# ONTARIO CHAMBER of COMMERCE

## 2008 Provincial Pre-Budget Submission
## Strengthening Ontario's Economic Foundation

Presented to
William Short
Clerk, Standing Committee on Finance and Economic Affairs
Room 1405, Whitney Block, Queen's Park
Toronto, ON  M7A 1A2

**January 28, 2008**

by
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To: **Pat Hoy**, MPP, Chair of the Standing Committee on Finance and Economic Affairs

cc: The Honourable Dalton McGuinty, MPP, Premier of Ontario, Minister of Intergovernmental Affairs
The Honourable Dwight Duncan, MPP, Minister of Finance and Chair of the Management Board of Cabinet
The Honourable Ted McMeekin, MPP, Minister of Government Services
The Honourable Kathleen O. Wynne, MPP, Minister of Education
The Honourable George Smitherman, MPP, Minister of Health and Long-Term Care
The Honourable John Milloy, MPP, Minister of Training Colleges and Universities
The Honourable Brad Duguid, MPP, Minister of Labour
The Honourable Jim Bradley, MPP, Minister of Transportation
The Honourable Harinder S. Takhar, MPP, Minister of Small Business and Entrepreneurship
The Honourable Margarett Best, MPP, Minister of Health Promotion
The Honourable Sandra Pupatello, MPP, Minister of Economic Development and Trade
The Honourable Michael Gravelle, MPP, Minister of Northern Development and Mines
The Honourable Gerry Phillips, MPP, Minister of Energy
The Honourable Jim Watson, MPP, Municipal Affairs and Housing
The Honourable David Caplan, MPP, Minister of Public Infrastructure Renewal
The Honourable John Gerresten, MPP, Minister of Environment
The Honourable Michael Chan, MPP, Minister of Citizenship and Immigration
The Honourable John Wilkinson, MPP, Minister of Research and Innovation
The Honourable Madeleine Meilleur, MPP, Minister of Community and Social Services
The Honourable John Gerretsen, MPP, Minister of Environment
Mr. John Tory, Leader of the Progressive Conservative Party of Ontario
Mr. Robert W. Runciman, MPP, Leader, Official Opposition
Ms. Lisa MacLeod, MPP, Critic, Government and Consumer Services
Mr. Rosario Marchese, MPP, Critic, Education, Training, Colleges and Universities, Public Infrastructure Renewal
Mr. Norm Miller, MPP, Critic, Small Business
Mr. Paul Miller, MPP,Critic, WSIB, Economic Development and Trade, Pensions
Mr. John O'Toole, MPP, Critic, Municipal Affairs and Housing
Mr. Michael Prue, MPP, Critic, Community and Social Services, Research and Innovation, Finance
Ms. Joyce Savoline, MPP, Critic, Education
Mr. Laurie Scott, Critic, MPP, Health Promotion, Research and Innovation
Mr.Peter Shurman, MPP, Critic, Citizenship and Immigration
Mr. Sterling, MPP, Norman W. Critic, Intergovernmental Affairs
Mr. Peter Tabuns, MPP, Critic, Environment, Energy, Citizenship and Immigration
Mr. Jim Wilson, MPP, Critic, Training, Colleges and Universities
Mr. Gilles Bisson, MPP, Critic, Transportation
Mr.Ted Chudleigh, MPP, Critic, Economic Development and Trade
Mr.Cheri DiNovo, MPP, Critic, Housing, Employment Standards,Small Business
Mr.Garfield Dunlop, MPP, Critic, Community Safety and Correctional Services

Mr.France Gélinas, MPP, Critic, Health Promotion, Health and Long-Term Care
Mr.Randy Hillier, MPP, Critic, Municipal Affairs and Housing
Mrs. Andrea Horwath, MPP, Critic, Occupational Health and Safety, Municipal Affairs
Mr.Tim Hudak, MPP, Critic, Finance
Mrs. Sylvia Jones, MPP, Critic, Community and Social Services
Mr.Frank Klees, MPP, Critic, Public Infrastructure Renewal, Transportation
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**2008 PROVINCIAL PRE-BUDGET SUBMISSION**

Dear Mr. Short:

The Ontario Chamber of Commerce (OCC) is a federation of 160 local chambers of commerce and boards of trade in the Province of Ontario, representing 57,000 businesses of all sizes, in all economic sectors and from every area of the province. The OCC's mandate is to advocate strong policies on issues that affect its membership throughout Ontario's business community. Our over-arching goal is to make Ontario the most competitive jurisdiction in North America.

Ontario's economy is headed for weaker times in 2008 due to a wide range of economic factors, including the looming economic downturn in the US. This reality will pose several challenges to Ontario's business community, particularly in our export-reliant sectors such as manufacturing and forestry. Our submission focuses on strategies that, in our view, will serve to create more efficiency, competitiveness and prosperity in the province. While investment in infrastructure, healthcare and education continue to be of vital importance, it is our view that an economic stimulus package should be the cornerstone of the 2008 provincial budget.

As an organization with extensive interest in economic and business development, we understand the vital importance of Ontario remaining competitive in the global economy. As Ontario's Business Advocate, our comments reflect our members' interest in provincial issues and we are pleased to have this opportunity to present our recommendations to the Standing Committee on Finance and Economic Affairs for its 2008 provincial pre-budget consultations.

Sincerely,

Len Crispino
President and CEO

## Executive summary

The latest global and domestic economic trends have posed new challenges for our economy as a whole, and for businesses, government, communities and people of Ontario in particular.

The growing probability of an economic recession in the US will no doubt impact Ontario's economic performance in 2008. While most economists believe the US economy is likely to rebound in 2009, pressures to our economy will linger, particularly in the manufacturing, agriculture, forestry and tourism sectors. Therefore, specialization in high-end output and trade diversification, increased productivity, transitioning to a service-based economy and a more sophisticated skilled labour force should be the primary areas of focus as the Ontario government considers its priority options over the short and long term.

The Ontario Chamber of Commerce and its members have identified three specific themes that the provincial government should embrace and deliver on in its 2008 budget:

I. Spurring Economic Growth
II. A Next Generation Workforce, and
III. Strengthening Ontario Communities

### I. Spurring Economic Growth

The OCC recommends targeted strategies in the areas of taxation, regulation, and investment in energy and transportation infrastructure, all of which are needed to stimulate Ontario's long-term economic growth:

**Taxation and Business Regulation:**

- Reduce Ontario's high marginal rates of taxation- in particular, low levels of income for corporations;
- Reform the Provincial Sales Tax to a Value-Added-Tax
- Accelerate depreciation of capital investments
- Reduce business property taxes
- Eliminate Ontario's Corporate Capital Tax
- Provide immediate cash relief to companies running Defined Benefit Pension Plans
- Eliminate the Corporate Minimum Tax;
- Continue to focus on the reduction of high regulatory compliance costs on business (WSIB, tax audits, inspections, etc)
- Pursue a sound fiscal framework

**Competitive Energy Costs:**

- Diversify supply to ensure affordable, competitive electricity prices
- Expeditiously approve and start implementing the Integrated Power System Plan (IPSP)
- Encourage private investment in electricity infrastructure.

