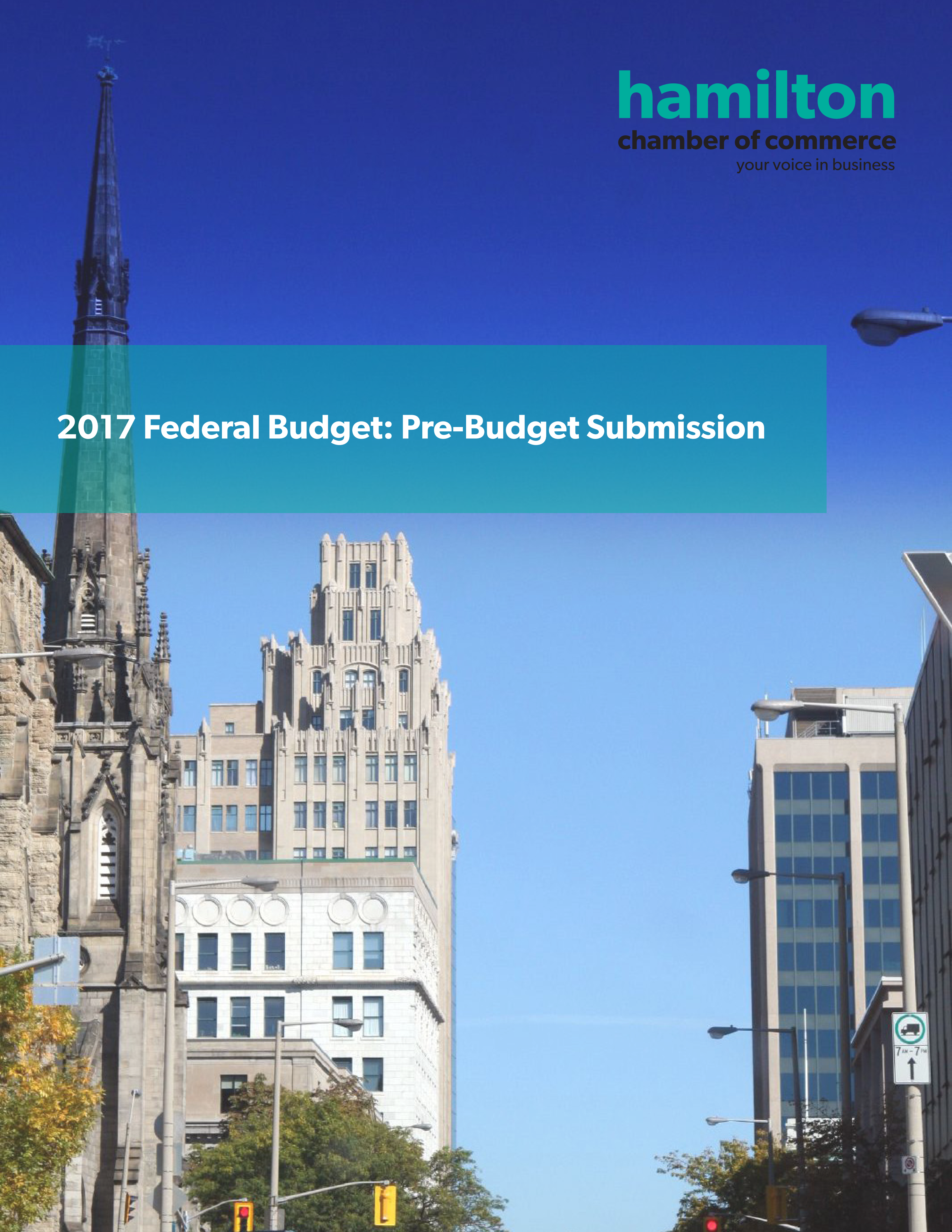
hamilton
chamber of commerce
your voice in business

2017 Federal Budget: Pre-Budget Submission



TO:

