CANADIAN FEDERATION OF INDEPENDENT BUSINESS
In business for your business

The Path to Recovery

Pre-Budget Submission

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On behalf of our 38,000 small- and medium-sized business members in all sectors across Ontario, we welcome the opportunity to share CFIB member feedback and recommendations leading up to the provincial government's 2023 budget.

Last year was a challenging one for Ontario's small business owners. While the year began with the province's fourth pandemic lockdown, there was significant optimism that the worst was behind us and that 2022 would be the year that we returned to more stable, "normal" economic operations. However, Russia's invasion of Ukraine and the ensuing global energy cost pressures, supply chain constraints stemming from COVID lockdowns in China, and high inflation and successive rate hikes put a significant damper on small business recovery.

As of November 2022, 52% of Ontario small businesses were still below normal sales levels, and 56% were still carrying pandemic-related debt at an average of just over $109,000 per business.

As we begin 2023, many small businesses continue to face labour and supply challenges, while cost pressures around electricity, insurance and borrowing are constraining small business growth and investment.

To help small businesses address these and other challenges, we encourage the Ontario government to reduce costs. For example, the small business tax rate should be lowered from 3.2%, and the small business deduction threshold should be increased from $500,000, where it has lagged since 2007.

In general, we urge the Ontario government to maintain its "do no harm" approach to small business policy and at a minimum, not impose any new costs or administrative burdens on small business owners.

RESEARCH BRIEF

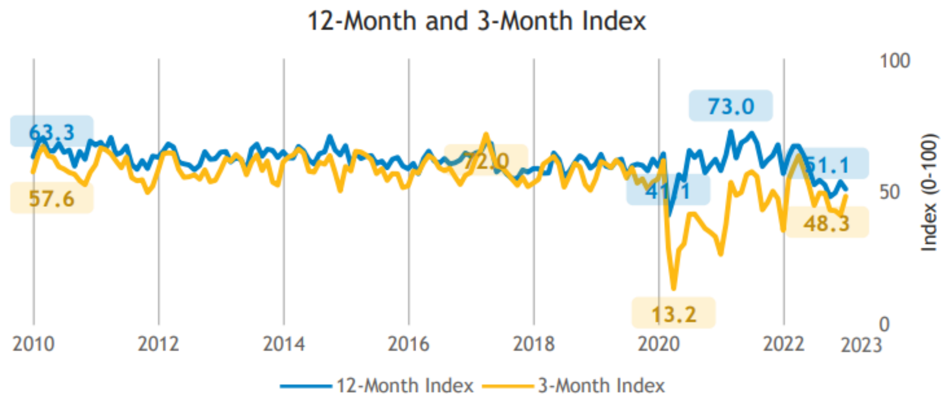
Current State of Ontario SMEs: CFIB Business Barometer® and Small Business Recovery Dashboard

CFIB has been tracking business confidence on a monthly basis for a number of years. Our Business Barometer® index has proven to be a very accurate predicter of small and medium enterprise (SME) performance. Tracked against GDP, the Business Barometer® index closely reflects the state of the economy. Measured on a scale between 0 and 100, an index level above 50 means that owners expecting their business performance to be stronger over the next year outnumber those expecting weaker performance. According to past results, index levels normally range between 65 and 75 when the economy is growing.

After both short- and long-term confidence cratered in January 2022, the result of Ontario's fourth COVID lockdown, optimism picked up in the first quarter of the year as businesses reopened. The province's confidence score peaked in March-April at 67 – a score that indicates a healthy economy. However, confidence fell as inflation continued to grow, and it remained on a downward trend through much of the rest of 2022.

The most recent reading, January 2023, shows long-term confidence at 51.1 and short-term confidence at 48.3, well below the range that indicates economic growth [Figure 1].

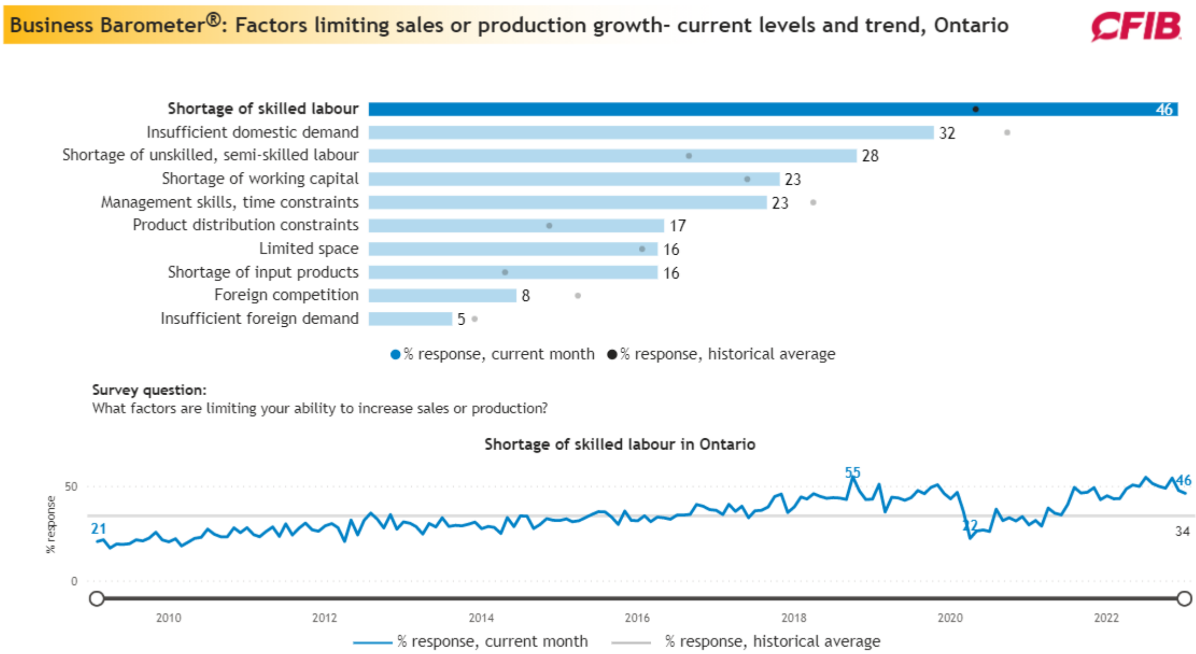
Figure 1: CFIB Business Barometer® - Ontario



Source: CFIB, Business Barometer®, January 2023. N=293

A shortage of skilled labour remains the top constraint on sales and production growth for Ontario's small business owners. While concerns appear to have plateaued, challenges around obtaining skilled labour remain well above pre-pandemic levels and historical norms. While not as pressing, a shortage of unskilled and semi-skilled labour also remains well above historic levels [Figure 2].