**Improved Borders and Transportation infrastructure:**

- Implement a Goods and People Movement Study
- Develop a 30-year long range transportation plan (LRTP)
- Provide adequate and predictable infrastructure funding

## II. Next Generation Workforce

A continued focus on education/training and health care measures to ensure that Ontario's goal to transition to a knowledge-based economy is supported by an appropriately trained, technologically advanced, and healthy workforce. The OCC has analyzed the issues and recommends strategic actions to ensure that the needs of a growing economy are met through:

**An Educated and Skilled Labour Force:**

- Initiate a strategy engaging business, government and academia and provide program funding to address Ontario's emerging skills shortage
- Eliminate Barriers for Internationally-Trained Professional and Trades People
- Set up uniform training certification procedures and requirements across Canada
- Increase post-secondary funding

**Healthy Workforce:**

- Revamp health care funding
- Ensure a healthy workforce
- Address doctor shortage

## III. Strengthening Ontario Communities

The OCC recommends policies that will help our towns and cities retain and attract businesses, cope with business closures and economic disparities and deliver an appropriate level of social services.

**Funding Social Services**

- Fix the provincial-municipal fiscal imbalance and social services funding mechanism

**Promote Regional Development:**

- Develop a strategy to achieve effective regional economic development
- Provide targeted funding to assist communities achieve the goals of economic diversification, cluster development, research/innovation promotion, and strengthening infrastructure.

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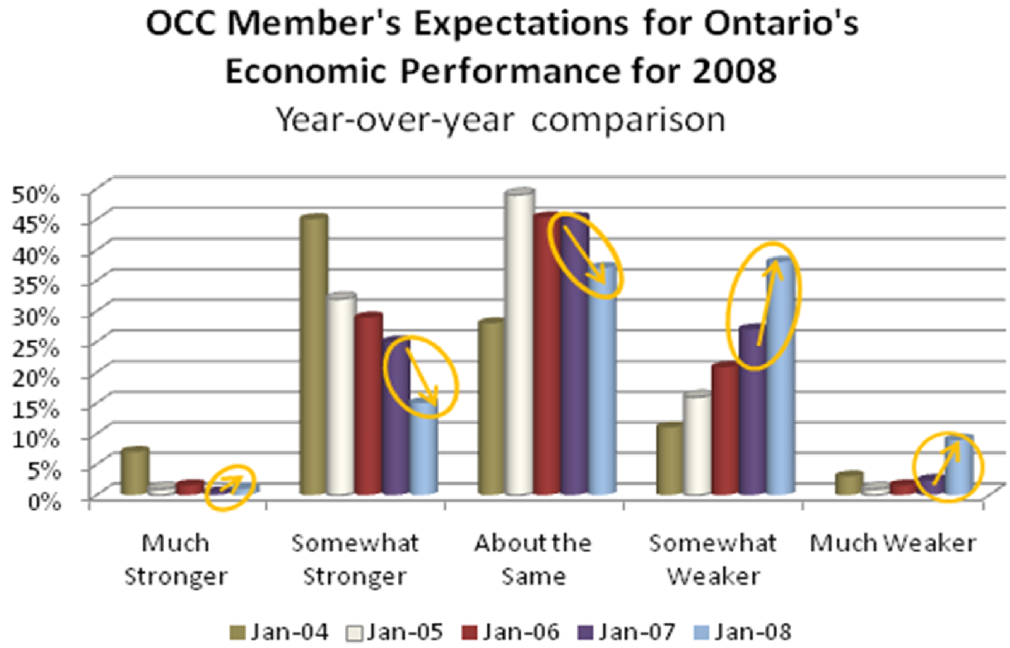
# Economic Outlook

Global and regional economic developments are expected to pose a particularly strong challenge for Ontario's economy in 2008. The much stronger Canadian dollar, high energy and other input prices, topped with the high probability of an economic slow-down in the US have taken a hard toll on provincial economic performance. Lower demand in the US will have serious repercussions for the export driven economy of Ontario, which sends about 90% of all its exports, or about 40% of the provincial GDP, south of its border. On average, economists project an economic growth rate of 1.5% for Ontario in 2008. This is well under the predicted national average of 1.9 per cent, and represents the lowest economic growth in Canada, with the exception of Newfoundland and Labrador.

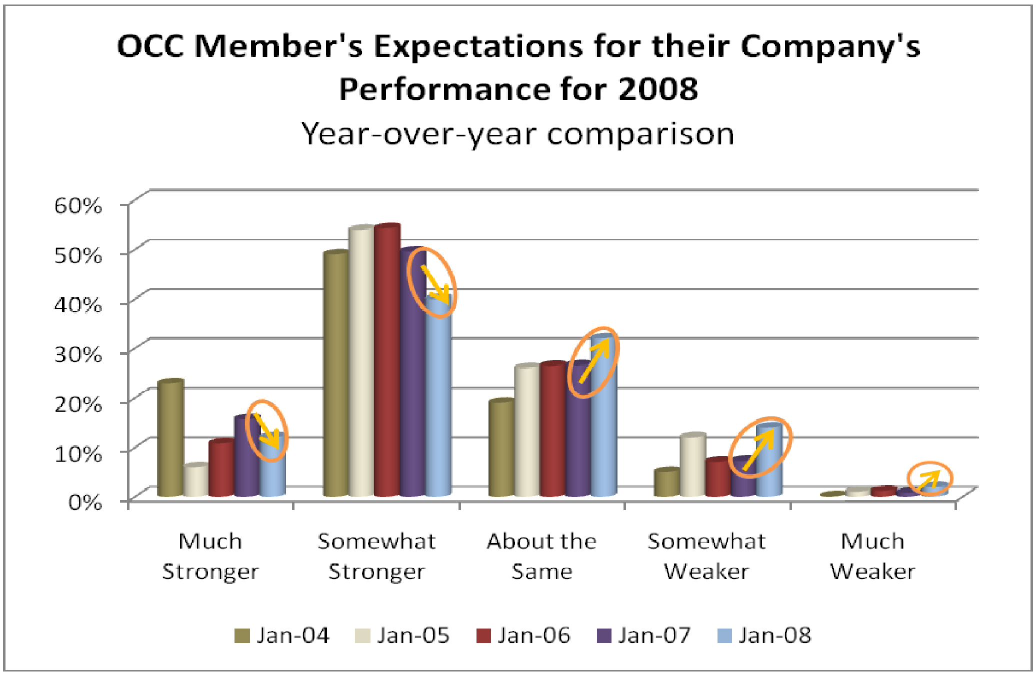
Optimism about Ontario's economic performance has been waning among OCC membership in recent years. Not surprisingly, given the economic turmoil experienced in Canada and elsewhere, respondents to the OCC's 2008 prebudget survey expressed concern about Ontario's economic performance over the next 12 months. This is continuing a downward trend in survey results dating back to 2004. From the 2008 survey, only 15% believe the province's economy will perform "somewhat stronger," compared to 25% in 2007, 29% in 2006, 32% in 2005 and 45% in 2004. This is a 77% decline in members' attitude in the last four years.