Honorable Bill Morneau
Minister of Finance
House of Commons
Ottawa, ON, K1A 0A6

CC: MP Bob Bratina
MP Filomena Tassi

SUBMITTED BY:

Keanin Loomis
President & CEO
Hamilton Chamber of Commerce
Plaza Level 507, 120 King Street West
Hamilton Ontario, L8P 4V2

ABOUT US:

Established in 1845, the Hamilton Chamber of Commerce is the definitive "Voice of Hamilton Business". Representing over 1000 members and 75,000 employees, it champions the interests of free enterprise by effectively engaging business, community, and government leaders in the promotion of the long-term economic prosperity of our region.

INTRODUCTION & OVERVIEW

On behalf of the Hamilton Chamber of Commerce, I would like to thank the Federal Ministry of Finance and our local MPs for allowing us to submit our pre-budget recommendations as part of the 2017 Federal Budget process.

As President & CEO of the Hamilton Chamber of Commerce, I have the privilege of speaking for our 1,000 members that employ of 75,000 people in this community. Created in 1845 and this year celebrating our 171st anniversary, the Hamilton Chamber of Commerce is Hamilton's first institution, launched by this City's Founding Fathers to provide leadership in city-building.

Throughout our history, Hamilton has been one of Canada's preeminent cities to live in, as well as an economic and innovation engine.

The federal government and its various legislative instruments and funding programs are an integral part of our local economy and business community. Our organization is strongly encouraged by the engagement of our local members of Parliament, Honorable Bob Bratina and Honorable Filomena Tassi, over the last year towards engaging local organizations through a series of consultations. We look forward to building this relationship and working together towards building a better Hamilton.

Within this document we have highlighted a series of recommendations we urge the federal government to prioritize in the 2017 Budget.

We look forward to continuing our dialogue throughout the budget consultation process over the next few months.

RECOMMENDATIONS

RECOMMENDATION ONE: DEVELOP A NATIONAL URBAN POLICY FOR CANADIAN MUNICIPALITIES AND SUPPORT THE CITY OF HAMILTON'S INFRASTRUCTURE NEEDS.

In our increasingly globalized economy, cities and city-regions are increasingly the most prominent economic drivers of national economies, and they compete internationally. Cities in Canada house over 80% of our population and continue to grow rapidly due to immigration and continued urbanization within Canada. For example, by 2041 the Greater Toronto and Hamilton Area (GTHA) is expected to grow by 3.3 million to over 9.6 million, an increase of nearly 50% in both cases. However Canadian cities are managed locally with sparse fiscal support from other levels of government. Modern infrastructure, notably rapid and predictable public transit and transportation (locally within cities and connecting cities within city-regions), and utilities, are essential to the efficient movement of people (employees) and commercial traffic, and to productivity.

Additionally, social infrastructure is an integral piece of a city's socioeconomic fabric. This includes affordable housing, complete streets, cultural and recreation infrastructure and educational institutions.

Yet Canadian cities and city-regions face a growing infrastructure gap relative to many international competitors, even as their populations continue to increase. The City of Hamilton is facing a public infrastructure backlog of over $3.3 billion and growing. Our hospitals and educational institutions are also suffering from similar predicaments.

In order for Canadian cities and city-regions, and all of Canada to prosper, they need a predictable, federally driven fiscal framework that will sustain their pressing infrastructure development and renewal needs.

Under their "Big Move" project, the province of Ontario funded the city of Hamilton's request for a light rail transit project in 2015. The investment was advocated for and supported by a high level task force of our chamber. While the project will cover a major east-west corridor in Hamilton, there are a few aspects of the project that are currently underfunded. In particular an extension to a municipal transit hub (Eastgate Square) and another to a regional transit hub (James North GO Station). Additionally, the City of Hamilton has identified a North - South project titled the "A Line" as well as service upgrades to it's traditional bus service as necessary elements of planning a robust public transit network in Hamilton.

