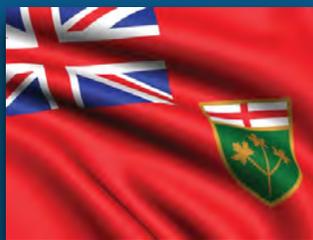


---

# ADVANTAGE ONTARIO

---



**JOBS &  
PROSPERITY**  
C O U N C I L

---

2 0 1 2

# **JOBS AND PROSPERITY COUNCIL MEMBERS**

**Gord Nixon (Chair)**

President and CEO, Royal Bank Canada

**Kevin Lynch (Vice Chair)**

Vice Chair, BMO Financial Group

**Bonnie Brooks**

President, Hudson's Bay Company

**George Cope**

President and CEO, BCE Inc. and Bell Canada

**Linda Hasenfratz**

CEO, Linamar Corporation

**Nitin Kawale**

President, Cisco Systems Canada Co.

**Genevieve Knauff**

Owner, gck Consulting Ltd. and hme Enterprises Ltd.

**Darryl Lake**

Founder and former CEO, Northern Centre for Advanced Technology Inc.

**Mike Lazaridis**

Founder and Vice Chair, Research In Motion Limited

**Michael McCain**

President and CEO, Maple Leaf Foods Inc.

**Joe Repovs**

Founder and CEO, Samco Machinery

**Reza Satchu**

Managing Partner, Alignvest Capital Management

**Jim Stanford**

Economist, Canadian Auto Workers

**Jeff Westeinde**

Chair, Windmill Development Group

# A LETTER TO ONTARIANS FROM THE JOBS AND PROSPERITY COUNCIL

We are living in an era of increased global competition and the continuing aftermath of the financial crisis and global recession. Economic globalization has at once undermined traditional strengths and presented new opportunities. Ontario has some important advantages when it comes to positioning itself to benefit from these economic shifts, but it also has some difficult challenges to overcome.

Ontario's Jobs and Prosperity Council was formed to provide advice on what actions are needed for the province to seize new opportunities. The Council consists of 14 experienced leaders from business, labour and other sectors. All of the members volunteered their time to contribute to a shared vision for action.

The ideas and approaches contained within this report took shape following numerous Council meetings, individual committee sessions and during the November 2012 Jobs and Prosperity Summit in Niagara-on-the-Lake. With our combined expertise and insights, we are confident that our recommendations will help equip Ontario to compete in the long term.

This is not a partisan report: it raises issues that all Ontarians need to address. One of the lessons of the global economic downturn is that, when it comes to steering our economy, leadership cannot come from government alone. We need to act with a sense of common purpose and shared responsibility if Ontario is to emerge more competitive, more productive and more prosperous in the global economy.

The recommendations are forward-looking, realistic and optimistic. They offer a vision for growth that includes more international trade, increased productivity, more innovation by Ontario businesses and a reinvigorated manufacturing sector — things that will lead to better jobs and a better standard of living for all Ontarians. The report, "Advantage Ontario," is available at [ontario.ca/economy](http://ontario.ca/economy) and we encourage you to read and discuss it. We will ask the government of the day to reconvene the Council in 12 months to review progress by government, business, academia and others and update Ontarians.

In addition to the Jobs and Prosperity Secretariat, we would like to thank the dozens of organizations and individuals who contributed their time and ideas to this report. The current climate requires a collective approach and this report reflects that sense of cooperation and urgency.

Working together, we can turn Ontario's core advantages into an enduring shared prosperity. At a time of global uncertainty, our calling card to the world is impressive: a sound political and legal environment; one of the best-educated, most diverse work forces in the world; a competitive tax system; and an attractive business climate. We have the building blocks for success, but if we fail to take action in a coordinated and strategic manner, we will lose ground and our prosperity will decline. We must do things differently; we must challenge the status quo and adapt to the changing global economy. It's time to take Advantage Ontario to the world.

Sincerely,



**Gord Nixon**  
*Chair*



**Kevin Lynch**  
*Vice Chair*

# TABLE OF CONTENTS

- Advantage Ontario: A Call to Action ..... 1**
- The status quo is not an option..... 1
- The table is set ..... 1
- The opportunities and challenges are clear..... 1
- The time to seize opportunities is now ..... 3
  
- Seizing Opportunities: Going Global ..... 4**
- Importance of targeting export growth opportunities..... 4
- Exports matter, and we’re not exporting enough..... 4
- Recommendations ..... 5
  
- Seizing Opportunities: Driving Productivity Growth ..... 7**
- Importance of being productive ..... 7
- Productivity and investment..... 7
- Role of public infrastructure..... 7
- Manufacturing ..... 8
- Moving our natural resource sector up the value chain ..... 9
- Recommendations ..... 9
  
- Seizing Opportunities: Unleashing Innovation and Entrepreneurship ..... 12**
- Expanding and connecting the innovation ecosystem..... 12
- More private sector investment in R&D is required ..... 12
- Patent and commercialization activity need to be accelerated..... 12
- Lack of risk capital..... 13
- Strengthening Ontario’s culture of entrepreneurship..... 13
- Recommendations ..... 14

**Seizing Opportunities: Capitalizing on Strength in Talent**..... 16

Our strong educational skills should be better aligned with evolving employer needs..... 16

In an aging Ontario, youth, immigrants and Aboriginals will be economic game-changers ..... 17

Recommendations ..... 17

**Seizing Opportunities: Delivering Smart, Efficient Government**..... 20

Targeted support for businesses and effective regulation promote growth .....20

The regulatory burden remains significant .....20

Delays in permit approval are taking a toll.....20

Transforming business supports .....20

Recommendations .....21

**Job Creator Tax Credit** ..... 23

Maintaining Momentum, Driving the Action Required .....24

Private sector .....24

Government.....25

Education sector .....25

Not-for-profit sector, labour and Aboriginal governments and organizations .....25

Updating Ontarians on progress .....25

**Appendix: Summary of Recommendations and Leadership Roles**..... 27

**Endnotes** ..... 31

# ADVANTAGE ONTARIO: A CALL TO ACTION

## The status quo is not an option

The world has changed. Emerging economies in Asia, South America and Africa are racing ahead, driving a new era of intense global competition. The Internet and information revolution have made the world smaller, entrenching globalization. Developed economies, still recovering from the worst financial crisis and global recession since the 1930s, are reinventing themselves to compete and win in the new global marketplace. Ontario is no exception – the status quo is not an option.

---

## *We must adapt to succeed or fall behind.*

---

The need for change is clear. Ontario's prosperity will depend on innovative, highly productive firms that are flexible enough to capitalize on opportunities wherever and whenever they emerge. Governments, labour, the not-for-profit sector, academia and the private sector need to rethink and realign their roles and actions to build a competitive, globally oriented economy.

The beneficiaries of change are also clear. The more productive, innovative, entrepreneurial and global Ontario's economy becomes, the more competitive we will be. Our renewed competitiveness will create new, better and sustainable jobs and afford Ontarians a higher standard of living.

## The table is set

Ontario's fundamental strengths make it an attractive place to do business. It is home to one of the world's most talented, diverse and highly skilled workforces, with a higher level of postsecondary credential attainment than any other jurisdiction in the Organisation of Economic Co-operation and Development (OECD).<sup>i</sup>

Barriers to business investment and growth are low. Ontario can lay claim to a globally competitive tax system. The marginal effective tax rate on new business investment has been cut in half, from just under 34 per cent in 2009 to approximately 16 per cent in 2013.<sup>ii</sup> The introduction of the Harmonized Sales Tax (HST), in combination with other recent tax reforms, has streamlined the tax system to support investment, exports and growth. In total, tax reductions are saving Ontario firms more than \$8 billion annually.<sup>iii</sup>

Ontario is home to the world's soundest banking system.<sup>iv</sup> Our country boasts public institutions that are second to none, bolstering business confidence and creating a stable environment for investment during a time of heightened global uncertainty.

One of Ontario's strengths is that it is the most diversified economy in Canada, with a strong mix of agriculture, resource, manufacturing, and service sectors, which provides great resilience to the ups and downs of economic changes.

Ontario also benefits from strong regional clusters including information and communications technology, advanced manufacturing clusters (such as automotive and aerospace), financial services and life sciences. Concentrations of talent, suppliers, mentors and competitors spur innovation and attract investment. Ontario has created world class innovation hubs – organizations like Communitech and MaRS – that bring together entrepreneurs, researchers and other key players. Ontario firms also receive substantial support for research and development (R&D) through a combination of federal and provincial tax incentives. Taken together, these measures support vibrant innovation ecosystems.

Ontario's fundamental are significant assets in a hyper competitive global economy. But talent is only valuable when it is productively deployed; a competitive tax system is only worth the investment it attracts; strong research capacity only creates wealth and jobs when it is commercialized; global opportunities only create jobs in Ontario when our firms take advantage of them. To get the most out of Ontario's strengths, they must be aligned with clear economic opportunities and priorities. Determining those priorities requires an analysis of Ontario's most promising opportunities and an honest assessment of the challenges we face in realizing them.

## The opportunities and challenges are clear

While the U.S. remains the world's largest and richest market, it is a mature and slower growing economy. At the same time, a new middle class is rapidly emerging in Asia, Latin America and Africa, increasing demand for high-quality goods and services. Ontario's highly diversified economy can capitalize on this rising demand in sectors such as agri-food, infrastructure, housing, life sciences, information communications technology and education, advanced manufacturing, financial and business services and tourism.

In a world where 50 per cent of global consumers will soon be in Asia and other dynamic emerging economies,<sup>vi</sup> these sectors have enormous export potential to serve new customers in new markets with new products and services. Rapid industrial expansion in the same regions is pushing up demand for natural resources and other commodities. Ontario's diverse, highly educated population and a strong business climate should enable its firms to seize these opportunities.

The Jobs and Prosperity Council believes that encouraging Ontario's tradable sectors to better seize these new global opportunities is crucial to our future prosperity. Our manufacturers can produce the products the world needs, our world-class services sector can meet the demand for financial and other professional services, and resources in the north offer exciting opportunities for growth.

So what should Ontario do to reap the benefits of these opportunities? The Jobs and Prosperity Council has identified five key areas to focus on in order to strengthen Ontario's economy and create good, sustainable jobs: export activity, productivity, innovation and entrepreneurship, skills and training, and regulation. Our objective is to take better advantage of Ontario's wealth of human and physical resources, including our know-how, our strong work ethic, our geography, our multicultural communities and our competitive tax system. We want to encourage Ontario firms to make the investments in innovation, capital and export markets to seize these new global opportunities.

Ontario has always been a trading economy. As the global balance of economic power shifts, however, Ontario firms must adapt to new market opportunities. Our traditional export markets, primarily the U.S., but also the U.K. and European Union, are facing a period of low growth and high uncertainty. Ontario needs to position itself to take advantage of rising demand in high-growth developing economies. There is little evidence that Ontario firms are adapting: 77 per cent of Ontario's exports go to the U.S., while only 1.4 per cent go to China and 0.3 per cent go to India.<sup>vii</sup> Entering new markets is always challenging; different cultures, market conditions, trade and regulatory barriers must be navigated. While the U.S. will continue to be our largest trade partner, Ontario firms need to focus on diversifying to rapidly growing emerging markets.

For many years our firms benefitted from a dollar that was substantially below parity and from proximity to a strong U.S. market. A rising dollar has impacted our cost advantage, U.S. growth has slowed and increasingly fierce competition from low-cost emerging economies – the same economies that our businesses need to develop stronger relationships with – has really changed the game.

The combination of slow U.S. growth and increased global competition means Ontario firms will have to compete based more on the inventiveness and quality of their products and services. How can we move from competing on cost for standardized goods and services to competing on innovation and

quality? The key is investment. Ontario firms invest much less than their competitors in key areas: machinery and equipment (including information and communication technology), and R&D and innovation.

Ontario firms have access to one of the most educated workforces in the world, but are not equipping their employees with leading-edge technology. We invest less than U.S. firms in machinery and equipment, a key factor in our productivity gap. Even when firms do invest in world-class technology, Ontario's workers often lack the skills needed to utilize this technology, a gap linked to both employers' under-investment in training and an education system that should focus more on skills training.

Investing in existing technologies is crucial to success, but Ontario will also need to go a step further and become a leader in developing the next generation of technologies. However, despite generous federal and provincial government support for R&D, private sector spending on R&D remains far too low. As a percentage of gross domestic product (GDP), U.S. firms invest nearly twice as much in R&D as Ontario firms.<sup>viii</sup> Other international comparisons are not much more flattering: Ontario business investment in R&D is 75 per cent of the OECD average.<sup>ix</sup> Ontario's innovation performance is also weakened by an underdeveloped risk capital market, which inhibits the growth of innovative young firms.

The productivity gap between Ontario business as a whole compared to the U.S. is surprisingly large, approximately 25 percent in recent years,<sup>x</sup> and exceedingly worrisome. While Ontario has a number of globally leading firms in many sectors, far too many firms in Ontario under-invest in productivity and innovation.

