ONTARIO CHAMBER OF COMMERCE

PRE-BUDGET SUBMISSION TO THE GOVERNMENT OF CANADA

ontario chamber of commerce

ontario chamber of commerce

Ontario's Business Advocate

160

Local Chambers of Commerce & Boards of Trade

60,000

Network of business members

LETTER FROM THE PRESIDENT & CEO OF THE ONTARIO CHAMBER OF COMMERCE

On behalf of the Ontario Chamber of Commerce (OCC), I am pleased to have this opportunity to present our recommendations to the federal government as it finalizes its 2016 budget.

Ontario is a leader in attracting global talent and investment – but we are facing increasing international competition for investment and talent. In order to maintain our place as a leading destination for foreign direct investment, Ontarians need their governments to cooperate. Further, they need a federal government that will take an active role in creating the conditions for future economic growth in the province.

This report lays out 12 recommendations across five key policy areas. Among our recommendations are calls for streamlined immigration programs, strategic infrastructure investments, and a proper due diligence process in advance of the government's small business tax cut.

If adopted, we believe these recommendations will help Ontario businesses compete in the increasingly competitive global marketplace.

In the coming years and months, we look forward to furthering the dialogue between Ontario businesses and their federal political representatives.

Allan O'Dette

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39%

Share of Ontario employers who have had difficulty filling a job opening in the last year.

In April 2016, the OCC will release a report outlining the need for key federal reforms to key immigration programs.

Source : OCC Membership Survey, January 2016, n=853

BRIDGE THE SKILLS GAP

According to a recent Leger poll conducted on behalf of the OCC, 39 percent of Ontario employers have had difficulty filling a job opening in the last year because they could not find someone with the right skills. More than any other factor, our future competitiveness depends on employers' ability to find workers with the skills they need (Canadian Chamber of Commerce, 2015). As such, the federal government must ensure that the immigration system – a vital source of labour – does not unduly limit employers' access to the international talent they need.

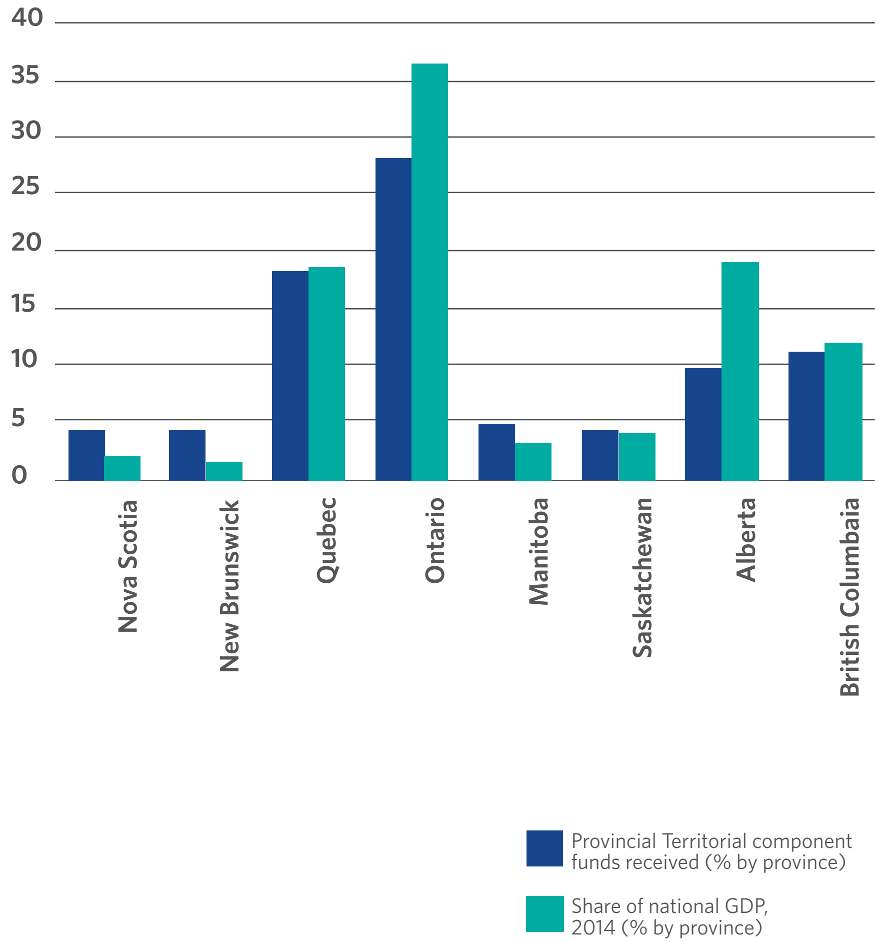
1.1 Address the inflexibility of the Temporary Foreign Worker (TFW) program.