A centralized national urban policy that would ensure that any existing and new funds are assessed and awarded within the context of the economic role played by the municipality locally and internationally.

We were pleased to hear that the 2015 election platform for the Liberal Party, titled: "Real Change: A New Plan for a Strong Middle Class" had several promises for additional investments in various infrastructure categories. We were also encouraged by the 2016 Budget providing additional detail towards some of the infrastructure programs.

In particular, we recommend that the federal government consider:

1. **The official Funding request by the City of Hamilton towards Public Transit bus storage and maintenance facility.**
2. **Investment from the Public Transit fund towards supporting the business case behind and funding the expansion of Hamilton's current B-Line Light Rail project towards its originally intended terminus at Eastgate Square and completing the A-Line LRT project towards it's proposed terminus at the Hamilton International Airport.**
3. **Establishment of a Canadian Infrastructure Bank to provide low-cost financing for new infrastructure projects." (pg 15)**
4. **Sponsorship of affordable housing and social infrastructure initiatives from Hamilton organizations and government.**

We are hopeful that Hamilton will be a strong contender for the aforementioned envelopes and as a Chamber we stand behind the business case for it.

RECOMMENDATION TWO: SUPPORT THE ROLE OF HAMILTON AND OTHER MUNICIPALITIES WITHIN THE NORTH AMERICAN ADVANCE MANUFACTURING TRADE CORRIDOR.

Over the last few decades, and especially since the establishment of the NAFTA agreement, advanced manufacturing clusters are extending their supply chains across the United States, Mexico, and Canada, anchored by productive metropolitan hubs in all three countries. Efforts must be undertaken to foster and enhance the integration of Canadian municipalities like Hamilton and their constituent businesses within the supply chain corridors.

According to a report from the Brookings Institute titled "Metros as Hubs of Advanced Industries and Integrated Goods Trade", metropolitan areas within North America generate an overwhelming 86 percent of the combined GDP of Canada, Mexico and United States. They are an especially concentrated host of advanced manufacturing industries in the automotive, aerospace, agri-food, clean technology, pharmaceutical and electronic industries. It is also estimated that over three quarters of North American trade in advanced manufacturing occurs between metropolitan areas. Additionally, Canada`s largest exporting destination is the United States with over $1.5 trillion in exports in 2013, of which over $338 billion were manufactured exports, with advanced manufacturing industries like automotive ($58.4 billion) and mechanical machinery ($23.1 billion) still making up considerable proportions of trade.

Hamilton is conveniently located near major economic clusters on the eastern seaboard of the United States; its port acts as a major Terminus of the St Lawrence Seaway system and the Hamilton International Airport is already a major cargo hub. Additionally, our community has significant assets and a history of world class manufacturing industries. Coupled with two renowned post secondary institutions, we have the ingredients to emerge as an advanced manufacturing hub in North America.

However, infrastructure backlog and unfunded projects are throttling our potential. A 2015 Toronto Board of Trade report states that congestion costs in the Greater Toronto and Hamilton area could reach $15 billion annually if action is not taken to address it. In particular, our goods movement trips are throttled on the 400 series highways and the Queen Elizabeth way. While upgrading these is a major financial undertaking, our region has also identified a series of smaller projects that can alleviate throttling in the network.

Our chamber welcomed the commitment of $60 billion in new funding for green, social and transit investments over the next decade. These investments are necessary, particularly for transit infrastructure which will help Canada's economic performance by allowing workers to get to work more quickly and goods and services to move more fluidly around urban spaces. However, we also hope Budget 2017 can provide clarity towards the government's plans to enhance Canada's role in the global economy and supporting the development of emerging goods movement hubs like Hamilton.