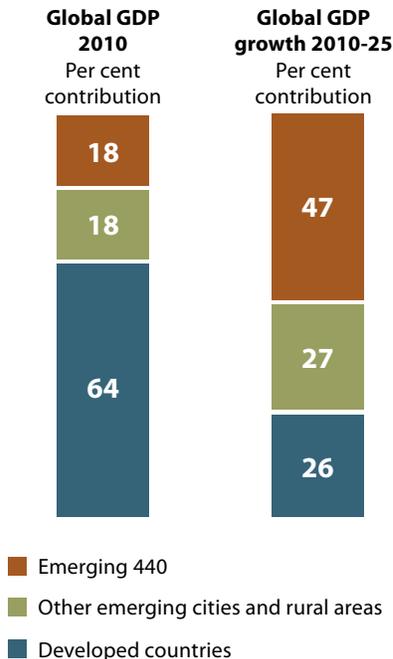
Manufacturing can play an anchor role in modern economies when it is knowledge – and capital – intensive. It is also an inherently tradable sector that creates spin-off benefits in other sectors of the economy. Manufacturers create products that can be sold around the world. Ontario's manufacturing sector has been through tough times in the past decade, but it has turned the corner. Output, exports and employment are all growing again. Ontario manufacturers can drive a new era of prosperity for Ontarians, but to realize it they will need to start investing and scaling up their operations and do so at a rapid pace. Ontario must also adapt to the changing nature of manufacturing. Competition is intensifying, and we must enhance our capacity to produce innovative, high value-added products that can be sold at premium prices.

# SEIZING OPPORTUNITIES: GOING GLOBAL

Increasing and diversifying exports is fundamental to the competitiveness and growth of Ontario firms, large and small. However, Ontario firms face obstacles in achieving global scale and in going global. Improved innovation, productivity performance and foreign market development are key drivers of export growth for large Ontario firms, whereas export capacity, management expertise and limited resources are primary challenges faced by small- and medium-sized firms.

## Importance of targeting export growth opportunities

Rapidly changing global trade flows have presented new opportunities and reduced traditional ones. Today, while developed economies struggle through a prolonged period of limited growth, emerging markets continue to race ahead. Analysis by McKinsey & Company indicates that almost half of global GDP growth in the coming years will come from urban areas in developing economies (see Figure 1). It is clear that Ontario must go global. But to compete and win in the global economy, we need a strategic approach that targets tradable sectors where Ontario has a strong base and where global demand is growing.

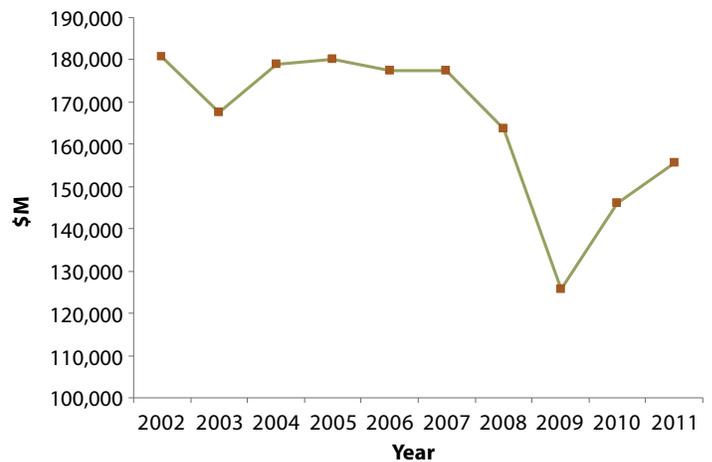


**Figure 1: Nearly Half of Global Growth Will Come from 440 Cities in Emerging Markets<sup>i</sup>**

*To compete and win in the global economy, we need a strategic approach that targets tradable sectors where Ontario has a strong base and where global demand is growing.*

## Exports matter, and we're not exporting enough

Firms that can sell their goods and services in foreign markets are typically more productive and more innovative than those that exclusively serve the domestic market. Why? Competition pushes exporters to develop truly cutting-edge products and adopt the best processes and technologies; Canada's small domestic market does not exert the same pressure. Ontario's recent export performance is cause for concern: stagnant even before the recession, the total value of Ontario's exports remains well below its pre-recession peak (see Figure 2 below):



**Figure 2: Total Value of Ontario Exports, 2002-2011<sup>ii</sup>**

Despite the importance of exporting, only a small fraction of Ontario's small- and medium-sized establishments export. Not only do too few Ontario firms export (only 6.4 per cent in 2008)<sup>iii</sup>, but the average value of their exports is also low. We need better and more robust data on the trade, productivity and innovation performance of Ontario companies to measure progress in these critical areas of modern competitiveness.

Ontario firms must seize the opportunities presented by emerging markets, especially in light of diminished prospects for the level of growth that we have been accustomed to in our traditional markets. Emerging markets, for example, present an opportunity for northern Ontario to benefit from the rising global demand for natural resources and unique tour-

Collective action and effort, and better alignment are required. It is not just the private sector that has work to do. Government needs to rethink how it supports Ontario's economy. Persistent deficits and growing public debt must be curtailed while still supporting essential investments in infrastructure and public services. Ontario's long-term competitiveness depends on getting its fiscal house in order, and the measures we propose should be fiscally neutral. However, deficit reduction alone will not put Ontario on the path to sustainable growth; it is necessary but not enough in today's profoundly changing world. Investment is also needed, along with a willingness to do things differently.

The regulatory burden on Ontario businesses is a significant impediment to growth, especially for small firms. Much of this regulatory burden should not be ascribed to high regulatory standards; rather, it is too often a consequence of an uncoordinated system that requires firms to navigate numerous regulatory bodies in multiple levels of government. While recent reforms have reduced the regulatory overhang, more work is needed to improve the efficiency of Ontario's regulatory system. The goal must be to protect the public interest while imposing the fewest possible barriers to investment and job creation.

Government business support programs should focus public dollars on enhancing productivity, innovation and exports, and do so efficiently. The current mix of programs does not. It is too fragmented, with too many competing objectives. Simply put, the current design is cumbersome, drives up administrative costs and complicates access for firms.

While unemployment rates remain high, many employers cite the dilemma of their inability to find skilled labour. Education and training programs should be better aligned to ensure that young Ontarians are getting the skills that employers really need, and that will lead to good, sustainable jobs. The aging of Ontario's population makes the successful integration of young Ontarians, new Ontarians and Aboriginal Ontarians – all of whom have above-average unemployment rates – into the labour market more important than ever.

### **The time to seize opportunities is now**

The Jobs and Prosperity Council's members come from a diverse array of sectors. Based on our experience, we believe

Ontario has what it takes to succeed on a global scale.

The challenges we have outlined are well known. This report details key actions that government, the private sector, labour and academia must take to address them.

The fundamentals are in place in Ontario, and the global marketplace offers greater opportunities than ever before. We must collectively focus our efforts on building upon Ontario's strengths in talent, innovation and entrepreneurial capacity while enhancing regulatory efficiency, matching education to labour market needs and developing new relationships with emerging economies. Improvement in these key areas is essential for creating a modern, prosperous Ontario economy.

---

### ***Ontario has what it takes to succeed on a global scale.***

---

Only an innovative, globally oriented economy will generate the growth and create the jobs we need to continue to invest in our communities and public services, and to raise living standards for current and future generations of Ontarians. At its core, our message to all Ontarians – businesses, community and labour leaders, governments and academics – is simple: now is the time to seize the opportunities.

ism destinations and experiences. But, on balance, there is little evidence that firms are fully capitalizing on these global opportunities. Ontario's exports continue to flow to traditional markets, primarily the U.S. (see Figure 3).

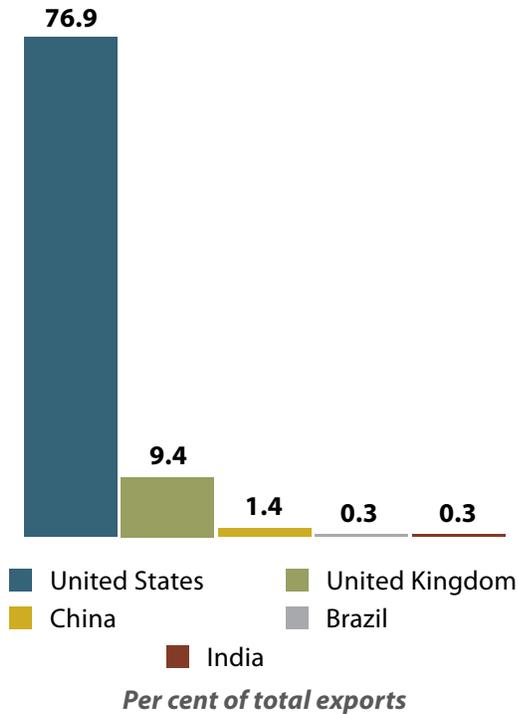


Figure 3: Ontario Exports of Goods to Select Markets, 2011<sup>iv</sup>

Ontario's export performance suggests that our firms' export capacity is under-utilized. Export capacity refers to the broad set of resources, skills, knowledge and relationships required to export successfully. Management expertise, training and know-how are drivers of export capacity. Owners, managers and employees need to recognize market opportunities, form and maintain relationships, and refine products and services to meet market needs and close deals.

Ontario firms must do more to leverage the diversity of Ontarians to tap into global market opportunities. Our workforce is multilingual and multicultural, giving us a natural advantage in creating networks and linkages around the globe, which should help Ontario firms export to non-traditional, emerging markets.

***Our workforce is multilingual and multicultural, giving us a natural advantage in creating networks and linkages around the globe.***

We must also focus our efforts where we will have the most results. Manufacturing represents 85 per cent of Ontario's overall exports of goods, while services now constitute a rising share of our total exports. For manufacturing to be a key source of new jobs and prosperity in Ontario, we need to focus on advanced manufacturing on a global scale. Manufacturing activity related to innovative, high value-added products supports higher incomes, and is less subject to competition from emerging markets.

**Recommendations**

**1** Ontario needs to both increase its overall export activity and to strategically target new markets in dynamic emerging economies.

Government, business, educational institutions, labour, financial institutions and other organizations must work together to develop concrete action plans to maximize opportunities and lay out what it will take to achieve them in key tradable sectors in the changing global economy. These include: agri-food, advanced manufacturing, tourism, health care, education, housing, infrastructure, financial services, natural resources, information communications technology and life sciences.

In the coming decades, growth will be more concentrated in emerging markets, and our economic success will depend substantially on capitalizing on those opportunities. The experience of other successful global jurisdictions indicates convincingly that we cannot assume successful, tradable sectors will automatically appear. We need deliberate, focused strategies to lay the groundwork for success in these key sectors.

The Council believes there should be a focus on export opportunities where Ontario has an inherent advantage and where global demand is rising. We have identified sectors where these new global opportunities currently exist: agri-food, advanced manufacturing, tourism, health care, education, housing, infrastructure, financial services, natural resources, information communications technology and life sciences.

We call on government to convene business, educational institutions, labour, financial institutions and others to develop concrete action plans for Ontario's key tradable sectors. These plans should map out specific sectoral opportunities, and what it will take to achieve them.

**2** Small and medium enterprises (SMEs) are a key source of growth and job creation in Ontario, and their growth opportunities increasingly lie in tradable sectors. Ontario needs to leverage, align and enhance public and private sector resources to improve the export capacity of SMEs:

- Create a one-window online portal for SMEs to access government export information and supports;
- Develop a series of large “reverse trade missions” focused on key emerging markets;
- Further integrate and link export assistance to SMEs, including co-location of federal, provincial and non-governmental organizations;
- Increase partnership programs, such as the Global Growth Fund, with key business organizations, including ethno-cultural business organizations, that help SMEs access and export to foreign markets, and implement international business strategies; and
- Successful exporters should mentor and share expertise with less experienced SMEs.

Small and medium enterprises (SMEs) face particular challenges in exporting as a result of limited resources. While export services and assistance for SMEs are already in place, the Council believes there is considerable scope to enhance export capacity and activity. The Ontario government should ensure that there is a simple, integrated online portal for SMEs to access government export information and support. The portal should also provide easy access to federal government and non-governmental export assistance organizations.

All levels of government should work seamlessly together to ensure that SMEs can access export information and support through many channels in an integrated and cohesive way. Government resources should be organized around the specific needs of firms at various stages of development (e.g., potential exporters, new exporters or experienced exporters seeking new markets). In addition to improving online resources, the co-location of organizations that provide export expertise and support would enable SMEs to get in-person support at a single location. The Ontario government should also increase partnership programs, such as the Global Growth Fund, that focus on export capacity to help Ontario SMEs access and expand growth in foreign markets, as well as develop and implement international business strategies.

