WHO WE ARE

ABOUT CANADIAN MANUFACTURERS & EXPORTERS
Since 1871, we have made a difference for Canada’s manufacturing and exporting communities. Fighting for their future. Saving them money. Helping manufacturers grow.

The association directly represents more than 2,500 leading companies nationwide. More than 85 per cent of CME’s members are small and medium-sized enterprises. As Canada’s leading business network, CME, through various initiatives including the establishment of the Canadian Manufacturing Coalition, touches more than 100,000 companies from coast to coast to coast, engaged in manufacturing, global business, and service-related industries.

CME’s membership network accounts for an estimated 82 per cent of total manufacturing production and 90 per cent of Canada’s exports.

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ACKNOWLEDGEMENTS
This report was prepared by Alan Arcand, Chief Economist at CME.
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EXECUTIVE SUMMARY

The manufacturing sector is a cornerstone of Canada’s economy, playing a crucial role in creating jobs, fostering innovation, and driving economic growth. The nation’s 90,000 manufacturers directly generate 9.5 per cent of Canada’s real gross domestic product (GDP), make up one-quarter of its business research and development spending, and account for 60 per cent of the country’s outbound goods. Taken together, the sector’s direct, indirect and induced impacts amount to 27 per cent of Canada’s total economic activity.

In addition, by employing 1.79 million Canadians and supporting 3.58 million more jobs through supply chain activity and employee spending, the manufacturing industry undoubtedly makes substantial contributions to communities across Canada.

Despite its significant role in the country’s economy, the manufacturing sector suffered through a prolonged period of weak investment, sluggish productivity, and declining competitiveness starting in the early 2000s. As a result of this slump, Canadian Manufacturers & Exporters (CME) and its member companies launched a new strategy in 2016 with the goal of leveraging the opportunities presented by the Fourth Industrial Revolution and placing the sector on a stronger growth path. The Industrie 2030 strategy was developed following a comprehensive member consultation and research initiative to better understand the challenges facing Canada’s manufacturing sector, and it resulted in a set of recommendations to governments designed to revitalize one of the country’s key growth engines.

Manufacturing production has expanded since the initiative was launched seven years ago, aided in part by the implementation of some of the report’s recommendations, but the pace of growth has been weaker than desirable and generally lagging those of other advanced economies. Part of the blame for this subpar growth can be pinned on a number of crises and challenges that have severely tested the sector’s resilience in recent years, including the COVID-19 pandemic, supply chain disruptions, a dramatic spike in labour shortages, geopolitical fracturing, and the rising prominence of climate change and environmental issues on national and global agendas. But it can also be blamed on persistent and unaddressed issues that the sector has had to grapple with for years, like workforce challenges, a relatively high tax burden, a sub-optimal regulatory environment, and the lack of a national manufacturing strategy, all of which combine to deter business investment.

Notably, the succession of crises that have buffeted the global economy in recent years have also brought renewed attention to the importance of the manufacturing sector and the role it plays in the production of critical goods. Indeed, the pandemic laid bare a stark reality: the erosion of Canada’s manufacturing capacity left the country in a vulnerable position, as governments scrambled to source critical supplies and equipment. Thankfully, despite the challenging environment, many Canadian manufacturers stepped up and shifted production to make PPE and other supplies needed to protect front line workers and to help patients dealing with the deadly virus. Still, the pandemic served as a wake-up call for Canadian policymakers, a reminder of manufacturing’s critical role in the economy and the vital need to rebuild the nation’s industrial capacity.

Rising geopolitical tensions and emerging concerns about being overly dependent on China for critical goods are other major trends raising the manufacturing sector’s profile. This is why governments in Canada and in other advanced economies have declared it a priority to re-shore or friend-shore core parts of the supply chain.

The global race to build a clean, net-zero economy, which some consider to be one of the most significant economic transformations since the Industrial Revolution, has also pushed manufacturing higher up the political agenda. Global demand for clean technologies is increasing rapidly, representing a significant opportunity for Canada to grow its economy and create good jobs.
Given the evolving dynamics of the global economy, CME needed to make certain that its advocacy efforts on behalf of Canadian manufacturers would continue to pay off in a world of accelerating change. To help with this undertaking, CME embarked upon cross-country consultations with its member companies during the spring and summer of 2023, leveraging their expertise and industry experience.

Throughout the consultation process, consistent and familiar themes emerged that reaffirmed the well-documented problems facing the manufacturing industry in Canada, such as labour and skills shortages, red tape and regulatory barriers, and the lack of incentives to invest in productivity-enhancing machinery and equipment. It also revealed new challenges that the sector is facing today, including housing shortages, the role of municipalities as a major obstacle to growth, and growing pressures to rapidly decarbonize the industry. Put together, these challenges require new policy recommendations for governments to act upon if the Canadian manufacturing sector is to remain competitive over the long run.

By addressing these challenges, manufacturers will be able to seize the opportunities presented by current economic, geopolitical, and environmental trends. Accordingly, now more than ever, all levels of government need to work together with industry to develop and implement a comprehensive national strategy for advanced manufacturing. The strategy includes 22 recommendations organized under the following four pillars:

1. Expanding and upskilling Canada’s manufacturing workforce.
2. Stimulating innovation, investment, and the adoption of advanced manufacturing technologies.
4. Speeding up and expanding clean technology incentives to help manufacturers adapt to and advance Canada’s climate change plan.

In CME’s view, implementing this strategy and its recommendations will result in a more competitive business environment, lead to higher levels of investment, innovation, and productivity, boost the sector’s production and exports, and contribute to emissions reductions. Given manufacturing’s far-reaching impact, its revival will help secure Canada’s prosperity for generations to come.
PILLAR 1: EXPAND AND UPSKILL THE MANUFACTURING WORKFORCE

Recommendation 1: Modernize Canada’s immigration and temporary foreign worker programs to ensure manufacturers have access to a talent pool with the knowledge, skills, and abilities they need to grow and thrive.