We specifically recommend that the federal government:

5. **Create new trade corridor focused programs (or extend existing best practices), based on lessons learned from the Border Infrastructure Investment Plan, Gateways and Border Crossings Fund and exploring the creation of additional envelopes targeted at economic regions.**
6. **Building on the successful model of the Pacific Northwest Economic Region, encourage the capacity of Investment Canada and Canadian High Commission in spearheading and facilitating opportunities for municipalities, local chambers and their constituent businesses to increase their integration within global value chains.**
7. **In partnership with industry, and utilizing an evidence based approach, develop a long term multi-modal new transportation policy framework that includes sector specific strategies, investment plans and identification of key corridors to project a long term evolution of our transportation system.**
8. **The federal government should continue the co-operative agenda and joint work-plan with the U.S. through the Regulatory Cooperation Council, towards adopting a unified approach to reporting requirements, safety, security and environmental standards for the transportation sector with the goal of establishing a long-term, institutionalized mechanism for regulatory cooperation with the United States and other key trading partners.**

We are encouraged by the government's ongoing consultations on the Transportation and Infrastructure portfolios and encourage further collaboration with Industry to ascertain Canada's Infrastructure needs.

RECOMMENDATION THREE : SUPPORT THE GROWTH OF HAMILTON'S LIFE SCIENCE INNOVATION CLUSTER

Economic development based on targeted towards knowledge cluster funding within cities and regions is an important policy tool for Canada's economic future. The Government of Canada should increase its investment in regional innovation centres and, post-secondary institutions to create ecosystems around areas of regional strength, and continue to providing funding for targeted infrastructure programs and venture capital grants to help accelerate development of such clusters.

Clusters by definition are geographic concentrations of interconnected companies, specialized suppliers, service providers, and associated institutions in a particular field that are present in a nation or region. They emerge from regions that have achieved critical mass in a particular area of expertise and are often anchored by strong research universities, industrial laboratories and/or entrepreneurial companies with human capital to match.

In many cases across the world, the integration agent tends to be a government agency, that through a combination of funding and policy levers enables regional stakeholders to collaborate. Existing knowledge clusters in Canada are also generally centered around higher education institutions or not for profit business incubators funded through the provincial or federal government. Information technology and digital media clusters in Waterloo and Toronto are prominent global examples.

In Hamilton, the Chamber, City of Hamilton and other stakeholders have been actively working on supporting cluster development in a variety of sectors.

We believe that our life sciences sector in particular has tremendous potential. In 2014, the Hamilton Chamber of Commerce released a report titled "Building a Life Sciences Cluster: A Case for Hamilton". The report documents Hamilton's broad strengths and assets in life sciences, and looks at other regions around the world that have become economic powerhouses by successfully creating industry clusters.

We have been actively working as a community to achieve alignment between our educational institutions, hospitals and private sector. Our coalition, named the "Synapse" partnership, has recently concluded its strategic planning exercises and is ready to move forward with the next steps necessary towards fostering a successful cluster. However, many of these steps are dependent on adequate investment into infrastructure and targeted research and development funding.

The nature of research commercialization in the life sciences sector is such that in many cases private venture capital across the world has preferred to get involved at a later stage in the project, are a proof of-concept and clinical tests have been successfully completed.

While Hamilton currently has several state-of-the-art labs and spaces where commercialization activities are happening, it lacks a central location to act as an instigator for commercialization activities and greater collaboration amongst stakeholders. Incubation centres are critical for anchoring regional clusters.

We specifically recommend that the federal government:

9. **Fully enact the 2015 Liberal Platform promise to: "invest $200 million each year in a new Innovation Agenda to significantly expand support for incubators and accelerators, as well as the emerging national network for business innovation and cluster support;"**
10. **As Canada's Science and Technology Strategy, the federal government incentivize funding based on regional strengths and redesign federal funding vehicles (e.g., Canada First Research Excellence Fund) to drive this collaborative behavior across post-secondary institutions and the private sector to create robust ecosystems that focus on both research and commercialization.**
11. **Lay down provisions that need to be modified or introduced to ensure alignment an consistency with the Directive 2014/24/eu of the European parliament, particularly regarding the awarding of contracts based on the 'most economically advantageous tender' (Article 67).**
12. **Encourage provinces to make any changes necessary to transform Canadian government procurement markets into innovation-based instruments of economic policy like the European counterparts and thus better support Canadian innovation while promoting innovation-driven efficiency in the healthcare sector**

RECOMMENDATION FOUR : SUPPORT THE CANADIAN STEEL INDUSTRY AND ITS SUPPLY CHAIN CLUSTERS.