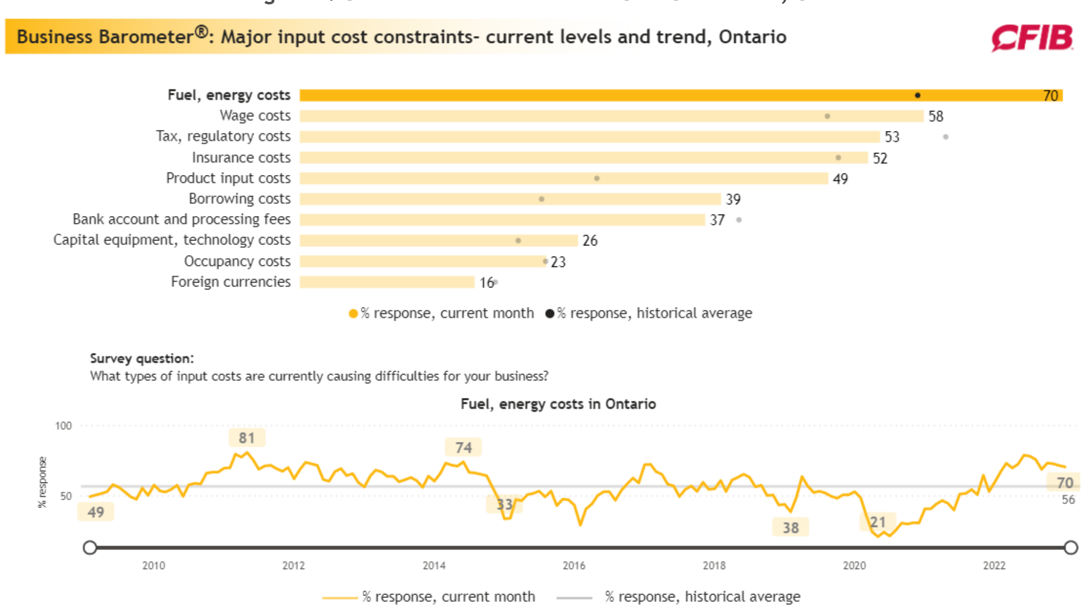
Figure 2: CFIB Business Barometer® - Sales or Production Growth Limitations, Ontario



Source: CFIB, Business Barometer®, January 2023. N=293

Fuel/energy is the top cost constraint Ontario small business owners face and has been on a steady rise since the pandemic broke out and the province entered its first lockdown in March 2020. Levels have reached pre-2018 provincial election heights when energy costs were a top issue. While the government has done well to reduce some of the tax pressure around fuel, global supply challenges as well as the federal carbon tax continue to hit gas, electricity and heating bills hard [Figure 3].

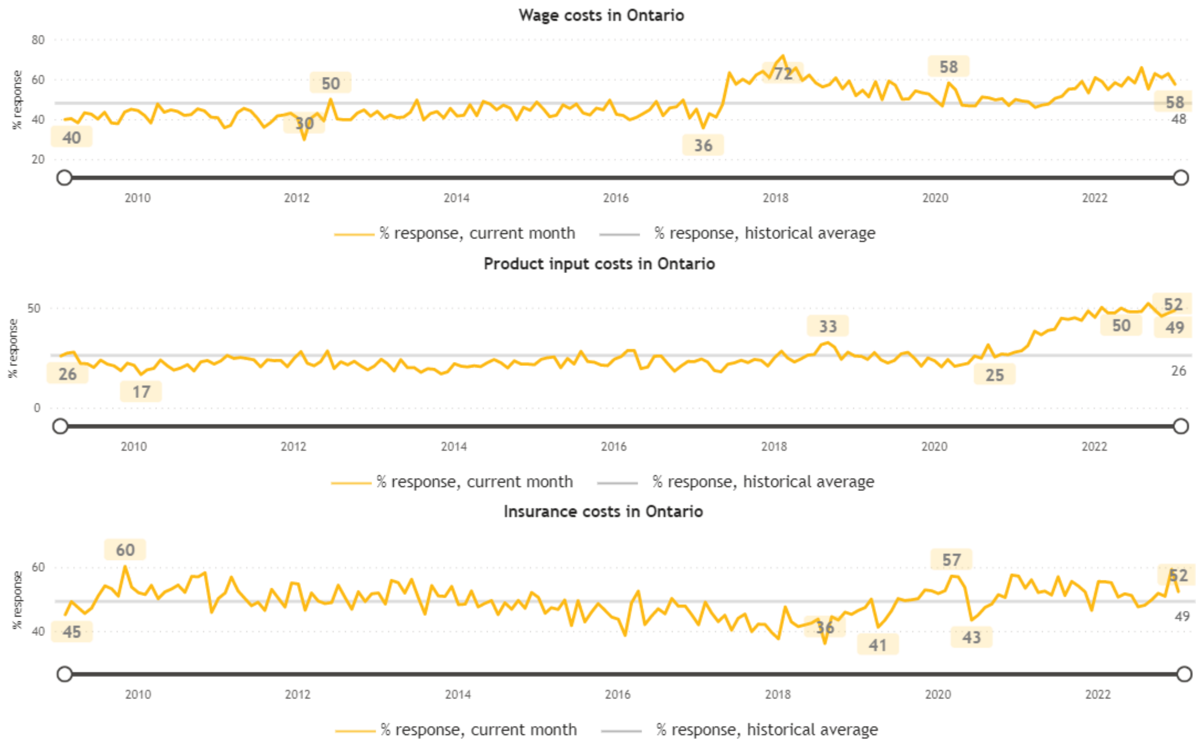
Figure 3: CFIB Business Barometer® - Cost Constraints, Ontario



Source: CFIB, Business Barometer®, January 2023. N=293

While fuel and energy costs have held the top spot throughout 2022, other cost pressures including wage costs due to a tight labour market, product input costs due to ongoing supply chain challenges, and insurance cost pressures all remain well above historical norms [Figure 4].