A total of 47% of respondents believe the economy will perform "somewhat" to "much" weaker in 2008. And while 37% of respondents still believe the economy will perform "about the same", only 16% believe the economy will perform 'somewhat' or 'much' stronger this year.

Survey respondents also offered a cautionary note when asked to rate their expectations for their company's performance in 2008. While survey respondents were generally more positive than their expectations of the provincial economy, in relative terms their enthusiasm appears to have tempered from previous years. The share of survey respondents who believe their business will perform "somewhat" and "much" stronger this year decreased to 52% compared to 66% in 2007 and 65% in 2006.

A significant number of respondents (32%) do not predict any performance changes from last year, while the percentage of those who feel their company's performance will decline this year doubled to 16% from 8% in 2007.



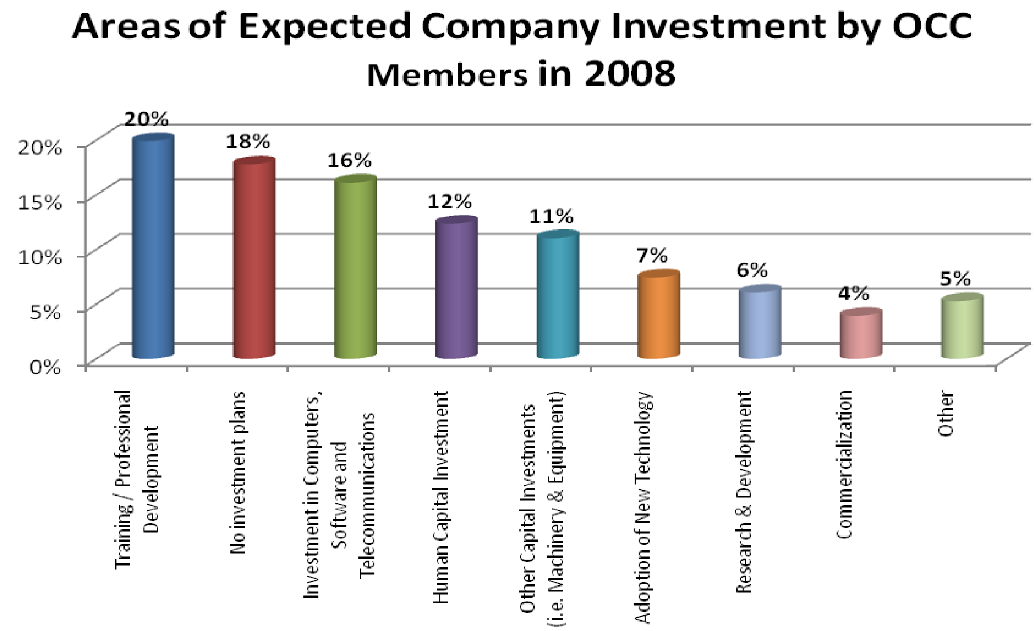

Certain economic, monetary, fiscal or social factors have a negative impact on competitiveness in a majority of sectors and businesses. Sixty to 89% of our members selected the following factors as having "a somewhat negative" to "negative" effect on their competitiveness:

- higher energy costs (89%)
- high level of business property taxes (76%)
- high marginal corporate income tax rates (67%)
- high costs of employee health benefits (67%)
- provincial sales tax paid on business inputs (66%)
- skilled labour shortage (60%), and
- high provincial corporate capital tax (60%).

High response rates in the range of 50% to 60% indicate that our members qualify the effect on competitiveness to be "somewhat negative" to "negative" from such factors as: highway congestion (58%), increased competition from other markets (57%), raising commodity prices (54%), high compliance costs with business regulations (55%), differences and complexity of PST and GST administration (53%), and a new statutory holiday (51%).

It is also worth mentioning that less survey respondents (34% to 43%) reported a "negative" or a "somewhat negative" effect on their businesses competitiveness to come from stringent security and border regulations (43%), a strong Canadian dollar (42%), stricter environmental regulations (34%), weak intellectual property protection (38%), and a minimum wage increase(39%).

As noted in the chart below, 16% of survey respondents are planning to invest in computers, software and telecommunications in the year ahead. Only a limited number of our respondents intend to take advantage of a strong Canadian dollar and invest in productivity-enhancing capital investment (11%) and newer technology (8%). A larger number of survey respondents will invest in training and professional development (20%), and in human capital (12%). Fewer companies have plans on investing in research and development (6%) and marketing and commercialization (4%).




**Survey methodology**

The OCC conducted the survey during December 2007 -January 2008. About 160 local chambers of commerce received questionnaires that were sent to their respective business members. Survey respondents affiliated themselves with 70 local Chambers of Commerce and Boards of Trade from across Ontario.

There were 667 respondents to the survey, of which approximately 90% where small and medium sized enterprises. Amongst respondents there were representatives from business services (22%), financial and insurance services (12%), industrial/manufacturing sectors (11%), retail and wholesale (10%), tourism, accommodation and entertainment services (8%), consulting and legal services (7%), construction (4%), health care(4%), technology and engineering (3%), real estate (3%), energy (3%) etc.

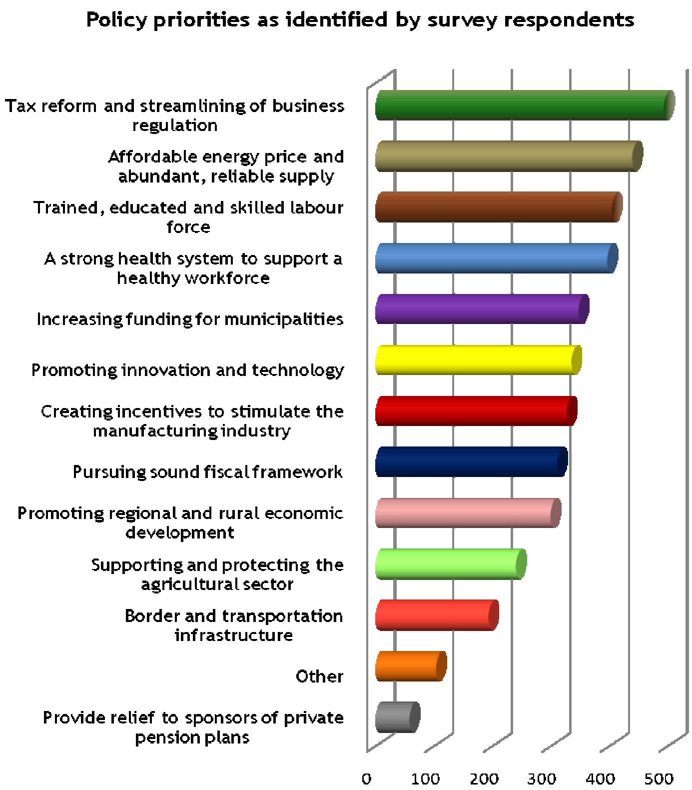
The survey is accurate 19 times out of 20, with a plus/minus margin of 4.965%.

