OCC Recommendations:

BUILDING A STRONGER, MORE COMPETITIVE ONTARIO

Fall Economic Statement 2019

ontario chamber of commerce

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October 2, 2019

The Honourable Rod Phillips
Frost Building South, 7th Floor
7 Queen's Park Cres
Toronto, ON M7A 1Y7

RE: Ontario Chamber of Commerce Recommendations – 2019 Fall Economic Statement

Dear Minister Phillips,

For more than a century, the Ontario Chamber of Commerce (OCC) has supported economic growth in Ontario by advocating for business priorities at Queen's Park on behalf of our diverse 60,000 members, including local chambers of commerce and boards of trades in over 135 communities across Ontario. As Ontario's business advocate, we would like to submit our recommendations in advance of Government of Ontario's 2019 Fall Economic Statement.

Looking back at your government's first term in office, the Ontario Chamber Commerce is pleased with the progress that has been made in several areas of advocacy important to Ontario's business community. While more work remains to be done, much progress has been made to remove administrative burdens on business and lay the foundation for jobs and growth.

A thriving business environment creates conditions that allow business owners to create more wealth and invest more in their local communities. These investments mean more services and programs that build strong, healthy, and prosperous communities. In advance of the province's Fall Economic Statement, we are pleased to provide the Government of Ontario with a series of recommendations that will enhance Ontario's competitiveness and further economic development across the province.

We look forward to working with the Government of Ontario in building a Stronger Ontario in support of economic prosperity across the province.

Sincerely,

Rocco Rossi
President and CEO
Ontario Chamber of Commerce

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SUMMARY OF RECOMMENDATIONS

The Ontario Chamber of Commerce proposes the government focuses on the following three pillars to advance Ontario's competitiveness: strengthening regions; creating a more competitive tax environment; and cutting red tape.

Strengthening Regions

- Formally embed stakeholder engagement within government's decision-making structures.
- Develop more experiential learning opportunities.
- Close the infrastructure gap.
- Remove regulatory barriers that deter private sector investments in broadband.

Creating a More Competitive Tax Environment

- Create a Rural Investment Tax Credit.
- Create a variable small business deduction and delay taxation on corporate income growth to overcome Ontario's scale-up challenge.
- Exempt businesses' incremental income from the Corporate Income Tax in a given year.

Cutting Red Tape

- Focus on harmonization regulation to avoid unnecessary layering.
- Reduce the reporting Ontario wineries and cideries are required to complete from a monthly to a quarterly basis.
- Allow Ontario spirits and craft beer producers with a retail store to sell their products at farmers' markets.
- Improve the regulation of recreational cannabis.

Strengthening Regions

Recommendation 1: Formally embed stakeholder engagement within government's decision-making structures

Businesses, post-secondary institutions, not-for-profits, and other local stakeholders play a key role in mobilizing a region's economic potential. Any economic development effort is more likely to be successful when informed at the outset by those on the front lines and carried out through strong partnerships with them. Time, resources, and money for government initiatives can be most prudently allocated to regional development when local stakeholders are sufficiently consulted in a timely manner.

Formalized stakeholder engagement can be achieved by establishing arm's length organizations to manage economic development initiatives, or permanent advisory committees to guide them. Such structures currently exist in Ontario. The provincial government's Mining Working Group and Agricultural Advisory Committee are two recent examples that businesses have appreciated. They are, however, temporary structures and there is room for more system-wide adoption of stakeholder engagement. The Government of Ontario should create permanent stakeholder groups to guide economic development efforts, as well as commit to longer and more comprehensive periods of consultation for all government proposals or decisions.

Recommendation 2: Develop more experiential learning opportunities

The ability to recruit and retain talent is critical to our members' competitiveness. The most effective way for workers to attain job-relevant skills training is through experiential learning opportunities, which provide job seekers with hands-on education in real workplaces. Increasing the number of experiential leaning opportunities would not only provide employers with a more capable workforce able to meet timely and job-specific needs, but also give individuals the chance for greater economic mobility.

The government should also address the limited capacity of small- and medium-sized enterprises (SMEs) to facilitate experiential learning opportunities by leveraging existing networks. Experiential learning programs tends to be limited because of employer concerns about administrative and/or operational requirements. This concern is particularly strong with respect to SMEs, many of which have limited human resource capacity.

We especially recommend that the government improve access to experiential learning and other training opportunities for underrepresented segments of the labour market, including recent immigrants, Indigenous peoples, women, veterans, and people with disabilities. Current funding for skills training tends to benefit workers that are already more skilled than the average population, limiting their impact.

Recommendation 3: Close the infrastructure gap

There is a significant gap between the infrastructure spending successive Ontario governments have been doing and the necessary spending required to keep our infrastructure in good repair and to build new assets to adapt to a changing province. The government should seek to close the infrastructure gap through increased investment, but also through tactics such as:

- Regulatory reform that would allow a project to be approved in months, not years.
  - The government's reforms to the environmental assessment process is a great first step, but let's do more to get shovels in the ground.

