GREATER KITCHENER WATERLOO
CHAMBER OF COMMERCE
BUSINESS BUILDING COMMUNITY

2017 PRE-BUDGET SUBMISSION

TO THE

HOUSE OF COMMONS

STANDING COMMITTEE ON FINANCE

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The Greater Kitchener Waterloo Chamber of Commerce and Waterloo Region – A Profile

The Greater Kitchener Waterloo Chamber of Commerce supports over 1800 members representing all sectors of the local economy. Our membership includes small, medium, and large employers in one of Canada’s most progressive and economically diverse regions.

Waterloo Region is designated as Canada’s tenth and Ontario’s fourth largest urban area, with a 2015 year-end population of 575,000 expected to reach 725,000 by 2031.

Our local economy is among the most diverse in Canada, with concentration across advanced manufacturing, financial services, post-secondary education, food processing/primary agriculture, and information technology. Industry analysts have frequently cited this diversity as the fundamental strength of Waterloo Region’s globally successful and entrepreneur-driven business sector.

We are forwarding the following recommendations and proposals as priorities for the 2017 federal budget.

Federal Measures to Assist the Canadian Population

Pharmacare Reform

The *Final Report of the House of Commons Standing Committee on Finance Regarding Its Consultations in Advance of the 2016 Budget* recommendation 16 on page 66 proposes that “the government should pursue the feasibility of a universal, national prescription drug program and enhanced investments in home care.”

Our organization would advise extreme caution for the federal and provincial governments in moving forward on a national, universal pharmacare program.

The Canadian headquarters of global organizations Sun Life Financial and Manulife Financial are located in Waterloo Region along with the Equitable Life Insurance Company of Canada. Collectively, the members of the Canadian Life and Health Insurance Association (CLHIA) account for 99 percent of Canada’s life and health insurance business, including employee benefit programs, to 28 million Canadians. At the end of 2014, insured plans provided 11 million people with disability income protection, 27 million with extended health care coverage, and 15.6 million people with reimbursement of dental care expenses.

These businesses hold $720 billion of assets in Canada and collectively employ 155,000 Canadians in all provinces and territories.

According to the CLHIA, current responsibility for prescription drug coverage across Canada is shared between the public and private sectors and generally works well. However, like most national stakeholders, the health insurance industry believes that reform is required.

The current drug system can be reformed by leveraging the market to negotiate lower prices. Business is committed to working with governments to obtain available savings while preserving the benefits from innovation and competition that the private sector delivers to the marketplace.

Furthermore, the model for approving drugs for re-imbursement results in unequal access for Canadians and adds administrative costs to the system. The CLHIA supports the creation of a minimum drug formulary that all residents of Canada can access and provides an appropriate level of coverage for both basic and high-cost specialty products.

At a federal-provincial meeting of health ministers in Vancouver during January of 2016, a working group was formally announced to discuss a national pharmaceutical strategy. The group will address accessibility, affordability, and the appropriate use of pharmaceutical medications.

The federal government had previously indicated they were joining a bulk purchasing program with the provinces. Minister Phillpott also noted her government would pursue additional measures to drive down the cost of pharmaceuticals.

Following this announcement on bulk-buying, the CLHIA indicated the system continues to entrench two levels of drug pricing for the Canadian market, one for the provinces and a second, higher price for anyone paying through a private insurance plan. The association supports a bulk purchasing strategy that includes private insurers to negotiate a national and equitable price.

The federal government, prior to any decision on pharmacare reform, should in collaboration with the provinces examine the economic impact of universal pharmacare on private sector employment in the life and health insurance sector. A January 2016 report commissioned by the Canadian Pharmacists Association noted[1] ñjob losses can be anticipated if existing private drug plans cease to operate in Canada. Not only will this result in foregone tax revenues from these employees, it may also draw upon public and social insurance funds in the short term. Moreover, some of the extended health care benefits that are usually bundled with drug coverage may become more expensive to offer. Further research is required to estimate the economic impact as well as the impact on extended health benefits generally.ò

If private insurance coverage is discontinued, according to the CPA report, coverage will be limited to the most cost-effective (and mostly genericized) drugs, making Canada a less attractive location for pharmaceutical manufacturers. This could make Canada a lower priority for innovative drug launches, further delaying or even precluding Canadiansô access to life-saving medications. Proposals for changes to the structure of drug reimbursement must consider the potential impacts to the innovative pharmaceutical sector to ensure Canadians will not be disadvantaged by the creation of unfavourable market conditions.

This report concludes that ñthe recent proposal for a national, universal, publicly-funded, single payer prescription drug reimbursement plan falls short of providing a practical, affordable option to address universality, equity and sustainability in prescription drug coverage in Canada.ò

Recommendation:

The federal government should:

Adopt a bulk purchasing plan for pharmaceuticals that includes the provinces, federal government and private insurers;

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[1] Phamacare Costing in Canada ï Preliminary Report: Assessment of a National Pharmacare Model Cost Estimate Study. Prepared by PDCI Market Access Inc. Commissioned by the Canadian Pharmacists Association

Implement a minimum national formulary of drugs for all Canadians regardless of province of residence which will provide adequate coverage for both basic and high-cost specialty products;

In collaboration with provincial governments and private insurers, assess the economic impact of universal pharmacare on the life and health insurance sector in Canada, particularly with respect to potential private sector job losses.

Actions to Assist Canadian Business

Venture Capital

Venture capital is a form of equity financing utilized by innovation-based early stage technology firms. Generally these businesses present high growth potential and an accompanying high risk of failure which make them unattractive for traditional options such as bank loans.