Figure 4: CFIB Business Barometer® - Cost Constraint Trends, Ontario

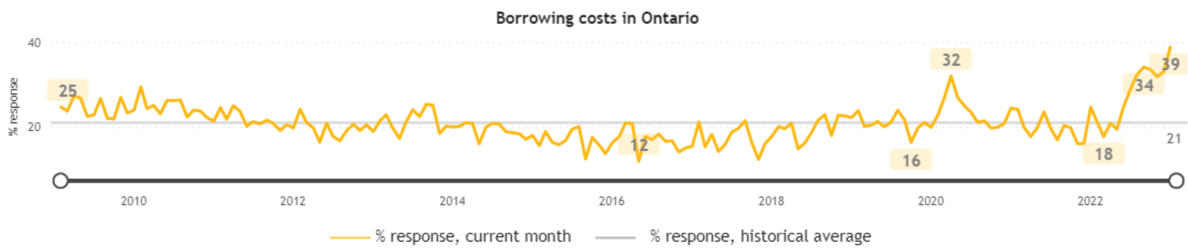


Source: CFIB, Business Barometer®, January 2023. N=293

Additionally, increasing cost pressures due to inflation and the Bank of Canada's interest rate hikes throughout 2022 are taking their toll. Seven in 10 (69%) of small business owners say that rising interest rates are having a negative impact on their businesses, with 30% reporting a significant negative impact. Broken out by sector, agriculture (77%), arts and recreation (76%), wholesale (76%), and transportation (75%) are all well above the economy-wide average.

We have also seen an extremely sharp uptick in borrowing costs as a constraint among Ontario small business owners, with the marker more than doubling between January and December 2022, reaching historic highs in our data [Figure 5]. Since business owners are still very much in a recovery phase, there is particular concern about what borrowing cost pressures will mean for small business survival moving forward, especially with the Canada Emergency Business Account (CEBA) loan repayment deadline looming at the end of 2023.

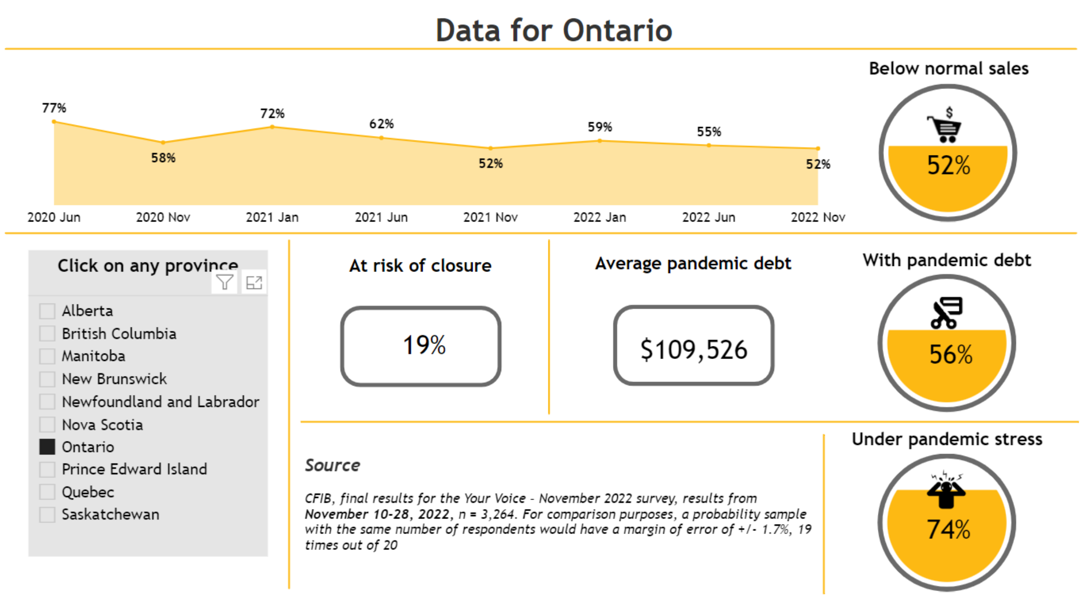
Figure 5: CFIB Business Barometer® - Borrowing Cost Trend, Ontario



Source: CFIB, Business Barometer®, January 2023. N=293

CFIB has been tracking small business health and recovery throughout the pandemic by weekly and monthly surveying that feeds into our Small Business Recovery Dashboard [Figure 6]. Our latest data from November 2022 finds that recovery is clearly still an ongoing process. More than half (52%) of Ontario small businesses are still experiencing below normal sales, while 56% continue to carry pandemic debt at an average of $109,526. Among those businesses with pandemic-related debt, 36% report that they have yet to repay any of it.

Figure 6: CFIB Small Business Recovery Dashboard, Ontario



Source: CFIB, Your Voice Survey, November 2022. N=3,264

Cost of Doing Business Remains High

Inflation and cost of living increases continue to affect both people and businesses across the province. Almost all Ontario business owners (98%) say that tackling rising prices and the cost of doing business should be the top priority for the Ontario government heading into the 2023 budget. Ontario's small business owners are seeing their costs rise in virtually every area. Payroll costs like Canada Pension Plan (CPP) and Employment Insurance (EI) premiums have been increasing, on top of another large hike to the Carbon Tax on April 1. A tight labour market continues to drive upward pressure on wages and labour costs, and insurance, rent and energy bills continue to climb. At the local level, municipalities are planning significant property tax increases this year that will impact both commercial owners and renters.

CFIB continues to recommend a "do no harm" policy approach and for the Ontario government to not introduce any new costs on small businesses, and to reduce costs where the greatest, positive small business impacts will be realized. Ninety-nine per cent of small business owners are looking to government to reduce the overall tax burden. Two ways the government can tackle that are by increasing the small business deduction threshold and lowering the small business tax rate. Both measures would help recognize the current realities of doing business in Ontario.

The province's personal income tax brackets are annually indexed to inflation, preventing bracket creep and ensuring the province's tax system remains consistent. Unfortunately, the same policy does not extend to Ontario's small business tax rate.

The current $500,000 Ontario small business deduction threshold was introduced on January 1, 2008 and made retroactive to January 1, 2007. It has stayed at that level ever since, despite 15 years of inflation. **Had the small business tax rate been indexed to inflation annually, the threshold would sit at $683,482.14 for the 2022 tax year – a 36.7% increase over 15 years.**

We urge the government to increase Ontario's small business tax rate deduction threshold immediately to at least $600,000, as has already been done in Saskatchewan, and index it to inflation annually to prevent future bracket creep.

