Ontario Chamber of Commerce Recommendations

BUSINESS PRIORITIES FOR THE INCOMING FEDERAL GOVERNMENT

ontario chamber of commerce

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Introduction

Ontario holds a prominent position within the Canadian federation, as it is home to nearly 40 percent of our national GDP and nearly 40 percent of the country's population. Against the backdrop of the federal election, the Ontario Chamber of Commerce (OCC) has identified opportunities through which the federal government can encourage economic growth in Ontario, within the categories of:

1) **Regulation and Taxation**
2) **Economic Development**
3) **Infrastructure and Transportation**

Prior to outlining our recommendations, the OCC believes it is critical to place Ontario's needs in context. In this document, we examine our province's place within the Canadian federation and find, for the first time in nearly a decade, Ontario is transitioning from a 'have not' to a 'have' province in 2019-20. This means our province will become a net contributor to Canada's equalization payment system. While a seemingly positive development, re-allocating federal capital away from Ontario's high-growth economy could exacerbate inefficiencies nationally. We urge the incoming government to consider our recommendations to ensure Ontario continues to be the economic engine of Canada.

Ontario within the Canadian Federation

In 2011, the Ontario Chamber of Commerce released a report titled *Dollars and Sense: A case for modernizing Canada's transfer agreements,* which offered perspective on how federally directed interprovincial transfer payments, such as equalization payments, could hinder economic growth. While equalization payments are intended to provide provinces with strained fiscal capacity (often referred to as 'have not' provinces) a needed financial boost to their economy, the report found equalization payments could also deter economic development by rewarding poor performance.

In addition, the report argues equalization payments exacerbate inefficiencies in the national economy: money left to circulate in the high-growth economics of the 'have' provinces yields higher returns than it would if reallocated to the lower yield economies of the 'have not' provinces. In high-yield economies, money could be invested at higher rates of return, advancing economic development and prosperity.

For the first time in nearly a decade, Ontario is transitioning from a 'have not' to a 'have' province in 2019-20. This means that we will become a net contributor to Canada's equalization payment system. Absent equalization payments, total federal support allocated to Ontario during the year is expected to be slightly more than $21 billion, or approximately $1,465 per Ontarian—an allocation based purely on population and distributed to every province and territory. Notably, with the exception of Prince Edward Island, all 'have not' provinces exhibit slower economic growth than Ontario. Reallocating money away from Ontario's high-growth economy may, therefore, hinder the ability of the national economy to reach its full growth potential, as the equalization payment system transfers money away from Canada's more high-growth economies.

However, just as provincial governments have the choice to raise revenues from taxation, they also have the ability to spend. Ontario has made the choice to retain a debt-to-GDP ratio of 32.4 percent: a debt with a ratio second only to Manitoba at 32.5 percent, and the highest absolute debt level of any province. If the federal government were to decide to tamper with the equalization payment formula, it could have a ripple effect on how creditors evaluate Ontario's creditworthiness. The ability of Ontario to maintain such a high debt level is contingent on its ability to continually rollover its debt, which could be hampered if creditors were to have reason to be more skeptical of Ontario's finances.

If the federal government were to decide to alter the structure upon which provincial equalization payments are decided, it would likely be viewed negatively by creditors. Ontario, as with all other provinces, must be able to rely on a means by which to measure how much it will receive from or give to the federal government to make reasonable forecasts of its fiscal position. The dependability of such forecasts is critical to the province's ability to formulate tenable short and long-term budgetary positions. If creditors are to feel Ontario's economy can be opportunistically drawn from by the federal government to alleviate the transitory budgetary shortfalls of neighbouring provinces and territories, the creditors could have reason to re-evaluate Ontario's credit position. Provincial governments are highly independent and must, therefore, have assurances from the federal government of how their contributions to the federation will be calculated in perpetuity.

The incoming government must be cognizant of these competing dynamics and reaffirm its confidence in the rules which govern who gets what and why. Within this context, strategic investments in Ontario via a more competitive tax and regulatory regime, new infrastructure assets, and policies that promote economic development should be top priority for federal decision-makers.