The TFW program was designed to allow Canadian employers to hire foreign nationals to fill temporary labour and skill shortages when qualified Canadian citizens or permanent residents are not available. However, rule changes made under the previous federal government have made it more difficult for employers to use the program. Specifically, the onerous Labour Market Impact Assessment (LMIA) mechanism has created costs, delays, and red tape for Canadian businesses. The federal government should revisit the rules around the LMIA to ensure the program fills labour market gaps.

1.2 Work with the business community to increase employer uptake of the Express Entry system.

In early 2015, the federal government introduced e a new demand-driven process for selecting economic immigrants: the Express Entry system. The system is designed to replace the first-come, first-in-the-door process that has led to waiting periods of two-years or more and long queues for potential immigrants. While the Express Entry system holds tremendous potential, a recent Citizenship and Immigration Canada analysis found that very few resident visas have been granted under the program (2015). The federal government needs to ensure that employers are aware of the opportunity provided by the new Express Entry System.

Mowat Centre analysis reveals a lack of strategic thinking behind federal infrastructure investments



Source : Ditta, Sara. 2016

INVEST INFRASTRUCTURE FUNDS STRATEGICALLY

Ontario's estimated $60 billion infrastructure funding gap is delaying economic recovery in all parts of the province. Approximately half of that gap is accounted for by road and bridge assets, the repair of which is particularly costly for rural and northern communities (ROMA, 2015). Meanwhile, congestion in the Greater Toronto Hamilton Area—exacerbated by infrastructure underfunding—costs the region $6 billion in lost productivity every year (Metrolinx, 2008). The federal government has pledged to invest nearly $125 billion in infrastructure over the next ten years while the Ontario government has committed $134 billion over that same time frame. While we applaud the extent of these commitments, it is not yet clear where these funds will be deployed, and which principles will guide infrastructure funding allocation.

2.1 Invest infrastructure funds strategically and in a manner that generates the highest return on investment.

Trade-enabling infrastructure – including public assets such as airports, ports, roads, and marine safety systems – plays a vital role in Ontario's ability to access foreign markets. The Canadian Chamber of Commerce has called for the federal government to invest in "economically productive infrastructure" – a call that we echo. Sixty-five percent of Ontario businesses report that roads and highways are the most critical infrastructure needs in their region, and half say that their business is suffering from a lack of investment in infrastructure. The federal government should work in tandem with the provinces to develop a coordinated infrastructure investment strategy that prioritizes trade-enabling infrastructure.

In Fall 2016, the OCC will release a report examining how governments can ensure that an appropriate infrastructure planning process is in place so that infrastructure funding fosters economic growth in Ontario.

2.2 Change the federal infrastructure funding formula to allocate funds to account for provincial contribution to GDP

The funding allocation formula of the New Building Canada Fund has seen provinces like Ontario and Alberta receive much less to invest in infrastructure than they contribute to Canada's GDP (Ditta, 2016). According to a recent report by the Mowat Centre, a total of approximately $2.5 billion over 10 years is set to be allocated to Ontario's major regional and national infrastructure projects. This is a much smaller share than would have been allocated under the New Building Canada Fund's predecessor program, the Major Infrastructure Component, which allocated funds based on the size of a province's population. By implementing an allocation process more closely related to economic output, the federal government could more effectively support economic growth (Ibid).

2.3 Fix the broadband gap through a successor initiative to Connecting Canadians, the reach of which should surpass that of its predecessor.

As noted by the Canadian Chamber of Commerce, Canada falls short when it comes to access to broadband internet. In Ontario, too many businesses operating outside of major urban centres have limited or unreliable access to high-speed Internet – a prerequisite for the knowledge economy. According to a Leger poll, half of companies report that the speed or connectivity of their internet hinders their ability to do business. This is a detriment to local economic development and is negatively impacting economic competitiveness and quality of life, especially in suburban and rural communities. The federal government needs to recognize the vital role broadband internet plays in economic development. They can do so by moving beyond Connecting Canadians and by investing in broadband infrastructure.

