ONTARIO CHAMBER OF COMMERCE
2016 PRE-BUDGET SUBMISSION

ontario chamber of commerce

February 2016

ontario chamber of commerce

Ontario's Business Advocate

160

Local Chambers of Commerce & Boards of Trade

60,000

Network of business members

Dear Minister Sousa,

The Ontario Chamber of Commerce (OCC) is pleased to have this opportunity to present our preliminary recommendations to you as part of the Ontario Government's 2016 pre-budget consultations.

Addressing the current fiscal context should be the government's top priority. The provincial debt is now roughly $300 billion, while interest payments on that debt are consuming an ever greater portion of provincial expenditures. Of equally significant concern is the projection recently released by the Financial Accountability Officer that the province will miss its target to eliminate the deficit by 2017/18 unless the pace of deficit reduction accelerates sharply to over $4 billion per year in 2016-17 and 2017-18

We recommend that the provincial government take immediate action to ensure that it realizes its commitment to eliminate the deficit by 2017/18. Ontario's current fiscal situation deters private investment, reduces the government's capacity to make productivity-enhancing investments, and compromises the government's ability to respond to future economic slowdowns.

In January, the OCC released Emerging Stronger 2016, our economic agenda for the province. Over the past five years, Emerging Stronger has served as an effective platform to generate discussion on how best to spur greater economic growth in the province. We invite you to review our recommendations as well as the robust regional economic data that we have collected throughout this powerful five-year project as you craft the 2016 budget.

This document outlines four key budget priorities and 13 specific recommendations that we believe the Government of Ontario should adopt in order to restore fiscal balance and spur growth in our economy.

Allan O'Dette

Thank you,

FOUR KEY BUDGET PRIORITIES

1. **Eliminate the Deficit and Reduce the Debt**
   - 1.1 Pursue program review, renewal and transformation
   - 1.2 Work with the federal government to restructure programs that are a net drain on Ontario's finances
   - 1.3 Introduce means-testing in the provision of services
2. **Create and Leverage New Market Opportunities**
   - 2.1 Work with the federal government to closely examine the provisions of the Trans-Pacific Partnership (TPP) with an eye to domestic industry
   - 2.2 Invest in trade-enabling infrastructure
   - 2.3 Address the skills gap by fostering greater connections between talent and employers
3. **Develop Frameworks to Strengthen the Sharing Economy**
   - 3.1 Conduct a regulatory audit
   - 3.2 Implement ride sharing and home sharing regulations
   - 3.3 Fill the broadband gap negativity impacting Ontario's competitiveness
4. **Engage the Business Community throughout the Development of Regulatory Reforms**
   - 4.1 Adopt a "better regulation" approach
   - 4.2 Direct cap and trade revenue to efforts that directly facilitate business' transition to a lower carbon economy
   - 4.3 Mitigate the impact of pension reform on the business climate
   - 4.4 Modernize vehicle insurance rules

92%

Percentage of Ontario businesses that believe it is important that the government meet its deficit elimination target by 2017-18

Source: OCC membership survey, January 2016
n=853

ELIMINATE THE DEFICIT AND REDUCE THE DEBT

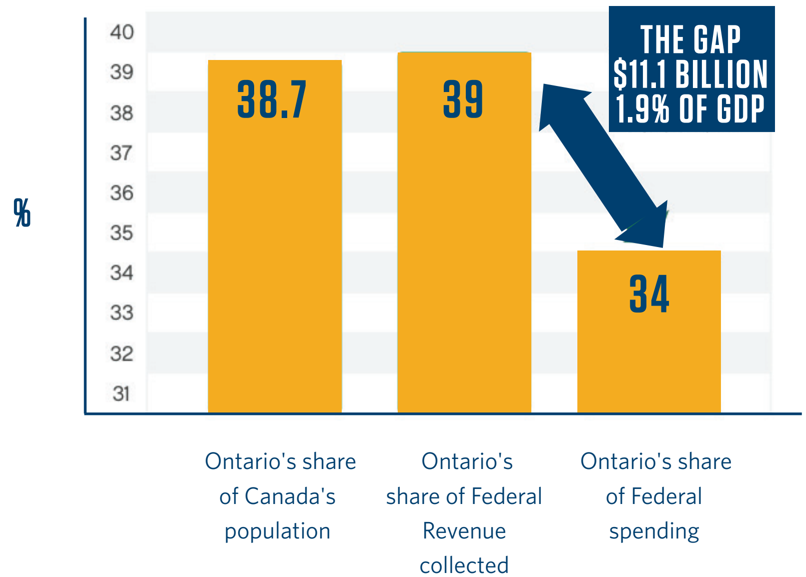
Ontario's current fiscal situation deters private investment, reduces the government's capacity to make productivity-enhancing investments, and compromises the government's ability to respond to future economic slowdowns. Ontario's deficit is currently $7.5 billion. Ontario's $300 billion-plus debt is the largest of any sub-sovereign jurisdiction in the world. The severity of the province's economic outlook has prompted credit rating agencies, most notably Moody's Investors Service and Standard & Poor's, to downgrade the outlook for Ontario from stable to negative.