Regulation and Taxation

1. Strengthen the duty to consult

As noted in the Canadian Chamber of Commerce's (CCC) election platform, *Vote Prosperity*, businesses, and Indigenous peoples must navigate a duty to consult and accommodate process without adequate guidance from the federal government. Furthermore, court decisions have found that the federal Crown is frequently unable to execute its duties under the current process. As stated by the CCC, "this leaves businesses that have met, and even exceeded, expectations with projects being halted and losing out on billions of dollars. Indigenous communities that could have benefited from these projects are left with nothing."

The OCC echoes the Canadian Chamber of Commerce in recommending the federal government work with businesses, Indigenous peoples, and other orders of government to develop a duty to consult and accommodate framework that clearly and consistently defines the roles, expectations, and rights of the Crown, Indigenous peoples, and industry. Such a framework would harmonize provincial and federal processes, reflect relevant factors such as new and existing obligations within established case law; and ensure sufficient resources are dedicated to communicating and implementing this approach across all affected parties.

2. Adapt federal business supports to the realities of Small- to Medium- Sized Enterprises (SMEs)

Small business owners repeatedly highlight the cost of regulatory compliance as a barrier to investment and growth. They find it difficult to navigate new or revised regulatory frameworks, apply for government programs, or utilize support services. Even when SMEs find programs they believe could benefit their businesses, the administrative requirements are often too time-consuming to be worthwhile. Such bureaucratic hurdles may be the reason why so many government programs are either oversubscribed or underused.[1]

Beyond this, certain regulatory requirements may not reflect the realities of remotely-located firms or entrepreneurs. For example, on-site verifications are required to secure government underwriting of private sector financing. SMEs have also found required documentation for compliance, audit, and communication with the Canada Revenue Agency overly burdensome and unnecessarily bureaucratic (e.g. the frequency with which GST remission requirements are needed is unnecessarily punitive for otherwise innocently-made errors).[2] As noted by the CCC, "the federal government must ensure federal programs and interactions with business align with and respect small business realities."[3]

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[1] Fundingportal is a funding services and solutions provider that helps organizations get funded.
2 Canadian Chamber of Commerce, 2019. Small Businesses – CRA Service Delivery Audit.
https://static1.squarespace.com/static/5c488d25e749409bfb980e5e/t/5cd44081104c7b7eff3c6e91/1557414017476/SMEs+%234+CRA+service+delivery+audit.pdf
3 Canadian Chamber of Commerce. 2019. Small Businesses – Aligning with and Respecting SME Realities.

The OCC echoes the Canadian Chamber of Commerce recommendation that the federal government streamline the interaction points between government and small businesses. It should utilize a customer-centric approach to ensure small businesses are able to comply with regulation and access programming or support with ease.

3. Reduce regulatory barriers between provinces and territories

Despite the existence of the Canadian Free Trade Agreement and a Regulatory Reconciliation and Cooperation Table, costly barriers currently exist between all provinces, hindering our ability to compete as a country. In the words of the CCC, "the tyranny of small regulatory differences between jurisdictions makes it unnecessarily complex and costly to do business across provincial lines." These barriers—which are estimated to cost the Canadian economy between $50 and $130 billion per year—include limits on labour mobility through occupational licencing standards and prohibitions on the free movement of goods (most notably, alcohol).

The OCC echoes the CCC's call for the federal government to work with provincial and territorial governments on the mutual recognition of regulations that will allow for the free movement of goods, services, and labour across the country. In support of this effort, the government should also conduct a full review of the Canadian Free Trade Agreement to ensure it is comprehensive, barrier-reducing, and includes a binding dispute resolution mechanism.

4. Assess the feasibility of building patent boxes into the Canadian tax system

The protection and cultivation of Canadian intellectual property is a critical component to economic development and industrial evolution. However, innovation often comes with significant risk and investment.