In partnership with the private sector, the Ontario government should develop a series of large “reverse trade missions” focusing on the most promising global opportunities. Reverse trade missions transform what we are currently doing to build export capacity (e.g., market seminars, incoming buyers’ sessions and market studies) into bigger, integrated and high-impact events that are focused on emerging markets such as Brazil and involve partnership with the private sector, other levels of government and key economic organizations. While outward trade missions can at best accommodate dozens of firms at relatively high cost, reverse trade missions can engage literally thousands of Ontario firms, particularly SMEs, at much lower cost.

Ontario SMEs have a valuable but under-utilized asset in the Ontario Network of Excellence (ONE), which includes public-private-academic consortia like MaRS, Communitech and Invest Ottawa. The Council encourages Ontario SMEs to take advantage of this “soft innovation infrastructure” and leverage the resources and expertise that the ONE offers, such as mentorship and peer networking, to support the development of “born global” start-ups and accelerate their export growth.

The private sector has a mentoring role, sharing emerging market expertise to systematically broaden the knowledge base of Ontario firms with export potential. Private sector leaders should develop and strengthen SME export networks and provide mentorship to SMEs inexperienced in exporting to new markets.

Working together, the private sector, governments and academia can better leverage the many linkages Ontarians, especially recent immigrants to Ontario and international students, have to emerging markets. As described in the “Capitalizing on Strength in Talent” section of this report, we need to increase the number of spaces for international students at post-secondary institutions and expand programs to keep the most talented, entrepreneurial international students in Ontario after they graduate.

# SEIZING OPPORTUNITIES: DRIVING PRODUCTIVITY GROWTH

## Importance of being productive

Productivity measures how effectively we work – how much value we create for each hour on the job. It means working smarter, not harder. Productivity growth is the key to produce high-paying, sustainable jobs over the long term. It improves competitiveness and enables firms to successfully enter new markets and maintain their presence in existing ones.

Ontario's recent track record on productivity leaves much to be desired. From 2001 to 2010, private sector labour productivity growth in Ontario averaged only 0.5 per cent annually.<sup>i</sup> As a result, Ontario's productivity gap with key U.S. competitors has increased from approximately \$6 of GDP/hour in 2001 to approximately \$11 of GDP/hour in 2010.<sup>ii</sup> To compete and win in the global economy, Ontario must improve its productivity performance and catch up with key competitors. To do so, we must focus on using advanced processes to produce more innovative, higher value-added goods and services in all sectors of our economy.

## Productivity and investment

Many factors impact productivity, from the mix of sectors that make up the economy to public services like education, health care and infrastructure. The most important factors are capital investment, particularly investment in technology (e.g., machinery, computer hardware and software), investments in R&D and innovation, and investments in talent.

Ontario firms have long invested less in machinery and equipment (M&E) than U.S. ones. M&E includes many types of capital investments. In 2011, the gap (on a per-employee basis) rose to 38 per cent.<sup>iii</sup> The gap in M&E investment is a core driver of Ontario's overall productivity gap with the U.S., and it is undermining our competitiveness.

In recent years, the Ontario government has taken significant measures to encourage more capital investment. The tax burden (i.e., marginal effective tax rate) on new investment has been cut in half through a combination of measures: cuts to federal and provincial Corporate Income Tax rates, introduction of the HST and elimination of the Capital Tax.<sup>iv</sup> However, global competition for business investment is intense, and Ontario policy-makers must continue to monitor competitiveness levers that drive investment decisions.

Ontario firms now have an opportunity to seize new markets, but they will have to invest to get there. The stronger dollar makes the purchase of M&E more affordable. The Council believes business should now seize this opportunity and invest in M&E to improve productivity and enhance competitiveness.

## Role of public infrastructure

Investments in public infrastructure (including transportation, public transit and utilities) create both short- and long-term economic benefits. Building infrastructure creates jobs in the short term and boosts productivity performance in the long run. Analysis by the Conference Board of Canada demonstrates that as much as one-quarter of Ontario's recent labour productivity growth could be attributed to improved infrastructure.<sup>v</sup>

However, more work needs to be done, especially with regard to transportation infrastructure, as highlighted in a recent report by the Toronto Board of Trade. Its analysis indicates that traffic congestion in the Toronto region alone cost the economy \$6 billion in 2006 and that the cost would rise to \$15 billion in 2031 if strong action is not taken.<sup>vi</sup> Delays at the U.S. border also have a significant impact on the movement of goods and people.

Such gaps in economic infrastructure are major impediments to future growth and must be addressed. Opportunities exist to fill these gaps with innovative, "smart" infrastructure and to export the expertise and technology that is developed in building it. However, addressing our infrastructure gaps will be expensive and, in a period of constrained government finances, will require new revenue sources and new approaches to achieving what is clearly in Ontario's collective interest.

A number of Council members believe that Infrastructure Ontario, the Province's dedicated infrastructure agency, represents a refreshing and different approach to building partnerships and pursuing commercial transactions with the private sector that are in the public interest. Opportunities exist to leverage Infrastructure Ontario's expertise and experience globally.

### 2015 Pan/Parapan American Games

Over \$700 million is being invested in Ontario's sport and recreation infrastructure and legacy through the 2015 Pan/Parapan American Games. These Games are also being supported by some major projects already underway — the revitalization of Union Station and the creation of the Union-Pearson Air Rail Link that will create a lasting economic benefit for Ontarians. Other infrastructure, including the Athletes' Village and major Games venue projects, are being delivered using Alternative Financing and Procurement and are being built to LEED Silver standard or better.

### Manufacturing

Manufacturing has long been a pillar of Ontario's economic strength. Due to its strong linkages to other sectors, there are actually more jobs outside of manufacturing that depend on a vibrant and healthy manufacturing sector than in manufacturing itself. Manufacturing is also crucial to export performance, accounting for almost 85 per cent of Ontario's international exports of goods last year.<sup>vii</sup> When manufacturing grows, the entire economy benefits.

Ontario's manufacturing sector endured difficult years over the last decade, grappling with multiple challenges including a dramatic restructuring in the North American automotive industry, a global recession and a sluggish recovery in our major export market, and a dollar that was substantially lower than the U.S. dollar for a long period of time and has now moved to parity. Since the recession, however, more than half of manufacturing sales have been regained, and firms are starting to hire.<sup>viii</sup>

The Jobs and Prosperity Council strongly believes that a globally competitive manufacturing sector is a key part of a diversified Ontario economy and a source of good, sustainable jobs and provincial prosperity. Modern, world-class manufacturing facilities embody the latest in technology and innovation and skilled labour. But to seize that opportunity, manufacturers need to address many of the same productivity challenges facing Ontario's overall economy.

In mature economies the manufacturing sector becomes more important for attributes such as its ability to drive productivity growth, innovation, and trade – all of which determine national competitiveness.

– McKinsey Global Institute, *Manufacturing the future: The next era of global growth and innovation*

Many Ontario manufacturers under-invest in productivity-enhancing M&E relative to their peers in the other G7 countries. A significant gap in new capital expenditures has persisted since 2005. In 2010, these expenditures totaled almost \$11,000 per employee in the U.S., compared to approximately \$8,500 in Ontario.<sup>ix</sup> By 2011, annual total investment in (non-residential) fixed assets was over \$16,000 per employee in the U.S., compared to just over \$9,000 in Ontario (see Figure 4).

Ontario manufacturers and their workers are at a significant productivity disadvantage; they are not competing with the same quality of machinery, hardware or software as their competitors. This investment gap must be addressed if Ontario's manufacturing sector is to once again become a global leader.

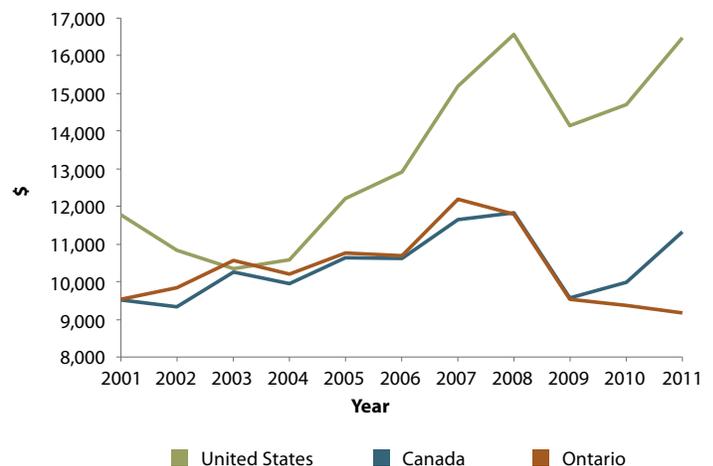


Figure 4: Investment in Non-Residential Fixed Assets per Employee in the Manufacturing Sector, 2001-2011<sup>x</sup>

### Centre for Spatial Economics Analysis

One analysis of the impact of an additional \$1 billion dollars of investment in M&E in Ontario by 2016, conducted by The Centre for Spatial Economics, illustrates the "multiplier effects" of investment in the manufacturing sector.

Although the specific results are dependent on the simulations assumptions – in this case, how the investments are financed and where demand comes from – they are indicative of the value of investment to the manufacturing sector and the Ontario economy in general.

- Total manufacturing exports could increase by \$5.4 billion
- Manufacturing sector GDP could increase by \$2.4 billion
- Manufacturing employment could increase by 20,000
- Ontario's overall GDP could increase by \$5.1 billion
- Over 10,000 new jobs could be created in other sectors

One important aspect of the productivity challenge in Ontario manufacturing is scale. Producing a sufficient volume of goods is required to justify and finance investment in expensive, world-class technology, and this underscores the need to tap into new global markets. For a number of products, large plants are much more productive. For example, a study of food processors showed that large plants add five times as much value per employee as small ones.<sup>xi</sup> Ontario plants tend to be much smaller than those of their U.S. competitors, making them less productive and competitive.<sup>xii</sup> It is time for Ontario manufacturers to invest and scale up.

### Moving our natural resource sector up the value chain

Given the rising global demand for natural resources, tremendous opportunities exist in mining and forestry. Northern Ontario has long been a rich source of natural resources that have served the Ontario economy well, and rising global demand and prices mean that new reserves in the Ring of Fire area and elsewhere are very promising. To fully capitalize on these opportunities, northern Ontario's natural resource sector should focus on supplying higher value-added products and services to global markets.

#### The Ring of Fire

**Northern Ontario's Ring of Fire is a world class mineral find that has been called the most promising mining opportunity in Canada in over a century. Located in Ontario's Far North, current estimates suggest multi-generational potential of chromite production, as well as significant production of nickel, copper and platinum will draw an initial capital investment of \$4 billion. Opportunities abound for Northern Ontario through industrial development, direct and indirect employment exceeding 5000 jobs/year, broadening our global reach through sought-after natural resources, improving social and regional infrastructure in First Nations while contributing to the overall productivity of the province through higher value-added products and services.**

The federal and provincial governments have launched initiatives that encourage investments in projects that support economic development and business growth in northern Ontario. But, to fully reap the potential benefits for all, we need to advance through the value chain from the purely extractive to higher value-added, more productive processing activities while leveraging Ontario's advantages, such as a diverse, talented and highly skilled workforce, a strong research capacity and a competitive tax system.

## Recommendations

**3 The Council recognizes the critical importance of the manufacturing sector to Ontario. We call upon the federal and provincial governments to work with stakeholders to develop a manufacturing strategy that will increase productivity and innovation and support increased scale, improved competitiveness and greater exports. The strategy should include:**

- A call to the federal government, as part of its next budget, to increase the existing accelerated capital cost allowance rate to 100 per cent for a limited time to incent substantial incremental investment in manufacturing machinery and equipment. Ontario would automatically parallel the federal rate. Contingent upon sufficient business uptake, the government should consider making the current 50 per cent rate permanent.
- A plan to expand opportunities for Ontario manufacturers in the growing natural resources and energy sectors in Western Canada. Ontario firms have complementary skills to offer, and should view this more as a growth opportunity, beneficial to both economies.
- Measures to align education and training programs, including experiential learning, with the skills manufacturers need for the markets of today and tomorrow.
- Improved connections between manufacturers and research institutions to solve problems specific to the manufacturing sector through, for example, more applied research collaborations.
- A communications strategy that informs the public about the importance of Ontario's manufacturing sector, the global opportunities open to it, and what it will take to be competitive in the changing global economy.

All levels of government need to recognize the economic significance of manufacturing. Manufacturing is an essential part of Ontario's – and Canada's – sustained competitiveness and prosperity. Ontario's manufacturing sector has weathered tough times and turned the corner. The sector is now growing its output, exports and employment, and has significant potential to make a positive contribution to Ontario's overall growth and prosperity – and we need to communicate that clearly.

The federal and Ontario governments need to jointly develop a manufacturing strategy in collaboration with the private sector,

labour, universities and colleges and other stakeholders. It should build on the partnership-based approach articulated by bodies like the Ontario Manufacturing Council.