Ontario's Financial Accountability Officer projects that Ontario's deficit could range from $2.6 to $7.1 billion in 2016-17 and from either balance to a deficit of almost $7.4 billion in 2017-18, dependent on revenue and spending growth. It is imperative that the government take the following actions to ensure that it meets its fiscal commitments.

1.1 PURSUE PROGRAM REVIEW, RENEWAL AND TRANSFORMATION

We support the adoption of the Province's Program Review, Renewal and Transformation approach, which aims to identify opportunities to transform programs and services. Despite the significant potential of the approach to realize greater efficiencies, the government has yet to put to tender the provision of any major program or service. Given Ontario's fiscal challenge, it is imperative that government move quickly to identify program delivery areas that are suitable for transformation. Using the best evidence, government should identify - and put to open tender - at least one major area of service delivery by the end of 2016.

The Federal Government Underinvests in Ontario



Source : Mowat Centre, 2013

1.2 WORK WITH THE FEDERAL GOVERNMENT TO RESTRUCTURE PROGRAMS THAT ARE A NET DRAIN ON ONTARIO'S FINANCES

Ontarians continue to see their federal taxes redistributed away from Ontario on a net basis, receiving less than their per capita share of spending and transfers. The current structural gap, in terms of what Ontarians pay to the federal government and what they receive back, is estimated at between $9.1 and $12.5 billion. The provincial government must press the new federal government to close this fiscal gap by reforming the equalization system and introducing a national standard for Employment Insurance access.

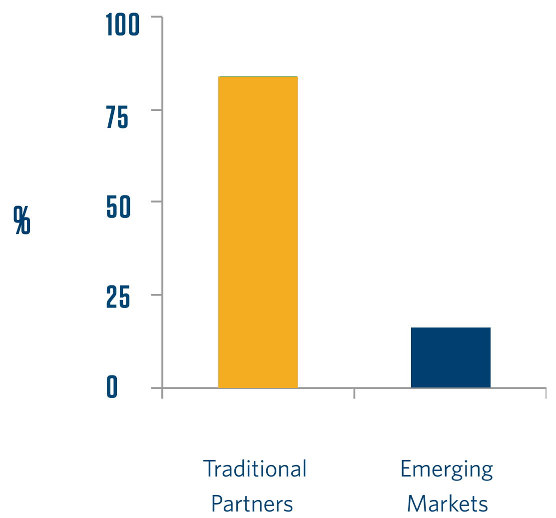
1.3 INTRODUCE MEANS-TESTING IN THE PROVISION OF SERVICES

Many services and benefits in Ontario are currently available to all Ontarians at the same upfront cost (and often, at no cost), despite significant variation in peoples' financial means. Introducing a means-testing provision to the price of a service takes into account an individual's 'ability to pay'. Means-testing can be a strategy through which governments can maintain the quality or level of service in the context of a large deficit.

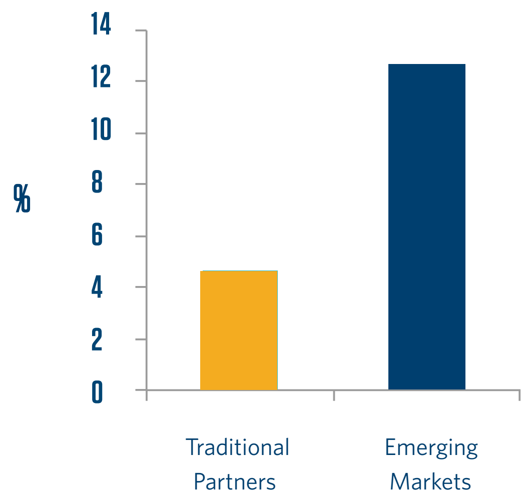
WHAT THE OCC IS DOING

Health care costs represent a substantial segment of the Ontario government's budget, with spending increasing at a faster rate than overall budget growth. Recognizing this, the Ontario Chamber of Commerce is embarking on a major health policy project for 2016. The Health Transformation Initiative will include a year-long series of reports, events, and partnerships with major health care service, research, finance, and technology organizations. As well as looking at the overall challenges and opportunities for health in Ontario, the policy work will contain "deep-dives" into alternative service delivery, the pharmaceutical industry, and R&D capitalization.