We also recommend that the government reduce Ontario's small business tax rate, which at 3.2% is tied for highest in the country with Quebec's. The government should lower the rate with a goal of reaching 0%, as has been achieved in Manitoba, the Yukon territory and through the 2022-23 tax year in Saskatchewan [Figure 7].

Figure 7: Provincial and Territorial Small Business Tax Rates

Province/Territory	Small Business Tax Rate
Ontario	**3.2%**
Quebec	3.2%
Newfoundland and Labrador	3.0%
Nunavut	3.0%
New Brunswick	2.5%
Nova Scotia	2.5%
Alberta	2.0%
British Columbia	2.0%
Northwest Territories	2.0%
Prince Edward Island	1.0%
Manitoba	0.0%
Saskatchewan*	0.0%
Yukon	0.0%

*Saskatchewan reduced their small business tax rate to 0% as a temporary recovery measure. The rate will increase to 1% on July 1, 2023 and to 2% on July 1, 2024.

We welcomed the government's commitment in the 2022 Fall Economic Statement to automatically match property tax reductions in those municipalities that adopt a small business property tax subclass. In a September 2022 survey, 69% of small businesses agreed that their municipality should adopt the subclass. We encourage the government to continue to urge more municipalities to adopt the measure. This will be increasingly important as municipalities across the province seek to increase property taxes to improve their own finances coming off the pandemic.

Permanently increasing the Employer Health Tax (EHT) exemption threshold to $1 million in the 2020 Ontario Budget was also a very welcome measure and response to a long-standing CFIB recommendation. Payroll taxes are profit-insensitive and have been particularly punitive during times of slow revenue recovery. We continue to recommend that the government index the EHT threshold annually to inflation to avoid bracket creep.

Alcohol and Cannabis

We recommend that the government review its sector-specific taxes to spur growth and economic recovery. Alcohol taxes on brewers, distillers and vineyards create an uneven playing field for domestic, interprovincial and international competition. With Ontario's craft-alcohol sectors being the very definition of "Made in Ontario", we encourage the government to eliminate these competitive barriers to help boost the industry.

We have heard several concerns from our members in the cannabis retail sector about the Ontario Cannabis Store (OCS)'s role as wholesaler. It's important to note that most small cannabis retailers are not looking to eliminate the OCS's wholesale function, with many viewing it as an important playing field leveler. However, there is widespread frustration that the OCS unfairly favours larger chain retailers, especially when it comes to information sharing.

As we enter federal cannabis legalization's fifth year, we should now take the time to assess the current system for what is and is not working. CFIB strongly recommends that the government instruct the OCS to convene a working group of retailers that includes strong representation from small, independent operators. Our members have recommended that the OCS review its markup to allow for greater profit margins for retailers, high delivery charges and fees from warehouse to retailers, product return policies, and limited delivery schedule options.

Our members have also told us that the OCS's presence as an online retailer with a monopoly on shipping products via Canada Post is putting private industry at a disadvantage. The OCS should review both its place in the digital retail market, as well as restrictions around private businesses' ability to serve their customers online.

The hospitality sector continues to experience a challenging recovery period with significant inflationary pressures on both products and customers. Recent changes allowing restaurants to purchase alcohol from the LCBO at reduced wholesale prices are positive. The government should consider further measures, including reducing the LCBO markup on alcohol sold directly to licensees by local Ontario breweries and distilleries, lowering the 62% basic spirits tax, and changing marketing regulations.

Finally, we have heard significant concerns from members that run LCBO agency stores in northern Ontario. Many of these members have reported that delivery fees and charges have become unsustainable to the point where they are questioning whether operating an agency store is worth it. With the LCBO's limited presence in the north, these stores are the key conduit for alcohol sales in the region. We strongly recommend a significant reduction in fees to keep these locations open and viable.

Recommendations:

- **Take a "do no harm" approach to small business policy and at minimum, avoid introducing any new costs or administrative burdens on small businesses.**
- **Increase the small business deduction threshold to at least $600,000 and index the threshold to inflation annually.**
- **Gradually reduce the small business tax rate to 0%.**
- **Tie the Employer Health Tax threshold to inflation annually.**
- **Continue to urge more municipalities to adopt a small business property tax subclass.**
- **Eliminate the aluminum tax on beer cans.**
- **Review liquor and spirits taxes to spur growth in the craft distilleries industry.**
- **Eliminate the 6.1% Basic Wine Tax for Ontario wineries selling their product on site, and eliminate the "import tax" imposed on Ontario wines at the LCBO that treats them as though they were produced out of province.**
- **Reduce the LCBO markup on alcohol sold directly to licensees by local Ontario breweries and distilleries.**
- **Reduce LCBO agency store delivery fees.**
- **Reduce the 62% basic spirits tax to help increase small business margins on alcohol sales.**
- **Alter regulations that prevent licensees from offering promotions on alcohol sales.**
- **Hold formal consultations with small cannabis retailers on the progress of the sector.**
- **Review the Ontario Cannabis Store's digital retail presence and relax rules around private businesses' ability to operate online.**
- **Continue to encourage local shopping.**

Labour Challenges

Ontario's small business owners continue to face labour-related challenges across the province. As noted earlier in our Business Barometer® data, just under half (46%) of Ontario small businesses cite a shortage of skilled labour as a major factor limiting their ability to increase sales or production. Almost three in 10 (28%) cite a shortage of unskilled and semi-skilled labour. According to preliminary data from our February 2023 survey, approximately 70% of businesses in the province report that they continue to face labour shortage challenges.

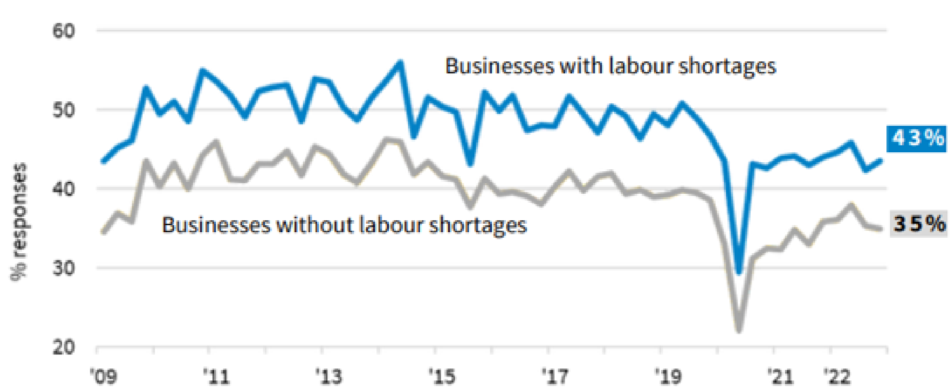
Three-quarters (74.8%) of Ontario small businesses believe that helping employers deal with labour shortages should be an important priority for governments in 2023. Additionally, over 90% of Ontario small businesses believe governments should prioritize ensuring that labour policies are reasonable for employers.