Global trends are dramatically changing the manufacturing landscape; Ontario's manufacturing strategy needs to be based on detailed analysis of the risks and opportunities associated with these trends. It should focus on enabling Ontario's manufacturers to scale up and continuously invest in world-class technology. These two critical factors go hand-in-hand: only with the best technology can Ontario manufacturers compete on a global scale, and global scale is required to make the business case for investing in world-class technology.

A central feature of the strategy should be the implementation of a 100 per cent accelerated capital cost allowance to stimulate investment in manufacturing and processing M&E. This would enable firms to write off qualified investments in a single year and would be focused on the manufacturing sector, where these investments are most critical to innovation, competitiveness and export activity. It would directly improve the business case for investing in the new machinery needed to attain better scale, productivity and quality. A time-limited 100 per cent accelerated capital cost allowance would send a powerful message to manufacturers – invest now and invest right here in Ontario. To provide time for business uptake, the 100 per cent rate should be in place for a sufficient amount of time, for example, for three years after implementation. The integrated Ontario-federal tax collection agreement means that the federal government would have to introduce this measure, which would then be automatically paralleled by the Province.

The manufacturing sector would benefit from better alignment with postsecondary institutions to meet its training needs. Partnerships among colleges, the aerospace sector and the tooling industry are examples of how training can be successfully connected with the needs of Ontario manufacturers. In addition, manufacturers need to create more opportunities for co-ops and other workplace-based education for students in Ontario.

Similarly, for research, closer cooperation between manufacturers and postsecondary and other public research facilities could focus expertise on solving the problems that manufacturers face.

Great opportunities for Ontario's products and services also exist at home in Canada. Ontario businesses should target and pursue opportunities in major resource development projects in Western Canada. Government should continue to work with business to advance these opportunities and promote Ontario's sector strengths such as innovative clean technology and water remediation capabilities.

The goal for the manufacturing strategy should be greater competitiveness through much strengthened productivity, innovation performance, and expanded market access.

**4 The Council believes that modern infrastructure, particularly in transportation, can form part of Ontario's competitive advantage. We need new approaches that engage public and private sources of capital and new revenue models if we are to build the leading edge infrastructure that we need now and in the future.**

Strong infrastructure is an important enabler of productivity and competitiveness, and Ontario must continue to reduce its infrastructure gap. The government's long-term infrastructure plan, *Building Together*, commits to doing just that. In 2012, the Province will invest \$13 billion in Ontario infrastructure. In the current fiscal circumstances, however, a number of Council members believe it is unrealistic to think that we can continue to fund all of our infrastructure needs through government funding and in the time frame that they can best contribute to competitiveness and growth.

We must look at innovative strategies to tap into other public and private sources of capital and the possibility of other revenue-generating models, including user-pay approaches. There is also a need for all three levels of government to work together to ensure that infrastructure dollars are invested in the most important projects and to improve asset management planning.

If we build next generation infrastructure in Ontario, the expertise and technology we develop can be exported around the world. Ontario manufacturers and service providers can achieve greater prominence globally for their ability to plan and build the modern infrastructure needed in rapidly growing cities in Asia and across the developing world.

**5** The Council believes that Ontario needs a comprehensive plan for developing the Ring of Fire and other natural resources in northern Ontario.

**We recommend establishing a panel of distinguished Ontarians to develop a playbook for realizing our northern resource potential and report back within one year.**

The challenge for northern Ontario is not so different from the challenge for all of Ontario: adapting to an ever-changing, increasingly global economy. But its opportunities are different they relate to our natural resource assets in the Ring of Fire and elsewhere, and how to take them to global markets. Determining an economic playbook for northern Ontario will require input and guidance from business, governments, Aboriginal and other community leaders across Ontario. We need to think big.

The Council recommends that the provincial government strike a panel comprising, say, five leaders from across the province. The panel should report back in a year on how to stimulate growth and create sustainable jobs in northern Ontario by tapping into our natural resource potential. As described in the Canadian International Council's *The 9 Habits of Highly Effective Resource Economies: Lessons for Canada*, fully realizing this potential will require us to actively add, extract or build value on our resource base.<sup>xiii</sup> The work of the panel should take into account the Province's Growth Plan for Northern Ontario and the lessons from the Canadian International Council's report. Its recommendations should aim to enhance prosperity for future generations.

# SEIZING OPPORTUNITIES: UNLEASHING INNOVATION AND ENTREPRENEURSHIP

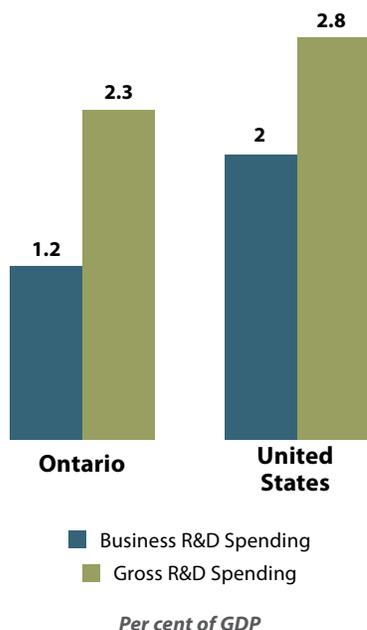
## Expanding and connecting the innovation ecosystem

Ontarians and their government have recognized the fundamental economic importance of entrepreneurship and innovation: we benefit from strong research institutions, innovative clusters and a set of targeted incentives and supports to promote entrepreneurialism and innovation. Yet, we have seen that Ontario businesses lag behind many of their competitors when it comes to investing in R&D, they file fewer patents than their competitors and they focus less on innovation.

While many factors influence these outcomes, we have focused on limited industry-academic collaboration, the scarcity of risk capital and the lack of an entrenched culture of entrepreneurship.

## More private sector investment in R&D is required

Ontario should be a leader in R&D. Our university research capabilities are strong: postsecondary education expenditure on R&D (as a proportion of GDP) is first in the G7.<sup>i</sup> And yet, our business sector's innovation performance is relatively weak, investing less in R&D than U.S. firms despite generous tax incentives.<sup>ii</sup> As a result, Ontario's gross expenditures on R&D remain well below U.S. levels (see Figure 5).



**Figure 5: Ontario Firms Spend Less on R&D, Driving an Overall R&D Gap<sup>iii</sup>**

## Patent and commercialization activity needs to be accelerated

The lack of R&D investment is manifested in a significant patent gap with North American peers, who produced 48 per cent more U.S. patents than Ontario firms on a per-employee basis from 2006 to 2010.<sup>iv</sup> Patents are the result of successful, novel R&D, and the number of patents granted (usually measured per capita or per employee) is an important indicator of a jurisdiction's innovation capacity.<sup>v</sup>

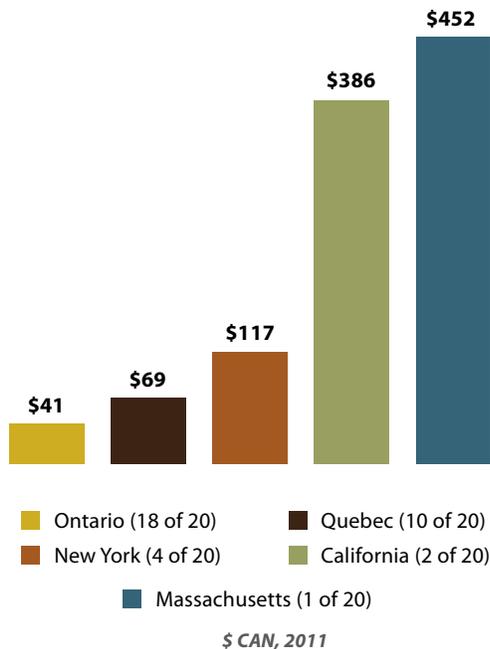
Factors other than R&D spending impact patent activity as well. Ontario's postsecondary institutions are leaders in producing high-quality scientific research papers (Ontario accounts for almost half of Canadian research output),<sup>vi</sup> but studies show only a small percentage of firms collaborate with public research organizations,<sup>vii</sup> potentially limiting commercialization activity. Further, Ontario's approach to industry-academic collaboration tends to be driven by researchers rather than by private sector identification of market opportunities, and is not focused on commercialization. By shifting the nature of this collaboration so that businesses play a larger role in identifying applied research opportunities at academic institutions, Ontario's economy would benefit from enhanced commercialization and innovation outcomes.

In general, Ontario businesses need to accelerate the development, production and commercialization of best-in-class products and services. Stronger linkages with research institutions will help in the earlier stages, but there is also a need to address gaps in venues for the demonstration of market-ready products. Many jurisdictions leverage public sector procurement to push the development of innovative products, particularly in dynamic growing companies. These types of strategic procurement policies and initiatives enable public sector buyers to become valuable reference clients for innovators, which can lead to accelerated growth plus a source of financing and this permits access to other sources and a boost in sales domestically and abroad.

**Lack of risk capital**

Young, innovative firms often have trouble accessing traditional sources of capital because these firms are taking significant risks on new technology, processes or markets. The availability of a broad range of risk capital, including angel funding and venture capital, is essential to the birth and growth of innovative Ontario firms. Talented entrepreneurs with new ideas may be lured to other countries or competing jurisdictions with stronger risk capital markets.

In a comparison of the top 20 North American jurisdictions for venture capital investment in 2011, Ontario ranked 18th on a per capita basis (see Figure 6). While Ontario appears to be improving, more needs to be done to expand sources of venture capital.



**Figure 6: Venture Capital Investment per Capita**<sup>viii</sup>

The quality of risk capital is as important as the quantity. High-growth innovative firms need a venture capital sector with a depth of expertise and knowledge that can provide advice on a range of business and market issues. Ontario’s venture capital sector needs to focus on attracting investors with such experience and a track record of success.

Strengthening Ontario’s culture of entrepreneurship. An entrepreneurial culture is essential for a globally competitive, innovation-based economy. By building new businesses, entrepreneurs create jobs and push established firms to new levels. However, Ontario lags behind leading Canadian jurisdictions. British Columbians, for example, were 20 per cent more likely to start a new business with at least one employee in 2011 than Ontarians were.<sup>ix</sup> Ontarians have actually been the most reluctant Canadians to launch new enterprises since the recession.<sup>x</sup>

To address this, we must focus on developing an entrepreneurial mindset beginning at an early age, raising Ontario youth’s awareness of the benefits of entrepreneurship

An entrepreneurial culture not only encourages the creation of new firms; it also supports the development of those start-ups into high-growth companies and, ultimately, multinational success stories. Entrepreneurs rely on “soft infrastructure” – communities of thinkers, researchers, entrepreneurs and investors – to grow. In this respect, Ontario should be a great place to start an innovative business. It is home to established, successful clusters like the life sciences cluster in Toronto and the information and communication technology clusters in the Greater Toronto Area, Kitchener-Waterloo and Ottawa<sup>xi</sup>, as well as to public-private-academic consortia such as MaRS, Communitech and Invest Ottawa. However, more could be done to enhance these clusters.

Entrepreneurs in Ontario also benefit from a successful pan-provincial regional entrepreneurship network – the Ontario Network of Excellence, Small Business Enterprise Centres and Business Advisory Services – which assists entrepreneurs and cultivates the growth of young innovative businesses.

Ontario also needs to focus more on a new wave of “social” entrepreneurs who are finding ways to apply novel approaches to solving social and environmental problems. The social innovation and social enterprise sector is undergoing rapid growth and is seen as a new way of doing business.

## Recommendations

**6** We need to accelerate the commercialization of new products, ideas and services in Ontario that can compete globally by:

- Working in partnership with the federal government and the private sector to create a venture capital initiative to improve the quality and levels of risk capital funding in Ontario;
- Introducing a business-led commercialization voucher to better link research to business needs;
- Enhancing the collaboration between research institutions and the Ontario Network of Excellence (ONE) to meet the research needs of business and to improve the commercialization of the work of faculty and students;
- Rigorously reviewing the results of commercialization programs to ensure strategic outcomes are met while continuing to explore other measures that could increase the risk capital pool; and
- Examining modifications to security and investment rules to facilitate crowd-funding and access to capital for new and emerging ventures, while still providing appropriate protection to investors.

In light of the recent announcement of \$400 million in federal funds to support venture capital, the Jobs and Prosperity Council recommends that the provincial and federal governments work together to consolidate their risk capital resources and align their strategies to create larger venture capital funds with the needed expertise. Success will require co-investment by institutional investors and the private sector. Achieving scale is important in attracting talented management with domain expertise. Fund managers should also co-invest in the fund to align incentives and maximize the potential positive impact for Ontario.

High-quality risk capital is imperative for creating high-growth firms and driving the province's innovation ecosystem. The provincial government should explore other measures to promote investment in risk capital, such as an angel tax credit or other investor program, with a specific focus on assisting export-oriented growth companies. As a start, the provincial government should examine modifying its security and investment rules with the objective to eliminate barriers to crowd-funding and access to capital for new and emerging ventures, while still providing appropriate protection to investors.