Recommendation 2: Address Canada’s housing shortage to ensure affordable housing near manufacturing jobs, mandate modular construction to help meet housing targets, and avoid encroachment on industrial lands.

Recommendation 3: Provide employer-led training benefits, including a 50 per cent tax credit that offsets half the costs of employee training.

Recommendation 4: Refocus Canada’s education system to connect youth to manufacturing and skilled trades jobs.

Recommendation 5: Renew and increase funding for programs that encourage more members of underrepresented groups to seek a career in manufacturing.

Recommendation 6: Reform the Employment Insurance (EI) system to encourage labour force participation and labour mobility.

Recommendation 7: Increase incentives to encourage the adoption and integration of automation technology.

PILLAR 2: STIMULATE INNOVATION, INVESTMENT AND THE ADOPTION OF ADVANCED TECHNOLOGIES

Recommendation 8: Introduce a shared federal/provincial 20 per cent refundable manufacturing investment tax credit (ITC).

Recommendation 9: Enhance and reform the Scientific Research and Experimental Development (SR&ED) program and implement a complementary patent box regime.

Recommendation 10: Recapitalize and extend the Strategic Innovation Fund (SIF) program for at least ten more years, providing a minimum of $2.5 billion in annual funding to support large capital projects in manufacturing.

Recommendation 11: Provide targeted program support for small and medium-sized enterprises (SMEs), including providing funding for technology demonstration tours and site visits that showcase leading technologies.

Recommendation 12: Increase coordination across all levels of government to remove interprovincial trade barriers, harmonize regulations, and reduce red tape.

PILLAR 3: ENCOURAGE DOMESTIC PRODUCTION AND VALUE-ADDED EXPORTS

Recommendation 13: Accelerate commitments to improve the reliability of our transportation system by investing more heavily and proactively preventing disruptions of critical infrastructure.

Recommendation 14: Increase funding, expand awareness, and make it easier for SMEs to access programs that help them go global.

Recommendation 15: Leverage CUSMA and other policy tools to maintain market access and better protect Canadian manufacturers from unfair trade practices.

Recommendation 16: Introduce government procurement reforms that promote domestic innovation and production by eliminating the lowest bidder rule.

Recommendation 17: Ensure Canadian industry has access to predictable, reliable, and affordable energy to power its operations.

PILLAR 4: SPEED UP AND EXPAND CLEAN TECHNOLOGY INCENTIVES TO HELP MANUFACTURERS ADAPT TO ADVANCE CANADA’S CLIMATE CHANGE PLAN

Recommendation 18: Speed up implementation of the new and expanded investment tax credits (ITCs) proposed in Budget 2023 and introduce additional measures to further close the gap in incentives relative to the U.S. Inflation Reduction Act.

Recommendation 19: Expand and extend the Net Zero Accelerator (NZA) initiative for at least ten more years, providing a minimum of $5.0 billion in annual funding to support large-scale carbon reduction investments.

Recommendation 20: Create an SME net-zero transition strategy that focuses on education and awareness campaigns, operational assessments, and dedicated funding to secure their participation in global supply chains.

Recommendation 21: Return all revenues from the federal fuel charge to manufacturers.

Recommendation 22: Simplify and accelerate the approval process for new projects by enacting comprehensive permitting and regulatory reform and by identifying and eliminating redundant and outdated regulations.

LIST OF RECOMMENDATIONS
BACKGROUND

The manufacturing sector is a cornerstone of Canada’s economy, playing a crucial role in creating jobs, fostering innovation, and driving economic growth. The nation’s 90,000 manufacturers directly generate 9.5 per cent of Canada’s real gross domestic product (GDP), make up one-quarter of its business research and development spending, and account for 60 per cent of the country’s outbound goods. Taken together, the sector’s direct, indirect and induced impacts amount to 27 per cent of Canada’s total economic activity. In addition, by employing 1.79 million Canadians and supporting 3.58 million more jobs through supply chain activity and employee spending, the manufacturing industry undoubtedly makes substantial contributions to communities across Canada.

Despite the scope of the industry and its prominent role in Canada’s economy, the manufacturing sector has struggled to gain traction since the early 2000s, as sluggish business investment led to slower growth in both output and exports, especially compared to other advanced economies. In fact, by the middle of last decade, the slump in manufacturing activity was so deep and prolonged that it became apparent that the Canadian economy stood at a critical crossroads. As a country, Canada could choose the status quo and continue to witness dwindling manufacturing capacity and competitiveness, or it could launch a bold, comprehensive industrial strategy that reinvigorated the manufacturing sector and set a course for an ambitious future.

Canadian Manufacturers & Exporters (CME) chose the latter. In 2016, CME embarked upon a major and broad-based consultation with manufacturers from across the country with the objective of placing the manufacturing sector on a higher growth trajectory, resulting in Industrie 20301, a national manufacturing strategy developed by CME and its strategic partners to leverage the opportunities presented by the Fourth Industrial Revolution and usher in a new era of growth in Canada.

Unfortunately, while manufacturing production has expanded since the initiative was launched seven years ago, aided in part by the implementation of some of the report’s recommendations, but the pace of growth has been weaker than desirable and generally lagging those of other advanced economies. The factors that have stunted growth in Canada’s manufacturing sector are described in more detail below.

THE FOURTH INDUSTRIAL REVOLUTION

The Fourth Industrial Revolution, also known as Industry 4.0, is the cyber-physical transformation of manufacturing. It is characterized by increasing automation and the integration of advanced manufacturing technologies—hardware, software, and data—to produce goods more efficiently and productively across the value chain. At its core, this revolution is about harnessing knowledge and digital information to spark a dramatic leap forward in innovation, product development, and process efficiency.