CFIB's report, *Labour shortages are back with a vengeance*, found that many business owners have adapted to workers' demands for increased wages, benefits, and other compensation. However, many businesses have found that these measures alone do not adequately address the lack of available, qualified labour. Nationally, eight in 10 (82%) of small businesses experiencing labour shortages said they raised wages. However, of those businesses, only 22% said the increase helped them, 47% said it did not help, and 31% indicated it was too early to tell. Despite these wage increases, 60% received no qualified applicants, or no applicants at all.

Labour shortages are impacting small businesses' competitiveness, as the smallest companies (1-4 employees) tend to experience around double the vacancy rates of their largest counterparts (100 or more employees). As of December 2022, CFIB estimates that Ontario had roughly 257,000 job vacancies, for a vacancy rate of 4.7%.

While small business investment is generally down, businesses experiencing labour challenges are more likely to invest in computers, office technology, machinery, and equipment [Figure 8]. As business owners struggle to fill labour gaps, they are increasingly seeking out automated solutions. Nationally, roughly one-third (31%) of businesses report trying automation as a solution to their labour challenges, and 81% say they experienced success.

Figure 8: Investments in computers, office technology, machinery & equipment by businesses with/without labour shortages



Source: CFIB Main Street Quarterly, December 2022

One of the most helpful things the government can do to address small business labour challenges is to reduce the overall tax burden. Almost six in ten (58%) of Ontario small business owners say they would use reduced tax burden savings to increase employee compensation, and just under half (45%) say they would use the money to hire additional staff.

Education and Training

Thanks to both the Minister of Labour, Immigration, Training and Skills Development and the Minister of Education, the Ontario government has made substantial inroads in busting the trades taboo and getting various career paths and options in front of young people earlier. To further this work, we recommend that the Ontario government expand work-integrated learning programs and opportunities, including co-op programs at the high school and post-secondary levels. Small businesses that have participated in co-op programs tend to express strong satisfaction with co-op students, often leading to permanent employment. Expanding small business access to these programs at all levels and broadening financial support for them would be a positive move. In fact, 61% of Ontario CFIB members support making work-integrated learning placements a requirement for the completion of university, college, and training school degrees.

Credential Recognition and Immigration

Restrictions around recognizing the credentials and experience gained in other provinces are a significant barrier to addressing labour challenges. The Ontario government's recent "As of Right" rules are a great step towards recognizing out-of-province credentials in Ontario's health care sector, and we urge the Ontario government to extend this work into Ontario's many other industries. There is overwhelming support for improving credential recognition in Ontario, with 90% of Ontario small businesses agreeing that professional licences or certifications granted in one province or territory should be automatically recognized in all provinces/territories. Adopting a mutual recognition policy across professional licences, certifications and training standards from other Canadian jurisdictions would help people coming to Ontario from other provinces enter the workforce and contribute to our communities faster.

Ontario is home to many immigrants with credentials from other countries that are unable to work in their respective fields of expertise because their credentials are not recognized in Ontario. We urge the Ontario government to work with the federal government on recognizing foreign credentials, so immigrants coming to Ontario can work in their chosen fields.

CFIB supports Ontario's expansion of the Ontario Immigrant Nominee Program (OINP). We recommend that the Ontario government consult small businesses to ensure that OINP is targeting the right professions and is adequately addressing existing skills gaps in the labour market. Finally, we encourage the Labour Minister to work with his federal counterpart to ensure greater foreign credential recognition.

Paid Sick Days and Portable Benefits

With the Worker Income Protection Benefit (WIPB) set to expire on March 31, 2023, Ontario small businesses are concerned about what policy might replace this government-paid sick days program. With recent moves by the federal government and British Columbia to legislate mandatory, employer-paid sick days (10 federally and five in BC), many businesses are wondering if Ontario will follow suit, especially as unions and some advocacy groups push for similar measures. No small business owner wants their employees to come to work sick. Small business owners' main concern about legislated sick days comes down to who would pay for them. If employers are expected to take on the full cost, there is strong opposition to paid sick days, with 80% of Ontario small businesses saying they would be unable to afford them. However, if the Ontario government took on the full cost of a mandatory paid sick days program and reimbursed employers on time, there is 56% support.

We also urge the Ontario government to avoid placing more costs on small businesses through a new portable benefits program. Nearly nine in 10 (87%) of Ontario small businesses say that employers should not be required to take on all costs of a new portable benefits program. Almost two-thirds (63%) say that they would be more inclined to support a portable benefits program if the associated costs were fully taken on by the Ontario government and reimbursed on time. Additionally, 57% believe that employers should be incentivized to participate in a portable benefits program through a tax credit.

A potential portable benefits program invites many questions about how such a program would work within the existing employment framework. For example, exactly which benefits would be included? What would happen to existing benefits plans that are only partially equivalent to the government's program? Who would be responsible for tracking benefits if someone works multiple jobs? We urge the government to consider and consult on these and other questions before taking any further action, and to also consult extensively on any final, proposed portable benefits program.

Workplace Safety and Insurance Board

We appreciate that last year, the Ontario government addressed a long-standing CFIB recommendation to legislate the return of extra funds to employers by the WSIB. By giving this money back to businesses, employers end up paying an amount that reflects the WSIB's *actual* (rather than projected) claims expenditures. We encourage the government to decrease its 125% mandatory refund threshold to 115%, the lower end of the current WSIB discretionary threshold.

Recommendations:

- **Expand small business access to work-integrated learning programs at all levels and broaden financial support for them.**
- **Extend the government's work on recognizing out-of-province health care credentials to Ontario's many other industries.**
- **Adopt a mutual recognition policy across professional licences, certifications and training standards from other Canadian jurisdictions.**
- **Work with the federal government on recognizing foreign credentials.**
- **Consult small businesses to ensure that the Ontario Immigrant Nominee Program is targeting the right professions to address existing skills gaps in the labour market.**
- **Do not introduce employer-paid sick days.**
- **Do not create an employer-paid portable benefits program.**
- **Ensure that the WSIB continues to return surplus funds to employers, and decrease the 125% mandatory refund threshold to 115%, the lower end of the current WSIB discretionary threshold.**

Red Tape

Red tape has consistently remained a top concern for Ontario's small business owners. In the results of a January 2023 survey, 81% said that governments should make reducing red tape a priority heading into the new year.

