February 1st, 2018

The Honourable Charles Sousa
Minister of Finance
Frost Building South, 7th Floor
7 Queen's Park Crescent
Toronto, Ontario, M7A 1Y7

Via e-mail: charles.sousa@ontario.ca

Dear Minister Sousa:

On behalf of the 2,500 members of Canadian Manufacturers & Exporters (CME), I am writing to you regarding the upcoming provincial budget and to follow up on our request to meet to discuss business investment, productivity and growth in Ontario as it relates to the manufacturing sector.

As you know, manufacturing continues to be the most critical sector of Ontario's economy, accounting for 12 per cent of GDP, with approximately $275 billion in annual shipments representing nearly 770,000 direct jobs. Manufacturing also generates significant economic spinoffs, including in natural resources, technology and a wide variety of services sectors. When these factors are considered, nearly 30 per cent of all economic activity and jobs across the province are linked to manufacturing.

However, despite the critically important role that manufacturing plays in the province, the sector is struggling under the weight of a range of policy and regulatory changes in Ontario and a business environment that is increasingly out of touch with our major global competitors. The result has been a steady decline the strength and competitiveness of Ontario manufacturing. Consider the following:

- Ontario's manufacturing sector has underperformed the national average since the early-2000s. In 2017, manufacturing sales growth was less than 1 per cent, the worst of any province;

- Led by Ontario's slow growth, Canada has fallen to 14th place in global manufacturing output, down from 9th two-decades ago. Manufacturers in the United States invest, on average, 8 times more than an equivalent Ontario company; and,

- Since 2013, foreign direct investment into Ontario has shrunk by over two per cent, while it has grown by nearly 30 per cent in the US.

In short, Ontario manufacturers are not investing enough to maintain existing operations or expand capacity and they are not developing enough innovative new products. Now is the time for action. Further delay will only weaken Ontario's economic performance further. CME is urging the government to reposition Ontario as an attractive destination for domestic and foreign investment, and to grow our critical manufacturing sector as a central theme to Budget 2018.

With this in mind, our recommendations to grow Ontario's manufacturing sector are focused on four core areas –investment, innovation, skills and energy – as follows:

1. **Modernize the tax and regulatory system to ensure that it is globally competitive and is below that of the US and to provide incentives for investments in innovation, productivity and growth.** Specifically, the overall corporate tax burden on Ontario manufacturers must be lowered to be below the OECD average rates and much more competitive with the US rates. We believe a combined Federal/provincial tax rate of 20 per cent would be competitive given the aggressive tax reform in the US.

2. **Support innovation through investment in machinery, equipment, technology and advanced manufacturing processes to boost productivity and facilitate the commercialization of innovative products.** Based on technological change through Industry 4.0, manufacturing is going through rapid changes globally, and Ontario companies are falling behind. Manufacturers are near the bottom in the OECD in capital investment and technology adoption. This despite the fact that in Ontario we have a unique combination of a highly advanced and established manufacturing based along with a globally renowned technology clusters. Specifically, we believe the government should:

    a. Provide businesses with an immediate, 100 per cent tax write-off on purchases, installation and integration of machinery, equipment, software and advanced technologies to match the recent US changes;
    b. Expand and re-capitalize the provincially funded CME Smart Program to include productivity improvements and other capital expenditures necessary to remain globally competitive;
    c. Adopt a "patent box" tax regime similar to those in Quebec and Saskatchewan to allow profits related to the sale of products that are tied to innovations in Ontario to be subject to a more favorable tax rate; and,
    d. Support the creation of manufacturing hubs and technology demonstration centres that connect the provinces technology companies with manufacturers with a focus on technology commercialization and adoption. This should include continued support for the federal super-cluster strategy.

3. **The Government of Ontario needs to increase investment in industry-led training and skills-development initiatives, while also working with industry to attract underrepresented groups to jobs in manufacturing.** Ontario manufacturers struggle to find workers. The unemployment rate in manufacturing sits at 2.7 per cent, which is far lower than what would be considered "full employment" and indicates severe labour and skills shortages in the sector. In fact, roughly 50 per cent of CME members state they have existing skills shortages that impact their investment and ongoing growth. To address this issue, the Ontario government needs to:

    a. Work with industry and the education system to encourage students – especially women– to seek out careers in STEM fields and the skilled trades. This should include an expansion of the Open Doors program which introduces youth to manufacturing careers; and,
    b. Enhancing the Canada-Ontario Job Grant by increasing the funding and expanding its application to more on the job training to make it available to more companies doing more activities.

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4. **Lower electricity costs to encourage investment and production.** During CME consultation with members about the growing and expanding manufacturing in Ontario, the top concern raised by most companies are energy costs. To support the growth of manufacturing, we recommend:

   a. Expanding the Northern Industrial Electricity Rate program to all Ontario manufacturers;
   b. Immediately eliminate the debt retirement charge for all manufacturers;
   c. Streamlining and expand the Industrial Conservation Initiative program to better enable manufacturers to lower their electricity rates without compromising production; and,
   d. Re-open, streamline and expand the Industrial Electricity Rate Incentive (IEI) Program to all manufacturers.

We appreciate your review and consideration of these proposals for implementation in the upcoming provincial budget. We believe this combination of actions would be a significant step to making Ontario's manufacturing sector more globally competitive compared to other OECD countries and drive investment and growth in our critically important sector, and boost the overall economic performance of the province.

We will be in contact with your office shortly about setting up meeting at your earliest convenience.

Sincerely,

Dennis A. Darby, P.Eng., ICD.D
President and CEO

cc: Rhonda Barnet, President & COO, Steelworks Design Inc. and Chair, National Board of Directors, CME
Dennis Dussin, Chair, Ontario Advisory, CME