A technology firm can take five to seven years to develop, commercialize and market a product. Venture capital investors buy shares of a firm and take ownership, subsequently influencing business decisions and strategy.

The domestic venture capital sector is growing and presents significant upside potential. A May 2016 news release from the Canadian Venture Capital and Private Equity Association (CVCA) indicates that 2016 Q1 venture capital investment across Canada reached $838 million, the highest volume for any quarter in national history and double Q1 for 2015. The increase was primarily driven by large deals with the top five estimated at a total of $336 million.

The CVCA has noted that increasingly investments are made into later stage companies, with the average deal growing to $7.1 million compared to past year averages around $4-4.5 million. Also, an increasing number of American-based firms are investing into Canada which is also driving the larger investments.

The September 2015 Canadian Chamber of Commerce report *Stimulating Canadian Innovation: How to Boost Canada's Venture Capital Industry* provides six recommendations to expand venture capital financing across Canada. The proposals are:

1. **Incentivize Angels - Implement the BC Investment Tax Credit Nationally**

British Columbia currently provides investors with a 30 percent refundable tax credit for investments up to $200,000 in an eligible business, for a maximum credit of $60,000 per investor.

The federal government should establish a 15 percent tax credit matched by the provinces. A national 30 percent credit would also expand angel investment.

2. **Provide a Tax Exemption on Capital Gains for Venture Capital**

Capital gains in tax-free savings accounts are exempt from taxation and a similar approach for venture capital would increase activity.

3. **Secure more investors with flow-through shares for technology companies**

The use of flow-through shares has generated billions in revenue for Canadian mining exploration and the process should be extended for technology companies.

4. Increase Government Investment in Venture Capital

The federal 2013 Venture Capital Action Plan (VCAP) provides $400 million over ten years to attract $1billion in private funding into venture capital funds. The Stimulating Canadian Innovation report proposes that investment be doubled to $800 million.

5. Invest In Incubators

The federal government should invest, with partners such as post-secondary institutions, in new and expanded incubators and start up centres. The Waterloo Accelerator Centre is jointly supported by FedDev Ontario, NRC IRAP, three local municipalities, three universities and one college. The Western-Sarnia Research Park, home of the Bowman Centre which is Canada's largest clean-tech incubator, is a joint initiative of the County of Lambton, City of Sarnia and Western University.

6. Review regulations on banks, insurance companies and pension funds to encourage investments into venture capital funds

The CVCA has indicated[2] that a recent substantial increase in VC investment into Canada offers a great reflection of the available investment opportunities. Investors are observing the value of domestic entrepreneurial talent and making significant bets on the future.

Recommendation

The federal government should implement the recommendations of the September 2015 report *Stimulating Canadian Innovation: How to Boost Canada's Venture Capital Industry* released by the Canadian Chamber of Commerce*.*

National Auto Strategy

Recommendation 54 (page 73) of the *Final Report of the House of Commons Standing Committee on Finance Regarding its Consultations in Advance of the 2016 Budget* recommends the development of a national auto strategy that would "ensure a timely and coordinated approach to maintaining current, and attracting new, assembly plants. As well, the strategy should facilitate innovation within the sector – including among auto parts suppliers – through tangible and effective supports."

Approximately one in five jobs is directly related to manufacturing in Waterloo Region therefore we strongly support this recommendation for a coordinated approach across the auto sector. Also, our Chamber was a long-standing supporter of the accelerated capital cost allowance for investments into new machinery and equipment for the overall efficiency, productivity and competitiveness of domestic manufacturing.

The process for an auto strategy has generally commenced with the appointment, by the federal and Ontario governments, of former Toyota Motor Manufacturing Canada executive Ray Tanguay as an adviser. A CBC News report[3] from May 9, 2016 indicates Mr. Tanguay is compiling information and starting to identify priorities.

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[2] Record-breaking quarter: 2016 Canadian VC investment nearly doubles 2015 results. Canadian Venture Capital Private Equity Association release, May 18, 2016

[3] Auto Adviser Ray Tanguay still gathering facts for governments. CBC News. May 9, 2016

Recommendation:

The federal government should formally develop a national auto strategy in the 2017-18 fiscal year.

Initiatives to Assist Urban, Rural and Remote Municipalities

The Regional Municipality of Waterloo encompasses the cities of Cambridge, Kitchener and Waterloo along with the four rural townships of North Dumfries, Wellesley, Wilmot and Woolwich. We have developed a highly collaborative model of municipal governance and economic development that incorporates effective urban growth principles with the preservation of primary agriculture.

Access to high-speed internet is essential for the integration of rural-based businesses into a global technology-driven economy. On July 21, 2016, the Ontario Chamber of Commerce wrote to Premier Kathleen Wynne requesting that Ontario:

a) Develop a broadband investment strategy which identifies broadband as an infrastructure investment and does not dissuade private sector investment;
b) Build partnerships across all three levels of government in order to leverage funding and respond to local need;
c) Benchmark Ontario's internet speeds and access.

On July 26, 2016, the federal and Ontario governments announced a combined commitment of $180 million ($90 million per government) to improve high-speed internet connectivity to over 300 communities in southwestern Ontario. This investment is a major component of the new Southwestern Ontario Integrated Fibre Technology (SWIFT) project spanning an area with a total population of 3.5 million.

An Ontario Ministry of Infrastructure release noted that the project will help southwestern Ontario communities and businesses "better compete in global markets, attract new jobs and improve quality of life. It will also allow individuals to use online resources to gain skills and experience."

Recommendation

The federal government, in partnership with the provinces and the private sector, continue with investments into broadband infrastructure.

We thank the committee for the opportunity to advance our recommendations for the 2017 federal budget.