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Standing Committee on Finance and Economic Affairs
Ontario Pre-Budget Consultation Remarks

TUESDAY, JANUARY 15th, 2019
10:00am to 10:15am
Committee Room 151, Main Ontario Legislative Building, Queen's Park, Toronto Ontario

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Good morning, thank you for inviting us here to represent our 2,500 direct members, and the broader manufacturing and exporting community in Ontario. My name is Mathew Wilson, CME's Senior Vice President, Policy and Government Relations. Joining me today is Alex Greco, Director of Manufacturing Policy.

Our comments today focus on the need to create wealth and prosperity for all Ontarians through a world-class advanced manufacturing sector by harnessing new technologies and leveraging our people, natural resources and innovation capacity.

Manufacturing drives Ontario's economic activity, wealth generation and overall prosperity. The sector directly accounts for over 12 per cent of the provinces' GDP, with nearly $300 billion in annual shipments, $200 billion in exports and 770,000 employees. Another 1.2 million jobs are directly related to manufacturing across a wide range of sectors, including natural resources, services, government jobs and technology. Through their activities and employment, the sector contributes over $27 billion annually to provincial government operations, helping to pay for hospitals, schools, and roads in every community across the province.

While these numbers are significant, they also tell the story of a sector that has stagnated in recent years, and with it, so to has the province's economy. The result has been a steady decline in the strength and competitiveness of Ontario manufacturing and the province as a whole.

Consider the following:

- Ontario had the dubious distinction of being the only province to see manufactured goods exports fall in 2017;
- Manufacturing output in the province has not grown above inflation since climbing out of the great recession a decade ago and in 2017 sales growth was less than 1 per cent in 2017, the worst of any province;
- Capital expenditures in Ontario's manufacturing sector have fallen by nearly 20 per cent over the past decade, while investment levels were up over 8 per cent in Quebec; 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.

This stagnation in manufacturing in the province is not the sign of a sector in decline as is often reported. It is, however, the sign of a sector that is going through rapid changes, brought on by intense globalization and continual technological progress. Changes which are not often well understood and are not being capitalized on within Canada and Ontario.

To better understand these changes, the challenges they bring, and the opportunities they provide, CME conducted a detailed consultation with Ontario's manufacturing community throughout 2018. Our goal was to develop a plan that would double manufacturing output in province by 2030.

Throughout our consultations three core priorities emerged for growth. First, we must create a competitive business environment in Ontario that, through tax and regulatory reform and lower electricity prices, reduces business costs and encourages growth and production. Second, skills and labour shortages must be addressed through improving technical skills training of youth and increase support for industry-led training and skills-development initiatives. And third, supportive investment programs and policies must be introduced to drive both foreign and domestic investment and assist companies with scale-up, technology adoption, and product commercialization.

Over the past several months we have seen several important and encouraging steps taken by the government to address many of these elements. Red-tape regulatory reduction. Changes to labour regulations, including the key restrictive elements of Bill 148 and beginning to address apprenticeship ratios. Curriculum reform to increase focus on STEM education. Improvements to accelerated capital cost allowance tax allowances. Commitment to a full review on industrial electricity pricing with a goal to reduce costs in Ontario. All of these welcomed and applauded by CME and the manufacturing community in general and we look forward to continuing to work with the government on their implementation.

That said, more aggressive action is required to reverse current trends of the manufacturing sector, and we believe the spring 2019 provincial budget is the right time to take the next steps towards a pro-growth manufacturing strategy. Based on the three broad themes identified during our consultations to reduce the cost of doing business, address skills shortages, and supporting investment, we have three priority areas for action in Ontario's next budget.

First, the province should commit to conduct a full review of the provinces' tax system to modernize it for 21st century realities. Ideally this would be done in partnership with the federal government given the integration of the systems. A full review of Canada's tax system has not been done since the early 1960s and much has changed since then which impacts how businesses operate and how and why governments tax. An ideal outcome of the review would be to ensure our tax system is rewarding growth and recognizes value to society, rather than the size of a company. While we understand tax reviews can take a while and the outcomes are unknown, it is critical the process is at least started.

In the interim, there is one area of growing importance that we heard regularly about from members across the province and that is property tax reform and protection of industrial employment lands. The province recognized this issue in the fall when it proposed to eliminate the "highest and best use" provisions being used unfairly to increase property taxes on the province's manufacturers. This was an excellent first step, but more needs to be done. The province should introduce additional measures to protect industrial employment lands from regulatory creep that forces relocation or costly alterations to facilities due to residential expansion. Industrial property taxes must be reduced, which can start with by following-through on a commitment of the last government to phase out the Provincial Business Education Tax that is levied through property taxes.

The second area of needed attention is new support programs to boost investment in machinery and equipment and facilitate the commercialization of innovative products. Investment is critical for growth, innovation, and job creation. However, as noted earlier, investment in these areas in Ontario compared to other provinces are lagging. Ontario has the worst investment record in the country, and Canada is ranked near the bottom in the OECD in capital investment and technology adoption.

Reducing the cost of doing business in the province will help with the investment challenge Ontario currently faces. However, that in and of itself will not reverse the trends. Ontario is fighting for investment from companies – both domestically grown and internationally headquartered – that can and will put their capital nearly anywhere in the world. And free trade allows them to service their customer base globally from nearly any location.

Over the past several months, the government has supported several manufacturing investments in Ontario, which has been positive. However, industry needs a stable, transparent, and predicable program to support investments in their operations. As such, we strongly recommend the creation of an investment support program focused on the attraction of new investment, and assist companies looking to reinvest in their existing processes.

The final issue we want to raise with the Committee today is that of the ongoing skills and labour shortages in the province. Simply put, Ontario manufacturers struggle to find workers. It is their top issue that impacts their day to day operations and the long-term growth of their companies. The unemployment rate in manufacturing sits at 3.3 per cent, which below what is considered full employment. In CME's industry consultation, 77 per cent of respondents stated they faced labour and skills shortages today. Five years from now, close to 80 per cent anticipate such shortages.

This is a long-term issue that will not be addressed overnight. However, if we are to address it, we must begin to work together on it now. As part of Budget 2019, we believe the government should take the next steps on addressing by focusing in two specific areas. First, work with industry and the education system to encourage youth to seek out careers in STEM fields and the skilled trades. This should include an investment in an Open Doors program to introduce youth to manufacturing careers. Second, increase support for industry lead training programs to get more employers re-engaged in training, including through an improved Ontario-Canada Job Grant, expansion of apprenticeship training tax credits, and funding for work-integrated learning programs that can leverage the capacity of industry for training purposes.

Thank you again for your time today. To sum up, manufacturing in Ontario is the largest single contributor to the wealth and prosperity of the province. we understand the province is in a difficult financial situation with deficits which has ballooned out of control. However, without positive economic growth, led by the private sector, the province will not meet the long-term need to rebalance our finances. Manufacturing can play a critical role in this economic renewal, but the sector needs the business environment and the support to reverse recent stagnant trends. This should start in the 2019 budget with a focus on continuing to reduce the cost of doing business, by making strategic, smart investments, and by investing in closing the labour and skills gap facing the province.

We look forward to the questions and discussion.