# 2008 BUDGET PRIORITIES

In our 2008 pre-budget survey, respondents ranked the following as their top government priorities for the year ahead:

1. Tax reform and streamlining of business regulation;
2. Affordable energy price and abundant, reliable supply;
3. A trained, educated, skilled and a healthy labour force.

Clearly, our members attribute significant importance to policies geared towards increasing funding for municipalities to allow them to deliver an appropriate level of services and infrastructure; measures to promote innovation and technology and to stimulate the manufacturing industry; and sound fiscal policy and promoting regional and rural economic development, including support for agriculture (see exhibit below).



# SPURRING ECONOMIC GROWTH

The Ontario Chamber of Commerce is urging the provincial government to lay a foundation for a stronger, more productive economy over the next 3-5 years by establishing long-term targets, while providing short-term support for industries and sectors that are experiencing particular challenges in this economic climate.

Businesses need a competitive, streamlined and sound tax structure in order to compete in a changing global economic environment. Depressed industries need access to temporary relief through incentives and other support as they adjust to new economic conditions in order to secure jobs and create wealth.

Energy costs are seen by most companies as one of their highest business costs. These costs should be justified by sound government policies that guarantee a competitive pricing mechanism that ensures private investment, affordable rates and relieves taxpayers from the obligation to share any associated investment risks.

Trade patterns and commercial activity are highly dependent on the adequacy of transportation and border infrastructure. Continuing investment in long-term infrastructure projects is paramount for attracting investment and supporting a strong provincial economy.

To spur long-term sustainable economic growth, the province must meet the following three objectives:

I. A COMPETITIVE TAX AND BUSINESS REGULATION FRAMEWORK
II. A COMPETITIVE ENERGY PRICING MECHANISM
III. APPROPRIATE BORDER AND TRANSPORTATION INFRASTRUCTURE

## I. A COMPETITIVE TAX AND BUSINESS REGULATION FRAMEWORK

The marginal effective tax burden of capital and labour is almost double the average of five of Ontario's five peer jurisdictions[1] in the US[2]. Ontario relies on taxing investment rather than consumption, which inhibits business expansion, human capital development and economic growth.

The OCC has long encouraged the province to promote economic growth by working toward low and equitable taxation alongside efficient and effective regulation. The provincial tax system should be restructured to fundamentally encourage businesses and individuals in Ontario "to add more value to the physical, human, and capital resources."[3] A smart tax system limits the negative impact of taxes on decisions to engage in productive economic activities[4].

[1] 5 peer states: California, Georgia, Illinois, Massachusetts, Michigan
[2] Institute for Competitiveness and Prosperity. Taxing Smarter for Prosperity, Working paper 7, March 2005
[3] Institute for Competitiveness and Prosperity. *Rebalancing Priorities: Fourth Annual Report*. November 2005
[4] Institute for Competitiveness and Prosperity. Taxing Smarter for Prosperity, Working paper 7, March 2005.

Results from the OCC's 2008 pre-budget survey reflect our members' views that positive changes to the provincial tax system will have the greatest impact on improving the level of productivity and prosperity in Ontario. When restructuring its tax system, the Ontario government should adopt only those policies that will increase the province's fiscal competitiveness, create minimum distortion to production activities and investment decisions, and will generate enough funds to support essential public services.

### A. Revamping Ontario's Tax Structure

OCC members have indicated that of all tax measures, the most effective tax initiatives to have the largest impact on their businesses competitiveness are:

i. reductions in corporate income taxes
ii. upgrading the provincial sales tax to a value added tax
iii. providing incentives for accelerated depreciation (Capital Cost Allowance)
iv. elimination of the small business income tax-claw-back
v. reducing the property tax burden on businesses
vi. elimination of the Ontario Health Premium
vii. elimination of the corporate capital tax

#### I. Upgrading the Provincial Sales Tax to a Value-Added-Tax

The Provincial Sales Tax (PST) levied on business inputs has been reported to negatively affect business competitiveness by 66% of survey respondents, and has been consistently identified by members as a policy area that requires attention. The PST compliance burden and the obligation to file two different tax returns for the federal Goods and Services Tax (GST) and Ontario PST has negative implications for business competitiveness, according to 53% of surveyed members.

The OCC has been advocating for PST reform for the past number of years. The current PST system results in cascading tax effects, where both consumers and businesses end up paying what amounts to a hidden tax embedded in the point of sale price. The hidden tax has been estimated to inflate the price of final goods produced in Ontario up to 40%. A price increase of this magnitude has serious consequences for the competitiveness of goods produced in Ontario, both for domestic consumption and for export. There is only one solution capable of eliminating the hidden PST in goods produced in Ontario, and to eliminate the regulatory burden associated with two sales tax systems: changing the PST to a value-added-tax, where all businesses will receive a tax credit for business inputs.

The OCC is currently conducting in-depth research into a 'made in Ontario" value added tax. Preliminary research indicates that a made in Ontario tax system will result in significant economic activity, and will be revenue-neutral to revenue-positive for the provincial government. It will also result in a win-win scenario for both business and consumers, as prices will fall and increased economic spinoffs will occur. The OCC looks forward to sharing the results of its research with the government.

**The Ontario Chamber of Commerce urges the government of Ontario to convert the Ontario Provincial Sales Tax to a streamlined and easy to administer "made in Ontario" Value-Added-Tax (OVAT).**

#### II. Streamlining the Corporate Income Tax Structure

About 67% of survey respondents reported that the current corporate income tax structure affects "somewhat negatively" their business competitiveness, of which 24% claim a "strong negative" effect.

The current structure of the marginal corporate income tax rates in Ontario is deficient in several different ways:

a. The “small business claw-back” provision is an impediment to small business expansion and should be immediately rescinded. The punitive 4.67% “small business claw-back” applies on top of either the 12% manufacturing income tax rate or the 14% general corporate income tax rate on small business income exceeding $500,000 up to $1,128,000. This increases the tax rate more than three-fold (from 5.5% to 18.67% for general and to 16.67% for manufacturing businesses). For income levels above $1,128,000 the regular general tax rate of 14% or the manufacturing tax rate of 12% applies. A *progressive tax rate* is much more superior to a system with a punitive claw-back tax. Legislation should be changed immediately to a progressive 10% small business marginal tax rate for income levels ranging from $500,000 to $1,128,000.

b. The combined federal and provincial corporate income tax rates are too high compared to other Canadian provinces and other competing jurisdictions. Ontario has lost its once competitive corporate tax structure in recent years. In 2002, Ontario had the second lowest statutory corporate income tax rate (12.5 per cent, second only to Quebec’s 9.0 per cent), 1.8 percentage points below the provincial average of 14.3 per cent. Rates are currently 14% (general), 12% (manufacturing and processing) and 5.5% (small-business).