$20
BILLION

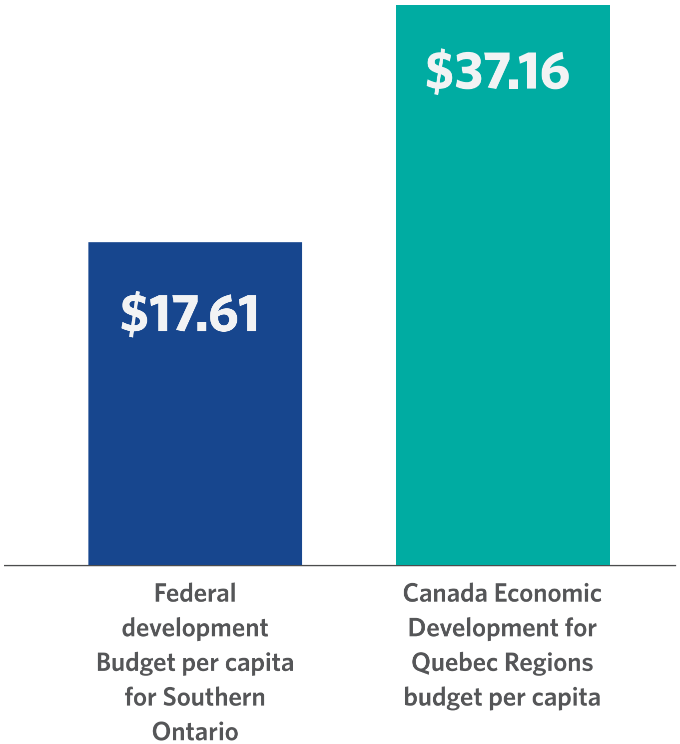
The amount that Ontarians over contributed to the Employment Insurance program between 2000 and 2011.

USHER IN A NEW ERA OF FEDERAL-PROVINCIAL COOPERATION BY CORRECTING THE FISCAL GAP

Ontario businesses and residents are poorly served by the federal government's unprincipled allocation formulae in areas of major federal spending. As a result of systemic inequities, Ontarians contribute between $9.1 and $12.5 billion more into the federation than what we get back in terms of services (Granofsky and Zon, 2014). Fiscal federalism has failed to keep pace with the 21st century macroeconomic realities of the country (Ibid). The federal spend to promote economic growth and development across the country should be allocated on a principled basis.

3.1 Introduce a national standard for Employment Insurance access.

Canada's Employment Insurance (EI) system bases its entitlements on 58 regions of residence. The regional differentiation in the system creates significant discrepancies between Canadians' access to, length of, and size of benefits (Radmilovic, 2011). As a result of the program's current design, Ontario employers and employees end up subsidizing industries and workers in other provinces. Between 2000 and 2011, Ontarians contributed over $20 billion more to the EI program than they received. The regional discrepancies in the EI system place a disproportionate burden on Ontario employers and employees and require urgent federal action.



Source : Hjartarson et al, 2012

3.2 Distribute economic development funds on a principled basis.

Ontario does not receive a proportional allocation of federal economic development funding. As of 2012, the Federal Economic Development Agency for Southern Ontario's (FedDev Ontario) budget was $17.61 on a per capita basis, compared to the $37.16 per capita budget of Canada Economic Development for Quebec Regions (Hjartarson et al., 2012). Distributing economic development funds on a principled basis would help ensure businesses and communities in every province and region are provided with comparable federal supports.

41%	Share of Ontario businesses that believe the TPP will have a positive impact on Canada

Source : OCC Membership Survey, January 2016, n=853

CREATE NEW – AND STRENGTHEN EXISTING – TRADE RELATIONSHIPS

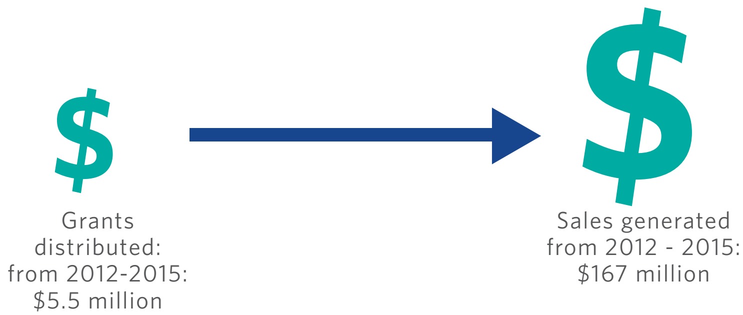
The global economy has changed significantly over the past decade. Ontario's traditional trading partners, most notably the United States and Western European states, are experiencing slower growth while emerging economies, such as India and China, are surging ahead. It is critical that Ontario enhance its trading relationship with emerging markets to sustain economic growth.