Share of Canadian Merchandise Exports (2012)



Annual GDP Growth (2000-12)



Source : Office of the Chief Economist, Department of Foreign Affairs, Trade, and Development. Data from IMF and Statistics Canada

CREATE AND LEVERAGE NEW MARKET OPPORTUNITIES

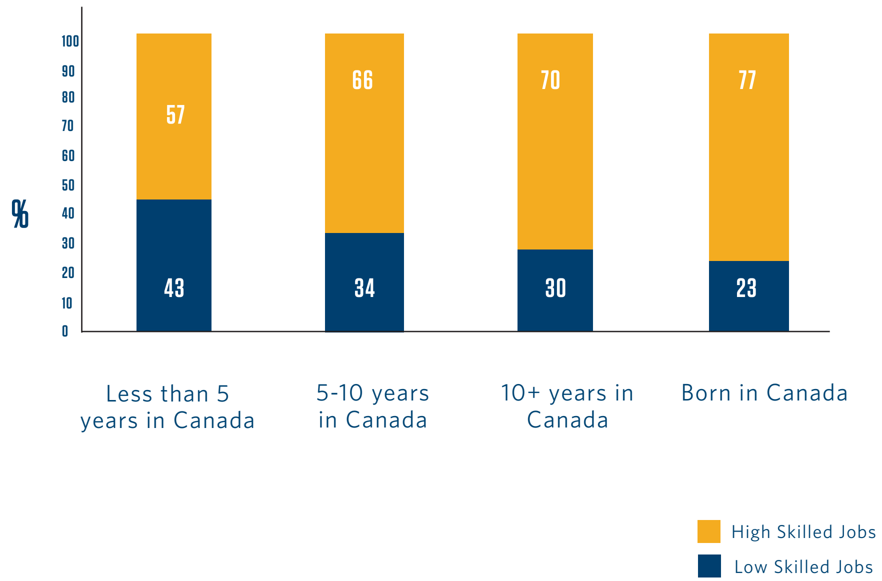
The global economy has changed significantly over the past decade. Ontario's traditional trading partners, most notably the United States and Western European states, are experiencing slower growth while emerging economies, such as India and China, are surging ahead. It is critical that Ontario enhance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

The OCC applauds the Ontario government for its efforts to promote Ontario's attractiveness as both a trading partner and centre of business. However, we recognize that Ontario's 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.

2.1 WORK WITH THE FEDERAL GOVERNMENT TO CLOSELY EXAMINE THE PROVISIONS OF THE TRANS-PACIFIC PARTNERSHIP (TPP) WITH AN EYE TO DOMESTIC INDUSTRY

The recently negotiated Trans-Pacific Partnership (TPP) will give Canadian firms unprecedented access to global markets, but also poses serious challenges for the future of Ontario's already shaken automotive sector. Under the new rules, Canada's tariffs on auto vehicle imports will be phased out over five years, a much shorter phase out than the 25-year grace period given to the U.S. Further, local-content provisions for vehicle components like engine parts and body stampings (including truck frames and metal roof panels) will only be required to have a TPP content of 35 percent. Combined, these TPP provisions give a marked advantage to low-wage Asian suppliers of parts, to the detriment of Canadian firms. The TPP provides a strong incentive for the provincial and federal governments to work together to restore the case for manufacturing in Ontario.

Recent Immigrants have Poor Labour Market Outcomes



Source : Statistics Canada, 2011 National Household Survey

They can do so by eliminating unique-to-Canada costs that reduce the global competitiveness of Canadian manufacturing operations.

2.2 INVEST IN TRADE-ENABLING INFRASTRUCTURE

Trade-enabling infrastructure, including public assets such as airports, ports, roads, and marine safety systems, play a critical role in providing Ontario businesses with avenues to get their goods to market.

