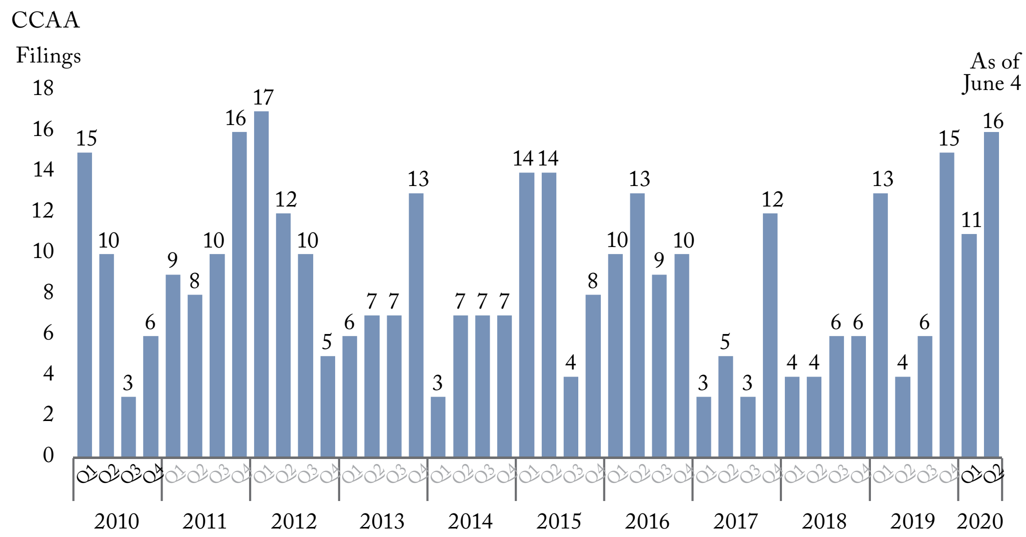
In general, insolvency practitioners are not yet witnessing an unsustainable load of business bankruptcies and restructuring from the crisis. Anecdotally, creditors are generally working with debtors, recognizing the extraordinary circumstances. For many secured creditors, realizing on security would not maximize recovery since there would be limited purchasers for any seized assets. Insolvencies have so far been concentrated in sectors that faced challenges before the crisis (e.g., retail) and businesses with stressed balance sheets.

This working group has previously emphasized the need for "bridge" financing to support viable businesses through the period of weak demand.[15] The continued availability of credit, including

14 Office of the Superintendent of Bankruptcy. 2020. *Insolvency Statistics in Canada – April 2020*. June 3. Available online: https://www.ic.gc.ca/eic/site/bsf-osb.nsf/eng/br04308.html

15 Crisis Working Group on Business Continuity and Trade. 2020. *Financing Bridge Needed to Protect At-Risk Sectors as Canada Faces a Long, Hard Road to Recovery*. C.D. Howe Institute. May 19. Available online: https://www.cdhowe.org/council-reports/financing-bridge-needed-protect-risk-sectors-canada-faces-long-hard-road-recovery

Figure 4: Quarterly Filings under *Companies' Creditors Arrangement Act* (CCAA) as of June 8, 2020



Source: Office of the Superintendent of Bankrutpcy (CCAA Records List).

governments' measures to provide market liquidity as well as credit for businesses, will continue to help forestall business insolvency and facilitate the resumption of trade as restrictions are lifted.

If Canada does face a wave of insolvencies of larger enterprises and filings under the CCAA, courts could face the need to triage judicial resources between proceedings. Nonetheless, the CCAA process has a high degree of flexibility and courts have adopted case management processes to effectively manage insolvencies. Moreover, courts actively leverage legal counsel and financial advisors for many aspects of the restructuring process.

In certain large restructurings or in an extreme scenario of widespread insolvencies, governments may have a role to play in providing debtor in possession (DIP) financing for companies during restructuring, but governments should not displace private providers of such credit. Working group members believe that government should only intervene with backstops or facilities where private creditors face demonstrated constraints on their ability to advance sufficient DIP financing.

Finally, working group members did not see a case for legislation that would empower governments to impose a widespread temporary stay on creditors. Such a standstill on creditor collections to provide "breathing room" for debtors has been proposed by, for example, the National Bankruptcy Conference in the United States.[16] Even legislating an option for a standstill would have sweeping ramifications, creating great uncertainty for creditors. Imposing such a standstill would risk a potential cascade of defaults by inhibiting creditors' ability to realize on collateral.

(3) Temporary Government Interventions Must Have a "Sunset" and Ensure Long-run Competition

Working group members are cognizant that temporary government interventions to support businesses may impact competition in the near term. Amid an uninsurable shock to demand in many sectors, the federal government has played critical role in backstopping business credit and providing wage support to preserve employment relationships.

Nonetheless, as recently recommended by the C.D. Howe Institute's Competition Policy Council,[17] the exigencies of the current crisis should not license either a sweeping and sustained displacement of market forces nor central management of the economy for the long term. As governments shift to focus on the recovery, interventions should be based on identifiable market failures, aim to minimally impair competitive intensity and "sunset" on an appropriate horizon.

This working group regards vigorous competition in Canada's marketplace as an imperative for ensuring the long-term dynamism of the Canadian economy. Therefore, in the context of structuring interventions during crisis and recovery, this working group also recommends that policymakers in federal and provincial governments draw upon the expertise of the Competition Bureau to identify market failures, assess market power and evaluate competitive effects from regulatory interventions.