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1 Canadian Manufacturers & Exporters, “Industrie 2030: Manufacturing Growth, Innovation and Prosperity for Canada.”
THE ECONOMIC IMPACT OF MANUFACTURING IN CANADA

Manufacturing is a vital contributor to the Canadian economy and to the living standards of all Canadians. In 2022, it directly generated $195.4 billion in real GDP, employed 1.79 million Canadians, and sold almost $450 billion worth of goods abroad. This makes it one of the largest business sectors in Canada, accounting for 9.5 per cent of total GDP, 9.1 per cent of total employment, and close to 60 per cent of our merchandise exports.

However, these numbers only tell part of the story of the impact of manufacturing in Canada. Every manufactured good produced in Canada creates demand for raw materials, semi-finished inputs, transportation, and a host of other goods and services. That demand, in turn, sparks additional purchases all the way up the production chain. These are known as indirect effects. Along the way, jobs are created, income is generated, and taxes are collected. The wages and salaries that Canadians earn from these direct and indirect effects are then spent on other goods and services, generating another round of induced effects.

The total impact that the manufacturing sector makes on the Canadian economy is the sum of the direct, indirect, and induced impacts. When accounting for all these effects, the sector’s aggregate footprint rises to $547 billion in value-added output, or 27 per cent of total GDP. In other words, close to three of every ten dollars in output generated in Canada can be traced back to the manufacturing sector.

Manufacturing is also a major job creator. Along with a manufacturing workforce of 1.79 million people in 2022, the spinoff effects from manufacturing activities supported an additional 3.58 million jobs in Canada, bringing total employment attributable to manufacturing up to 5.36 million – supporting a staggering 27 per cent of all jobs across the country.

### TABLE 1
MANUFACTURING SECTOR’S ECONOMIC FOOTPRINT IN 2022

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Direct</th>
<th>Indirect</th>
<th>Induced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP (billions $)</td>
<td>546.9</td>
<td>195.4</td>
<td>239.9</td>
<td>111.6</td>
</tr>
<tr>
<td>Employment (millions)</td>
<td>5.36</td>
<td>1.79</td>
<td>2.35</td>
<td>1.23</td>
</tr>
</tbody>
</table>

Sources: Statistics Canada; CME.

BUSINESS INVESTMENT IN CANADA REMAINS STUBBORNLY LOW

Canada has experienced a prolonged period of weak business capital spending, a key reason Canada’s manufacturing sector is failing to reach its potential. In fact, the level of business investment in non-residential structures and machinery and equipment to this day remains below its 2014 level. (See Chart 1.) As a result, Canada continues to lag its Organization for Economic Co-operation and Development (OECD) peers in terms of business investment growth, ranking second last among a group of 31 countries. (See Chart 2.) The relatively poor investment performance of Canada compared to these other economies suggests that businesses see less opportunity in Canada, spelling trouble for the country’s future economic growth prospects.

### CHART 1
BUSINESS INVESTMENT IN CANADA STILL BELOW 2014 HIGH-WATER MARK

Business investment in non-residential structures and machinery and equipment (seasonally adjusted)

Several factors discourage businesses from investing in Canada, including labour and skills shortages, a relatively high tax burden, and a sub-optimal regulatory environment. Taken together, these factors continue to undermine the manufacturing sector’s growth potential and limit its important contribution to the economy.
Capital investment is crucial for long-term economic growth, as it provides the machinery, equipment and buildings needed to allow for the efficient production of goods and services. The challenge Canada is facing can be illustrated using one common metric: non-residential investment per worker. Business investment per worker or capital intensity is an important measure because it shows the extent to which the average employee is getting equipped with new capital that can raise productivity and enhance competitiveness relative to workers elsewhere.\textsuperscript{2}

\textsuperscript{2} Robson, “Thin Capitalization: Weak Business Investment Undermines Canadian Workers.”
Unfortunately, the data in Chart 3 reveal a troubling picture: non-residential business investment per worker in the manufacturing sector is three times lower in Canada than in the U.S. Specifically, in 2021, manufacturing investment per worker was $48,800 in the U.S., but only $13,200 in Canada. Low capital intensity sends a worrying signal about Canada’s future productivity growth and prosperity.

### CHART 4
CANADA’S MANUFACTURING CAPITAL STOCK NEAR 30-YEAR LOW
End-year capital stock in manufacturing (1961=100, chained 2012 dollars)

In fact, investment in Canada’s manufacturing sector over the past two decades has been so weak that it has been unable to compensate for the depreciation of existing plants and machinery. In other words, manufacturing investment is at levels lower than the amount required to replace existing capital as it wears out or grows obsolete.

As a result, the stock of capital in 2021 was actually lower than when the first free trade agreement was signed with the U.S. in 1988, where the capital stock happens to be at a record high.³ (See Chart 4.) This is another worrying sign that Canada’s manufacturing sector is becoming less competitive on the global stage.

³ Marion, “Canada Can’t Afford to Bleed Capital like This.”
There is no better indication of Canada’s decline in global competitiveness than the country’s ballooning trade deficit in manufactured goods. In fact, the trade deficit hit a record high of $197.8 billion in 2022 and, unfortunately, is on track to almost match this figure in 2023. (See Chart 5.) This is a remarkable change compared to the situation of the early 2000s when Canada’s trade deficit in manufactured goods averaged a much more modest $10 billion per year.
NEW CHALLENGES TESTING MANUFACTURING SECTOR’S RESILIENCE

Along with weak business investment, part of the blame for the manufacturing sector’s subpar growth can also be pinned on a number of crises and challenges that have severely tested the sector’s resilience in recent years, including the COVID-19 pandemic, supply chain disruptions, a dramatic spike in labour and skills shortages, geopolitical fracturing, and requirements to meet net-zero environmental targets. Many of these challenges, especially the pandemic, have also renewed debate about the manufacturing sector’s role in Canada’s economy.