Encouragingly, the 2015 Budget announced that the province would make an unprecedented investment of more than $130 billion in public infrastructure projects over ten years. Similarly, the federal government has pledged to invest nearly $125 billion in infrastructure over the next ten years. While we applaud the size of these commitments, it is imperative that the provincial and federal governments employ these funds strategically. As a start, both levels of government should develop a coordinated infrastructure investment strategy that prioritizes investment in trade-enabling infrastructure.

2.3. ADDRESS THE SKILLS GAP BY FOSTERING GREATER CONNECTIONS BETWEEN TALENT AND EMPLOYERS

Many key Ontario sectors are facing skills shortages. The mismatch between labour supply and demand is a significant barrier to economic growth. The Conference Board of Canada estimates that the skills gap costs the Ontario economy up to $24.3 billion in foregone GDP. Overcoming Ontario's labour force challenge will require collaboration among all actors in the economy.

Government and business must do a better job at leveraging the immigration system to fill skills gaps. Too few employers are using the Express Entry system that aims to provide them with quick access to highly skilled talent. In collaboration with the federal government, the Ontario government should work to reduce the administrative burden and processing times associated with recruiting international talent to Ontario.

Meanwhile, the Ontario government should also enhance the

OCC's Global Growth Fund Results to Date

Grants distributed: from 2012-2015: $5.5 million

Sales generated from 2012 - 2015: $167 million

Source : OCC, 2016

Meanwhile, the Ontario government should also enhance the integration of immigrants into the labour market by expanding funding and supports for both employers and educational institutions for bridge training, internships, mentorship opportunities, and professional language programs with an emphasis on 'soft skills' training.

WHAT THE OCC IS DOING

The OCC administers the Global Growth Fund, a program which helps small and medium sized enterprises (SMEs) access foreign markets by covering up to 50% of eligible costs incurred to develop export sales. This comprehensive strategy, jointly funded by the Government of Ontario and the Government of Canada, aims to increase the number of Ontario firms engaged in export activities and to diversify Ontario's global trading partnerships. Through the strategy's Export Market Access program, 423 Ontario companies have generated $89 million in export sales over the past two years, resulting in 260 new jobs in Ontario.

DEVELOP FRAMEWORKS TO STRENGTHEN THE SHARING ECONOMY

45% of Canadians are willing to rent their belongings to others

42% are willing to rent from others

40% The proportion of young Ontarians (18-34) that are consumers in the sharing economy.

400,000+ The number of Uber riders in Toronto

Source : Kennan, 2014, Airbnb, Uber, Augus 2015 poll by Leger, n=1003

The past several years have witnessed the rise of new models of consuming and accessing goods and services, often referred to as the "sharing economy". Fueled by companies such as Uber, Autoshare, and Airbnb, the sharing economy enables individuals to obtain rides, accommodations, and a wide range of other goods and services via online platforms in exchange for monetary and non-monetary benefits.

The sharing economy has had—and is expected to continue to have—a significant economic impact at the global level. PwC estimates the global revenue from sharing economy companies in 2015 will be $15 billion, with the sector expected to reach global revenues of $335 billion by 2025.

Sharing companies bring significant economic, environmental, and community benefits, including better use of existing resources. While other jurisdictions have recognized the tremendous potential of the sharing economy and developed policies designed to encourage innovation and support the creation of business opportunities in this sector, Ontario has not yet introduced any formal regulations governing activity in the sharing economy.

Implementation of the following recommendations would ensure that Ontario positions itself for success by developing the regulatory capacity to drive innovation and growth in the sector.

The Projected Growth of the Sharing Economy Over the Next Ten Years

$15 billion

$330 billion

Source : PwC, 2014

3.1 CONDUCT A REGULATORY AUDIT

In the 2015 Budget, the Ontario government recognized that creating the right regulatory and tax environment was essential to realizing a thriving sharing economy in the province. We recommend that the Ontario government prioritize a regulatory audit, in partnership with municipalities, to identify unnecessary and outdated recommendations for legislative review.

Many of the current laws and regulations affecting industry were drafted before the rise of digital technology and, as such, have become outdated. One of the best examples of an outdated piece of regulation in Ontario is the Innkeepers Act. This act applies to motels and hotels but almost a quarter of its rules pertain to how and when a hotel owner can place a lien on a customer's horse.