To translate Ontario's research strength into stronger patent and commercialization activity, the provincial government should create a business-led commercialization voucher, which would facilitate businesses approaching a public research institution to solve a specific problem. A business-led voucher would support firms in working with public research institutions to develop customer-focused innovations. To promote export growth, the voucher could be targeted to export-oriented companies in tradable sectors. Federal resources and programs (such as the Industrial Research Assistance Program) should be leveraged in order to maximize the voucher effectiveness and impact.

The Ontario government needs to ensure that collaborative research funding (specifically within the ONE) is industry driven, and better aligned with the research and innovation needs of more sectors and regional clusters with the greatest potential for growth. Technology transfer components of research institutions should expand and place greater emphasis on commercialization (i.e., the mobilization of knowledge to the private sector). At the same time, research institutions need to better utilize resources available within the ONE to support entrepreneurship activities and spin-off companies launched by students and faculty members.

There must be a more rigorous capacity to track the success of our commercialization programs and initiatives in Ontario. This should include regular review of outcome effectiveness and performance measurement and benchmarking.

**7** The Council believes that public-sector procurement can be better mobilized to support innovation and the growth of firms that are producing new and innovative tradable goods and services.

The government of Ontario should implement a strategic procurement policy to accelerate the growth of firms producing innovative goods and services in tradable sectors.

Many jurisdictions catalyze the growth of innovative firms by leveraging public sector procurement. The Small Business Innovation Research initiative in the U.S is a well-known and successful example of such an approach. Other examples can be found from Israel to Scandinavian countries.

The Ontario government and broader public sector should transform their procurement policies and practices to support innovation in Ontario's private sector. The public sector could use its buying power to drive economic benefit and increase public sector productivity. A procurement policy framework that encourages public sector buyers to purchase innovative goods and services could accelerate the growth of innovative firms and the modernization of public services. Firms selling to the public sector could demonstrate the value of their products and then use the public sector buyer as a reference client to promote sales in domestic and international markets and catalyze financing. The new policy framework would operate within Ontario's trade obligations.

**8 We need a stronger culture of entrepreneurship in Ontario. The education sector and the private sector should work together to introduce youth to entrepreneurship as a viable career option by:**

- **Creating entrepreneurship high schools;**
- **Building an entrepreneurship focus in the Specialist High Skills Major program curricula in Ontario;**
- **Providing all teachers and guidance counsellors with an entrepreneur "toolkit" to assist youth in their entrepreneurial ideas and aspirations; and**
- **Including an entrepreneurship section in the Grade 10 Career Studies course.**

While Ontario is home to many successful entrepreneurs, it lacks a pervasive entrepreneurial culture. There are a number of successful programs that promote entrepreneurialism to students that can be expanded and better linked to develop a new generation of entrepreneurs.

The Council recommends the creation of entrepreneurship high schools with curricula analogous to sports- or arts-focused high schools. We also believe that an entrepreneurship section should be included in the mandatory Grade 10 Career Studies course, and an entrepreneurship focus should be built into the curricula of the Specialist High Skills Major program in the secondary school system.

All teachers and guidance counselors in the secondary school system should have access to and actively promote an entrepreneur "toolkit" for youth. This toolkit would give a basic overview of how to start a business and would refer youth to successful private sector entrepreneur initiatives, such as Junior Achievement, Shad Valley and Youth in Motion.

Existing regional programs and infrastructure within the ONE should be utilized to connect the secondary school system with entrepreneurs and innovators, and to act as a link to private sector programs for youth.

The Council believes that the private sector has an integral role in creating this cultural change. Youth need opportunities to learn entrepreneurship skills directly from entrepreneurs. The education sector cannot do this alone – we need the experience and participation of private sector leaders and mentors to make this happen.

# SEIZING OPPORTUNITIES: CAPITALIZING ON STRENGTH IN TALENT

## Our strong educational skills should be better aligned with evolving employer needs

In a modern, knowledge-based economy, educational attainment is essential to productivity growth and prosperity; it is a core part of today's wealth of nations.

Ontario's greatest strength is its people. The province has one of the most educated and diverse workforces in the world: it leads the OECD in educational attainment, with 64 per cent of the adult population holding postsecondary credentials.<sup>i</sup> In a demographically challenged world, this is a real asset.

Ontario has a world-class education system, from primary school to postsecondary. Our students achieve high results in reading ability, mathematics and science,<sup>ii</sup> and nine of Ontario's 20 publicly funded universities are ranked among the top 350 in the world.<sup>iii</sup> Our talent advantage is meaningful; a global survey of CEOs by McKinsey & Company indicates that finding talent is the key challenge moving forward.

However, despite our high-performing education system and talented population, a number of sectors have identified challenges recruiting workers with specific skill sets and experience. Many firms identify a shortage of workers in the skilled trades, for example. As described in a recent report by CIBC, this shortage is limiting employment growth – the jobs are there, but the skills are not (see Figure 7).

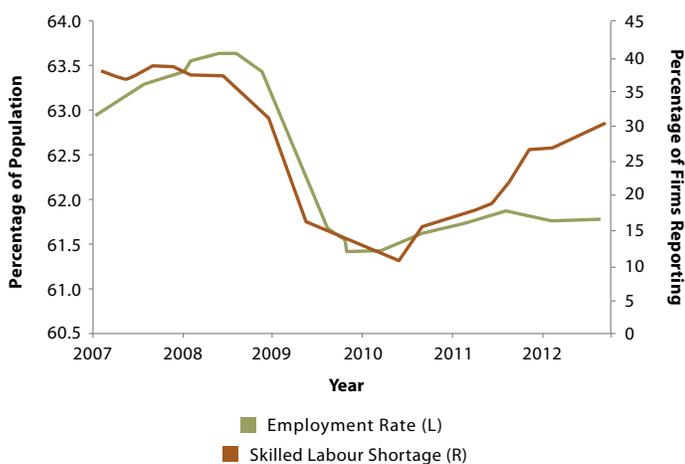
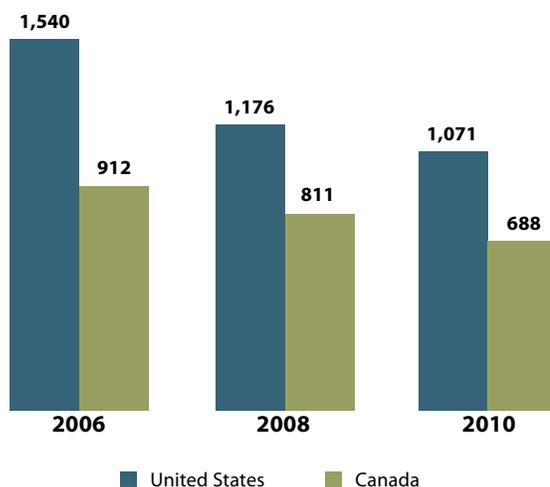


Figure 7: Skills Shortage Limits Employment Growth<sup>iv</sup>

A number of factors contribute to this shortage. Parents and students do not appreciate the benefits of trade and apprenticeship relative to other Ontario postsecondary education credentials. As a result, too few young Ontarians pursue the skilled trades as a career; only half of those that select apprenticeship will actually complete the training and receive a certificate of qualification.<sup>v</sup>

Various models exist at the local level to help identify and solve labour market gaps by engaging local employers and industry. For example, the Halton Industry Education Council leverages private sector expertise to help solve regional gaps in skills development and ease the transition from school to the workforce. These local, industry-led partnership models (e.g., local Business-Education Councils) have been successful, but would benefit from being better linked and coordinated with the Provincial Partnership Council. Ontario needs a strategic approach to partnering with employers and industry leaders.

Workplace training and lifelong learning are also critical in today's knowledge-based economy; they help employees adapt to evolving market needs and increase a firm's ability to be globally competitive. However, Canadian employers underinvest in workplace training compared to their U.S. competitors. In 2010, Canadian employers invested only \$688 per employee in learning and development, compared to \$1,071 per employee in the U.S. (see Figure 8).<sup>vi</sup> Investment in training by Ontario employers has also lagged behind other provinces in recent years, particularly Quebec, Alberta and British Columbia.<sup>vii</sup>



Direct Learning Expenditure per Employee, \$ CAN, 2006-10

Figure 8: Canadian Employers Invest Less in Learning<sup>viii</sup>

Government employment and training support programs contribute to the development of a modern, skilled workforce. To better prepare Ontarians to meet the challenges of globalization and rapid technological change, government employment and training supports need to be better aligned to changing labour market needs.

### **In an aging Ontario, youth, immigrants and Aboriginals will be economic game-changers**

As Ontario ages, the millennial generation, Aboriginals and immigrants will all play distinct and critical roles in shaping our economic future. Each of these three segments of the population present unique challenges and opportunities moving forward.

Ontario must increase productivity growth and raise living standards despite the looming challenges of an aging population and the baby boomer generation contemplating retirement. The Ontario Ministry of Finance predicts that by 2026, when the majority of the baby boomer generation will be retired, the share of Ontario seniors (aged 65 and over) will increase from 14.6 per cent to more than 20 per cent. Our success in bringing the millennial generation, newcomers and our Aboriginal population into the labour force, as well as our approach to the retirement of baby boomers will significantly impact the shape of Ontario's future economy. The province must capitalize on its talent in order to mitigate the consequences of our demographics. Ontario's youth have historically experienced higher rates of unemployment compared to the rest of the workforce. The private sector can help ensure that young Ontarians choose their education and career paths with better information about the choices available. Internships, experiential learning and co-op programs can provide hands-on experience and a crucial first link with the working world.

Ontario's Aboriginal population is young and growing quickly, representing an important talent pool across the province and especially in northern Ontario. However, Aboriginal Ontarians face persistent, systemic barriers that are preventing full participation in the labour force – an issue that must be addressed. It is in both the public and private sector's interest that we address these challenges.

Ontario's need for skilled workers is not unique; most developed nations are experiencing similar demographic trends. The aging of populations has created intense global competition for increasingly mobile talent. Eliminating barriers to immigration, settlement and labour market integration will improve Ontario's position in the competition for talent.

Immigration is essential to Ontario's long-term prosperity and will play a vital role in maintaining the province's working-age population as baby boomers retire, and shortages of skilled workers loom. Immigration can help address these challenges, but only if newcomers have the requisite skills and are quickly and effectively integrated into the the labour market as well as broader society. Today, immigrants to Ontario currently experience many barriers to employment when searching for work in their field.

### **Recommendations**

**9 The Council believes that a diversified and dynamic Ontario economy needs a greater emphasis on skilled trades:**

- **Expand the Specialist High Skills Major program;**
- **Increase the effectiveness of local Business-Education Councils so that more students better understand the option of choosing a career in the skilled trades; and**
- **Develop up-to-date information on labour market opportunities working cooperatively with business, government and the education sectors, and make it available to students and parents to help inform decisions about career choices.**

Despite the good incomes, engaging work and opportunities for entrepreneurship that skilled trades offer, students and their parents often overlook careers in the skilled trades. Employers in skilled trades are left unable to fill positions. Local Business-Education Councils can help overcome this by bringing together the secondary school system with the private sector and local communities. When educators are linked to the private sector, they can more effectively advise and raise awareness with students on the opportunities that skilled trades and apprenticeships present, such as becoming future entrepreneurs in a range of industry sectors. In the long term, the private sector and secondary school system should work together to increase the effectiveness and alignment of Ontario's Business-Education Councils. These initiatives can build on the work done by other organizations, such as the Ontario College of Trades.

In the short term, the secondary school system, in partnership with the Ministry of Education, should expand the Specialist High Skills Major program. The Council believes this is a valuable program that is headed in the right direction – it sets students on the path to skilled trades and other education pathways. Moving forward, the Specialist High Skills Major program should be expanded, and opportunities for technology-enabled participation should be explored to give access to students from across Ontario. There may also be benefits in raising awareness about skilled trades as early as elementary school.

Ontario's youth and their parents are often unaware of job opportunities in the skilled trades and the variety of educational programs that can prepare them for these jobs. The Council believes that it is the responsibility of business, government and the education sector to develop and disseminate up-to-date information on labour market opportunities and make it available when students are making decisions about what career path they will take.

**10** Experiential learning is important for equipping students with up-to-date workplace skills, and the Council believes that business must play a bigger role in offering placements for Ontario students.

The private sector must increase the number of experiential learning opportunities for high school and postsecondary students by providing more co-ops, work placements and apprenticeships.

Ontario's public and private sectors must capitalize on the diverse talent of Ontarians and turn human capital potential into sustainable jobs and sustainable competitiveness. Experiential learning and cooperative education provide students with an opportunity to gain valuable real-world skills and start developing a network of potential employers. Formalized experiential learning programs (e.g., co-ops) also enable learners to gain valuable knowledge about labour market trends, needs and challenges. This will result in a stronger alignment between education outcomes and labour market needs.