   The federal government’s scheduled corporate income tax rate reductions from the current 21 % to 15 % by 2012 included a recommendation for provinces to reduce their general corporate income tax rates to 10 per cent. Alberta has reached this objective, and other provinces have committed to lowering their corporate income rates in the next five years. If Ontario’s rates do not change by 2012, the province will have the third highest corporate income tax rate in Canada. Ontario’s general corporate tax rate (14%) will be nearly one percentage point greater than the provincial average, and only slightly ahead of Prince Edward Island and Nova Scotia. Ontario’s key provincial competitors, Quebec, Alberta and British Columbia, will all have corporate income tax rates well below the national average.

**The Ontario Chamber of Commerce urges the government of Ontario to commit to lowering the general, manufacturing and processing and small business rates over time and repeal the small business income tax claw-back.**

## III. Accelerating Depreciation of Capital Investments

Allowing all Ontario companies to accelerate depreciation on new capital investments would reduce the cost of such investments. A similar effect will be induced by exempting the purchase of new machinery, equipment, software and construction of new structures from the sales tax. Extending the manufacturing PST exemption for machinery, equipment and software to other sectors will encourage all companies to invest in productivity enhancing technologies. This cost reduction will induce more investment and therefore contribute to lowering the productivity gap between Ontario and its competing jurisdictions.

**The Ontario Chamber of Commerce urges the government of Ontario to increase the Capital Cost Allowance rate for all classes of assets and provide further accelerated write-offs on specific investments in qualifying new capital at a rate of 50% in the first year and eliminate the half-year rule. The government must also extend immediately the manufacturers' exemption from Retail Sales Tax on business inputs to other sectors. In the long term, the government should exempt all capital purchases and investments in technology from sales tax.**

## IV. Reducing Business Property Taxes

Our members regard the business property tax burden in Ontario as being very high. About 76% of businesses, according to our 2008 survey, view high business property tax rates as negatively affecting their competitiveness.

The OCC commended the government last year on its commitment to decrease Business Education Tax rates to 1.6 per cent. Such a move was needed and put the government squarely on the road to property tax reform. Still, in many municipalities, property tax rates in general remain disproportionately high on businesses compared to residential rates. We urge the province to move ahead with its prescribed *range of fairness,* which established reasonable proportions between business and residential property tax rates.

**The Ontario Chamber of Commerce urges the government of Ontario to mandate municipalities to lower the property business tax to the prescribed range of fairness within the next seven years.**

## V. Eliminating Ontario's Corporate Capital Tax

The Corporate Capital tax has a negative incidence on business competitiveness. A majority of survey respondents (60%) qualify the corporate capital tax as negatively affecting their competitiveness.

The OCC is encouraged that the government eliminated the corporate capital tax for the manufacturing and resource sectors and provided a further 21% relief to all other companies retroactive to January 2007. Yet, the cost of investment will decrease even further if the government immediately eliminated the *corporate capital tax*. The capital tax is insensitive to whether a company is profitable or not and it punishes businesses investing in new capital assets. It produces an additional loss for business and reduces investment capacity.

**The Ontario Chamber of Commerce urges the government of Ontario to immediately eliminate the Corporate Capital Tax.**

## VI. Providing Immediate Cash Relief to companies running Defined Benefit Pension Plans

Higher pension costs are perceived to negatively affect business competitiveness by 43% of OCC members, according to its survey. This is a very high percentage, given that not all of our members have the capacity to run their own pension plans.

In today's low interest rate environment, businesses running Defined Benefit Pension Plans (DBPPs) face stiff demands to fund their long-term pension plans. Easing the pressure from unreasonably "cautious" regulations could assist companies, particularly large manufacturers. A legislated discount rate of 6.5%, acknowledging the long-term nature of returns on pension investments, could provide significant immediate cash relief for businesses running DBPPs. For more detail on this issue please see the enclosed submission to the Ontario Expert Commission on Pensions.

**The Ontario Chamber of Commerce urges the government of Ontario to embark on Pensions Reform before fall 2008 and implement technical recommendations submitted by the OCC to the Expert Commissions as soon as possible including immediate funding relief, extended amortization periods and a normalized interest rate for solvency funding purposes.**

## VII. Pursuing sound fiscal framework

A sound fiscal policy is regarded by OCC members as one of their top policy priorities.

Achieving a balance between spending and revenue priorities capable of guaranteeing an appropriate level and quality of public services without harming economic prosperity is paramount for sound fiscal policy. Stewardship of public resources and further spending efficiency could be achieved by streamlining public administration and program design, pursuing a prudent fiscal policy and aiming to eliminate fiscal deficits, and keeping the Debt-to-GDP ratio at a reasonable level capable of securing new long-term infrastructure funding.

According to our survey, 61% of respondents believe that the provincial government could further cut spending of inefficient programs, while another 19% believe that Ontario must negotiate better transfers from the federal government.

To identify room for efficiency, Ontario's public spending must be subject to cyclical evaluations, similar to the federal government's Transfer Payment Programs five-year cycle reviews. Based on such an analysis, programs should be prioritized by the social and economic benefit that they bring to taxpayers. This system of five-year cycle reviews would increase transparency and will serve to boost taxpayers' confidence in government programs.

**The Ontario Chamber of Commerce urges the government of Ontario to undertake cyclical program evaluation reviews for its public programs and services with a view to eliminate inefficient spending.**

The federal government has made progress towards restoring fairness in Canada in 2007. The Ontario Chamber of Commerce had advocated for a principle-based solution, several of which were included in the 2007 federal budget:

- A commitment that provinces receiving equalization will not have a higher fiscal capacity than contributing provinces
- A commitment to equal per capita cash support for the Canada Social Transfer and the Canada Health Transfer
- A clarification of roles and responsibilities of governments, and a commitment to focus on areas of federal responsibility.

Although we were pleased to see the federal government's commitment to per capita funding of major transfers including health and social programs, Ontarians deserve the same level of services as their fellow Canadians. We believe that Ontario is still not treated fairly in terms of Employment Insurance transfers. The Ontario Chamber of Commerce had hoped the federal government would include a component of program evaluation for federal transfers, one of the largest wealth transfers in the world.