Currently, the Canadian tax regime de-incentivizes investment into high-risk research and development projects. Other jurisdictions have used their tax systems to encourage businesses to invest more in their own innovation through a patent box system (also known as an innovation box system). These initiatives reduce corporate taxes on earnings from new products to incentivise their development. Several countries have had success with this approach, including the United Kingdom, Belgium, France, the Netherlands, Switzerland, and China.

The OCC recommends that the federal government perform a cost-benefit analysis to decide whether an innovation or patent box system would work within the federal taxation regime.

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Economic Development

1. Develop a national bioeconomy strategy

With growing international demand for sustainable, low-carbon goods and services, and the vast biomass resources available in Ontario and across Canada, the economic potential for development of a bioeconomy is enormous. Many industries (such as health, agriculture, forestry, and natural resources) and both rural and urban communities stand to benefit from the opportunities offered by a bioeconomy. The net result could be the creation of new businesses, revitalization of old industries, regional diversification, and jobs.

Unfortunately, as identified by the Sarnia Lambton Chamber of Commerce, Canada is lagging behind the US and Sweden in the development of a bioeconomy. This lag is commonly understood to come from a lack of strategic direction from the federal government.

The OCC recommends that the federal government work with both public and private stakeholders to develop a national bioeconomy strategy that references appropriate regulation of bio-based products, collaborative R&D initiatives, strategic public sector procurement activities, outreach to attract investment and increase demand for Canadian products, the collection of investment-grade data on the bioeconomy, and workforce training for/partnerships with Indigenous communities.

2. Responsibly implement an effective pharmacare program

A national pharmacare plan that is effectively integrated into our existing health care system could improve the lives of millions of Canadians. However, a universal approach to coverage is both fiscally untenable and would put the ability of our country to access new treatments at risk. Most Canadians are satisfied with their existing drug coverage; those who do not have access to coverage or who experience rare or catastrophic illnesses should, therefore, be the focal point of any new public plan. As the CCC notes, "a national pharmacare program will provide the greatest value by focusing on those who do not have coverage and those who are under-insured . . . roughly 10% of Canadians."[4]

A national pharmacare program should also work to promote innovation in the health care sector. If Canada is to create a program that is both accessible and promotes the global competitiveness of its health care industries, it must encourage clinical trails to allow for valued data collection and provide funding beyond early development of medications and devices. Furthermore, our health care system

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[4] Canadian Chamber of Commerce. September 28th, 2018. *Written Submission by the Canadian Chamber of Commerce Advisory Council on the Implementation of National Pharmacare.* http://www.chamber.ca/download.aspx?t=0&pid=ad96567d-a9c5-e811-814c-005056a00b05.

should be integrated with those nascent industries which Ontario has already gained a global lead in—such as artificial intelligence and big data—to support growth, innovation, and competitiveness alongside an improvement in the quality of care available to all Canadians.

The OCC supports the CCC's recommendations that the federal government should take a "gaps" approach to pharmacare, building on the strengths of the existing system without reducing the coverage enjoyed by most Canadians. Additionally, this approach should foster an investment and a regulatory environment that encourages clinical trials in Canada and applies our competitive advantages in artificial intelligence and big data to health innovation.

3. Address regional labour market needs by reforming immigration systems and supporting work-integrated learning

Many of Ontario's labour market challenges stem from an uneven distribution of the population. The concentration of residents in large metropolises like Toronto places pressure on urban infrastructure and affordability, while many smaller communities and businesses lack access to the talent they need to grow.

Immigration can be a powerful tool to mitigate these challenges and talent gaps. The governments of Ontario and Canada have both taken positive steps to make it easier for newcomers to work in the province. Still, it remains burdensome for newcomers looking to remain in Ontario by obtaining permanent residency status. The process for employers to hire international students after graduation is similarly time-consuming and expensive.