  - Reform could include: shorter tendering periods, making comprehensive funding programs more accessible by putting program criteria and funding allocation on a public website, and implementing fewer amendments to standard contracts and general procurement documents.
- Assessments of successful Alternative Financing and Procurement (AFP) infrastructure projects and determine what learnings can then be applied as best practices to smaller-scale projects, such as those at the municipal level.
- Development of adaptable and resilient infrastructure standards that can address future pressures, specifically climate change and population growth/demographic changes.
  - Continue the development of Community Wildfire Protection Plans, and creation of adaption plans for communities that depend on winter roads.
  - Help municipalities protect their infrastructure by developing standards and providing funding for flood-proofing of wastewater, water treatment plans, stormwater infrastructure and other assets.
- A renewed focus on asset management planning, especially at the municipal level.
  - Work with municipalities to improve their capacity to integrate asset management practices into their operations and capital planning processes.

Recommendation 4: Remove regulatory barriers that deter private sector investments in broadband

Sustained investments are needed to expand, maintain, and upgrade broadband infrastructure across Ontario. Overregulation makes this more expensive and disincentivizes telecommunications providers from making those investments.

There are many examples of provincial regulatory barriers that make it more expensive than necessary for providers to install new broadband. Some of these barriers relate to providers' ability to access passive infrastructure, such as hydro poles. Hydro One's distribution network spans 123,000 circuit kilometers, serving 1.4 million customers in Ontario, many in rural areas of the province. This offers a unique opportunity to leverage existing infrastructure to deliver broadband services.

Access to transportation infrastructure can be similarly problematic. Since construction is one of the main cost components involved in expanding fibre networks to rural communities, one option to save on construction is to lay conduits for fibre parallel to highways and railways while they are under construction or maintenance. While this "dig once" approach has been used in some communities within Ontario, it has yet to become standard practice.

The Government of Ontario should explore regulations and/or incentives to combine network expansion with transportation infrastructure projects. This strategy offers a promising opportunity for rural communities, most of which are located within a few miles of a major highway or railway.

Another regulatory issue involves the Ontario Traffic Manual, which requires paid duty police officers to control traffic within thirty metres of an intersection in work zones. Other jurisdictions allow the use of third-party traffic controls, which is significantly less costly and allows for more flexibility for scheduling broadband installation and upgrades.

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Creating a More Competitive Tax Environment

Recommendation 5: Create a Rural Investment Tax Credit

Offering financial support directly to businesses can play a valuable role in economic development when funding is targeted at productivity enhancers such as skills training and technology adoption. The Government of Ontario recognized this in Budget 2019 by announcing its intention to modernize business support programs to focus on four key outcomes: talent, research and commercialization, entrepreneurship and growth, and investment attraction. The government should rely on business expertise to understand what forms of support have been most productive and establish an ongoing evaluation framework to ensure programs continue to make the best use of public dollars.

In some cases, Ontario may benefit from replacing grants with other financial instruments such as loans, guarantees, and equity. Such instruments are best suited to support activities that have the potential to generate revenue but tend to lack sufficient market funding, such as innovation within SMEs. Compared to grants, they are often more cost-effective uses of public funds because they are repaid and can be recycled, but also because they can attract more private sector capital. Indeed, there is some evidence to suggest that access to financing can be more effective at increasing firm outputs than grants.

For example, many US states have seen great results by implementing a Rural Investment Tax Credit (RITC). Through this program, investment companies create Rural Business Investment Funds, which must raise 100 percent of their capital from private sources and invest in rural[1] SMEs with high growth potential. If the funds meet predetermined conditions and targets, investors receive tax credits from the government.

The RITC is designed to fill gaps in access to capital for rural SMEs. With private firms managing the investments, the program ensures that objectives are not political, money is directed at accelerating growth, and administrative burdens are minimal. An evaluation of Connecticut's RITC (Invest CT) found the initiative generated $5 in revenue to the state government for every $1 of tax credits issued between 2010 and 2016. While Ontario's context is unique, a similar program could help rural communities create and retain jobs, train workers, and attract new talent. However, before moving forward with an RITC, the Government of Ontario should consult with rural business groups to determine which program conditions are necessary to ensure the funds have their intended positive effects on rural SMEs.

Recommendation 6: Create a variable small business deduction and delay taxation on corporate income growth to overcome Ontario's scale-up challenge

Small businesses make up 98 percent of all Ontario businesses and 30 percent of Ontario's provincial GDP, yet they face several obstacles to growth. As a result, Ontario has a smaller proportion of large firms relative to US states with similar industrial compositions. This limits the productivity and competitiveness of our province. Larger firms take advantage of economies of scale, invest heavily in research and development, and generate proportionally greater export value and GDP.