The growth of the sharing economy should be used as a catalyst to create new ways of developing regulations. Where possible, we urge the government to apply a big picture lens to sharing economy regulation, driving innovation in the sector by retaining only those provisions that are relevant and necessary.

3.2 IMPLEMENT EFFECTIVE RIDE SHARING AND HOME SHARING REGULATIONS

The sharing economy is fueled by companies that enable individuals to obtain rides, accommodations, and a wide range of other goods and services via online platforms in exchange for monetary and non-monetary benefits. The value of the sharing economy is projected to grow from $15 billion to $330 billion over the next ten years. Despite the positive economic and social impacts brought forth by the sharing economy, the Canadian provinces and territories have yet to adopt comprehensive regulatory approaches within the sector. Recently, Edmonton's city council was the first in Canada to pass ride-sharing regulations. Other actors in the economy, including some insurance providers, are also adapting to this emerging sector by offering new products for ride and home sharing.

See the OCC's 2015 report on the sharing economy at occ.ca

Ontario has the opportunity to act as a regulatory leader by collaborating with cities to adopt home sharing and ride sharing regulations. These regulations would ensure a safe and legal operating environment for sharing services and would ensure Ontarians can continue to benefit from the sharing economy.

3.3 FILL THE BROADBAND GAP NEGATIVELY IMPACTING ONTARIO'S COMPETITIVENESS

As noted by the Canadian Chamber of Commerce, Canada falls short when it comes to access to broadband internet. Too many businesses operating outside of Ontario's major urban centres are unable to access high-speed Internet – a prerequisite for access to sharing economy services and a detriment to local economic development. The broadband gap is weighing on local economic competitiveness and impacting quality of life in smaller communities. We urge you to work with the federal government and move beyond the Connecting Canadians initiative by supporting and funding broadband infrastructure construction.

68%

Percentage of Ontario businesses that do not currently engage with government

Source: OCC membership survey, January 2016
n=853

ENGAGE THE BUSINESS COMMUNITY THROUGHOUT THE DEVELOPMENT OF REGULATORY REFORMS

Ontario businesses are increasingly being asked to absorb new and higher input costs - costs that were unforeseen just a few years ago. We are concerned that these new costs will put Ontario businesses at a disadvantage relative to their counterparts in other provinces and around the world.

The Ontario business community is committed to working alongside government throughout the policy process to develop regulations that are both responsive to the public interest and contribute to the economic competitiveness of the province. In recent advocacy efforts, for instance, the OCC has identified opportunities for the provincial government to engage the business community as it moves ahead on the proposed cap and trade system as well as pension reforms.

In November 2015, the Government of Ontario outlined its Business Growth Initiative, an encouraging step in the right direction. The Initiative includes detailed steps to address the cumulative burden facing Ontario businesses. In particular, we were encouraged by the government's commitment to refresh the Open for Business initiative by implementing a series of new tools such as a Regulatory Centre of Excellence to identify and champion best regulatory practices from around the world.

The recommendations in this section are designed to facilitate the coordinated efforts of government and the business community as we work to address the issues of climate change and retirement security,

35%	Percentage of Ontario businesses that are unsure as to how the proposed cap and trade system will impact their bottomline

Source: OCC membership survey, January 2016
n=853

in particular. Moving forward, we propose that the government adopt a 'better regulation' approach to ensure that stakeholders such as the business community are more meaningfully engaged throughout the development of regulatory reform.

4.1 ADOPT A 'BETTER REGULATION' APPROACH

Ontario does not have a process in place for conducting and publicly releasing economic impact assessments of major or minor policy initiatives. Stakeholder engagement is also limited in the current public policy process in Ontario, with stakeholders typically engaged exclusively in the development stage.

We recommend that that the government adopt the 'better regulation' approach recently implemented by the European Commission to ensure more targeted, quantitative and inclusive decision-making in Ontario. In accordance to this 'better regulation' approach, stakeholders are engaged throughout the lifecycle of all proposed European Commission initiatives. In addition, all European Commission initiatives are assessed alongside alternative policy options based on their potential economic, social and environmental impacts.

4.2 DIRECT CAP AND TRADE REVENUE TO EFFORTS THAT DIRECTLY FACILITATE BUSINESSES' TRANSITION TO A LOWER CARBON ECONOMY

Ontario's business community supports action to address climate change. In the current context of the cumulative burden facing Ontario businesses, however, we are concerned that the implementation of a poorly designed cap and trade system could negatively impact Ontario's economic competitiveness.