A well-designed, community-focused immigration policy could help fill talent gaps by providing businesses with the human resources they need. *Select for Success*, for example, is an employer-based support program funded by Immigration, Refugees and Citizenship Canada (IRCC) and lead by New Canadians' Centre of Excellence. IRCC facilitates a process to understand employer hiring practices, devises strategies to engage employers in smaller rural and northern regions, and address newcomer employment. *Select for Success* is valuable to businesses in that it has the appropriate community-focused infrastructure and hand-holding components that are crucial for the needs of small business owners. As outlined by the CCC, employer-driven programs, such as the *Atlantic Immigration Pilot*, have also proven successful in recruiting talented foreign workers to vacant jobs in Atlantic Canada by providing a clear pathway to permanent residency.

Work-integrated learning opportunities are also valuable components for filling the talent gap, as they provide prospective students with on-the-job training, easing their transition into the workforce. However, the federal government's support for work-integrated learning opportunities is currently restricted to post-secondary students in the fields of science, technology, engineering and math with support provided to sectoral-focused organizations. If Canada is to more efficiently address its growing talent gap, the federal government must broaden the definition of work-integrated learning to include a wide range of quality experiences across fields, regions, and participants.

The OCC recommends that the federal government coordinate immigration procedures with the provinces to streamline requirements and reduce wait times. Additionally, it is recommended the federal government make it easier for foreign talent to obtain accreditation and add more National Occupational Classification skill categories to the Global Talent Stream program. The government should also promote Select for Success and scale the program up to effectively engage a broader number of businesses. Finally, the OCC echoes the CCC's recommendation to replicate the Atlantic Immigration Pilot Project outside of major urban centres across the country.

4. Support the growth of Canada's budding cannabis industry

- **Ease the ability of cannabis producers to attain licenses**

Prior to being given a license to produce cannabis, cannabis producers must first have their facility pass inspection by Health Canada. This inspection requires the producer to complete two growth cycles and prove they have taken measures taken to prevent mold, mildew, and other pestilent organisms. The inspection process takes significant time and coordination from both Health Canada and the cannabis producer.

The federal and provincial governments stand to lose approximately $800 million in the first year from tax revenues – approximately $380 million in lost excise tax revenues plus $426 million in provincial and federal sales tax – due to a large illegal market and a supply shortage.[5] In Ontario alone, there is a demand for 235 tonnes (or 235,000 kilograms) of cannabis: the shortage equates to $105.2 million in lost sales tax revenue for the Province and $109.6 million in lost excise tax revenue for the federal government.[6] If the entire cannabis market were supplied through the legal market, the federal and provincial governments could reap approximately $1.3 billion through both excise and goods and services taxes.[7] Such a vast un-serviced market could be alleviated by measures to enhance regulatory procedures to ensure demand is met in a timely and efficient manner.

The OCC recommends that the federal government direct Health Canada to invest in its capacity to license facilities at an accelerated rate while not compromising the inspection process.

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[5] Sen, Anindya and Rosalie Wyonch. 2018. Cannabis Countdown: Estimating the Size of Illegal Markets and Lost Revenue Post-Legalization. C.D. Howe Institute. https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Final%20Final%20Commentary_523.pdf
[6] Sen, Anindya and Rosalie Wyonch. 2018. Cannabis Countdown: Estimating the Size of Illegal Markets and Lost Revenue Post-Legalization. C.D. Howe Institute. https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Final%20Final%20Commentary_523.pdf
[7] Sen, Anindya and Rosalie Wyonch. 2018. Cannabis Countdown: Estimating the Size of Illegal Markets and Lost Revenue Post-Legalization. C.D. Howe Institute. https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Final%20Final%20Commentary_523.pdf.

- **Develop a common excise stamp for licensed producers**

As part of the legalized cannabis framework, governments levy an excise duty on cannabis products, including medical cannabis, as well as the GST/HST at the point of sale.

However, the existing excise stamp process unnecessarily complicates the ability of producers to distribute their product. The stamps have a colour band and background specific to the province or territory in which the product is intended to be sold. The licensed producer is, therefore, responsible for packaging the product and applying the proper excise stamp, so that it may be sold legally in the desired province, rather than applying a common stamp for all sales within Canada. Furthermore, current stamp design is not suitable for automation, necessitating manual application.