---

*If businesses want better skilled graduates, it is their responsibility to step up and provide more experiential learning opportunities for our youth.*

---

If businesses want better skilled graduates, it is their responsibility to step up and provide more experiential learning opportunities for our youth. Private sector leadership is needed to increase the number of experiential education opportunities. Government also has a role to play in working with the post-secondary education system and high schools to ensure that the capacity, facilities and equipment required for experiential learning are widely available. For example, facilities such as Ryerson University's Digital Media Zone and the University of Toronto's DesignWorks offer education and resources to help students incubate their businesses and collaborate with a network of local and international partners while earning their degree.

**11** With an aging population, Ontario needs more skilled workers.

The Council believes that increasing the number of newcomers with the skills needed by Ontario employers will be an essential element in ensuring Ontario has a talented, world-class workforce. It will require:

- Increasing the number and proportion of economic-class immigrants to Ontario;
- Improving labour market integration for newcomers;
- Improving recognition and assessment of international qualifications;
- Increasing the number of spaces for international students and expanding pathways to immigration for international students after completion of postsecondary education;
- Leveraging immigrant global connections to promote and grow international exports; and
- Better aligning federal and provincial immigration objectives, policies and programs.

The Ontario government has acknowledged the fundamental importance of immigration in commissioning the Expert Roundtable on Immigration and responded to it with Ontario's first formal immigration strategy. Both the panel and the strategy highlight the need for increased economic-class immigration to Ontario. Ontario must use all policy tools at its disposal to ensure it attracts more skilled immigrants.

Attracting more skilled immigrants is not enough; the current under-utilization of immigrants in Ontario's workforce highlights the importance of collaboration between industry, Ontario's education systems and all levels of government. As recommended in *A New Direction: Ontario's Immigration Strategy*, governments need to work toward better aligning their immigration policies and programs.

The private and not-for-profit sectors, in partnership with the Ontario government, should improve their recognition and assessment of international qualifications and work experience to increase employment of immigrants in jobs commensurate with their skills for both regulated and non-regulated professions. Ontario's postsecondary institutions should increase the number of spots for international students. To retain the best and brightest foreign students, the federal and provincial governments need to continue to promote and expand pathways to citizenship after these students complete their studies. To fully leverage the economic potential of Ontario's diversity, private sector employers and their associations need to better capitalize on the global connections of Ontario immigrants to capitalize on new export markets.

# SEIZING OPPORTUNITIES: DELIVERING SMART, EFFICIENT GOVERNMENT

## Targeted support for businesses and effective regulation promote growth

While government policy has a broad, systematic impact on Ontario's business climate, few policy areas have a more direct impact than regulation and business supports. Governments use business support programs for a variety of reasons, including attracting investment and encouraging desired business activities like R&D. Their effectiveness depends on a rigorous alignment of incentives with key economic outcomes such as improved productivity and competitiveness.

Regulation is an important tool in protecting the public interest. It provides industry with a level playing field and certainty about the rules. It enhances the quality, safety and security of life for citizens, consumers and workers by establishing and protecting minimum standards and fair practices.

---

*Governments need to find more effective and efficient processes that promote economic growth and job creation while maintaining standards consistent with our values.*

---

However, when regulation is inflexible, inefficient or poorly coordinated, it imposes unnecessary costs on business. Business owners and employees must devote time and resources to understanding regulatory obligations, completing paperwork and taking other steps to ensure compliance. Inefficient regulation limits investment and restrains productivity growth. Ontarians want high regulatory standards, but not burdensome processes. Governments need to find more effective and efficient processes that promote economic growth and job creation while maintaining standards consistent with our values.

## The regulatory burden remains significant

The regulatory burden faced by Ontario businesses has been reduced, but remains significant. One study published by the Canadian Federation of Independent Business (CFIB) pegged the total cost of regulatory compliance in 2008 at almost \$11 billion.<sup>i</sup> Since then, Ontario's Open for Business initiative has eliminated over 80,000 regulatory requirements, a reduction of more than 17 per cent.<sup>ii</sup>

The move to a single, federally administered Corporate Income Tax is saving businesses more than \$135 million per year in compliance costs.<sup>iii</sup> The Harmonized Sales Tax also simpli-

fies tax compliance for businesses by streamlining tax administration and eliminating over 5,000 pages of outdated rules, regulations and operating procedures,<sup>iv</sup> and is saving businesses more than \$500 million per year in compliance costs.<sup>v</sup>

Ontario's major regulatory ministries, including the Ministry of the Environment, the Ministry of Natural Resources and the Ministry of Northern Development and Mines, have initiated risk-based modernization and transformation initiatives to focus limited resources on the activities that have the greatest positive impact. The momentum on these ministry-specific initiatives should be maintained and accelerated.

In furthering this regulatory reform process, there needs to be a rebalancing of the regulatory risk-management framework to reflect the importance of job creation and investment to sustainable growth. Such a balanced framework would manage risks responsibly and actively.

## Delays in permit approval are taking a toll

Slow turnaround times for approving permits are creating significant delays for Ontario businesses looking to undertake job-creating development projects, especially natural resource projects in northern Ontario. These delays indicate that regulatory efficiency and approaches to risk management could be improved, especially with regard to environmental assessments and permitting approvals without affecting regulatory standards. Opportunities exist to better coordinate and facilitate approvals across regulatory bodies at all levels of government.

## Transforming business supports

The Ontario government supports private sector growth and investment through an array of business support programs, both direct (primarily grant and loan) and indirect (tax credits and tax expenditures). Those programs have played, and will continue to play, a role in attracting and retaining investment, building networks and clusters in key sectors, and helping to ensure Ontario has a strong foothold in the high-value industries of the future.

Today, Ontario's business support programs are too fragmented and too complex. Common filters are not applied in the assessment process and there is not a regular and systematic way to review the outcome effectiveness of the public dollars invested. Moreover, the government announced in the 2012 Ontario Budget that business supports need to be reduced by \$250 million in 2014-15 as part of the plan to reduce the deficit.

In light of changing economic challenges and opportunities facing Ontario, the continuing evolution of global pressures, and difficult fiscal circumstances, the time has come to strategically evaluate and redesign Ontario's business supports. Business supports must be realigned to focus on the most critical opportunities and sectors. Properly designed business supports can be a useful instrument for attaining key economic outcomes: improved productivity, stronger exports and better innovation performance.

## Recommendations

12

**The Council believes that the myriad of business support programs in Ontario should be combined into a single Jobs and Prosperity Fund for business supports. Potential investments under the Fund would be evaluated, consistently and rigorously, through three policy filters:**

**Ontario firms "going global," innovation and productivity.**

- **The Fund should include an integrated, one-window delivery model; strengthened accountability and transparency; regular review of outcome effectiveness; and performance measurement and benchmarking.**
- **The government has announced it will reduce funding for business supports by \$250 million. To identify those savings, government should look to the broadest range of business supports, including all direct program funding and both refundable and non-refundable tax credits, and apply the three policy filters when evaluating where to reduce funding.**
- **The Jobs and Prosperity Fund should be seeded with at least \$150 million annually through reallocation from the base of the broad range of business support programs, net of the \$250 million in reductions. The Fund would grow as existing commitments are fulfilled and uncommitted program funds become available. (For example, existing commitments total \$300 million.)**
- **The policy filters should also be applied to regional/rural programs that were deemed by the government to be out of scope for the review. The filters should also apply to all strategic investments made by the government.**

The Ontario government should redesign its suite of business supports (both direct and indirect) to ensure that they focus on three priorities: increasing exports with a focus on emerging markets; strengthening Ontario's innovation ecosystem to help firms develop new products and services; and enhancing private sector productivity performance. These three filters should also be applied to regional and rural funds, as well as all strategic investments.

A new Jobs and Prosperity Fund should be simpler to access and should feature:

- A simplified, integrated, one-window delivery model that eliminates fragmentation;
- Rigorous application of the policy filters through principle-based analysis;
- Regular review of outcome effectiveness;
- Strengthened accountability and transparency;
- Robust performance measurement using standardized metrics to identify poor performers and maximize value for money; and
- Benchmarking the Fund's performance against leading jurisdictions.

Direct business supports are also used to attract and support large-scale strategic investments. The Council recognizes that incentives to attract major domestic and foreign direct investments will anchor supply chains and contribute to the growth of key clusters and sectors. Given their size and unique nature, the government should plan and fund these investments outside of the Jobs and Prosperity Fund.

The government has announced it will reduce funding for business supports by \$250 million in 2014-15. The Council recommends applying three policy filters – Ontario firms "going global," innovation and productivity – to a broad base of business programs and both refundable and non-refundable tax credits, to determine which programs should be reduced or eliminated to find the savings.

## Approach to Creating the Jobs and Prosperity Fund

**FROM:** More than 50 business supports, including direct programs and refundable and non-refundable tax credits across multiple ministries.

**Outcomes:**

- Inconsistent or nonmeasurable outcomes
- Supports wide range of policy goals

**Stakeholders:**

- Sector/ministry-based focus
- Entitlement culture
- Multiple points of entry
- Complexity for business

**Administration:**

- Sector/ministry-based approach
- Fragmented program delivery



**TO:** A single Jobs and Prosperity Fund to support business.

**Outcomes:**

- Standardized performance metrics
- Supports defined policy goals focused on economic growth and prosperity (i.e. growing exports, enhanced innovation and improved productivity)
- \$250 million savings realized by application of the three policy filters
- The policy filters are:
  - Ontario firms going global
  - Innovation
  - Productivity.
- Policy filters will apply to the broadest range of business supports, including all direct program funding and both refundable and non-refundable tax credits.

**Stakeholders:**

- Best economic outcome focused
- Investment culture
- Single-window approach
- Simplified government interface

**Administration:**

- Principle-based approach
- Enhanced government coordination

13

The government of Ontario should introduce a job-creation and investment weighting of 15-25 per cent for development project permit approvals

The Province's regulatory risk-management framework should be rebalanced to ensure that job creation and investment are considered in permitting decisions for development projects. To realize this rebalancing, the Council recommends the implementation of a job-creation weighting of 15-25 per cent in permitting and project approval assessments by all Ontario ministries. The Council recognizes that each permitting process is different, and that the implementation of the job-creation weighting will vary.

The Council recommends that ministries report back to the Premier in 90 days with an action plan that details how a jobs weighting factor will be implemented. The action plan should identify any legislative or regulatory barriers to implementation, as well as potential amendments to eliminate those barriers.

14

The government of Ontario should establish a Major Projects Office to co-ordinate and expedite regulatory approvals for larger projects with high job-creation and growth potential.

A Major Projects Office should be created to expedite priority projects with high job-creation and growth potential. This centralized office would accelerate the approval of major development projects by coordinating and streamlining approvals across the public sector. It would also provide project proponents with a single point of contact for navigating the approvals process within government. It could also act as a centre of excellence for driving permitting process improvements across government.

### **Government of Canada's Major Projects Management Office**

**The Government of Canada has established a Major Projects Management Office (MPMO).**

**The MPMO provides overarching project management and accountability for major resource projects in the federal regulatory review process, and facilitates improvements to the regulatory system for major resource projects.**

**Working collaboratively with federal departments and agencies, MPMO serves as a single window into the federal regulatory process. The Office provides guidance to project proponents and other stakeholders, coordinates project agreements and timelines between federal departments and agencies, and tracks and monitors the progression of major resource projects through the federal regulatory review process.**

### **Job Creator Tax Credit**

The Council was asked to provide advice on the merits and feasibility of a proposed two-year refundable tax credit that would reimburse employers 10 percent of the salary paid to a new hire during their first year of employment, up to a maximum of \$5,000 per job.

In relation to the proposed tax credit, the Council believes that the following considerations need to be taken into account in coming to a balanced view of its merits and risks. First, the cost may be significantly greater than what has been estimated since the credit would apply to all new jobs created in the economy, not just net new jobs. It appears that the tax credit could be used to pay for jobs that would have been created without the credit, reducing the impact the credit would have on net new job creation and significantly increasing the cost. In addition, it may be difficult to target export-based jobs or jobs in more productive sectors. Finally, the increase in compliance and reporting costs for business and added complexity to the tax system would be material and increase the burden on business, particularly SMEs. Taken together, these considerations suggest that the proposed tax credit entails significant fiscal risks and may not achieve the desired objective most effectively.

The Council recognizes the importance of creating and maintaining jobs that are sustainable and contribute to a rising standard of living, and has focused many of its recommendations on how best to achieve this objective.

# MAINTAINING MOMENTUM, DRIVING THE ACTION REQUIRED

A significant anniversary always affords the opportunity to reflect not only on how far we have come but also on where we want to be in the future. Ontario will have just such a milestone anniversary in 2017, when it turns 150.

We are all Ontarians. We have a collective interest in the future of this great province and we have personal interests in our children and grandchildren having even brighter prospects than we have today.

