TORONTO REGION BOARD OF TRADE

2017 Federal Pre-Budget Submission

August 2016

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ABOUT THE BOARD

Founded in 1845, the Toronto Region Board of Trade ("the Board") is the chamber of commerce for Canada's largest urban centre, connecting more than 12,000 members and 250,000 business professionals throughout the Toronto Region. The Board plays a vital role in elevating the quality of life and global competitiveness of Canada's largest urban centre.

EXECUTIVE SUMMARY

Our February 2016 budget submission targeted key issues with respect to the budget and drew attention to other top economic concerns. Our August 2016 submission restates many of these concerns in areas where Federal progress is still preliminary.

The Board calls on the Federal Government ("the Government") to act in four key areas:

- **Talent**. Canada must act to develop and retain our own talent, and attract talented workers from other countries to power the growth of Canadian firms.
- **Trade**. Canada needs to retool our policies and programs to help small and medium sized enterprises to export more aggressively in global markets. Trade agreements to open up domestic and international markets can support this agenda.
- **Transportation**. The Government has built a strong foundation for progress on strategic and urban infrastructure. However, major challenges remain unresolved.
- **The Fiscal Balance**. We reaffirm our belief that taking action now to improve the fiscal balance over the next few years will enhance Canada's overall competitiveness for the long term, especially in light of regional and international risks to economic stability.

Talent

Board members were pleased to see the Government abandon plans to tax stock options, which could have seriously weakened Canada's ability to retain and attract talent within the international technology start-up ecosystem. However, significant existing barriers to the attraction of skilled labour and talent remain. For example, controversial Temporary Foreign Worker reforms still have not struck the right balance, creating challenges in finance, technology and other key economic sectors in Toronto. Another review of the TFW regime is still in order to find that balance.

The Government also made it clear that innovation policy will be a key component of the 2017 budget. To promote innovation, a principle-based approach is important to the business community. Too often, an "innovation agenda" means that governments issue a series of grants and then declare the investments themselves to be proof of progress. The Board hopes to engage the Government in coming months to promote specific, long-term metrics to get a better measure of which innovation policy initiatives are actually successful.

Further, if the Government sees the need to offer direct grants to individual firms and/or start-ups in innovative sectors, we urge the relevant ministries to consider alternative approaches. If the Government insists on direct funding:

- consider approaches that would match public money to private angel or venture capital investments to bring some market discipline to the choices made;
- consider models used in other jurisdictions that require open, transparent competition for any supports; and
- consider passive equity investments instead of loans or non-repayable grants so that there is a potential reward to match the risks of using public capital.

Above all, as an alternative to all of these approaches, higher-level investments are preferable to "picking winners and losers." The Government can and should prioritize building research partnership and commercialization capacity at public institutions. It should change policies to cut costs and reduce barriers to starting a business, engaging in research or making an earlystage investment. These polices can and should be targeted at key clusters rather than at individual firms, and these clusters should include strategic Canadian strengths like the aerospace sector, service technology, food processing and the life sciences.

Finally, the Government launched a new fund to support strategic infrastructure investments at post-secondary education institutions in the 2016 budget. This program could be broadened to include support for technical infrastructure beyond the 'bricks and mortar' post-secondary sector in the coming years. Opportunities to enhance Canadian-based data storage capacity, broadband capacity and off-campus labs for research in fields like civil engineering, advanced manufacturing and heavy construction should be eligible for consideration.

Trade

The 2016 budget spoke repeatedly to the Board's own concerns about the need for SME export capacity. Through the successful launch of our Trade Accelerator Program (TAP), the Board has taken the lead in efforts to foster an export-ready culture in Toronto Region's small and medium-sized businesses. To date, sixty-six Toronto and Region companies have graduated from the program, and our goal is to serve 1200 companies over the next three years to support an increase in export revenues of over $500m. Other chambers of commerce are now working with the Board and our private partners to bring this model to other Canadian cities. The Board is also working to improve our Region's inbound trade and investment capacity through our newly activated World Trade Center Toronto.

These initiatives could be more effective if the Government fostered direct links between them and other ongoing Canadian trade initiatives, perhaps through the direct embedding of trade officials with private-sector programs.

Outside of the specifics of the budget, trade policy is crucial to our fiscal and economic survival. Given Canada's smaller domestic market, we more than any other G7 nation depend on trade agreements to give us access to foreign markets.

With this in mind:

1. The Board continues to support the **Trans-Pacific Partnership** and the **Comprehensive Economic and Trade Agreement** with the European Union. We again call upon the government to push for rapid adoption of both agreements, even if political risks could delay or prevent ratification in other countries.