The OCC recognizes that business' capacity to leverage the new market opportunities presented by the recent completion of both the Comprehensive Economic and Trade Agreement (CETA) and the Trans-Pacific Partnership (TPP) will be dependent on our ability to leverage our competitive advantages in the global economy. Currently, only 41 per cent of Ontario businesses believe the TPP will have a positive impact on Canada, indicating that the government needs to a firmer outline of how it plans to leverage these trade agreements for the benefit of the country's economy.

4.1 Use the approaching ratification of the TPP as a opportunity to develop a targeted and coherent intergovernmental strategy for Ontario's manufacturing sector.

The recently negotiated TPP will give Canadian firms unprecedented access to global markets, but also poses serious challenges for the future of Ontario's automotive sector. Of particular concern is the disparity between Canadian and U.S. auto tariff phase-out periods; under the rules as written, the American tariffs will be phased out over 25 years – a much longer phase-out than the five year grace period given to Canada. Further, these TPP provisions are a detriment to Canadian firms as they hand a distinct advantage to low-wage Asian parts suppliers: local-content protections for vehicle components like body stampings and engine parts (e.g. truck frames

OCC's Global Growth Funds Results to Date



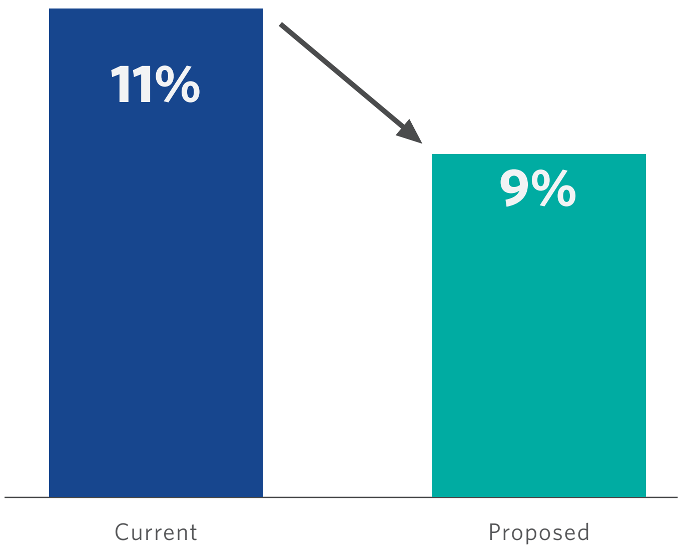
Source: OCC, 2016

and metal roof panels) will be required to have a TPP content of only 35 percent. However, TPP negotiations provide an excellent platform for provincial and federal governments to work together to restore the competitive environment for manufacturing in Ontario.

4.2 Build on Ontario's successful Global Growth Strategy.

The Global Growth Strategy, funded jointly by the federal and provincial governments, aims to increase the number of Ontario firms engaged in export activities and to diversify Ontario's trading partners. Through the Strategy's Export Market Access program, $5.5 million in grants generated $167 million in sales between 2012 and 2015, and resulted in 534 new jobs in Ontario. To further enable SME export activity, government must provide ongoing support for the Global Growth Strategy.

Small Business Tax Cut Commitment



HELP CAPITALIZE ON ONTARIO'S COMPETITIVE ADVANTAGES

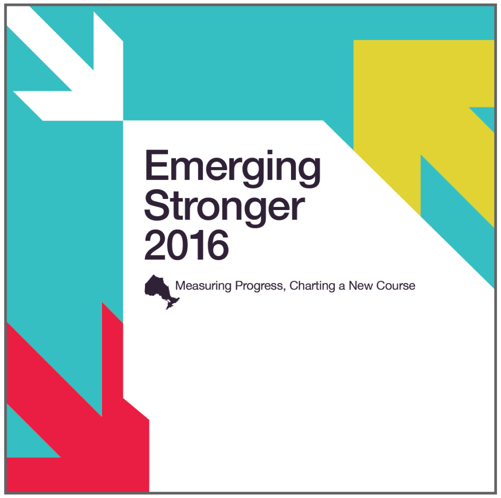
Given the contribution Ontario's economy makes to the broader Canadian economy, the federal government has a vested interest in the province's economic fortunes, and should act correspondingly. It can do so by recognizing and supporting the province's competitive advantages, including the increasing prevalence of SMEs and startups in Ontario's business makeup, and Ontario's tourism sector.