Indeed, the pandemic laid bare a stark reality: the erosion of Canada’s manufacturing capacity left the country in a vulnerable position, as governments scrambled to source personal protective equipment (PPE) such as masks, medical equipment such as ventilators, and later vaccines. Despite the challenging environment, many Canadian manufacturers stepped up and shifted focus to produce PPE and other critical equipment and supplies needed to protect frontline workers and manage the transmission of the deadly virus. The pandemic was a wake-up call for Canadians and policymakers alike, a reminder of manufacturing’s critical role in people’s everyday lives and of the vital need to rebuild our industrial capacity.

CHART 6
U.S. INDUSTRIAL POLICY ALREADY PAYING OFF
Manufacturing construction spending (August 2020=100)

Canada’s race to build a clean, net-zero economy, which some consider to be one of the most significant economic transformations since the Industrial Revolution, has also pushed manufacturing higher up the political agenda. Global demand for clean technologies is increasing rapidly, representing a significant opportunity for Canada to grow its economy, create jobs, and foster prosperity now and into the future.

The need for governments to foster and encourage investment in clean technology solutions became especially urgent after the U.S. introduced the Inflation Reduction Act (IRA), landmark legislation that provides domestic manufacturers with generous incentives to build renewable technology and energy south of the border. Since the introduction of the IRA a little over a year ago, the U.S. has been in the grips of a factory-building boom. (See Chart 6.)

Manufacturing investment in Canada is also rebounding from pandemic lows, but it has not followed the same upward trajectory as in the U.S. In an attempt to be competitive with the U.S. and to build an electric vehicle (EV) supply chain, the federal and certain provincial governments have signed agreements containing IRA-equivalent benefits with battery and automakers such as Volkswagen, Northvolt, Stellantis NV and LG Energy Solutions Ltd. In addition, the federal government has also announced a suite of investment tax credits to support the clean energy transition, though the rollout has been slow.
Rising geopolitical tensions and emerging concerns about being overly dependent on China for critical goods are other major factors driving a renewed commitment to strengthen Canada’s manufacturing sector. This is why governments in Canada and in other advanced economies have declared it a priority to re-shore or friend-shore core parts of the supply chain. For example, building supply chain resilience is one of the strategic objectives of Canada’s Indo-Pacific Strategy.\(^4\)

However, despite recent initiatives to support strategic sectors of the Canadian economy, like clean technology, the country still lacks a more comprehensive industrial policy that is critical to addressing the country’s long-standing issues of weak business investment and lacklustre productivity growth.

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\(^4\) Canada, “Canada’s Indo-Pacific Strategy.”
Indeed, the latest trends are especially troubling. Canada’s business sector labour productivity has declined in 9 out of the last 10 quarters, with hours worked outpacing growth in output. (See Chart 7.) This is the main reason real GDP per capita has decreased for four consecutive quarters and living standards have stalled. (See Chart 8.) In fact, Canada’s per capita GDP in the third quarter of 2023 was equal to its level in the second quarter of 2017, implying that Canadians are no better off today than they were six years ago.
HEADWINDS BUFFETING MANUFACTURING SECTOR TO PERSIST INTO 2024

If Canada’s economy and manufacturing sector are to experience a turnaround, it is not likely to occur in the near term, as they are being buffeted by headwinds on multiple fronts. First, the pace of the global economic recovery is slowing due mainly to monetary policy tightening and a slowdown in China. In the latest forecast from the International Monetary Fund (IMF), the multilateral agency maintained its global growth outlook for 2023 at 3.0 per cent, but slightly downgraded its outlook for 2024 to 2.9 per cent. However, it should be noted that this forecast was produced prior to the eruption of fighting between Israel and Hamas, another crisis that threatens to upend an already fragile global economy.

The weak global economic backdrop is unwelcome news for Canada since it derives more than 30 per cent of its GDP growth from exports. It is also troublesome for the country’s manufacturing sector because it generates about half its sales from abroad. That said, on a more positive note, the IMF actually upgraded its outlook for the U.S. economy, Canada’s largest trading partner, so the demand for Canadian goods will not be as weak as the headline global GDP growth figures would suggest.

Along with slowing global demand, the domestic side of Canada’s economy is also being weighed down by the rapid rise in interest rates needed to rein in persistently stubborn inflation. As a share of GDP, Canadian households are the most leveraged across the G7, indicating that the 475-basis-point spike in interest rates since the spring of 2022 is sure to act as a drag on consumer spending. While this impact has been delayed by the strong labour market and the drawing down of pandemic-era savings, both of these offsetting factors are fading.

Manufacturing is relatively more interest rate-sensitive than other sectors. This is especially true for subsectors that produce big-ticket items like vehicles, appliances and furniture, items that are more likely to be funded with debt. Construction is another industry that is typically hard hit during monetary policy tightening cycles, especially on the residential side. Accordingly, manufacturing subsectors that supply inputs to the construction sector, like wood products, also tend to struggle during these periods.

The third notable headwind affecting Canada’s manufacturing sector is the ongoing post-COVID shift from spending on goods to spending on services. In the early days of the pandemic, Canadians responded to lockdowns with a dramatic shift in their spending patterns. Unable to travel or eat out, they spent more on things to fill their homes including furniture, computers, TVs, video game systems, and home gym equipment. This increase in spending on goods was also partly fueled by unprecedented government financial assistance.