The Hamilton Chamber of Commerce partnered with its counterparts in Sault Ste Marie and the Windsor-Essex Region have recently developed a coalition urging the federal government to focus policy efforts on developing a Canadian steel industry strategy.

The Canadian steel industry is a cornerstone of our national economy. It constitutes not only steel producers, but also the role it plays as a supplier and innovator for numerous manufacturing industries across the country. Recently, a combination of increased regulation, the instability of the global market economy and unfair market behavior by foreign competitors has led to a sharp decline in their ability of our steel industry to compete globally.

Canadian steel producers create over 22,000 direct and more than 100,000 indirect jobs through nineteen facilities across five provinces, with over $14 billion in annual sales. The economic impact grows exponentially with steel's role in supplying industries like automotive, aerospace and oil and gas manufacturing across Canada and Hamilton. According to one study, the steel industry has a multiplier of approximately 3.3:1; meaning that every direct job within the industry supports 3.3 jobs in other sectors. The geographic proximity of steel suppliers within industrial clusters also allows them to work on product improvements directly with customers and collaborate on R&D with Post-Secondary Institutions and other organizations. Additionally, local steel production has comparatively lower impact on national and global carbon emissions footprint compared to imported products.

In addition to high regulatory burdens stemming from electricity pricing, carbon pricing and Canada's adherence to world-class labour and environmental standards , Canada has the most open steel market in the world, placing domestic producers in fierce competition with export markets. Steel producers by principle agree to compete against imports on a fair commercial basis but are in global competition against foreign government subsidies , state-owned enterprises operating at poor margins , and other forms of support that run counter to global trade rules, despite the presence of investigative powers for Canada Border Services agency under the Special Import Measures Act .

Market conditions are often jeopardized by ongoing violations of WTO practices, preferential procurement and state support strategies in other jurisdictions, the ineffectiveness of trade remedy laws and lack of full reciprocation within trade treaties. Global steel overcapacity is the structural issue which drives record levels of unfairly traded imports, trade actions and injury to the Canadian steel industry.

While the majority of media coverage has focused on the decline of the industry, foreign competition and oversupply in the existing market, experts remain optimistic that fundamental forces, which if harnessed, will continue to support the prosperity and global demand for Canadian steel.

We specifically urge the federal government to consider:

13. **Exploring the legislated and voluntary expansion of government and public-private partnership procurement tools to evaluate and consider a selection of local suppliers after fairly evaluating:**

    a. The Global environmental impact and cost assessment versus the imported alternative; (i.e.: greenhouse gas (GHG) emissions during production and transportation),

    b. Presence of comparable health and safety regulations during production and manufacturing;

    c. Where the exporting country does not allow similar (e.g.: Bilateral Exemption), fair and equal access to their markets for the same product.

14. **Retain and subsequently implement all current regulatory measures falling under Section 20 of the Special Imports Measures Act (SIMA) pertaining to China's Non-Market Economy (NME) status for the purposes of calculating anti-dumping measures.**

15. **Through legislative amendments to the Special Imports Measures Act (SIMA), continue to increase the efficiency and effectiveness of the Canadian trade remedy system to bring it in closer alignment with Canada's main trading partners, through the implementation of industry-led recommendations, including as regards to transparency of import data, and reducing costs and access for local industry to participate in related processes of Canada Border Services Agency (CBSA) and the Canadian International Trade Tribunal (CITT).**

16. **Taking inspiration from the European Steel Technology Platform and "Framework for American Manufacturing" by the United States,**

develop a coordinated steel manufacturing strategy that amongst other action items, especially prioritizes investment in trade-enabling infrastructure.