5.1 Unleash the power of innovative financing mechanisms.
As the Canadian Chamber of Commerce recommends, the federal government could introduce better tax incentives for venture capital and angel investors, such as British Columbia's 30% Venture Capital Tax. Similarly, flow-through shares for entrepreneurial companies financing long development cycles (e.g. for innovative technologies) would also encourage a stronger investment environment. Flow-through shares are a financing mechanism that have helped many junior exploration firms raise capital to fund their exploration activities. These measures, combined, would provide SMEs and startups in particular with more avenues to access financing.

5.2 Consult with the business community when designing the scheduled small business tax cut.
During the recent election, the Liberal Party committed to reducing the small business tax rate from 11 percent to 9 percent, a welcome pledge and one that will help create jobs. However, there have been some worrying indications that the government may be overstating the extent to which wealthy individuals incorporate to receive better tax treatment. As such, we urge the government to work with experts and those in the business community and to act on the best available evidence as it implements a reduction to the small business tax rate.

The Ontario Chamber of Commerce will be releasing a wide-ranging report in June 2016, which will highlight the challenges faced by the tourism sector in Ontario and present public policy solutions.

5.3 Reinstate funding for the Canadian Tourism Commission.
Ontario's tourism industry employs nearly 200,000 Ontarians and generates nearly $22 billion in receipts every year. Yet the sector faces significant challenges, most significant of which is a decline in the number of American tourism receipts – receipts that have not increased as quickly or as significantly as expected since the decline in the value of the Canadian dollar. The success of the tourism sector, regardless of currency exchange rate, depends on a strong Canadian brand; so we question the value of reducing the Canadian Tourism Commission's (CTC) core funding by almost 50 percent between 2001 and 2014. This collapse in funding has placed Canada 20th in the world in terms of national tourism organization funding. Therefore, we urge the federal government to reinstate, if not expand, full funding to the CTC.



For more recommendations that we believe the provincial and federal governments should adopt to spur growth in our economy, see the 2016 edition of Emerging Stronger.

BUILDING A HEALTH CARE ADVANTAGE – OCC'S ADVOCACY WORK IN 2016

Health care costs represent a substantial segment of the Ontario government's budget, with spending set to increase at a faster rate than overall budget growth. While this increase largely comes from demographic and economic changes, fragmentation and slow innovation in government service delivery is also a contributing factor. Sustainability in health care is, and will continue to be, a serious fiscal issue – as well as a serious concern for the continued delivery of high-quality health care services across the province.

To that end, the Ontario Chamber of Commerce is embarking upon a year-long thought leadership initiative on health transformation for 2016. This work will be done in partnership with major health care service, research, finance, and technology organizations in Ontario. The policy work output will centre around five reports: a framework piece, three thematic studies (alternative service delivery and procurement, the capitalization of made-in-Ontario research, health technology cost and access), and a concluding document that will outline steps forward for the Ontario government.

CONCLUSION

Thank you for reading the OCC's 2016 pre-budget submission to the federal government. We believe the recommendations that we have outlined will create new economic development opportunities for the province, and ensure Canada remains an attractive place for capital investment.
Over the course of the coming year, as highlighted in this report, we will be releasing a number of policy reports on issues of relevance to the federal government, including tourism, health care, and infrastructure.

Through our work, we aim to continue contributing positively to the public policy discourse. We hope also to encourage greater cooperation between the provincial and federal governments in this new era of intergovernmental relations.

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ABOUT THE ONTARIO CHAMBER OF COMMERCE

For more than a century, the Ontario Chamber of Commerce (OCC) has been the independent, non-partisan voice of Ontario business. Our mission is to support economic growth in Ontario by defending business priorities at Queen's Park on behalf of our network's diverse 60,000 members.

From innovative SMEs to established multi-national corporations and industry associations, the OCC is committed to working with our members to improve business competitiveness across all sectors. We represent local chambers of commerce and boards of trade in over 135 communities across Ontario, steering public policy conversations provincially and within local communities. Through our focused programs and services, we enable companies to grow at home and in export markets.

The OCC provides exclusive support, networking opportunities, and access to innovative insight and analysis for our members. Through our export programs, we have approved over 1,300 applications, and companies have reported results of over $250 million in export sales.

The OCC is Ontario's business advocate.

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