The OCC recommends that the federal government develop a common excise stamp, amenable to production automation, to allows licensed producers to more efficiently ship products across the country.

- **Effectively regulate the THC content in edibles**

Health Canada's regulations for edibles mandates a limit of 10-miligrams of THC per discrete unit of cannabis intended for ingestion, as well as a 10-milligram limit of THC within each single package. Economies of scale would be more accessible if businesses were able to sell multiple discrete units of cannabis, of 10 milligrams or less each, inside an individual multi-pack (such as a blister pack).[8] Single packs, which hold a single discrete unit of cannabis, are costly to produce compared to multi-packs, which allow producers to create economies of scale.

Furthermore, a 10-milligram limit of THC per package maximum is significantly lower than in U.S. jurisdictions where recreational cannabis is legal. For example, Washington state has a 100-milligram limit per multi-pack, with individually packaged 10-milligram servings. As long as edibles and their servings are clearly marked and dosage is easily visible and understandable, a 100-milligram per package regulation would strike the necessary balance between prioritizing public safety while more effectively displacing the illegal market.

The OCC recommends that the federal government permit individual servings of edible products to contain up to 10-milligrams of THC, as well as a package limit of 100-milligrams of THC, to allow for economies of scale and efficient use of multi-packs.

[8] A blister pack is a single package which holds individual tablets of something, which are each able to be accessed individually. Examples include over-the-counter medication or chewing gum tablets sold in a foil-topped packages, which are able to be individually 'popped' out of the package for consumption.

Infrastructure and Transportation

1. Support municipalities' fiscal capacity to invest in infrastructure

Federal programs such as P3 Canada and the Building Canada Fund have been successful in providing funding to large, complex infrastructure projects throughout the country. Building Canada overcame governmental barriers by funding projects owned by provincial, territorial, and municipal governments, and in certain cases, private sector and non-profit organizations. P3 Canada uses an alternative public-private-partnership format, which allows lower levels of government to apply to the federal government to fund locally-oriented infrastructure projects. If municipalities in Ontario are to overcome the infrastructure 'gap' caused by underinvestment, aging assets, and increased pressure from population growth and climate change, more such federal initiatives are necessary.

Based on a resolution authored by the Greater Niagara Chamber of Commerce, the OCC recommends that the federal government make greater use of initiatives similar to P3 Canada and the Building Canada Fund, to subsidize cash-strapped municipal infrastructure projects.

2. Ensure public funding for broadband is targeted, coordinated, and streamlined

Though necessary, private sector investment alone will not suffice to deliver high-speed internet to all Canadians. There are sparsely populated areas in which there is no business case for providers to build broadband and where public funding is necessary to fill gaps in coverage. Federal and provincial governments should continue to plan for substantial spending on broadband, regardless of budgetary constraints, so underserviced municipalities can benefit from the economies of scale available through enhanced telecommunications infrastructure. As noted by the CCC, ". . . when the rise of artificial intelligence, increased automation and access to big data have the potential to transform entire sectors of the economy, Canadian business needs reliable digital infrastructure. High-speed networks allow better communication and new tools and open up avenues for the sharing and transfer of data and ideas."[9]

Beyond ensuring consistent funding, governments should also disburse funds more strategically. In the past, government funding for broadband has incentivized network expansion in areas that were already investment targets for industry. Not only does this undermine the competitiveness of telecommunications firms, but it is also an ineffective use of public monies. Facilities-based providers have offered to share their maps with the government to better coordinate investments.

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[9] Canadian Chamber of Commerce. 2019. Connected Canada – Improve Access in Communities. https://static1.squarespace.com/static/5c488d25e749409bfb980e5e/t/5cd440c09140b7fa33c1b5bf/1557414080390/Connected+Canada_%234_Improve+Access+In+Communities.docx.pdf

Going forward, public funds should exclusively target gaps in private sector coverage to complement (not compete with) private investments.