- If domestic objections to either agreement exist, the Government should identify these urgently and seek to address them separately to avoid jeopardizing the deal itself.
- Proceeding with these agreements in anticipation of ratification by our partners can help vulnerable sectors in the long run by accelerating firm-level efforts to prepare for international competition.
- Rapid Canadian ratification of negotiated trade agreements is important even in advance of ratification by other countries (including the United States). Ratification will send an important signal to potential trade partners who may be targets for future bilateral or multilateral negotiations. Canada is not among the largest trade markets by global standards. We can only keep our place at the front of the line for trade negotiations if we make it clear that we are among the most dynamic, committed and willing trade partners.

2. Our February 2016 submission raised the underrated issue of **interprovincial trade**. Board members are pleased to see Minister Navdeep Bains provide some much-needed leadership for the provinces on this important issue. However, there is still room for greater transparency about the contents of the agreement, and the Board remains concerned that any final agreement should avoid significant exemptions for any sector.

To credibly support our goal of bringing free trade to Canada, we must develop free trade within Canada. The Board encourages the Government to continue its push for simple, mutual recognition of various interprovincial licensing or regulatory regimes wherever possible, even after the implementation of a preliminary internal trade agreement, if one is announced.

3. Finally, the Board calls on the Prime Minister and federal ministers **to take a strong and public leadership role in the defence of freer trade**, both at home and abroad. Political leaders around the world are increasingly adopting rhetoric that is critical of open trade, and both candidates for the American Presidency have spoken out in favour of renegotiating the Trans-Pacific Partnership. Any instability in the system of international trade agreements poses a serious risk for the export-dependent sectors of the Canadian economy, and Canadian leaders should speak to the benefits of trade whenever possible.

Transportation (Strategic)

In its last budget, the Government announced the creation of a new infrastructure funding envelope to support projects that would enhance our trade capacity at key border and transport hubs, in line with calls by the Board and other organizations to address this challenge. At the Board's second Aviation Summit this year, air sector leaders in Southern Ontario identified a clear need for regional airports to specialize in anticipation of spillover demand. By 2043, Pearson International Airport is expected to be serving over ninety million passengers, despite a projected capacity of only seventy million.

Canadian airports are limited in their ability to cooperate and compete by various practical and legal barriers. This is an area where the Government can offer crucial leadership for the Toronto Region's economy, if it can use this new envelope of infrastructure funding as a tool to help regional airports specialize as needed.

Transportation (Transit)

Mass transit is a crucial resource for our service economy. Metrolinx, GO Transit, the Toronto Transit Commission and other urban transit agencies move skilled Canadians to and from their workplaces by the millions every day. The Government knows, as the Board does, that our major cities are a generation behind their foreign peers when it comes to the construction and operation of modern mass-transit systems.

In the last year, the Government has made significant announcements here in the Toronto area and elsewhere, and Board members learned a great deal from Minister Amarjeet Sohi's direct participation with the Board in an infrastructure roundtable. The Board applauds the Government's progress on this file, especially in its decision to offer substantial funding for infrastructure repairs and maintenance. However, there is still room for reform to develop the Government's strategy.

- There is still a significant risk that political considerations will delay the flow of cash to projects when the Government's focus shifts from repairs to new construction. The Government should take the lead on policies to 'lock-in' tripartite funds once projects are in the design stage, and to expedite project approvals where appropriate.
- Municipalities like Toronto are still risk exceeding their own debt limits if they match federal and provincial funds. Ongoing reform of the traditional tri-partite funding model is in order. At a minimum, the Government should broaden its new (and positive) principle of offering 50% project funding to cover more of its infrastructure programs.
- Finally, there are still few details available about the proposed **Infrastructure Bank**. Board members in the infrastructure sector believe an Infrastructure Bank can be an important tool to promote consistency and best practices in heavy construction finance and management, especially as many municipalities still bid out projects in a manner that prevents these best practices from taking hold in public construction.

Fiscal Policy

In our February 2016 budget submission, the Board called on the Government to restrain spending to match its deficit pledges.

In fact, the 2016-17 budget only made a general statement that more growth would make it easier to balance the budget years into the future. While Board members recognize that the current Government sought an explicit mandate to support stimulative deficit spending, it also predicated that mandate on a promise to balance the budget in the medium term. Short-term stimulus plans should not have stopped the Government from setting clearer targets to balance in the medium term. Further, while the Government's stated strategy is to use deficit-spending to spur the economy, many new spending commitments were neither strategic or stimulative in nature.

With this in mind, we again call upon the Government to:

- Systematically review programs for opportunities to wind-up, scale-down or repurpose ineffective programs now. It can take months or even years to realize savings through asset monetization, service modernization or other responsible savings initiatives. Delaying the process of finding those opportunities guarantees that any effort to balance the budget at the end of the Government's mandate will produce results too slowly to be of value.
- Adopt a credible fiscal plan to achieve a balanced budget by a specific target date, with the Government's election goal of reducing the debt-to-GDP ratio at the forefront of any guidelines for deficit spending while on the path to fiscal balance.