But with the economy no longer subject to COVID-19 restrictions, spending patterns have dramatically shifted toward services. After enduring a yearslong pandemic, consumers have been engaging in “revenge travel,” dining out, and attending concerts and sporting events. However, this trend is fading as well, as consumers are returning to their previous spending habits with the balance between goods and services getting back to where it stood before the pandemic started.

Given all these headwinds, it is not surprising that the Canadian economy is expected to remain subdued over the next few quarters. In fact, real GDP growth is projected to come in at 1.1 per cent in 2023 and 0.7 per cent in 2024. Unfortunately, a similar story is expected to play out in the manufacturing sector: real output is forecast to climb by a modest 0.5 per cent in 2023 and by a similarly disappointing 0.8 per cent in 2024. (See Chart 9.)

5 Deloitte, “Interest Rate Increases Start to Hit Home in Canada.”
Among major subsectors, transportation equipment manufacturing has been the main growth driver over the past two years, coinciding with rebounds in the automotive and aerospace industries. The robust growth seen in the auto sector is attributable to the continued easing of global semiconductor shortages, which is enabling companies to boost production and sell more cars and trucks. At the same time, the aerospace sector continues to recover from the collapse in air travel experienced during the pandemic. In fact, output growth in transportation equipment manufacturing reached 7.1 per cent in 2022 and is on track to accelerate even further to 14.1 per cent in 2023. (See Table 2.) The subsector is expected to maintain these gains in 2024, with growth coming in at much slower 0.5 per cent.
On the negative side, the wood product manufacturing sector is projected to record an output decline of 8.4 per cent in 2023, largely due to a downturn in new home construction activity in both Canada and the U.S. The subsector is forecast to post positive growth in 2024, but it will be limited to just 1.8 per cent as interest rates remain elevated.

Output growth in most other major manufacturing subsectors is expected to be modest at best in 2024. Plastics and rubber products manufacturing is expected to lead the way with a 2.5 per cent gain in output, only partially recouping the significant losses observed in 2023. At the other end of the spectrum, machinery manufacturing output is projected to decrease by 2.3 per cent next year, following impressive back-to-back gains of 9.0 per cent and 7.3 per cent, respectively, in 2022 and 2023.

Despite the manufacturing sector’s long-standing challenges and modest near-term outlook, a comeback is more than possible. In fact, this report provides a vision and path for Canada to revitalize the manufacturing sector over the long run. Given that the sector remains a significant component of the country’s economy, adopting this strategy will help Canada achieve stronger economic growth, job creation, and prosperity.
MANUFACTURING CANADA’S FUTURE: A STRATEGY TO DRIVE GROWTH AND PROSPERITY

In 2023, Canada’s manufacturing sector and overall economy continue to face a number of challenges that hinder its growth potential. For the manufacturing sector to get back on track, CME needed to retool the strategy developed in Industrie 2030, produce new recommendations, and incorporate new policy objectives that have emerged since initial publication. To do so, CME embarked upon cross-country consultations with its member companies during the spring and summer of 2023. As part of these consultations, CME asked its members two fundamental questions:

1. What are the major roadblocks holding back your company’s growth and prosperity?
2. What are some bold ideas or solutions that would jumpstart manufacturing production and exports in Canada?

Throughout the consultation process, consistent and familiar themes emerged that reaffirmed the well-documented problems facing the manufacturing industry in Canada. These include labour and skills shortages, red tape and regulatory barriers, the lack of incentives to invest in productivity-enhancing machinery and equipment, trade barriers, and U.S. protectionism.

At the same time, the consultation process also revealed new challenges that the sector is facing today, including housing shortages, the role of municipalities as a major obstacle to growth, the lack of easily accessible funding mechanisms to train workers, inefficiencies and bottlenecks in Canada’s transportation infrastructure network, and growing pressures to rapidly decarbonize the industry. Put together, these challenges require new policy recommendations for governments to act upon if the Canadian manufacturing sector is to remain competitive over the long run.

Indeed, by addressing these challenges, manufacturers will be able to take advantage of the new opportunities that have been generated by the pandemic, rising geopolitical tensions, nearshoring tailwinds, and the green transition. Accordingly, now more than ever, all levels of government need to work together with industry to develop and implement a comprehensive national strategy for advanced manufacturing. The strategy includes 22 recommendations aimed at fostering a competitive, innovative, and sustainable manufacturing sector, and are organized under the following four pillars:

1. Expanding and upskilling Canada’s manufacturing workforce.
2. Stimulating innovation, investment, and the adoption of advanced manufacturing technologies.
4. Speeding up and expanding clean technology incentives to help manufacturers adapt to and advance Canada’s climate change plan.

In CME’s view, implementing these recommendations will result in a more competitive business environment, lead to higher levels of investment, innovation, and productivity, boost the sector’s production and exports, contribute to emissions reductions, and secure manufacturing’s rightful place as a key driver of Canada’s economic growth and prosperity.

This updated strategy, which is detailed below, will form the basis of CME’s advocacy efforts going forward.
OVERVIEW
Labour and skills shortages remain one of the manufacturing sector’s most pressing challenges. This issue was exacerbated by the pandemic, leading to record-high job vacancies in the spring of 2022. Although the number of unfilled positions in the manufacturing sector has been trending down since then, the unemployment rate remains very low and wage pressures remain high. The manufacturing workforce is aging rapidly—more than one-quarter of workers are aged 55 years and over—implying that companies will continue to struggle to find workers in the years ahead.

WHY IT MATTERS
Labour availability, especially of skilled workers, strongly influences the investment location decisions of firms. A 2022 CME survey showed the extent to which labour and skills shortages in the manufacturing sector are hurting the Canadian economy. It found that these shortages cost the Canadian economy almost $13 billion over a 12-month span, a consequence of lost sales, penalties for late delivery, and postponed or cancelled investment projects. At the same time, 15 per cent of survey participants said their company was considering moving some or all its production outside Canada due to a lack of workers, indicating that labour shortages are limiting the sector’s future growth prospects.