17. **Given their role as suppliers of high-performance material in the manufacturing supply chain and in flowing down R&D improvements, prioritize allocation of carbon pricing revenue to help incentivize energy-intensive industries like steel to further develop low carbon processes, technology and innovation and other capital investments.**
18. **In design of regulatory intervention regimes and in partnership with provinces, recognize the role of steel industry as one of Canada's trade-exposed industrial facilities, and to evaluate expanding the free allowance coverage under carbon pricing programs, to minimize uncertainty, delay and costs.**

RECOMMENDATION FIVE: ADDRESS THE CUMULATIVE REGULATORY BURDEN & SCALE UP CHALLENGES IN CANADA

Canada is often cited in international comparisons as a country with stifling regulation that constrains investment and limits competitiveness. While Canada's overall ranking in the World Economic Forum's 2015-2016 Global Competitiveness Report is a respectable 13th of 140 countries, in the sub-ranking on the burden of government regulation Canada is down in 37th place. The consequences of this can be measured both quantitatively through our challenges with productivity growth but also qualitatively in Southern Ontario with the continual departure of innovative Canadian start-ups and top talent to the United States.

In addition to regulations, over the last few years, businesses have also seen several new costs imposed on business from a variety of government sources. While most businesses are able to adjust to one-off increases, the cumulative combination represents a threat to the profitability of existing firms, and possibility of investment towards Human and Technological Capital, foreign export and other ancillary improvements:

Some of the key stressors for businesses include :

- Canada Pension Plan Contribution Rates will increase by 2% in addition to pressures within EI & WSIB rates in Ontario.
- Small Business Tax Rate Reductions were deferred so that the planned reduction to 9% has been halted and rates will remain at 10.5%
- Employment Insurance rate was previously supposed to decline to 7-year break-even rate of %1.49. Instead, it will be %1.67.
- Ontario energy costs are among the highest in North America and they continue to rise.
- Global oversupply and dumping in Steel and other trade exposed manufacturing industries.
- Rising transportation congestion within the Greater Toronto - Hamilton area.
- Uncertainty towards Ontario's implementation of a carbon pricing regime.

We are particularly concerned with the impact of these regulation towards Small and Medium Enterprises.

A successful small business entrepreneur must bring together talented workers viable ideas, venture capital funding, circumstance, and the right strategy to beat the competition and win. It's a tall order and that's partly why 96% of Canada's 1.2 million businesses are SMEs. Many of these companies are highly innovative, are struggling to make it to the next level.

The trouble is that their lack of scale is making them uncompetitive and reducing Canada's overall growth rate. Small Canadian businesses are just 46% as productive as large firms, and this gap is greatest within the manufacturing sector. SMEs have less money to spend on R&D, training, equipment and salaries. Across most industries, productivity rises with size as companies benefit from economies of scale and increased capital investment. Although there may be many other factors governing the size of an enterprise, the best thing that can happen to a small business from a strictly economic standpoint, is usually that it grows into a bigger businesses.

These higher taxes discourage investment and job creation, which subtracts from the economic stimulus that the government has been striving for. A government serious about stimulating the economy will find ways to reduce the costs of doing business in Canada.

To address the issues discussed above, we recommend that the federal government:

19. **Re-design the Regulatory Impact Analysis Statements process towards a greater focus on existing and proposed multi jurisdictional burdens, as well as a larger focus on creating firmer link between Canadian business competitiveness and the market system.**
20. **Implement measures supporting investments in innovative start-ups and SME, particularly by way of incentives for the formation of equity capital, like tax exemptions on capital gains for venture capital and flow through shares. This should be in parallel to a re-evaluation of government venture capital support beyond the availability of tax credits and increasing government procurement opportunities.**
21. **Create a distinct "scale up visa" or special immigration designation that accelerates the immigration process for international talent that has been recruited by Canadian companies in the process of scaling up.**