Standing Committee on Finance and Economic Affairs
Ontario Pre-Budget Submission Remarks
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Good afternoon Mr. Chair and members of the Committee, thank you for inviting me here to represent Canadian Manufacturers & Exporters (CME), our 2,500 direct members, and the broader manufacturing and exporting community. Our membership network accounts for an estimated 82 per cent of manufacturing activity across Ontario and 90 per cent of our exports.

My 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% of the provinces' GDP, with nearly $300 billion in annual shipments, $200 billion in exports and 770,000 jobs.

Manufacturing also generates significant economic spinoffs, including in natural resources, technology and a wide variety of services sectors. When these are considered, nearly 30% of all economic activity and jobs across the province are linked to manufacturing. Another way to look at this is this: if manufacturing disappeared, nearly one-third of the economy would disappear with it.

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%, 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.
- 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.

Simply put, Ontario manufacturers are not investing enough to maintain existing operations or expand capacity; and they are not developing innovative new products. Their ability to compete here at home or around the world has weakened as a result.

This is not to place the blame entirely on the government for these realities. Companies have a direct responsibility for business planning, product development, process innovation, and customer relations and development. However, the business environment in which they operate is critical in supporting and accelerating investment and growth.

In Ontario, operating costs due to government policies have been on the rise. Just a couple examples are the recently implemented Bill 148 with minimum wage increases and a range of other workplace regulatory changes will directly increase costs for manufacturers. This was in addition to the Cap and Trade program, carbon taxes and ever-increasing energy costs.

At the same time American policymakers are working on decreasing costs, including recently lowering the Federal corporate tax rate from 35% to 21%. This combined with 100% expensing of capital equipment have significantly reduced the marginal effective tax rate on investments in the US and are providing businesses with generous tax incentives to invest in capital assets.

To make matters even more challenging, uncertainty around the future of Canada-US trade relations is casting a long shadow over our industry. Ontario's chief selling point as an investment destination is our proximity and access to the US market. We need to provide businesses with a very good reason to continue to invest in Ontario. Otherwise, they will find it cheaper, easier and less risky to shift their operations south of the border.

Now is the time for action. Further delay will only weaken Ontario's economic performance further. CME is urging the government to use this budget as an opportunity to take a bold step forward on these issues, to reposition Ontario as an attractive destination for domestic and foreign investment, and to grow our critical manufacturing sector.

With this in mind, our recommendations to the Government of Ontario for budget 2018 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 U.S. 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% 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% tax write-off on purchases, installation and integration of machinery, equipment, software and advanced technologies to match the recent US changes. Currently the province matches the federal Accelerated Capital Cost Allowance processes with a two-and a half year write down on capital purchases.
   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. This will provide companies with a strong incentive to innovate, and commercialize the innovations in Ontario.
   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%, 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% 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.

b. The Canada-Ontario Job Grant is an excellent example of the type of supports that are necessary, however it is limited in its scope. We recommend enhancing the program by increasing the funding and expanding its application to more on the job training to make it available to more companies doing more activities.

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. While the electricity rate may be improving for a small segment of very large electricity users that can shift their usage away from peak periods based on recent program changes, the costs for the majority are not improving. The fact is the clear majority of Ontario industry continues to be at a significant rate disadvantage on a North American basis. To support the growth of manufacturing, we recommend:

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

To sum up, manufacturing in Ontario is the largest single contributor to the wealth and prosperity of the province, but the province has become uncompetitive for investment attraction, which is weakening the position of the sector in a very globally competitive sector. This erosion of competitive position not only hurts the sector, but the health and wellbeing of over 2 million Ontario families. We believe that action is urgently needed to improve the business climate for manufacturers in Ontario, to reverse declining trends, and to position our sector to once again be a global leader. Lowering the overall tax burden; encouraging investment in new productivity-enhancing machinery, equipment and technologies; fostering new product innovation and commercialization; addressing labour and skills shortages; and improving our energy and physical infrastructure are all critically needed.

I thank you for the opportunity to present. I look forward to the questions and discussion.