**The Ontario Chamber of Commerce encourages the provincial government to continue to press the federal government for a fair fiscal arrangement, particularly as it relates to Employment Insurance transfers.**

## B. STREAMLINING THE BUSINESS REGULATORY FRAMEWORK

On the regulatory side, our members have ranked the following as areas that most affect their competitiveness:

- Corporate Minimum Tax
- Workplace Safety Regulation compliance (WSIB)
- Provincial Retail Sales Tax compliance
- Tax Auditing
- Other Government Inspections
- Environmental Compliance
- Business Registration

The high compliance costs of regulations are reported to negatively affect business competitiveness by 55% of survey respondents.

### I. Eliminating the Corporate Minimum Tax

The Ontario's Corporate Minimum Tax (CMT) is regarded by our members as a competitive disadvantage to businesses. CMT applies to groups of companies with gross revenues in excess of $10 million, or total assets in excess of $5 million. Income for CMT purposes is adjusted for a few specific items and taxed at a rate of 4 per cent. If the CMT calculation is higher than the corporation's regular Ontario tax, the excess is payable as CMT. The government raises less than $40 million annually in CMT. Yet the CMT imposes a significant cost of compliance on business and is a disincentive to investors

**The Ontario Chamber of Commerce urges the government of Ontario to eliminate Ontario's Corporate Minimum Tax.**

### II. Reducing compliance costs with Workplace Safety and Insurance Regulations

Compliance with Workplace Safety and Insurance Regulations (WSIR) is seen by our members as an additional layer of business costs, both in terms of expensive premiums and compliance costs. To minimize these costs, there is need to reform the Workplace Safety and Insurance Board (WSIB), the sole administrator of the program, in a manner that will reduce its operational and administrative costs.

**The Ontario Chamber of Commerce urges the government of Ontario to encourage the WSIB to undertake reforms designed to maximize operational and administrative efficiencies and reduce costs to ensure the financial sustainability of the system.**

### III. Reducing businesses' regulatory compliance costs

Overlapping tax audits and other inspections are distressing to business owners and add significant costs to their operations, particularly to small business operators who have limited human resources. Members report that inquiries on the interpretation of the tax rate often end in a tax audit. Many times the opportunity to correct and collect the "proper" rate according to an auditor is gone. Further, tax auditors from both Federal and Provincial agencies add to the burden of small business with numerous requests for proof of compliance. Minimizing interference in business activities to a strict number of combined site visits per year could address this challenge. Further streamlining federal and provincial environmental regulations, eliminating overlap and inconsistencies will further reduce red-tape and their associated compliance costs.

**The Ontario Chamber of Commerce urges the government of Ontario to focus its efforts to reduce regulatory burdens on all business; develop a five-year framework to substantially reduce red tape with annual benchmarks; attach a five-year mandatory review of all new regulations; review the Retail Sales Tax Act to streamline its administration and simplify and clarify the rules and rates; and establish a single business number system in the province.**

## II. A COMPETITIVE ENERGY PRICING MECHANISM

Energy pricing is a big concern for our members. Of 22 factors affecting their business competitiveness, high energy costs have been qualified as having either a "negative" or "some negative effect" by 89% of survey respondents .

Energy costs are a significant issue for energy intensive industries. While government and business funded conservation and energy efficiency programs have reduced electricity bills, electricity price affordability is still a significant concern of OCC members.

While companies are improving processes and investing in energy efficient technologies, it is paramount that energy investment occurs in the province and that Ontario's long-term energy needs are met. In this respect, encouraging an environment where "energy prices reflect true costs" is key for the establishment of a competitive market able to balance supply and demand forces. While transitioning to a full-fledged competitive market is regarded by sector experts as being premature, the province must create a roadmap on how to transition to a more competitive electricity pricing mechanism.

According to the survey, respondents identified the following to ensure the affordability, reliability and abundance of electricity supply:

I. Encouraging competitive energy prices
II. Diversifying energy supply
III. Investing in new energy infrastructure

### I. Diversify supply to ensure affordable, competitive electricity prices

Members believe "securing competitive energy prices" is equivalent to "ensuring that electricity prices remain affordable" over the long-term. To reach this objective, the province must continue its work to secure affordable, reliable and abundant supply in Ontario. Survey respondents have shown strong support for the development of renewable energy sources (including hydro, wind, solar, hydrogen, biomass etc). Members have also expressed strong support for energy from waste and nuclear generation, as well as for more combined generation facilities.

**The Ontario Chamber of Commerce urges the government of Ontario to promote a diverse supply mix as a way of ensuring that Ontario's electricity prices remain affordable over the long-term; and to ensure an adequate supply of electricity in Ontario meets the needs of Ontario businesses.**

### II. Expeditiously approve and start implementing the IPSP

The Ontario Chamber of Commerce is encouraged with the progress the province has achieved on energy issues, particularly in the electricity sector. Work is underway to finalize and approve the first provincial Integrated Power System Plan (IPSP), pending the Ontario Energy Board's (OEB) approval. It is important that this plan is approved in a timely manner, so that Ontario could move to implement priorities as identified in the provincial plan.

**The Ontario Chamber of Commerce urges the government of Ontario to expeditiously approve and implement the Integrated Power System Plan (IPSP) and develop short- and medium-term targets needed to achieve longer term objectives.**

### III. Encourage private investment in electricity infrastructure

OCC members want renewed investment in the electricity sector to replace aging infrastructure in order to provide long-term sustainable supply. There is a pressing need for a more significant private sector role in Ontario's electricity system; however, the government must first secure a predictable policy and regulatory environment in order to motivate the private sector to invest in new electricity infrastructure.

**The Ontario Chamber of Commerce urges the government of Ontario to encourage greater private sector participation in the generation of new electricity supply from a variety of sources by:**

**(a) creating an environment of regulatory certainty**

**(b) adopting long-term supply contracts from multiple buyers and sellers resulting in electricity prices that reflect the true cost of power.**

**(c) establishing conditions for a competitive environment in the mid-term, including developing instruments to help facilitate market liquidity forward exchange, long-term contracting, and long-term price predictability, with the long-term goal to be a competitive electricity market.**

## III. IMPROVED BORDER AND TRANSPORTATION INFRASTRUCTURE

Highway and border congestion continues to be a significant concern of the Ontario business community. Congestion is reported to "somewhat negatively" or "negatively" affect business competitiveness by 58% of survey respondents. More than one trillion dollars is transported on Ontario highways every year[5].

Average commute times for the GTA is projected to increase 45 per cent[6] . Transport Canada estimates the cost of congestion in Toronto alone is $1.6 billion annually. By 2021, commute times within the GTA could increase by more than 50%, increasing the cost of congestion to Ontario's economy by $7 billion a year. Congestion on our highways and border crossings leads to lost production, money and investment, leading to job losses across the province.

Survey respondents identified the following three issues to improve "on time delivery" and to decrease transportation costs:

I. Decreasing border congestion
II. Decreasing highway congestion
III. Providing safe¸ secure¸ adequate and reliable transportation infrastructure

The OCC recommends the government to address in its 2008 budget the following key measures needed to help businesses stay competitive:

### I. Implement a Goods and People Movement Study

A goods and people movement study is required to adequately assess the economic needs of the province. Accurately measuring current transportation flows and estimating future movement of goods and people through the province and across our borders will allow for better utilization of Ontario's extensive transportation network. A comprehensive study will also facilitate efficient investments in infrastructure.

