

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

FRIDAY, JANUARY 17<sup>th</sup>, 2020

2:00pm to 2:15pm

Committee Room 151, Main Ontario Legislative Building, Queen's Park, Toronto Ontario

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Good afternoon, thank you for inviting me here to represent our 2,500 direct members, and the broader manufacturing and exporting community in Ontario. My name is Alex Greco, Canadian Manufacturers & Exporters (CME's), Director of Manufacturing Policy. My comments today focus on the need to help manufacturers grow and create wealth and prosperity for all Ontarians.

Manufacturing serves Ontario's economic activity, wealth generation and overall prosperity. The sector directly accounts for over 12 per cent of the province's GDP, with nearly \$300 billion in annual shipments, 200 billion in exports and 770,000 jobs.

To a certain extent, these numbers tell a story of the potential of our manufacturing sector. They also tell the story of a sector that continues to stagnate. The result has been a decline in the strength and competitiveness of Ontario's manufacturing sector. Consider the following:

- Our record on capital investment over the last five years is the 5<sup>th</sup> worst in the entire OECD.
- Ontario GDP per capita growth is 45<sup>th</sup> out of the 60 jurisdictions across the US and Canada.
- US manufacturers invest 8 times more than Ontario manufacturers.
- Productivity growth has been 30 percentage points lower than the US rate.
- Manufacturing investment in Ontario is about 20 per cent lower today than it was in 2005

Manufacturing is also continuing to go through significant changes. To better understand what changes are taking place in the manufacturing sector, CME conducted a detailed consultation with Ontario's manufacturing community in 2018. Our goal was to develop a plan that would double manufacturing output in the province by 2030. Throughout our consultations three core priorities emerged for growth: reduce the cost of doing business, support investment, technology adoption and scale-up and address the skills shortage. Based on the themes identified during our consultations, we have the following

recommendations for Budget 2020 to help create manufacturing jobs and attract investment in our sector.

The first area this budget should focus on to help reduce business costs is to restore fairness in Ontario's property tax system. We commend the government for taking initial steps to restore fairness in the Ontario property tax system by committing to removing the "highest and best use provisions" and reviewing the MPAC governance process. That said, more must be done. Unfair and high property tax rates can have devastating effects on manufacturing plants because it is a fixed cost of doing business on capital and investments. They can also have a chilling effect in investment when business owners are considering upgrades of existing plants, expansion or development of new plants. Manufacturers are paying 3-4 times higher in property taxes compared to other commercial and residential ratepayers. What makes matters worse is that manufacturers are paying high and unfair rates is due to the business "education" tax (BET), a tax unrelated to Ontario's education system, but targets residential and business properties. This tax alone cost Ontario industry \$6 billion in 2017. It has been a barrier to competitiveness and has caused distortion in efficient business location decisions. To that end, the government should begin to take measures to phase out the BET and begin to enact additional measures to restore fairness between industrial, commercial and residential property taxes.

To further reduce business costs, we must lower electricity rates. For many years, Ontario's high electricity costs has been a top issue for our members. Ontario manufacturers electricity rates are upto 75 per cent higher than other US jurisdictions. We understand that there is no single "silver bullet" to solve this problem. But we need solutions to be implemented soon. Solutions should include introducing a competitive industrial rate, returning the Industrial Conservation Initiative (ICI) program, a program where large industrial users of electricity can reduce their costs by lowering their load during Ontario's peak demand hours, to its original design criteria (3 megawatts) and grandfather those who wish to stay in it until such a time as they decide to opt out and reducing Global Adjustment (GA) costs and shifting them to the provincial budget.

The second area this budget must focus on are new support programs and incentives to boost investment in machinery and equipment. Prior to the 2019 Fall Economic Statement, the government renewed the regional economic development funding programs in Eastern and Southwestern Ontario. This was a positive development. However, industry needs a stable, transparent, and predicable program to support investments in their operations that is accessible for all manufacturers. Given this, we recommend the creation of an investment support program focused on the attraction of new investment, and to assist companies looking to reinvest in their existing processes. To help further boost investment, we also recommend the introduction of a "patent box" tax incentive to encourage commercialization of products locally. This has successfully been adopted in other jurisdictions globally and in other Canadian provinces.

Such an incentive would support initial production scale-up by reducing corporate taxes paid on earnings from new products.

The final area that the government must address is the ongoing issue of skills and labour shortages in Ontario. This is a big problem that impacts manufacturers' day to day operations. When we recently surveyed our members, we found that 85 per cent of manufacturers struggle to fill vacancies and Canada's youth are also increasingly unprepared and uninterested in working in manufacturing despite the stable and high paying jobs on offer. Among many solutions that the government can implement to address this problem, one solution is of the utmost importance. The government should work with industry and the education system to create Regional Industry Councils (RIC's). These councils would be populated with local representatives that create ties between industry, marginalized groups and the academic community who can act as the central authority in various communities to address the many challenges manufacturers face, including recruiting, training and helping youth update their skills in order to secure a career in the skilled trades.

In closing, manufacturing in Ontario is the largest single contributor to the wealth and prosperity of the province. We continue to understand that the province is in a difficult financial situation with high budget deficits. But the sector needs a competitive business environment and the support to reverse stagnant trends. Manufacturing should play a critical role in creating prosperity and economic renewal in Ontario.

Thank you for your time today. I look forward to the questions and discussion.