The OCC recommends that the federal government stay the course with its 2019 broadband strategy, and work with provincial, territorial, and municipal governments to arrive at a national broadband strategy that minimizes regulatory deterrents to private investment in broadband infrastructure and enhances the connectivity of Canadians. The OCC also supports the CCC in their call to address the digital divide and move forward with solutions to improving broadband internet access in underserviced communities.

3. Examine possible benefits of a multi-modal transit hub at or near Toronto Pearson Airport

Growing road congestion in southern Ontario is not only negatively impacting the region's economic competitiveness, but also the provincial and national economies. For Toronto Pearson to play its role as a global gateway, we must be able to get passengers and goods to their destination quickly, rather than leaving them to sit on gridlocked highways.

The proposed Toronto Pearson Airport multi-modal transit hub has the potential to connect the broader region and greatly reduce road congestion. Estimated growth in aviation demand over the next few decades means that the airport needs more space for passenger processing. The Greater Toronto Airports Authority has proposed a plan to build a new passenger processing facility that could also serve as a major transit hub—"Union Station West"—which would help improve access to the airport and allow for more passenger processing than is currently available.

Given Canada's current trade imbalance, investment in trade-enabling infrastructure (such as multi-model transit hub near Pearson airport) is of critical importance to Canada's continued economic development. We must meet and exceed the investment in trade infrastructure made by our competitors if it is to remain a viable contender in the global economy. As noted by the CCC, "currently, only 1.1% of the federal government's $180-billion infrastructure plan is allocated to trade infrastructure development."[10] Greater investment is, therefore, needed if Canadian companies are to access foreign markets with the same ease as their counterparts in other jurisdictions.

The OCC echoes the Canadian Chamber of Commerce in recommending that the federal government increase investment in infrastructure, especially as it relates to transportation and trade. In doing so, the OCC further recommends the Government of Canada work with the Government of Ontario, Toronto Pearson, and the Greater Toronto Airports Authority to assess the feasibility of Union Station West.

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[10] Canadian Chamber of Commerce. 2019. *Connected Canada – Trade Enabling Infrastructure.* https://static1.squarespace.com/static/5c488d25e749409bfb980e5e/t/5cd440ec24a694108c92f129/1557414124876/Connected+Canada_%239_Trade+Enabling+Infrastructure.pdf

4. Link infrastructure and economic development

Modern and effective infrastructure is the support system of a competitive economy. While the federal government has made strides to close Canada's infrastructure funding gap, there is still much work to be done, particularly with respect to how investment decisions are made. As noted by the CCC, "most federal infrastructure spending decisions are not merit-based and strongly influenced by municipal, provincial and federal politics."[11]

When earmarking infrastructure investments, transparent, evidence-based, and unbiased funding allocation is essential. Taking this approach to decision-making results in a more efficient allocation of resources to those infrastructure projects that can be of greatest advantage to the economy. Furthermore, as an export-dependent economy, infrastructure plays a critical role in our prosperity by enabling the movement of goods, services, and people to markets around the world. In any review of infrastructure investment, priority should be given to those projects that enable trade and have a clear economic development ROI. The incoming federal government should identify those transportation corridors which are of greatest value to exporting goods, so firms can gain better access to global markets and take advantage of trade agreements.

The OCC echoes the CCC's call for the federal government to make infrastructure investment decisions that are transparent and evidence-based, and prioritize projects that support economic development and enable trade.

[11] Canadian chamber of Commerce, 2019. Connected Canada – Closing the Infrastructure Gap. https://static1.squarespace.com/static/5c488d25e749409bfb980e5e/t/5cd440e59140b7fa33c1b72c/1557414117965/Connected+Canada_%238_Infrastructure+Funding+and+Project+Selection+final.pdf.

Conclusion

The OCC believes that Canada has the fundamental ingredients for sustainable and equitable growth, but bold action and leadership will be required of the next federal government if we are to make good use of those ingredients. This document outlines multiple avenues through which the Government of Canada can promote economic development for Ontario, ultimately benefitting all Canadians.

As the non-partisan voice of business, the OCC looks forward to working alongside the next government to pursue a prosperous future for us all.