Ontario's scale-up challenge is partly a result of a tax system that does not incentivize small business owners to seek out opportunities for investment and growth. Restructuring some of these taxes could boost overall productivity at little or no cost to government. In particular, the current structure of the Small Business

[1] In Ontario, this would include SMEs in the North.

Deduction (SBD) means companies are faced with a substantial rise in their corporate tax rate when their annual income increases above $500,000.

To address this challenge, the OCC recommends creating a variable SBD rate, instead of the existing flat rate, for businesses with an annual income below $500,000. With a variable rate that increases gradually as revenue grows, small business owners will no longer be discouraged from actively seeking opportunities that will boost investment and firm growth. This reform should be tax neutral, such that total tax revenue generated before and after the change remains the same.

Recommendation 7: Exempt businesses' incremental income from the Corporate Income Tax in a given year

We encourage the Province to exempt businesses' incremental income (additional earnings over the previous year) from the Corporate Income Tax in a given year. With this exemption in place, firms that are growing can reinvest more into their businesses. Eligibility could be restricted to target higher-growth firms by setting a threshold minimum rate of income growth over the previous year.

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Cutting Red Tape

Recommendation 8: Focus on harmonization regulation to avoid unnecessary layering

Ontario businesses face unnecessary administrative costs, uncertainty, and delays when they are required to comply with provincial regulations that duplicate or conflict with regulations imposed by other ministries, levels of government, provinces, and/or countries.

To eliminate excessive regulation, we recommend that the Ontario government:

- Defer to federal and international standards where appropriate. The Government of Canada is taking steps to harmonize its own regulations across provinces and with international standards as part of the Regulatory Reconciliation and Cooperation Table established by the Canadian Free Trade Agreement. Aligning with federal standards will ensure that businesses within Ontario are subject to a competitive and globally relevant set of regulations.
- Work with other provinces and territories to increase regulatory consistency within Canada to facilitate interprovincial trade and investment.
- Accept certification obtained in other countries when standards are equally or more stringent than Ontario's. This will make it easier for multi-national companies to invest in Ontario.
- Review existing regulations and eliminate regulations that are redundant or in conflict across ministries, jurisdictions, and levels of government.
- Require new regulations to be assessed for duplication and conflict.
- Move to a regulatory model whereby all proposed legislation and regulations must be supported by a cost-benefit analysis and an analysis on the impact on business.
- Move to a regulatory model whereby all legislation and regulations must be reviewed for their degree of conflict and integration with existing legislation.
- Work with the federal government to adopt a standard of regulatory harmonization between the two levels of government.

Recommendation 9: Reduce the reporting Ontario wineries and cideries are required to complete from a monthly to a quarterly basis

Licensed Ontario wineries and cideries must report their sales to the LCBO monthly as long as the producer is in operation under the *Liquor Control Act*, *Regulation 717, Section 16*. Accordingly, wineries and cideries have to submit a monthly reporting form known as the "J10." While these producers must collect and share the data with the LCBO monthly, the Ministry of Finance and industry associations only review the data on a quarterly basis. This monthly reporting is not only time-consuming, but Ontario brewers, for instance, are not required to endure a similar process. The adoption of this recommendation would present an opportunity for the Province to reduce red tape for Ontario wineries and cideries as well as standardize reporting requirements between beverage alcohol categories.

Recommendation 10: Allow Ontario spirits and craft beer producers with a retail store to sell their products at farmers' markets

Between 2014 and 2016, the AGCO administered a two-year pilot program to permit the sale of VQA wine and fruit wine, including cider made from 100 percent Ontario apples, at farmers' markets. Following the

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success of the pilot initiative, effective May 1, 2016, the Province approved the continuation of this program. Unfortunately, with this specific distribution channel, spirits are not treated equitably due to the long-standing categorization as "hard liquor." This long-standing view has created disparities between the various categories, putting the spirits industry and Ontario craft distillers at a disadvantage.

The spirits industry relies on inputs produced in Ontario by Ontario farmers. Inconsistent rules impact customer experience and convenience as well as market access for local producers. Currently, craft brewers must apply for special licences to sell at farmers' markets – a process that does not apply to the other categories. Therefore, both spirits and craft beer should be available at farmers' markets alongside VQA wine, fruit wine including cider, honey wine, and maple wine.

Recommendation 11: Improve the regulation of recreational cannabis

The legalization of recreational cannabis presents a significant economic opportunity for both the provincial government as well as the burgeoning cannabis industry. To capitalize on this opportunity, quash the illegal market, and safeguard public health, government must take action to establish balanced regulations that acknowledge the dual goals of public safety and economic growth. These actions should include:

- Commit to a first-come, first-served process for new store applications going forward and that no future lotteries will be used to determine licenses (as they were temporary measures employed because of supply issues).
- Allow adult consumers to purchase cannabis directly online from licensed producers and retailers to improve customer convenience.
- Following the Government of Alberta's approach, relax rules governing partnerships between retailers and licensed producers (LPs) while also allowing LPs to operate retail stores, whose total number of stores could be capped as a percentage of the market.