CFIB welcomes the Ontario government's continued focus on reducing the province's regulatory burden, creating a new, full Ministry after the 2022 election that is solely responsible for cross-government red tape reduction. We appreciate that in the *2022 Burden Reduction Report*, the new Minister reiterated the government's commitment to count and track regulations affecting citizens, not just those affecting businesses. This will help the government to measure its regulatory reduction progress more accurately.

Earning B+ for regulatory reduction efforts

We commend the government for scoring a solid grade of B+ (8.5/10) in CFIB's *2023 Red Tape Report Card*, resulting in a tie for second place with BC and marking the best placement for the province in the report card's 13-edition history.

For this year's report card, provinces and territories were graded on Regulatory Accountability (40%), Regulatory Burden (40%), and Political Priority (20%).

Ontario continued its strength in Regulatory Accountability with an A- (8.8/10), scoring full points for comprehensive measure of the regulatory burden, public reporting of the regulatory burden, and regulatory budget. Points were lost under the "accessibility of regulatory documents" category because Ontario's regulatory documents are not yet available in an open and machine-readable format like some in BC and Quebec. Adopting the necessary technology would improve transparency by allowing external access to raw government data, so outside parties can, for example, verify and assess the government's regulatory burden counts.

The province received a B (7.8/10) for Regulatory Burden, scoring full points for the new red tape feedback mechanism on the Government of Ontario home page and for continuing to introduce two burden reduction bills every year. While the province was awarded full points for having the fewest provincial regulatory restrictions per 10,000 people, it received the lowest score of all provinces for having the most provincial regulatory restrictions. Points in this category were also lost for not allowing direct-to-consumer shipment of alcohol products from other provinces and territories to Ontario.

Ontario and Alberta topped the provinces on Political Priority, both scoring an A (9.5/10). This high grade acknowledges, for example, that red tape reduction is a clear priority championed by Premier Ford and his Cabinet, and that the province has a "Red Tape Reduction" Minister.

Introducing customer service standards

The Ontario government's *At Your Service Act, 2022* was recently recognized by CFIB for being "One to Watch" for regulatory innovation in customer service. This legislation sets out a framework for public response timelines for licence and permit applications, approvals, and information requests across government. It also provides for mandatory refunds in cases where government offices go beyond guaranteed service standard timelines. In addition, it requires regular reporting on how the government is performing and how much money it may have had to refund Ontarians for failing to meet guaranteed service standards.

We look forward to monitoring the government's progress on this legislation over 2023 and hope to see it in CFIB's Golden Scissors Award conversation in 2024.

Reducing physician red tape

CFIB's *Patients before Paperwork* report released on January 30, 2023 builds on the findings of an innovative 2020 study from Nova Scotia's Office of Regulatory Affairs and Service Effectiveness. Using Nova Scotia's data as a benchmark, the report estimates the total physician red tape burden in each province/territory and the number of patient visits that could be restored by reducing this burden. "Red tape" in this context refers to unnecessary paperwork or administrative tasks, including work that doesn't require a physician's clinical expertise and therefore could be completed by someone else, and work that could be eliminated because it's entirely unnecessary.

In Ontario, we estimate that physicians are spending 6,880,387 hours each year on unnecessary administrative work, the equivalent of an estimated 20,641,164 patient visits. By setting a 10% reduction target, the province would restore an estimated 2,064,116 patient visits a year.

In the results of a January 2023 CFIB survey, 87% of Ontario small business owners said that governments should make it a priority to address health care challenges. Reducing physician red tape would help to limit physician fatigue and burnout, and improve patient care.

We understand from the Ontario Medical Association (OMA) that work is already under way with the Ministry of Health to reduce physician red tape.

Promoting and tracking ideas from the red tape portal

Ontario's new Minister of Red Tape Reduction has been actively promoting the government's red tape portal where people and businesses can share suggestions to reduce red tape. It makes sense that as traffic to the portal increases, government should start publicly tracking the progress of work on the ideas coming from the portal, as was previously done under the province's old "Red Tape Challenge" reporting system.

Even with all its progress, the Ontario government must remain vigilant on the red tape file. Close to 40% of small business owners might not have gone into business if they had known about the burden of government regulation. This "hidden" tax is estimated to cost Ontario businesses billions annually. Every minute devoted to filling out excessive paperwork is a minute not spent on growing the economy and creating employment opportunities for Ontarians.

Furthermore, regulation disproportionately impacts smaller businesses, both in time and in money. On average, Ontario businesses with fewer than five employees spend $6,776 per employee in regulatory costs, taking an average of 177 hours per employee. In contrast, Ontario businesses with more than 100 employees spend only $1,552 and 25 hours per employee.

Recommendations:

- **Continue current regulatory accountability measures (e.g., annual public updates of the province's regulatory reduction progress by Ministry in Burden Reduction Reports).**
- **Keep the commitment to count and track the regulatory burden on Ontario's citizens by first reporting on the province's progress by no later than September 30, 2023.**
- **Allow direct-to-consumer shipment of alcohol products from other provinces and territories to Ontario.**
- **Provide open and machine-readable data (XML format) for legislation, regulations, policies, and forms.**
- **To maintain regulatory health, set a one-in, one-out rule once the government's 25% regulatory reduction target is met.**
- **Under the *At Your Service Act*, deliver on the commitments to create the publicly available "Business Service Standard" list and to enact the regulation for paying refunds for government non-compliance with guaranteed service standards.**
- **Continue work with the Ontario Medical Association and measure the total physician administrative burden, identify key red tape irritants to resolve, set a physician regulatory reduction target (e.g., 10%), and publicly report on progress as the Manitoba government recently committed to do with Doctors Manitoba.**
- **Publicly track the progress of work on regulatory reduction suggestions coming from people and businesses to government through the red tape portal.**

Internal Trade

To mark the fifth anniversary of the Canada Free Trade Agreement (CFTA), CFIB created a new report card last year. *The State of Internal Trade: Canada's Interprovincial Cooperation Report Card*, 2022 Edition graded the provincial, territorial, and federal governments in three areas: exceptions to the CFTA in 2021, select barriers to internal trade, and implementation status of reconciliation agreements.