**The Ontario Chamber of Commerce urges the government of Ontario to commence a comprehensive goods and people movement study for Ontario. This study should also include a market overview and be conducted in coordination with federal, provincial and local government agencies in both Canada and the US.**

### II. Develop a long range transportation plan (LRTP)

The provincial government should use the results of its Goods and People Movement Study to develop a comprehensive long range, 30-year transportation plan (LRTP) and include all forms of transportation; connect transportation planning with land-use patterns; and direct efforts, funds and initiatives to the areas identified that can best reduce congestion.

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[5] Ontario Economic Development, Ontario Canada, http://www.2ontario.com/welcome/ootr_704.asp.
[6] MacIsaac, Robert , Chair, Greater Toronto Transportation Authority, *Keynote Presentation: The GTA's New Transportation Authority "Last Chance to Get it Right"*. Canadian Urban Institute – Urban Leadership Series. 26 January 2007

**The Ontario Chamber of Commerce urges the government of Ontario to strengthen its long range growth strategies by integrating a provincial Long Range Transportation Plan with existing and future regional growth plans. The LRTP should include short, medium and long-term planning as well as investment objectives spanning 30 years.**

### III. Provide adequate and predictable infrastructure funding

Budgetary restrictions have prevented the province's infrastructure challenges from being solved exclusively through public financial sources and management. The Ontario Government's per capita spending for transportation infrastructure and communication ranked ninth among provinces in 2005.

Public-private partnerships have been a proven success in British Columbia, resulting in millions of dollars in additional benefits to over 20 projects, including critical transportation and health care infrastructure. These partnerships take advantage of innovation and expertise of the private sector, while reducing risks and delays. To ensure the success of public-private partnerships, a strong legal and institutional framework must exist. This will help provide private sector participants assurance of return on investments on costly infrastructure projects.

**The Ontario Chamber of Commerce urges the government of Ontario to permit increased private sector infrastructure investment in priority areas such as transportation and transit through Infrastructure Ontario. The province should also create an environment that instills investor confidence by providing legal protection for private sector investors engaging in public infrastructure projects.**

# *“NEXT GENERATION WORKFORCE”*

To preserve its ranking as a top performing global jurisdiction, Ontario must transition to a knowledge-based economy driven by a more sophisticated, technologically advanced, and more refined structure. While the service sector will continue to grow and support the growth of our economy, the real economic sector will go through a range of transformations, including higher demand for economic intensification, efficiency and specialization in superior products and technological processes. A new economy sets new criteria for Ontario’s workforce: technologically savvy, innovative, highly-educated, and healthy people.

A “next generation workforce” will be a key driver of a transformed knowledge-based economy. OCC members attribute a high priority to a healthy and skilled labour force, ranking education and healthcare policies third amongst public policies to be addressed in the 2008 budget, according to the survey.

## I. ENSURING AN EDUCATED AND SKILLED LABOUR FORCE

In this dynamic global marketplace, Ontario businesses rely on highly skilled and educated individuals to be competitive. Ontario businesses continue to face challenges finding the skilled and talented people they need to compete in a global knowledge-based economy, thereby constraining Ontario’s competitiveness, productivity and economic progress.

The shortage of a skilled labour force is reported by 60% of survey respondents to “somewhat negatively” or ‘negatively” affect business competitiveness.

Dozens of organizations in Ontario have sounded the skills shortage alarm. The Conference Board of Canada projects that by 2025 Ontario will face a shortage of more than 360,000 skilled employees. This will further escalate to a shortage of more than 560,000 skilled employees by 2030. Half the jobs in the next 15 years will require the ability to use technology not yet invented. The economic reality is transforming the workplace, making continuous productivity improvement based on more educated workers essential. There is a pressing need to engage private and public leaders to develop shared strategies to address Ontario’s emerging skills shortage, while supporting poverty reduction and the transition to long-term strong economic growth and prosperity.

**The Ontario Chamber of Commerce urges the government of Ontario to identify the scope of workforce shortage challenges; raise public awareness of available options; and set up a Premier’s Skills Council to produce a comprehensive Ontario Skills Strategy with required budget to achieve the objectives of the strategy.**

Ontario has become a destination of choice for many highly skilled and educated individuals from across the globe. Our province has accumulated a large pool of untapped talent and skill set that if utilized effectively could close the vast productivity gap. However, many of these individuals are finding it difficult to find jobs and build careers that utilize their training and background. With Ontario’s aging population, it is essential that barriers be eliminated in order to combat any future skills trades shortage and to enhance Ontario’s workforce. It is important for both levels of government to support programs that allow foreign trained professionals to be recertified in their specific field, and to find gainful employment within Ontario and Canada.

**The Ontario Chamber of Commerce urges the government of Ontario to eliminate barriers for internationally-trained skilled trades workers and to support and provide funding for the certification, licensing, and accreditation of internationally trained professionals and trades people. Further, to encourage and support cooperative programs that help integrate internationally trained professionals and trades people into Canada's business sector.**

Ontario's prosperity is dependent on its skilled workforce and would benefit from a process which allows the interprovincial mobility of apprentices and skilled trades people in Canada. A national certification system (including streamlined uniform procedures for training and certification) would assist in removing barriers for apprentices between provinces and territories.

**The Ontario Chamber of Commerce urges the government of Ontario to work with provinces and territories to make the training and certification procedures and recruitment uniform across Canada, facilitating a streamlined certifications process and to adopt the Red Seal Program as mandatory for Ontario designated apprenticeship trades.**

The government must consider a number of policy changes to increase the level of public and private investment in the postsecondary system to ensure Ontario's skilled and educated workforce remains one of our key competitive advantages. It is not just the responsibility of the government to ensure that the province's education system is reaching its highest potential; it is also the responsibility of universities, colleges, educators, trainers, students, apprentices, parents, communities and businesses.

Ontario's universities provide us with a unique economic advantage that is being quickly eroded. Their role as vital economic generators in the province has been severely crippled by chronic under-funding, thus weakening our competitive position in the national and global marketplace.

Ontario colleges are severely under-funded; they do not have the resources they need to fill the growing skilled workers gap. It is time to recognize the pivotal role Ontario's colleges play in supporting the province's economic growth and prosperity by investing in their success. Colleges are economic engines that have earned huge returns for Ontario business, industry, citizens and the government. Despite all of this, Ontario's colleges are still the most poorly funded in all of Canada, lagging behind all other provinces in terms of operating grants and tuition fees on a per student basis, according to a recent report by Colleges of Ontario (A Highly Skilled Workforce, January, 2008). Further investment in colleges will reap tremendous rewards in the future for students, businesses, communities and the province as a whole.