This is why the OCC strongly supports the government's proposed option to distribute allowances free of charge to a portion of covered

26%	Percentage of Ontario businesses that believe they can shoulder the financial burden that would result from the ORPP.
44%	Percentage of Ontario businesses that would reduce their current payroll or hire fewer employees in the future if faced with a mandatory ORPP.

Source: OCC membership survey, February 2016
n=1136

emitters, as well as the use of transparent criteria to determine which emitters would qualify for these free allowances. This proposal recognizes that the business community will need time to transition to an environment that includes cap and trade.

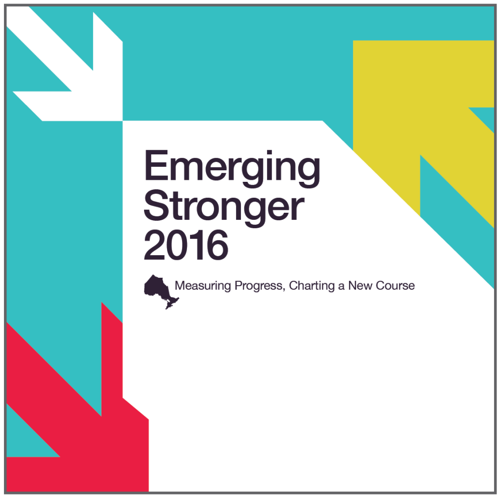
In addition, proper allocation of the proceeds generated by cap and trade, estimated by the government to be $0.3 billion in revenue in 2016-17 and $1.3 billion in 2017-18, will be critical to its effectiveness as a greenhouse gas-reducing policy. Ontario should use the proceeds to help businesses invest in low-carbon processes, technology, and other capital. To increase transparency, the government should consider the creation of an arms-length organization to administer this revenue.

4.3 MITIGATE THE IMPACT OF PENSION REFORM ON THE BUSINESS CLIMATE

The provincial government has indicated that it will move forward with the Ontario Retirement Pension Plan (ORPP), which is due to take effect on January 1, 2017. The OCC continues to be concerned that the ORPP will add to the cost of doing business in the province.

The government's recently released cost-benefit analysis concluded that in the long-term, the ORPP will have a moderately positive impact on Ontario's economy. However, it also demonstrated a negative effect on the economy over the first twenty years of the plan's lifespan. At its height, real household spending is projected to decline to $2.9 billion below the base scenario, resulting in an annual GDP loss of $2.3 billion by 2023. The nearer-term impacts of the new plan should not be discounted. We strongly urge your government to mitigate these negative consequences by introducing measures that will offset the incoming costs of the new pension plan, such as targeted tax relief, further efforts to combat the rising cost of electricity, or increasing support for regional economic development funds.

The vast majority of employers in Ontario have not received any direct communication from the government in relation to their



For more recommendations that we believe the government of Ontario should adopt to restore fiscal balance and spur growth in our economy, see the 2016 edition of *Emerging Stronger*.

obligations under the ORPP. In this context, continuing with the current implementation timeline, as reaffirmed by the government in a recent announcement, is very ambitious. As such, we continue to urge the provincial government to modify its implementation timeline by focusing on employer registration in 2017 and deferring Wave 1 employer contribution collection to 2018. This will allow employers time to examine how the ORPP impacts them and plan accordingly. Further, we encourage your government to establish a clear communications timeline that outlines how and when employers will receive information relating to the ORPP and any obligations they or their employees may have.

4.4 MODERNIZE VEHICLE INSURANCE RULES

Ontario continues to have one of the most costly, onerous and restrictive automobile insurance rate filing systems in North America. In the current system, insurers need to receive prior approval from the Financial Services Commission of Ontario (FSCO) for all private passenger vehicle filings, including rate reductions. This can lead to significant negative effects for consumers, including greater premium volatility, high administrative costs, and the subsidization of high-risk drivers by low-risk drivers.

Introducing a file-and-use initiative will lead to a reduced time to market for rate and product innovation. Under a file-and-use system, insurers are required to file the proposed rating changes with supporting justifications. After a defined period, the filing is deemed approved for use. This will increase the incentive for insurers to file and save consumers in the long run. This process is currently in place for non-private-passenger filing categories in Ontario and in other jurisdictions.

THANK YOU

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