The highest grade awarded was a B, and Ontario received an overall grade of C-, ranking it after Alberta, Manitoba, Saskatchewan, Nova Scotia, and BC.

On a positive note, the province will remove the labour mobility exception to the CFTA on nurses, announcing last month that legislation will be introduced in February 2023 to allow health care workers registered in other provinces and territories to immediately start working in Ontario. Based on a September 2022 CFIB survey and noted earlier in this submission, 90% of small businesses in Ontario agree that "a professional licence or certification granted in one province/territory should be automatically recognized in all provinces/territories (such as long-term care workers, other health care workers, etc.)". CFIB strongly recommends that the Ontario government remove its remaining labour mobility exceptions and is encouraging all other Canadian jurisdictions to do the same.

CFIB has continued to recommend that governments mutually recognize all other provincial and territorial regulatory standards (other than an exemption list). For example, if a business meets the occupational health and safety standards for work boots in their home province, these same standards should be accepted by any other province or territory. This mutual recognition could be achieved unilaterally or as a group of provinces/territories.

It is important to note the difference between mutual recognition and harmonization. Mutual recognition refers to the reciprocal acceptance of the standards used in the affected jurisdictions, while harmonization of standards between the affected jurisdictions implies a common definition of both the policy objective and the technical requirements to achieve it.

Mutual recognition is preferred to the current process of identifying barriers through the Regulatory Reconciliation and Cooperation Table (RCT) and taking years to sign and implement a reconciliation agreement. We were pleased to see our recommendation on mutual recognition added as item 30 on the RCT Work Plan in 2021.

Canada's premiers reiterated their commitment to removing internal trade and labour mobility barriers at the most recent Council of the Federation meeting in July 2022. At this meeting, the Premiers directed the RCT "to accelerate work under way on developing a potential model for mutual recognition of regulations with a negative option list". We hope the RCT takes this direction seriously in the upcoming year with support from trade ministers across the country.

In July 2022, the Alberta government announced that it will explore mutual recognition of other provinces' regulations. The province commissioned the Macdonald-Laurier Institute to conduct an independent study on the potential of adopting mutual recognition policies to reduce interprovincial trade barriers.

The September 2022 study found that mutual recognition could increase Canada's economy by 4.4-7.9% over the long term, resulting in a significant gain in economic output of $110-$200 billion (or $2,900-$5,100 per capita) per year.

Internal Trade between Ontario and Quebec

We are preparing a special report on internal trade between Ontario and Quebec based on November 2022 CFIB survey data, including:

- 66% of Ontario small businesses agree that the Canadian economy benefits from a strong partnership between Quebec and Ontario; and
- 52% agree that reviewing the Trade and Cooperation Agreement between Quebec and Ontario represents an economic opportunity for the country.

The report will include additional data supporting our members' views on improving economic ties between the two provinces. In the meantime, we are asking the Ontario and Quebec governments to resume regular, bilateral talks at the Premier and Economic Development Minister levels to help identify and foster economic growth opportunities between the two provinces.

Removing domestic trade barriers is key to Ontario's economic recovery. A resounding 90% of Ontario small businesses agree that Canada's governments should prioritize removing as many barriers as possible to the flow of goods, services, and workers between provinces and territories.

Mutual recognition would be a great benefit to both Ontario businesses and consumers by increasing the choice of goods and services, reducing prices in a high inflation environment, generating new employment, and encouraging innovation.

Recommendations:

Recognizing that governments have agreed to explore mutual recognition and its reported benefits, which will take time and further discussion, we encourage the Ontario government to move quickly on these recommendations to remove internal trade barriers:

Allow direct-to-consumer shipment of alcohol products from other provinces and territories to Ontario: While Ontario allows people to bring in an unlimited amount of alcohol from other provinces/territories for personal consumption, Ontario consumers are not permitted to have alcohol from alcohol producers in other provinces and territories shipped directly to them. We recommend that Ontario work together with other governments or move unilaterally (like Manitoba) to remove this barrier. Three-quarters (75%) of small businesses in Ontario agree that Canadians should be allowed to order Canadian alcohol products (wine, beer, and craft spirits) directly from any province/territory.

Mutually recognize the workers' compensation registration practices of other provinces and territories: Every Workers' Compensation Board across the country has different rules that govern when a business needs to register for coverage. For businesses that perform work in multiple jurisdictions, the variance in rules presents a barrier to doing business by creating additional administrative burdens and potentially higher costs. Almost three-quarters (73%) of Ontario small businesses agree that registering for workers' compensation in one province/territory should permit workers to work in all provinces/territories.

Explore the removal of these seemingly unreasonable Ontario CFTA exceptions:

- Ontario reserves the right to restrict the category of persons eligible to issue marriage licences, including on the basis of residence, and to require that a person registered under the Act to solemnize marriage must be an Ontario resident or have a parish or pastoral charge in whole or in part in Ontario.
- Travel agents and travel wholesalers registered in Ontario may carry on business in Ontario only if their permanent place of business is in Ontario.
- Wineries must blend with a minimum of 25% Ontario grape content per bottle where a winery in Ontario sells wine manufactured from a blend of imported and domestic grape products.
- Real estate services must be supplied through a commercial presence in Ontario.
- A motor vehicle dealer must be registered and operate only from a place authorized in the dealer's registration that is located in Ontario.
- Only persons who have resided in Ontario for 12 consecutive months immediately preceding an application are eligible to seek a licence to harvest wild rice on Crown lands.
- To be eligible for a licence to deliver driver education and training programs in Ontario, including the Driver Certification Program, the School Bus Driver Improvement Course, and the

Beginner Driver Education Program, an applicant must own or lease premises in Ontario that serve as the driving school's office and classrooms.
- Only persons with an established place of business in Ontario are eligible to be licensed to sell livestock medicine in Ontario.
- Collection agencies must operate from a permanent place of business in Ontario.
- Measures that reinforce Ontario's alcohol monopoly.

Review and update the October 2009 Trade and Cooperation Agreement between Ontario and Quebec with a focus on increasing trade, labour mobility, and mutual recognition.

Energy

As noted earlier, fuel/energy is the top cost constraint Ontario small business owners face, and has been on a steady rise since the pandemic broke out and the province entered its first lockdown in March 2020. Fuel and energy costs held the top cost constraint spot throughout 2022 in our Business Barometer® index, with over two-thirds (70%) reporting challenges and the issue registering 13 points above its historic average in January 2023.