SOLUTIONS
To help address the labour and skills shortages in the manufacturing sector, CME recommends that governments:

Modernize Canada’s immigration and temporary foreign worker programs to ensure manufacturers have access to a talent pool with the knowledge, skills, and abilities to grow and thrive

An aging population is a key factor contributing to labour and skills shortages in Canada, making immigration one of the central policies designed to replenish the workforce and meet the economy’s labour needs. While the Government of Canada has taken strides to address labour shortages by raising immigration targets and enhancing the Temporary Foreign Worker (TFW) Program, many manufacturers are still struggling to fill open positions, signalling that more policy action is required.

First, Canada’s points-based approach to economic immigrants, the comprehensive ranking system (CRS), should be adjusted to better align it with employer needs. This could be accomplished by:
- Putting more weight on factors that are associated with better labour market outcomes
- Regularly consulting manufacturers on updates to the points system to ensure that it attracts individuals with the skills and experience needed to address the country’s labour market gaps

Increasing the number of economic immigrants that are admitted through the Provincial Nominee Program (PNP) would be another way to help address the manufacturing sector’s workforce challenges. True, the PNP has been continuously expanding—provincial nominees accounted for 35 per cent of all economic immigrants in 2022, up from just 1 per cent in 2000. Nevertheless, an even greater emphasis should be placed on the PNP because, by design, it is more responsive to the local labour needs of industry than other economic immigration categories.

Finally, while the government has taken welcome steps to enhance the TFW program by implementing two-longstanding CME recommendations, key aspects of these improvements are temporary or in the form of a pilot study, making them a short-term fix rather than a long-term solution. First, since the spring of 2022, companies have been allowed to hire up to 20 per cent of their staff through the low-wage stream of the TFW program, up from the previous 10 per cent cap. And in seven industries with demonstrated labour shortages, including certain manufacturing subsectors, the cap was moved up to 30 per cent, but only temporarily. However, given that labour shortages in the manufacturing sector remain an ongoing and significant challenge, the temporary 30 per cent cap should be extended beyond its current deadline.

The government has also recently introduced a Recognized Employer Pilot (REP), another CME policy recommendation, which is aimed at speeding up the approval process for companies with a history of using foreign labour. Under the REP, employers who can demonstrate a history of complying with TFW program requirements will be given a three-year approval to bring in temporary foreign workers and will not have to submit a Labour Market Impact Assessment (LMIA) before each application. CME and its member companies are committed to working collaboratively with the government to ensure that this pilot becomes a permanent feature of the TFW program.
Address Canada’s housing shortage to ensure affordable housing near manufacturing jobs, mandate modular construction to help meet housing targets, and avoid encroachment on industrial lands

A shortage of housing, and its impact on already difficult recruitment efforts, was raised as a key concern in the majority of member roundtables during the consultation process. Roundtable participants frequently stressed the need for more affordable housing near manufacturing jobs. As such, CME supports the recent commitments of the federal government to address housing shortages, including new incentives for rental housing construction, and to collaborate with the other levels of government to advance the Housing Accelerator Fund.

Notably, Canada’s skilled worker shortage is one of the key factors holding back new home construction. As such, it is widely recognized that homebuilding will need to be much more productive if Canada is to address its housing shortfall. That is why prefabricated off-site or modular construction is being touted as one of the technologies with the potential to reshape the construction industry, as it can minimize the reliance on traditional on-site labour. Indeed, a study for Los Angeles County found off-site construction in a controlled environment like a factory can reduce construction time by 10 per cent to 30 per cent and total development costs by 10 per cent to 20 per cent. Undoubtedly, Canada’s housing strategy would be incomplete without a modular construction mandate.

Nevertheless, while governments need to build much more housing, CME cautions against encroachment on industrial lands within municipalities, another major issue affecting Canada’s manufacturing sector. The introduction of residential uses into industrial areas can cause significant conflict between homeowners and businesses, usually to the detriment of established manufacturers. Indeed, it is becoming increasingly difficult for manufacturers to operate in their traditional areas, as municipalities rezone to increase residential capacity. In some cases, rezoning and residential encroachment has led to the shuttering of industrial facilities and all the associated jobs.

Provide employer-led training benefits, including a 50 per cent tax credit that offsets half the costs of employee training

During the consultation, CME members from across the country consistently brought up an inability to find workers with the skills they need most, and this is impeding their ability to adopt and integrate advanced technology, including automation tools, into their operations. Each company’s automation journey is distinct and unique, therefore making in-house training the preferred and most effective approach to address this issue. However, while businesses are eager to upskill and reskill their employees, there is a tendency toward underinvestment in training and development due to concerns over attrition and poaching. Given the broader societal benefits of workforce upskilling, CME recommends that governments invest in the manufacturing sector’s in-house workforce training programs. Indeed, providing manufacturers support for training would be a win-win: it would help create well-paying jobs for workers and help firms adopt the technology needed to remain competitive.

Refocus Canada’s education system to connect youth to manufacturing and skilled trades jobs

Labour and skills shortages in the manufacturing sector are partly the result of a perception challenge. Many envision manufacturing as an old, dirty, and dying industry; not the technologically advanced and modern industry that it is today. As well, when surveyed, young people tend to underestimate the starting earning potential for skilled trades, have outdated perceptions of the trades, and lack exposure to individuals currently in trade professions.

As such, all levels of the education system must do a better job of exposing students to the many different types of job possibilities available to them. At the primary level, this can be accomplished by actively promoting manufacturing to youth in school to show them that manufacturing exists as a viable option for a rewarding career. For instance, governments can help by supporting programs like open doors events in which students visit local manufacturing facilities.

