

April 24, 2020

## COVID-19 Crisis Business Continuity and Trade Working Group

### Communique #5: Restart Playbook Must Balance Risks with Economic Costs

To help Canadian governments confront the public health and economic crisis resulting from COVID-19, the C.D. Howe Institute has established several working groups to rapidly distill expert policy advice. The Working Group on Business Continuity and Trade is co-chaired by Dwight Duncan (Senior Strategic Advisor at McMillan LLP and former Ontario Minister of Finance) and Jeanette Patell (Vice-President of Government Affairs and Policy for GE Canada). Its membership includes industry experts and economists. Support from the C.D. Howe Institute is provided by Daniel Schwanen (Vice-President, Research) and Grant Bishop (Associate Director, Research). Meeting weekly, it identifies and prioritizes policy challenges and communicates members' views in published communiques. The group's fifth meeting was held on Tuesday, April 21, 2020.

The working group recommends a transparent, pan-Canadian framework for staging and managing the restart of the Canadian economy. Federal and provincial governments should collaborate to develop this "playbook," which should identify the principles, processes, metrics and milestones for staging a gradual return to work. This should be a "living" framework, with transparent communication of decision-making criteria and relevant data. The aim should be to anchor expectations and planning by businesses and families – analogous to forward guidance and "contingent commitments" by central banks.

As recently outlined by Glen Hodgson and Bill Robson, governments should apply a principled risk management approach to formulating this playbook.<sup>1</sup> Recommended principles for this playbook are:

1. Transparent pre-conditions for each stage of easing economy-wide restrictions.
2. Pan-Canadian consistency in principles, decision-making criteria and data.
3. Sector-level staging for restart based on workplace transmission risks and economic impacts.
4. Safeguarding access to essential goods and services.
5. Synchronized re-opening of enabling public services and infrastructure.
6. Clear off-ramp for government-provided temporary income supports.

---

1 Glen Hodgson and William B.P. Robson. 2020. "Some principles for an economic restart." C.D. Howe Institute Intelligence Memo. April 21. Available online: <https://www.cdhowe.org/intelligence-memos/hodgson-robson-%E2%80%93-some-principles-economic-restart>



April 24, 2020

Pre-conditions for economy-wide re-opening of the economy should be based on public health expert judgment and modelling and informed by monitoring. Based on epidemiological modelling, a playbook should identify the acceptable thresholds for (1) virus spread and (2) health system capacity at which governments will plan to ease restrictions. The sequence for easing sector-level restrictions should be based on the:

- potential extent of population exposure from the activity;
- probability of transmission in the sector/workplace;
- workplace-level protocols for health and safety practices required to mitigate transmission; and
- balance between risk tolerance and economic costs from restrictions on the activity.

While provincial governments should continue to make decisions about local emergency measures, federal coordination can reduce fragmentation in decision-making and protocols. In particular, the federal government should identify appropriate pre-conditions, monitor and report key public health indicators, and standardize health & safety guidance and risk-rating for specific sectors.

While governments should now plan for restart, working group members also stressed that “we are not out of the woods.” The magnitude of the economic contraction means that many sectors and companies will continue to face unprecedented commercial challenges and looming financial distress. Although federal and provincial governments have established various credit supports for businesses, companies continue to face fixed costs and other financial obligations. With the likelihood of a protracted downturn in demand for exports and continuing restrictions on workplace activities, this will place unprecedented stress on company balance sheets. Governments will need to make and communicate difficult decisions about which sectors and companies receive direct financial support.

## **Pan-Canadian “Restart Playbook” with Provincial Implementation**

The working group notes that provincial governments are best situated to manage emergency measures, given their capacity for service delivery and information to calibrate measures to local conditions. The federal government can play a facilitating role by working with provinces and industry leaders to develop pan-Canadian principles and guidelines.

Working group members highlighted the example of Australia, where the federal government has assembled a national coordination committee, leveraging industry leadership and sector-level task forces.<sup>2</sup>

---

<sup>2</sup> See: Australian Government. 2020. “NCCC sets up expert group to help keep workplaces safe through COVID-19.” April 21. Available online: <https://pmc.gov.au/nccc/news/nccc-sets-expert-group-help-keep-workplaces-safe-through-covid-19>

April 24, 2020

Provinces have jurisdiction for public health measures and will ease restrictions at different times. However, federal coordination can help reduce fragmentation and provide some consistency.

Echoing recent proposals,<sup>3</sup> the working group recommends governments actively leverage industry working groups with knowledge of frontline operations and expertise on occupational health and safety. By collaborating with industry, governments can formulate appropriate standards and protocols that safeguard employees and facilitate a graduated return to work.