**We believe that Ontario can be a more competitive, more prosperous economy, with more and better jobs for Ontarians. All Ontarians will benefit; Advantage Ontario creates advantages for all.**

**The Council has identified four aspirational goals that we think are required to energize and focus our efforts. We think that progress against these goals will be indicators of success. These goals are:**

- 1. Ontario will double its total exports and triple its exports to China, India and Brazil within a decade, with two-thirds of the increase to be achieved by 2017.**
- 2. At least twice as many Ontario SMEs should be exporting over the next decade, with two-thirds of this target achieved by 2017.**
- 3. Business investment and innovation will cut Ontario's productivity gap with the U.S. in half, and eliminate it entirely in the manufacturing sector, again within a decade, with two-thirds of the progress to be realized by 2017.**
- 4. Business will increase its expenditures on research and development to 2.0 per cent of GDP, reaching 1.5 per cent of GDP by 2017.**

This report lays out priorities for action by the private sector, government, the education sector and other stakeholders. We need to better align our efforts, resources and strategies to the innovation, productivity and export challenges and opportunities described in this Report – and we need concerted leadership to get us there. If we do, all Ontarians will benefit, including our youth, newcomers and Aboriginal Peoples who far too often are left behind.

## Private sector

Ensuring Ontario's competitiveness and prosperity will require strong, sustained private sector leadership. Ontario firms must focus on three key, connected goals: improving productivity, increasing innovation and expanding and diversifying exports.

Businesses must make significant new investments in innovation and in world-class machinery, equipment and software to improve productivity. Ontario firms need to focus on high value-added products and services that capture shifts in global demand and can be sold at premium prices. Businesses should invest in research and development. They should take more innovation risks and seek out new collaborations with research institutions to develop and continually commercialize new products and services.

Ontario firms will need to take up the challenge of exporting – they must benefit from our diverse population, and develop expertise and networks across the world to find new markets in emerging economies for their goods and services. Leaders who have succeeded in going global must share their knowledge and mentor up-and-coming firms.

Businesses need to engage much more actively with Ontario's youth. The private sector must provide more training and opportunities for new entrants to the labour market to gain workplace experience, including co-op placements, internships, mentorships and apprenticeships. Businesses should work with school boards and other institutions to identify the skills needed for tomorrow's jobs. They should also work directly with students to demonstrate the value of this work through direct involvement with the elementary, secondary and post-secondary school systems at the local level. The private sector has an important role in mentoring students, providing exposure to entrepreneurship and instilling in them the desire and ability to be innovative and entrepreneurial.

## Government

The Ontario government has a role in creating and maintaining an attractive business climate including competitive tax rates, solid public institutions, strong education, health care and services, and efficient and timely regulatory and approval systems.

It can effect change by convening stakeholders and partners and helping to align their actions toward a common goal. It should bring together stakeholders to develop action plans to seize opportunities in sectors with high value-added export potential. It should work with the federal government and other partners such as labour to develop a manufacturing strategy. It should strike a panel on economic opportunities in the north, and it should leverage infrastructure and procurement to drive private sector innovation and economic benefit. It should implement Ontario's immigration strategy.

Government also has a role in maintaining an innovation ecosystem, including mechanisms for collaboration and alignment between business and research institutions. It should work with the federal government and the private sector to create a venture capital initiative, and introduce a business-led commercialization voucher. The government can help build an entrepreneurial culture among our youth by developing new curricula and toolkits and working with school boards and the business community to create specialized entrepreneurship high schools.

In the current fiscal context, government should find more efficient, not more generous, ways to support Ontario businesses. Business supports must be focused on the critical investments needed to overcome our productivity, innovation and export challenges.

## Education sector

The Council has highlighted the importance of the education sector for Ontario's future prosperity and competitiveness. Many of the Council's recommendations call for better partnerships and alignment between the private and education sectors – from exposing youth to the opportunities to pursue entrepreneurship, to building awareness of the economic potential of skilled trades, to mentorships or experiential learning. And, at the postsecondary level, we need better alignment between research institutions and industry, particularly in the manufacturing sector.

## Not-for-profit sector, labour and Aboriginal governments and organizations

Implementing these recommendations will require the participation of many other organizations. Organizations providing training and services to youth, newcomers and ethno-cultural business associations, in particular, will have a strong role to play. Trade unions and labour associations have a role in the development of a manufacturing strategy for Ontario. They also are integral to improvements to apprenticeship and other workplace-based training programs. The not-for-profit sector should continue to explore innovative new approaches to social enterprise in Ontario. Aboriginal governments and organizations providing services to Aboriginal Peoples will need to participate in a variety of initiatives, including the development of a playbook for the north, training, education and entrepreneurship activities.

## Updating Ontarians on progress

The world economy looks very different today than it did even a decade ago. Developing countries like China, India and Brazil have become global economic powers. Their rapid growth has created many opportunities for Ontario businesses, but, to date, we have failed to capture them.

There is no good reason why we have not seized those opportunities – the fundamentals are in place. We have a world-class business environment, strong education systems, enviable macroeconomic stability and innovative clusters in key tradable sectors.

**The Jobs and Prosperity Council should reconvene in 12 months to review progress by business, academia and others.**

In 1967 – our 100th anniversary – the province was riding the crest of a wave. The country's economy was at its postwar peak, and nowhere more than in Ontario. The visionary Auto Pact of 1965 brought thousands of jobs and higher wages to Ontario; universal health insurance had just been introduced, and Canada's first inter-regional public transit system – GO Transit – began operations.

---

In the past 50 years, Ontario has transformed itself economically and demographically, and built on the strengths and promise of our centennial year. Now it's time to reinvent Ontario, time to work together to convert our economic potential into global economic success. The stakes are high: if we fail to take the necessary steps, Ontario will struggle to maintain the standard of living we currently enjoy. If we succeed, by the time we hit our 150th anniversary, Ontario will be a stronger, more prosperous place to live, and the world will be talking about

**Ontario's advantage.**

We think an important step is for the government to invoke its "convening power" to create a bias for action. This includes the private sector – through industry and business associations; labour; the education sector – through universities, colleges and school boards; research institutions and academic associations and others to participate in the implementation of the Council's recommendations and report on progress.

To help keep all of us focused, the Council recommends that it will reconvene in 12 months to review the progress that government, business, the education sector and others have made in implementing these recommendations and moving toward the ambitious goals we have set.

# APPENDIX: SUMMARY OF RECOMMENDATIONS AND LEADERSHIP ROLES

---

## GOING GLOBAL

---

### Recommendation 1:

Ontario needs to both increase its overall export activity and to strategically target new markets in dynamic emerging economies.

Government, business, educational institutions, labour, financial institutions and other organizations must work together to develop concrete action plans to develop concrete action plans to maximize opportunities and lay out what it will take to achieve them in key tradable sectors in the changing global economy. These include: agri-food, advanced manufacturing, tourism, health care, education, housing, infrastructure, financial services, natural resources, information communications technology and life sciences.

### Leadership Roles:

- Business to increase overall export activity, including targeting new markets in dynamic emerging economies; and
- Provincial government to convene key stakeholders to develop concrete action plans for Ontario's tradable sectors in emerging economies.

---

### Recommendation 2:

SMEs are a key source of growth and job creation in Ontario, and their growth opportunities increasingly lie in tradable sectors. Ontario needs to leverage, align and enhance public and private sector resources to improve the export capacity of SMEs:

- Create a one-window online portal for SMEs to access government export information and supports;
- Develop a series of large "reverse trade missions" focused on key emerging markets;
- Further integrate and link export assistance to SMEs, including co-location of federal, provincial and non-governmental organizations;
- Increase partnerships programs, such as the Global Growth Fund, with key business organizations, including ethno-cultural business organizations, that help SMEs access and export to foreign markets, and implement international business strategies; and
- Successful exporters should mentor and share expertise with less experienced SMEs.

### Leadership Roles:

- Provincial government to lead development of more integrated information and resources to support increased SME export capacity;
- Provincial government to work with business organizations to develop reverse trade missions;
- Provincial government to increase partnerships with business organizations that help SMEs access and export to foreign markets; and
- Businesses to take leadership to mentor and share their export expertise with less experienced SMEs.

---

## Driving Productivity Growth

---

### Recommendation 3:

The Council recognizes the critical importance of the manufacturing sector to Ontario. We call upon the federal and provincial governments to work with stakeholders to develop a manufacturing strategy that will increase productivity and innovation and support increased scale, improved competitiveness and greater exports.

The strategy should include:

- A call to the federal government, as part of its next budget, to increase the existing accelerated capital cost allowance (ACCA) rate to 100 per cent for a limited time to incent substantial incremental investment in manufacturing machinery and equipment. Ontario would automatically parallel the federal rate. Contingent upon sufficient business uptake, the government should consider making the current 50 per cent rate permanent.
- A plan to expand opportunities for Ontario manufacturers in the growing natural resources and energy sectors in Western Canada. Ontario firms have complementary skills to offer, and should view this more as a growth opportunity, beneficial to both economies.
- Measures to align education and training programs, including experiential learning, with the skills manufacturers need for the markets of today and tomorrow.
- Improved connections between manufacturers and research institutions to solve problems specific to the

manufacturing sector through, for example, more applied research collaborations.

- A communications strategy that informs the public about the importance of Ontario's manufacturing sector, the global opportunities open to it, and what it will take to be competitive in the changing global economy.

#### **Leadership Roles:**

- Business to invest more in manufacturing machinery and equipment and scale up.
- Business and government to develop and execute a plan to capitalize on opportunities in Western Canadian resource projects.
- Provincial government, with federal government, to lead the development of a manufacturing strategy working in partnership with business, labour and other key stakeholders:
  - Federal government to increase current ACCA and Ontario to automatically parallel;
  - Key stakeholders to work together to better align education and training programs and to improve connections between manufacturers and research institutions; and
  - Business, government and other key stakeholders to work together to develop a modern manufacturing communications strategy.

---

#### **Recommendation 4:**

The Council believes that modern infrastructure, particularly in transportation, can form part of Ontario's competitive advantage. We need new approaches that engage public and private sources of capital and new revenue models if we are to build the leading edge infrastructure that we need now and in the future.

#### **Leadership Roles:**

- Provincial government to explore new approaches to engage public and private sources of capital and new revenue models.
- All three levels of government to work together to ensure that infrastructure dollars are invested in the most important projects and to improve asset management.

---

#### **Recommendation 5:**

The Council believes that Ontario needs a comprehensive plan for developing the Ring of Fire and other natural resources in northern Ontario.

We recommend establishing a panel of distinguished Ontarians to develop a playbook for realizing our northern resource potential and report back within one year.

#### **Leadership Roles:**

- Provincial government to lead the establishment of a panel for northern Ontario comprising of leaders from across the province.

---

#### **Unleashing Innovation and Entrepreneurship**

---

#### **Recommendation 6:**

We need to accelerate the commercialization of new products, ideas and services in Ontario that can compete globally by:

- Working in partnership with the federal government and the private sector to create a venture capital initiative to improve the quality and levels of risk capital funding in Ontario;
- Introducing a business-led commercialization voucher to better link research to business needs;
- Enhancing the collaboration between research institutions and the Ontario Network of Excellence (ONE) to meet the research needs of business and to improve the commercialization of the work of faculty and students;
- Rigorously reviewing the results of commercialization programs to ensure strategic outcomes are met while continuing to explore other measures that could increase the risk capital pool; and
- Examining modifications to security and investment rules to facilitate crowd-funding and access to capital for new and emerging ventures, while still providing appropriate protection to investors.

**Leadership Roles:**

- Private sector to increase investment in research and development;
- Provincial and federal governments to work together on venture capital initiatives with institutional investors and the private sector. with business sector;
- Provincial government to work with business, education sector and others to ensure collaborative research is more industry-driven and better aligned with the research and innovation needs of sectors and regional clusters with the highest potential for growth; and
- Provincial government to work with business, education sector and others to track the success of these programs.

**Recommendation 7:**

The Council believes that public sector procurement can be better mobilized to support innovation and the growth of firms that are producing new and innovative tradable goods and services.

The government of Ontario should implement a strategic procurement policy to accelerate the growth of firms producing innovative goods and services in tradable sectors.

**Leadership Roles:**

- Provincial government to implement a strategic procurement policy to accelerate the growth of firms producing innovative goods and services in tradable sectors.

**Recommendation 8:**

We need a stronger culture of entrepreneurship in Ontario. The education sector and the private sector should work together to introduce youth to entrepreneurship as a viable career option by:

- Creating entrepreneurship high schools;
- Building an entrepreneurship focus in the Specialist High Skills Major program curricula in Ontario;
- Providing all teachers and guidance counselors with an entrepreneur “toolkit” to assist youth in their entrepreneurial ideas and aspirations; and
- Including an entrepreneurship section in the Grade 10 Career Studies course.

**Leadership Roles:**

- Provincial government, working with the educational sector and business, to introduce initiatives that will help youth explore entrepreneurship as a viable career option.