At the high school level, there is a clear need to rebalance teaching towards the skilled trades instead of solely focusing on the university route. This can be accomplished through an increased emphasis on vocational training programs (shop class) that are more likely to appeal to students who are interested in highly technical or hands-on occupations or trades.

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6  “Like an IKEA Set.”
7  Powell, September 14, and 2021, “Powering Up.”
At the college/university level, the challenge becomes one of adequately connecting students to the world of work during their education and easing their transition into the workforce after graduation. To that end, CME supports the significant investments that governments have made in recent years to expand work-integrated learning (WIL) opportunities. By taking part in a co-op, internship, field placement or some other form of experiential learning, students are better prepared to meet the demands of today’s changing workforce and to experience labour market success. Accordingly, governments should continue encouraging all post-secondary institutions to increase their WIL offerings.

Renew and increase funding for programs that encourage more members of underrepresented groups to seek a career in manufacturing

Manufacturers stand to gain by recruiting more diverse workforces, especially those from underrepresented groups—women, Indigenous peoples, persons with disabilities, and visible minorities. Investing in integration, establishing inclusive workplaces, and offering specific training are all effective strategies to attract and retain a more diverse workforce.

Among CME’s many efforts to address the manufacturing sector’s workforce challenges, the industry association launched the Women in Manufacturing (WIM) initiative in 2017, which aims to increase the number of women in the sector by 100,000 by 2030. The progress achieved by the WIM program so far demonstrates the value of targeted investments in diversity and inclusion programs. Increasing funding to WIM and other diversity and inclusion programs would not only expand the manufacturing labour pool, but it would also help lift the labour force participation of underrepresented groups.

Reform the Employment Insurance (EI) system to encourage labour force participation and labour mobility

There is widespread consensus that Canada’s employment insurance (EI) system needs to be reformed and modernized to meet the needs of today’s economy. If the Government of Canada moves ahead with reform, it needs to ensure that a redesigned EI system operates in a way that provides temporary income support without disincentivizing labour force participation or labour mobility. This could best be accomplished by introducing an experience-rating system whereby premiums are adjusted for the risk of making a claim, a standard principle of the insurance industry. Consequently, businesses that regularly lay off and rehire workers would pay higher premiums, as would workers who frequently make EI claims.

Increase incentives to encourage the adoption and integration of automation technology

While the above recommendations will help ease labour and skills shortages in the manufacturing sector, Canada’s aging population will continue to hinder the ability of firms to retain and attract workers. Therefore, supporting companies that make investments in automation will be a critical solution to addressing this problem. Specific recommendations to encourage investment in and the adoption of advanced technologies are discussed in the next section.

Despite what many assume, automation does not involve completely replacing workers with machines; rather, one of the main goals of automation is to enhance the capabilities of existing employees. Automating repetitive tasks frees up workers time, enabling them to focus on more rewarding and higher value activities. Accordingly, automation is a key driver of economy-wide productivity growth, which is the only sustainable way to increase wages and living standards over long periods of time.
2. STIMULATE INNOVATION, INVESTMENT AND THE ADOPTION OF ADVANCED TECHNOLOGIES

OVERVIEW
Canada lags other industrialized countries when it comes to business investment, digitalization, and the adoption of advanced manufacturing technologies. Canada also suffers from relatively low rates of business research and development (BERD) spending, commercialization, and intellectual property (IP) generation. All these factors hold back the ability to grow the Canadian economy and create jobs.

WHY IT MATTERS
Businesses that invest in research and development (R&D) and in advanced technologies have a better growth outlook than those that do not. Such investments can dramatically increase operational efficiency and flexibility, reduce production costs, and improve environmental performance. These firm-level investments, if undertaken, improve the overall competitiveness of the Canadian manufacturing sector and lift economic growth and prosperity.

SOLUTIONS
To stimulate innovation, investment, and the adoption of advanced technologies in Canada’s manufacturing sector, CME recommends that governments:

Introduce a shared federal/provincial 20 per cent refundable manufacturing investment tax credit (ITC)
Access to affordable capital is a critical factor for manufacturers to expand operations and invest in modernizing equipment and technology. As such, a federal 10 per cent manufacturing investment tax credit for investments in new buildings and new machinery, equipment, and software would be an effective tool to help increase investment in and the adoption of new technology. This could best be accomplished by extending the Atlantic Investment Tax Credit across the whole country.

The provinces would provide a matching 10 per cent credit on the same base as the federal program. While a few provinces have introduced ITCs, including Quebec, Ontario, and Newfoundland and Labrador, most have yet to implement this crucial measure.

Enhance and reform the Scientific Research and Experimental Development (SR&ED) program and implement a complementary patent box regime
Reversing Canada’s poor BERD spending record could be best accomplished by enhancing and reforming the Scientific Research and Experimental Development (SR&ED) tax credit program, one of the main mechanisms through which the federal government supports business R&D. CME recommends the following specific reforms to improve the effectiveness of the SR&ED program:

- Expand the list of eligible activities beyond early-stage R&D to include capital improvements and product and process innovations
- Increase the refundable portion of the tax credit
- Streamline administration to improve certainty in claims
- Raise the tax credit rate to 20 per cent

In addition, to support the development and retention of IP, the federal government should also implement a complementary patent box regime that grants preferential tax treatment for income derived from patented inventions. While many countries have already taken this step, Canada has yet to follow suit and is therefore losing out on economic opportunities.