## **“Restart Playbook” with Metrics and Milestones to Manage Risks and Anchor Expectations**

The restart playbook should address uncertainty and provide anchors for expectations by businesses and families. This involves specifying the pre-conditions and sequencing for easing restrictions on different activities and workplaces. Governments should equip families and households to make contingent plans and anticipate how public health measures would change in response to evolving conditions.

Political decision-makers would need to define the acceptable level of risk; however, modeling of the probability of virus spread, disease severity and health system capacity would provide estimates for risk levels. For example, at a current rate of virus spread and hospital admissions, epidemiological models could be applied to estimate probabilities or the number of days until cases exceed local health system capacity. Using these estimates for risk, governments could specify pre-conditions or milestones for each stage of restart readiness.

Governments’ playbook should also provide a framework for assessing the workplace-level risks of transmission of the virus and balancing this against the economic impact on different sectors/activities. Health and safety standards for individual workplaces should be calibrated based on input from experts on operations and health and safety. The aim should be to implement an appropriate level of control to minimize exposure and transmission risks for those in the given workplace.

## **Off-ramp for Temporary Emergency Income Support**

The federal government must also outline the off-ramp for its temporary income supports under the Canada Emergency Response Benefit (CERB) and Canada Emergency Wage Subsidy (CEWS).

---

3 See: Robson, William. 2020. “Governments should rely on industry task forces to advise on restarting the economy,” *Globe & Mail*. March 13. Available online: <https://www.theglobeandmail.com/business/commentary/article-governments-should-rely-on-industry-task-forces-to-advise-on/>

April 24, 2020

CERB and CEWS were established as necessary emergency measures during the unprecedented shutdown of the Canadian economy.

However, the federal government must be conscious of the fiscal cost and the incentive effects from the programs. While both programs are essential to preserve families through the crisis and prevent permanent destruction of household net worth, they must be ramped down as the economy restarts.

For example, working group members pointed to anecdotal evidence that CERB has reduced certain workers' willingness to accept work – particularly where workers perceive a risk of exposure to transmission. Working group members emphasized that the federal government should not phase out CERB until workers have available options for safely returning to work and that financial circumstances should not compel workers to accept work with high risk of exposure to the virus.

To this end, ahead of the phase-out of CERB, governments must ensure that appropriate workplace-level health and safety measures are in place. To address workers' risk perceptions, governments and employers will need to be actively communicating information about the risks of transmission and the effectiveness of workplace mitigation measures.

## **Assess and Address Systemic Risk in Enabling Sectors**

While the “restart playbook” should be the immediate priority, governments must also identify and address sources of “systemic risk” to the economy and potential “scarring” that could impair economic recovery. Governments must assess the risk of financial distress in sectors that play an enabling role for wider economic activity. The financial distress of certain companies may have knock-on effects throughout supply chains or for other sectors.

For example, the steep plunge in demand will likely drive significant financial distress in the energy and aviation sectors. Canadian banks may have significant exposure to these industries and governments must assess the potential for systemic risk from these sectors.

Certain companies will face insolvency and financial restructuring, and governments cannot backstop every business. Governments will face difficult decisions about which companies or industries will receive targeted financial assistance – and which do not. For example, during the 2008-09 financial crisis, the federal and Ontario governments provided financial support to certain large automakers but not others and also did not provide similar direct aid to auto-parts suppliers. These decisions were based on the central role of those certain large automakers in the industry and the risk of systemic risk to the entire industry and wider economy if they failed.

April 24, 2020

Governments should formulate a principled framework to make and communicate these difficult decisions regarding targeting financial support to specific sectors and companies. Such a framework should focus on: maintaining business continuity for operations that are integral to the wider economy; risk-sharing by existing creditors and shareholders; limiting financial exposure for governments; a coherent path to commercial viability post-crisis; and a clear “exit plan” for public financial support.

## Working Group Members

**Dr. Sylvain Charlebois**, Professor, Senior Director, Agri-Food Analytics Lab, Dalhousie University

**Dwight Duncan (Working Group Co-Chair)**, Senior Strategic Advisor McMillan LLP

**Rick Ekstein**, President & CEO, Phaze 3 Management

**Glen Hodgson**, Fellow-in-Residence, C.D. Howe Institute

**Keith Halliday**, Director of Centre for Canada’s Future, Boston Consulting Group

**Caroline Hughes\***, Vice-President of Government Relations, Ford Motor Company of Canada

**Jeanette Patell (Working Group Co-Chair)**, Vice-President of Government Affairs and Policy, GE Canada

**Elise Maheu**, Director, Government Affairs and Markets. 3M Canada

**Geoff Smith**, President & CEO, EllisDon

**John Stackhouse**, Senior Vice-President, Office of the CEO, Royal Bank of Canada

**Trevor Tombe**, Associate Professor of Economics and Public Policy, University of Calgary

---

\* Denotes not in attendance at April 21st meeting.