In a recent CFIB survey, 62% of small business owners said that their business energy costs overall (electricity, fuel, natural gas) had increased substantially – over 10% - during the past 12 months, despite the majority (60%) reporting that their energy consumption had stayed about the same. Additionally, 61% of small business owners said that they were unable to pass on any of their business's increased energy costs to their customers, indicating that many businesses may have exhausted their price elasticity over the past year.

The move to allow small businesses to select the electricity model that best suits their business remains a positive one. We urge the government to increase the threshold under the tiered rate system for small businesses, so that more can take advantage of this pricing option.

We are watching the government's pricing model pilot programs closely and look forward to the results and lessons learned to determine if they are scalable across the market for small business owners.

Electric Vehicles

Ontario's previous Long-Term Energy Plan (LTEP) forecasted little change in the energy supply, thanks largely to the belief that the electrification of the economy would increase. The LTEP outlook projects 2.4 million electric vehicles (EV)s on the road by 2035 – up from 7,000 as of June 2016.

As EV adoption increases for both personal and commercial use, of more immediate concern to the small business community is that the current LTEP supply projections account for 2.4 million EVs on the road, while its cost projections do not account for the cost to residents or businesses for charging these vehicles. This likely means that the LTEP cost projections are misleadingly low.

It is highly likely that a shift towards EV usage would also come with a behavioural shift in transportation and driving. While many government and industry officials are focused on creating a "gas station style" network for EV charging, it is expected that EV drivers will regard charging their cars the same way they charge their cell phones – at home overnight and at the workplace. It follows that as EV usage grows, the demand for access to electricity for charging EVs at the workplace will also increase (for both employees and customers), potentially driving up business electricity costs.

We remain concerned that these costs have still not been taken into account when forecasting provincial energy plans.

Furthermore, a substantial amount of money is transferred from the province to municipalities through gas tax revenue; government should study and plan for this revenue shortfall now to get a better understanding of the impact of electrification on the existing funding arrangement.

Recommendations:

- **Increase the existing small business year-round 750 kWh threshold for the tiered rate system to 3,000 kWh.**
- **Consult on and publish a new Long-Term Energy Plan (LTEP) that reflects the government's energy policy changes and their impact on the existing LTEP projections.**
- **Provide small business support for electric vehicle (EV) charging stations.**
- **Provide information on how the government intends to make up the revenue shortfall from gas tax revenues as EV adoption increases.**

Construction Mitigation

It is clear that infrastructure investment will be a major component of Ontario's economic recovery. While small business owners generally support infrastructure and transit upgrades, the impacts on local businesses during the actual construction phase can be devastating.

Most businesses along Toronto's Eglinton Crosstown LRT corridor will say that the construction over the past decade did more damage to the local business community than the pandemic. As municipalities and regions across Ontario look to improve transit, there is increasing concern amongst small business owners that construction disruption will become the norm in the province.

Almost half of Ontario businesses have been disrupted by construction projects over the past five years. Small businesses cannot afford to take another major hit, just as they are getting back on their feet.

With the government prepared to invest heavily in major infrastructure, we strongly urge the province to adopt comprehensive construction mitigation programs for all major projects to help the businesses disrupted by construction survive to see and benefit from project completions.

Recommendation: Include a comprehensive construction mitigation package as part of all significant provincial construction projects that cause major disruptions for extended periods of time to the regular operations of local business owners. The package should include the following components:

- **A direct compensation program that is easy to access and involves fair and timely monetary compensation.**

- **An improved contracting process that includes a bonus/penalty system for the early/late completion of the project.**
- **A comprehensive planning process that uses the "sign once" principle and spells out the phasing/timing of a project.**
- **A "no surprise" rule that includes significant consultation with the affected communities on expected timelines and disruptions to ensure no business is caught off guard during the construction period.**
- **A designated business liaison officer with managerial authority for the project to ensure the local business community is regularly canvassed and updated on the project's progress.**

Recycling

Resource Productivity and Recovery Authority/Blue Box Program

For the past two years, we have represented the recycling views of small business on the Resource Productivity and Recovery Authority (RPRA)'s Industry Advisory Council. As Ontario's recycling oversight and enforcement body that receives no government funding (i.e., a cost-recovery organization dependent solely on fees for revenue), our members expect us to make sure that RPRA is conducting its activities in an efficient, cost-effective, and regulatory burden-conscious manner.

We'll continue to urge RPRA to keep its contingency reserve at a reasonable level (i.e., below the allowed 50% of RPRA's annual operating budget, and no higher than the current 32%). Comparatively, the WSIB is required by law to return surplus funds to employers when it reaches a funding level of 125%.

If RPRA considers any fee or other increases, its Board should keep in mind that many small businesses aren't yet back on their feet, facing costly challenges like high inflation and skilled/unskilled labour shortages.

Inflation will likely continue to drive up the cost of doing business, declining incrementally over time to pre-pandemic levels. It remains high for Ontario at 6%, going down by only .4 % between November and December 2022.

The Ontario government should consider the impact of high inflation on small businesses by amending the Blue Box Regulation's exemption for small producers whose annual revenue from products and services is less than $2 million.

Federal Single-Use Plastics Ban

As of December 20, 2022, the federal government banned the manufacture and import for sale in Canada of single-use plastics including checkout bags, cutlery, foodservice ware, stir sticks, and most straws. The "sale" (includes distribution by retailers and restaurants) of these items will be banned as of December 20, 2023.

The manufacture and import for sale in Canada of single-use plastic ring carriers will be banned as of June 20, 2023. The "sale" of these ring carriers will be banned as of June 20, 2024.

Ontario's Blue Box Regulation should be changed to reflect these banned items, and the Ontario government should undertake education efforts, in tandem with the federal government, to ensure small business owners are aware of the new rules.

Recommendations:

- **Amend the Minister's Operating Agreement with RPRA to lower RPRA's maximum Reserve Fund ratio to annual operating costs.**
- **Tie the $2 million Blue Box de minimis exemption to inflation on an annual basis in the Blue Box Regulation (O. Reg. 391/21).**
- **Change the Blue Box Regulation to stipulate that any materials banned by the federal government must not be included as items for collection.**
- **In partnership with the federal government, educate small business owners on what the federal single-use plastics ban means for their business.**