**The Ontario Chamber of Commerce urges the Government of Ontario to use the tax system to facilitate greater private investment in postsecondary institutions; increase university funding to the national average, incrementally by the budget year 2011/2012; and increase funding to Ontario's Colleges of Applied Arts and Technology.**

## II. PROMOTING A HEALTHY WORKFORCE

Today's health care system faces several challenges, including a growing and aging population that will continue to place more financial pressures on the health care system. There is fear amongst the business community that escalating costs of health care are unsustainable, placing Ontario at an economic disadvantage. Ontario's health care system currently represents a competitive advantage to businesses in the province and must be protected by adopting standards to improve accountability and transparency in our health care system.

Since 1995, health care spending in Ontario has increased from 38 percent to 46 percent of total government program spending. By 2008-09 the government has projected that health care program spending will increase by $5.3 billion. There is a growing concern amongst the OCC membership that current funding pressures on Ontario's health care system cannot be alleviated by continuous increases in financial allocations without restructuring and streamlining the system. With the rising cost of providing health care services, members are concerned that health funding will jeopardize funding in other important public spending areas.

Maximizing use of available resources, involving the private sector in some health care services (within the structure of a universally accessible health care system), simplifying administration and creating efficiencies of the existing health care infrastructure are potential options to be considered in an inclusive public consultation process.

**The Ontario Chamber of Commerce urges the government of Ontario to create greater efficiencies in health care spending and to implement patient health management principles to ensure that health care resources are more effectively and accountably applied.**

One of the key elements contributing to Ontario's productivity is a healthy labour force. Greater effort should therefore be placed on prevention, keeping people out of hospitals through workplace wellness programs. Prevention will not only promote a healthier society but will also relieve much of the current pressure on the health care system.

Expanding health programs to address issues around organization development (i.e. corporate culture, supportive psychological environments, employee friendly human resources), and voluntary health practices of individual employees, as well as the safety of the physical environment embeds the health of employees within the business. Organizations that have implemented health promotion programs have been shown to increase corporate productivity, boost employee morale, enhance job satisfaction, improve employee commitment and decrease spending in health care.

**The Ontario Chamber of Commerce urges the government of Ontario to establish standards for workplace health by using benchmarking criteria set out by national/international agencies and academic centers on workplace organizations and health. The government should encourage businesses to actively work towards meeting and exceeding these standards by providing a broad range of incentives.**

Ensuring that all Ontarians have adequate and equal access to healthcare practitioners and services must also remain a high priority for the province in this budget. The OCC acknowledges that the College of Physicians and Surgeons of Ontario (CPSO) reported in March 2007 that in 2006, the CPSO licensed more physicians to practice in Ontario than any year in its history. However, the number of family physicians accepting new patients continues to decline. The report states that in the same year, family physicians accepting new patients dropped to 9.6 percent. A report released by the Ontario Medical Association (OMA) in February 2007 reveals that Ontario lost 188 doctors in 2005 to other Canadian jurisdictions – a 24 percent increase since 2003.

**The Ontario Chamber of Commerce urges the government of Ontario to offer competitive incentives to attract and retain doctors in the province such as mentorship programs, interest free loans for startup and expansion and/or modernization of existing practices, and medical school bursaries.**

# STRENGHTENING ONTARIO'S COMMUNITIES

OCC members are located in 160 communities across Ontario. Business location choices and the success of a business undertaking go hand in hand with the strength of a community, its people, availability of an adequate level of social services and local infrastructure. In return, businesses form the nucleus of a community's economic strength. They supply the local market with goods and services, but most importantly companies provide a significant number of jobs.

The Ontario Chamber of Commerce identifies two major policy areas to ensure that Ontario communities are stronger, while businesses have access to skilled labour, government services and vital local infrastructure:

## I. FUNDING SOCIAL SERVICES

Provincial 'downloading' of social services and infrastructure costs have left municipal governments in Ontario struggling to balance their budgets, maintain service levels and fund infrastructure. To fulfill their increasing service responsibilities, municipal governments are seeking new revenue sources, placing more of a burden on the local tax base. Recent provincial legislation has provided municipalities with access to new regulatory and financing tools, which include business licensing authority and greater flexibility to levy area rates.

Businesses already contribute more to the property tax base than residential properties of the same value. OCC members are also subject to fees and charges that contribute to municipal revenues. Faced with increasing fiscal responsibilities, it is anticipated that new powers granted under the Act to amend various Acts in relation to municipalities (formerly Bill 130), will further increase the tax burden of Ontario's businesses.

**The Ontario Chamber of Commerce urges the government of Ontario to expedite the Provincial-Municipal Fiscal and Service Delivery Review, immediately identifying appropriate funding for municipalities and enact any related legislation to occur in the next 12 months. The province must also move towards fully funding income transfer programs, such as social assistance, social housing, ambulances and childcare subsidies, from provincial revenues over three years, starting in 2008/2009 with full funding by 2010/2011; and further, that in the interim, the Province of Ontario honour the cost-sharing arrangements that currently exist with Ontario municipalities.**

## II. PROMOTE REGIONAL ECONOMIC DEVELOPMENT IN ONTARIO

Many of the traditional manufacturing based communities in Ontario are experiencing economic dislocation, resulting in substantive job cuts and business closures. Problems in a range of industries (including auto manufacturing, forestry, mining) due to broader economic trends, such as global competition, a strengthened Canadian dollar, higher energy and labour costs, have resulted in significant job losses and business closures.

Tourism driven communities are also stressed by the loss of US tourists and other cost pressures. Rural communities are strained by competing with highly subsidized foreign jurisdictions. These challenges are particularly felt in one-industry towns where the sustainability of a community depends on the success of few local farmers, a local business, a factory or a mine.

Communities and businesses in Ontario have limited options to allow an instant adjustment to a changing economic reality. More so, Ontario communities do not have the necessary economic development tools to assist local businesses through transition.

Ontario needs competitive, dynamic communities if it is to achieve its economic and social objectives. Regional economic development should be an indispensable complement to the Province's macroeconomic and structural policies. The provincial government must pay attention to municipalities with significant negative economic indicators such as high unemployment, business closures and loss of a dominant industry. This approach should acknowledge the role of various sectors of the regional economy in creating plans and programs.

Economic diversification and transition of any region's economy requires significant resources and financing that could be particularly hard to obtain in a situation of an economic slowdown. Ontario should do its utmost to help develop the capacity of these municipalities to revitalize their regional economies, something that would help the economic performance of the entire province.

**The Ontario Chamber of Commerce urges the government of Ontario to develop a strategy to achieve effective regional economic development; provide targeted funding to assist communities achieve the goals of economic diversification, cluster development, research/innovation promotion, and strengthening infrastructure; and provide economic stimulus funding for initiatives in economically vulnerable communities conditional on strongest cost-benefit ratios and their level of integration with the community strategic plans to boost regional economic development.**