- Business to demonstrate leadership by developing and participating in initiatives where students can learn entrepreneurship skills directly from them.

**CAPITALIZING ON STRENGTH IN TALENT****Recommendation 9:**

The Council believes that a diversified and dynamic Ontario economy needs a greater emphasis on skilled trades:

- Expand the Specialist High Skills Major program;
- Increase the effectiveness of local Business-Education Councils so that more students better understand the option of choosing a career in the skilled trades; and
- Develop up-to-date information on labour market opportunities working cooperatively with business, government and the education sectors, and make it available to students and parents to help inform decisions about career choices.

**Leadership Roles:**

- Provincial government and education sector to introduce programming that will increase exposure to the skilled trades; and
- Business to take leadership role in becoming more involved in partnerships with the education sector that will help raise students’ awareness and understanding of employment opportunities in skilled trades.

**Recommendation 10:**

Experiential learning is important for equipping students with up-to-date workplace skills, and the Council believes that business must play a bigger role in offering placements for Ontario students.

The private sector must increase the number of experiential learning opportunities for high school and postsecondary students by providing more co-ops, work placements, and apprenticeships.

**Leadership Roles:**

- Business to take leadership role and strong action to increase the number of experiential learning opportunities for high school and postsecondary students.

---

**Recommendation 11:**

With an aging population, Ontario needs more skilled workers.

The Council believes that increasing the number of newcomers with the skills needed by Ontario employers will be an essential element in ensuring Ontario has a talented, world-class workforce. It will require:

- Increasing the number and proportion of economic-class immigrants to Ontario;
- Improving labour market integration for newcomers;
- Improving recognition and assessment of international qualifications;
- Increasing the number of spaces for international students and expanding pathways to immigration for international students after completion of postsecondary education;
- Leveraging immigrant global connections to promote and grow international exports; and
- Better aligning federal and provincial immigration objectives, policies and programs.

**Leadership Roles:**

- Provincial government to work with federal government to increase number and proportion of economic-class immigrants;
- Provincial government to work with the business, education and not-for-profit sectors to improve labour market integration for newcomers;
- Business and not-for-profit sectors to improve recognition and assessment of international qualifications;
- Provincial government to work with education sector to increase the number of spaces for international students;
- Business to work with not-for-profits and others to leverage immigrant global connections; and
- Provincial government to work with federal government to better align immigration policies.

---

**DELIVERING SMART, EFFICIENT GOVERNMENT**

---

**Recommendation 12:**

The Council believes that the myriad of business support programs in Ontario should be combined into a single Jobs and

Prosperity Fund for business supports. Potential investments under the Fund would be evaluated, consistently and rigorously, through three policy filters: Ontario firms “going global,” innovation and productivity.

- The Fund should include an integrated, one-window delivery model; strengthened accountability and transparency; regular review of outcome effectiveness; and performance measurement and benchmarking.
- The government has announced it will reduce funding for business supports by \$250 million. To identify those savings, government should look to the broadest range of business supports, including all direct program funding and both refundable and non-refundable tax credits, and apply the three policy filters when evaluating where to reduce funding.
- The Jobs and Prosperity Fund should be seeded with at least \$150 million annually through reallocation from the base of the broad range of business support programs, net of the \$250 million in reductions. The Fund would grow as existing commitments are fulfilled and uncommitted program funds become available. (For example, existing commitments total \$300 million.)
- The policy filters should also be applied to regional/rural programs that were deemed by the government to be out of scope for the review. The filters should also apply to all strategic investments made by the government.

**Leadership Roles:**

- Provincial government to lead the development of a single Jobs and Prosperity Fund.

---

**Recommendation 13:**

The government of Ontario should introduce a job-creation and investment weighting of 15-25 per cent for development project permit approvals.

**Leadership Roles:**

- Provincial government to introduce job-creation weighting to its permitting process.

---

**Recommendation 14:**

The government of Ontario should establish a Major Projects Office to co-ordinate and expedite regulatory approvals for larger projects with high job-creation and growth potential.

**Leadership Roles:**

- Provincial government to establish a Major Projects Office.

# ENDNOTES

## Advantage Ontario: A Call to Action

- i Organisation for Economic Co-operation and Development, *Education at a Glance 2012: OECD Indicators*, [http://www.oecd.org/edu/EAG%202012\\_e-book\\_EN\\_200912.pdf](http://www.oecd.org/edu/EAG%202012_e-book_EN_200912.pdf), (September 2012).
- ii Ontario Ministry of Finance, *Strong Action for Ontario: 2012 Ontario Budget*, (Queen's Printer for Ontario: 2012), 243
- iii *Strong Action for Ontario*, 240
- iv World Economic Forum, *Global Competitiveness Report 2011-12*, [http://www3.weforum.org/docs/WEF\\_GCR\\_Report\\_2011-12.pdf](http://www3.weforum.org/docs/WEF_GCR_Report_2011-12.pdf), (Geneva, Switzerland: 2011).
- v Kevin Lynch and Karen Miske, "Relatively Speaking: Canada in a Changing and Uncertain World," *Inside Policy, Relatively Speaking*" (December 2012 - January 2013): 23-28, Figure 16. [Original Source: *Global Competitiveness Report 2011-12*.]
- vi Morgan Stanley Smith Barney, "Shift to Wealth" in *Asian Affluence: The Emerging 21st Century Middle Class*, (June 2011),
- vii Industry Canada, *Trade Data Online*, with 2011 data from Statistics Canada, Accessed on November 19, 2012.
- viii Statistics Canada, *Industrial Research and Development*, Table 358-0001, 2012; Organisation for Economic Co-operation and Development, *Science, Technology and R&D Statistics*, Business Enterprises R&D Expenditure, 2012; Statistics Canada, *Industrial Research and Development*, Table 88-202-X, 2012.
- ix Statistics Canada, *Industrial Research and Development*, Table 88-202-X, 2012.
- x Data from the Centre for the Study of Living Standards show that Canada's labour productivity levels have fallen as a share of U.S. labour productivity levels, particularly over the last 10 years, to less than 75 per cent of U.S. levels (source: Centre for the Study of Living Standards, *An Overview of Canada's Productivity Performance*, November 2012). Ontario labour productivity levels have closely tracked those of Canada over a similar period (source: Statistics Canada, Cansim Table 383-0011).
- iii Task Force on Competitiveness, Productivity and Economic Progress *A Push for Growth: The Time is Now*, (2012), Exhibit 24.
- iv *Strong Action for Ontario*, 243
- v Conference Board of Canada, *The Economic Impact of Public Infrastructure in Ontario*, [http://www.conferenceboard.ca/temp/3f1ce03d-70ba-485b-bf71-1176f39f57cf/10-144\\_EconomicImpactPublicInfrastructure\\_WEB.pdf](http://www.conferenceboard.ca/temp/3f1ce03d-70ba-485b-bf71-1176f39f57cf/10-144_EconomicImpactPublicInfrastructure_WEB.pdf), (2010).
- vi Toronto Board of Trade, *Reaching Top Speed*, [http://bot.com/Content/NavigationMenu/Policy/VoteOntario2011/Reaching\\_Top\\_Speed.pdf](http://bot.com/Content/NavigationMenu/Policy/VoteOntario2011/Reaching_Top_Speed.pdf), (2011), 11.
- vii Statistics Canada, *Trade Data Online Database*.
- viii Statistics Canada, *Manufacturing sales, by North American Industry Classification System (NAICS) and province*.
- ix Bureau of Economic Analysis, *2011 US Annual Capital Expenditure Survey*; Statistics Canada, *Table 129-0005: Capital and Repair Expenditures*.
- x Statistics Canada, *Table 031-0002: Flow and Stocks of Fixed Non-Residential Capital*; Bureau of Economic Analysis, *Bureau Labour Statistics Table 4.7: Investment in Private Non-Residential Fixed Assets*.
- xi *Prospects for Ontario's Prosperity*, 21. [Original Source: The Canadian Agri-Food Policy Institute.]
- xii Danny Leung, Césaire Meh, and YazTerajima, *Firm Size and Productivity: Bank of Canada Working Paper 2008-45*, 2008.
- xiii Canadian International Council, *The 9 Habits of Highly Effective Resource Economies: Lessons for Canada*, <http://opencanada.org/wp-content/uploads/2012/10/CIC-The-9-Habits-of-Highly-Effective-Resource-Economies.pdf>, (2012), 25

## Seizing Opportunities: Going Global

- i Proprietary analysis by McKinsey & Company.
- ii Industry Canada, *Trade Data Online*, with 2011 data from Statistics Canada, Accessed on November 19, 2012. Note: in this report, exports refers to domestic exports, which is the difference between total exports and re-exports. The values do not include interprovincial exports or service exports.
- iii MEDI estimations, using data from Statistics Canada's 2008 Business Registry and Exporter Registry (special tabulations for MEDI)
- iv Industry Canada, *Trade Data Online*, with 2011 data from Statistics Canada, Accessed on November 19, 2012.
- v Statistics Canada, *Trade Data Online Database*.

## Seizing Opportunities: Driving Productivity Growth

- i *Strong Action for Ontario*, 149
- ii Task Force on Competitiveness, Productivity and Economic Progress, *Prospects for Ontario's Prosperity*, (2011), Exhibit 14.

## Seizing Opportunities: Unleashing Innovation and Entrepreneurship

- i Organisation for Economic Co-operation and Development, *Science Technology and R&D Statistics 2012*, (2012).
- ii Mowat Centre for Policy Innovation, *Canada's Innovation Underperformance*, (2011), 3.
- iii Statistics Canada, *Industrial Research and Development*, Table 358-0001, (2012); Statistics Canada, *Industrial Research and Development*, Table 88-202-X, (2012); Statistics Canada, *Gross Domestic Expenditures on Research and Development in Canada (GERD)*, and the Provinces, Catalogue no. 88-221-X, (2012).
- iv *A Push For Growth*, Exhibit 35.
- v *Prospects for Ontario's Prosperity*, 48.
- vi Council of Canadian Academies, *The State of Science and Technology in Canada*, (2012).
- vii Organisation for Economic Co-operation and Development, "Science and Innovation: Country Notes," *Science, Technology and Industry Outlook 2008*, <http://www.oecd.org/sti/innovationinsciencetechnologyandindustry/41558999.pdf>, (2008).
- viii Canada VC Analyst data; PWC MoneyTree (U.S.); assorted census data from Canada/US.
- ix Business Development Bank of Canada, *BDC Index of New Entrepreneurial Activity*, 2012.
- x *Ibid.*, 2.
- xi Toronto Board of Trade, *Toronto as a Global City: Scorecard on Prosperity*, (2012), 84.

## Seizing Opportunities: Capitalizing on Strength in Talent

- i *Education at a Glance.*
- ii Education Quality and Accountability Office, *Program for International Student Assessment (PISA) – Highlights of Ontario Student Results*, [http://www.eqao.com/pdf\\_e/10/2009\\_PISA\\_Highlights\\_en.pdf](http://www.eqao.com/pdf_e/10/2009_PISA_Highlights_en.pdf), (2009).
- iii Times World University Rankings, <http://www.timeshighereducation.co.uk/world-university-rankings/>, (2012).
- iv Benjamin Tal, *The Haves and Have Nots of Canada's Labour Market*, [http://research.cibcwm.com/economic\\_public/download/if\\_2012-1203.pdf](http://research.cibcwm.com/economic_public/download/if_2012-1203.pdf), (CIBC Economics: December 3, 2012), Chart 1. [Data source: CIBC, Statistics Canada.]
- v Statistics Canada, *Registered Apprentices: The Cohorts of 1994 and 1995, One Decade Later*, (2010).
- vi According to the Conference Board of Canada's report *Learning and Development 2011: Are Organizations Ready for Learning 2.0?*, the recent recession has exacerbated a long-term decline in Canadian learning and development spending, which reached its peak in 1993 at \$1,116 per employee (2010 dollars).
- vii Conference Board of Canada, *Learning and Development Outlook 2009: Learning in Tough Times*, (2009), 17.
- viii Sources: The Conference Board of Canada, 2006 Training Industry Report, (2006), 22-32; 2008 Training Industry Report, (2008), 16-34; 2010 Training Industry Report, (2010), 18-31.

## Seizing Opportunities: Delivering Smart, Efficient Government

- i Canadian Federation of Independent Business, *Prosperity Restricted by Red Tape, 2nd Edition*, <http://www.cfib-fcei.ca/cfib-documents/rr3104.pdf>, (2010), 8.
- ii Government of Ontario, "Statement from Minister Duguid on Reducing Red Tape," <http://news.ontario.ca/medt/en/2012/01/statement-from-minister-duguid-on-reducing-red-tape.html>, (January 17, 2012).
- iii *Strong Action for Ontario*, 235
- iv *Strong Action for Ontario*, 235
- v *Strong Action for Ontario*, 235





# **JOBS & PROSPERITY C O U N C I L**