Working group members believe that Canada will need to evaluate the need for domestic manufacturing capacity of products that are essential in public health emergencies. However, capacity to produce

16 National Bankruptcy Conference. *2020 Letter to Congress re Economic Crisis Caused by SARS-CoV-2 Virus*. March 22. Available online: http://nbconf.org/our-work/

17 Competition Policy Council. 2020. *Through Crisis and Recovery, Enforce Competition and Safeguard Open Markets*. C.D. Howe Institute. May 27. Available online: https://www.cdhowe.org/council-reports/through-crisis-and-recovery-enforce-competition-and-safeguard-open-markets-cd-howe-institute

essential goods should not be confused with protection of "national champions." As well, working group members urge governments to reflect carefully on whether emergency needs are better served by maintaining spare domestic production capacity or through advance stockpiling of inventories procured at the most competitive price.

This working group also supported the need to expedite merger review by the Competition Bureau during a period of likely intensified consolidation. With the likelihood of a wave of financial distress facing Canadian businesses and an acceleration in acquisitions, the Bureau must adapt its decision-making on merger reviews to be less formalistic, faster and more flexible. Merger review must enable, rather than inhibit, the efficient restructuring of many industrial sectors that will be financially challenged as the crisis continues and a "new normal" begins to emerge.

(4) Governments Should Calibrate Restrictions to Balance Risk and Economic Cost

Working group members reiterated the importance of a risk-based approach to the easing of restrictions.[18] Public-health buffer capacity and the pace of transmission remain important preconditions for lifting restrictions on activities, but governments must also consider ongoing economic costs.

Quantification of costs and transmission risks for specific sectors and occupations are important inputs into decision-making. Governments should leverage data and analytical tools such as that developed by economists at the Vancouver School of Economics.[19] The VSE COVID Risk/Reward Assessment Tool leverages data on 300 occupations across 100 industries at the provincial level in order to identify costs from restrictions on sectors as well as occupational characteristics that affect viral transmission risk.

18 Crisis Working Group on Business Continuity and Trade. 2020. *Restart Playbook Must Balance Risk with Economic Cost*. C.D. Howe Institute. April 24. Available online: https://www.cdhowe.org/council-reports/restart-playbook-must-balance-risk-economic-cost-crisis-working-group-business-continuity-and-trade

19 Green, David A., Gaëlle Simard-Duplain, and Henry E. Siu2020. "A COVID Assessment Tool to Guide the Opening and Closing of Sectors," C.D. Howe Institute Intelligence Memo. Available online: https://www.cdhowe.org/intelligence-memos/green-simard-duplain-siu-%E2%80%93-covid-assessment-tool-guide-opening-and-closing

Such data-driven tools help governments evaluate risks and benefits for resuming activities, prioritize sectors for re-opening, and target occupation-level initiatives for mitigating spread.

As well, governments face the possibility of a second wave and intensifying transmission, which may require difficult decisions about once again tightening restrictions. To prepare for such a prospect, governments should construct plans that more carefully calibrate occupation-level restrictions to balance the economic cost and transmission risks.

For example, the VSE tool combines occupational characteristics in the workplace – specifically, proximity or close contact with others, frequency of personal contacts, exposure to diseases or infections, interaction with the public, and outdoor work – and behaviour outside the workplace – specifically, commuting on public transit, working from home, living in a crowded dwelling, and living with a healthcare worker. This enables it to generate a risk index for specific occupations. The VSE tool also allows policymakers to quantify impacts of restrictions on sector-level output, overall employment and job loss among low-income earners.

To balance risks and economic costs, working group members recommend that policymakers carefully design any future restrictions and support for impacted workers based on such occupation-level estimates for risks and economic costs.

Members of the Business Continuity and Trade Working Group

Dr. Sylvain Charlebois, Professor, Senior Director, Agri-Food Analytics Lab, Dalhousie University.

Dwight Duncan (Working Group Co-Chair), Senior Strategic Advisor McMillan LLP.

Rick Ekstein, President & CEO, Phaze 3 Management.

Glen Hodgson, Fellow-in-Residence, C.D. Howe Institute.

Keith Halliday, Director of Centre for Canada's Future, Boston Consulting Group.

Caroline Hughes, Vice-President of Government Relations, Ford Motor Company of Canada.

Jeanette Patell (Working Group Co-Chair), Vice-President of Government Affairs and Policy, GE Canada.

Elise Maheu, Director, Government Affairs and Markets. 3M Canada.

Geoff Smith, President & CEO, EllisDon.

John Stackhouse, Senior Vice-President, Office of the CEO, Royal Bank of Canada.

Trevor Tombe, Associate Professor of Economics and Public Policy, University of Calgary.

Valuable Perspective Was Contributed by the Following Guests:

Melanie Aitken, Managing Principal, Washington, Bennett Jones LLP.

Kelly Bourassa, Partner and Calgary head of Restructuring and Insolvency Group, Blake, Cassels & Graydon LLP.

Calvin S. Goldman, Q.C., Co-Chair, Competition, Antitrust and Foreign Investment Group, Goodmans LLP.

Jim Haley, Special Advisor, Bank of Nova Scotia.

Tim Murphy, Co-Chair, Aboriginal, Government Relations, Project Finance, Infrastructure and Energy, McMillan LLP.

Robert Palter, Senior Partner, McKinsey & Company.

Gale Rubenstein, Partner, Corporate Restructuring Group, Goodmans LLP.

Henry Siu, Professor, University of British Columbia, Vancouver School of Economics.

Gaëlle Simard-Duplain, Postdoctoral researcher, HEC Montréal.

Jennifer Winter, Assistant Professor, University of Calgary Department of Economics and School of Public Policy.