Recapitalize and extend the Strategic Innovation Fund (SIF) program for at least ten more years, providing a minimum of $2.5 billion in annual funding to support large capital projects in manufacturing
In recent years, the federal government has established new, major programs, such as the Strategic Innovation Fund (SIF), to encourage companies to invest in major projects and facilities’ upgrades. However, the limited availability and short-term nature of this funding means uptake by companies has been limited. CME recommends that the federal government recapitalize and extend the SIF program for at least ten more years, providing a minimum of $2.5 billion in annual funding. These measures will enhance the reach and effectiveness of this program.
Provide targeted program support for small and medium-sized enterprises (SMEs), including providing funding for technology demonstration tours and site visits that showcase leading technologies

Many government programs target large companies and large projects and typically yield favourable outcomes, like the aforementioned SIF program. Unfortunately, while large companies can access these programs, most SMEs cannot, due to the complex application process and high investment thresholds. In addition, these programs require skilled personnel and expertise to apply and usually involve lengthy processing times. The administration of the programs and lack of predictability discourages or disqualifies many manufacturers from ever applying. Therefore, there is a clear need for support programs that target SMEs and the smaller capital projects they often undertake.

Increase coordination across all levels of government to remove interprovincial trade barriers, harmonize regulations, and reduce red tape

During the roundtable discussions, many CME members expressed frustration with municipal governments, whose policies and practices repeatedly stymie industrial development. CME is concerned that many municipalities do not demonstrate understanding of industry and industrial land needs. Of particular concern is the growing trend of industrial zoned land being taken up by warehouses.

In addition, inconsistent rules and regulations across municipalities and between provinces increases the regulatory burden for businesses seeking to scale up and grow. As such, more coordination between all levels of government is needed to harmonize and streamline local and regional rules, especially those related to industrial lands, zoning, energy, taxation, and waste disposal and recycling.

This effort to harmonize local and regional standards can contribute to addressing the regulatory burden in Canada. However, more needs to be done by all levels of government to reduce red tape. In particular, governments must ensure that they adhere to international standards and ensure regulations are fully harmonized with our largest trading partners.
3. ENCOURAGE DOMESTIC PRODUCTION AND VALUE-ADDED EXPORTS

OVERVIEW

Despite Canada’s status as a trading nation with exports accounting for more than 30 per cent of GDP, the country’s export performance in recent years has been disappointing. In fact, over the past 20 years, Canada has posted the slowest growth in exports of manufactured goods among G7 countries. While action by governments to encourage investment in manufacturing and domestic production will improve the country’s export performance, more needs to be done to enable Canadian companies, especially SMEs, to go global.

WHY IT MATTERS

Canada has a small domestic market, making international trade a critical component of the economy and a primary way for Canadian companies to grow their business.8 By providing export incentives and assistance to companies looking to go global and by increasing access to foreign markets, governments can drive economic growth, innovation, and job creation.

SOLUTIONS

To encourage and increase domestic manufacturing production and value-added exports, CME recommends that governments:

Accelerate commitments to improve the reliability of our transportation system by investing more heavily in and proactively preventing disruptions of critical infrastructure

With Canada’s economy so heavily dependent on trade for growth, a modern and reliable transportation system is necessary to move Canadian products to market and to ensure it remains a trusted deliverer of goods and services. Unfortunately, Canada’s transportation system is becoming less reliable by the day whether through underinvestment or through constant disruptions from striking workers or protestors. These supply chain challenges are raising questions about Canada’s reputation as a safe place to invest and do business. To reverse these worrying trends, governments need to implement the recommendations of the National Supply Chain Task Force9 and to:

• Increase investments in trade-enabling infrastructure likes roads, bridges, railways, ports, and airports.
• Commit to taking a more active role in and facilitate a quick settlement of labour disputes that disrupt the movement of goods and services and harm the Canadian economy.

Increase funding, expand awareness, and make it easier for SMEs to access programs that help them go global

The federal and provincial governments offer a wide range of export-related support programs and services designed to enable Canadian businesses to seek out new foreign market opportunities. However, results from CME surveys consistently show a concerning lack of uptake of these offerings, indicating that governments need to adjust their support programs to better meet business needs and to make more efforts to overcome the factors that limit participation, including low awareness, lack of relevance, and overly rigid eligibility requirements.

This lack of uptake of these programs is also attributable to the relatively small size of Canadian manufacturing firms. Smaller companies have fewer resources and managerial capacities than medium or large-sized companies, and this hampers their ability to secure support from governments and other third parties. CME recommends the following policy actions to better support the export ambitions of smaller firms:

• Expand Canada’s export concierge program to simplify access to government support programs.
• Expand export mentorship peer councils to improve the free exchange of information and knowledge within the private sector.
• Facilitate increased participation of SMEs in global value chains (GVCs) by supporting business-to-business (B2B) linkages and cluster development and through awareness-raising activities that tout the potential benefits of participation in GVCs.

8 Office of the Chief Economist, “Canada’s State of Trade: Trade and Investment Update - 2012.”
Leverage CUSMA and other policy tools to maintain market access and better protect Canadian manufacturers from unfair trade practices

Canada’s manufacturing sector and economy clearly enjoy significant benefits from free trade. But securing these benefits depends heavily on the extent to which the world trading system is predictable and fair. That is why CME was pleased to see the 2021 Open Societies Statement10, released at the conclusion of the June 2021 G7 summit. In this statement, the G7 countries reaffirmed their “shared belief in open societies, democratic values and multilateralism,” while correctly noting that, for the multilateralism system to be effective, it must be “underpinned by principles of transparency and accountability, including access to free and fair, rules-based trade.” CME strongly supports this perspective.

 Accordingly, it is long past time to leverage the competitiveness chapter in the Canada–United States–Mexico Agreement (CUSMA) to develop a joint strategy on dealing with competing jurisdictions that abuse international trade rules to protect our shared market from dumping, currency manipulation, IP theft, and other aggressive actions.

The government could also help protect Canadian industry from unfair trade practices, including market access restrictions, by further strengthening and improving its trade remedy system, and ensuring it is effectively enforcing anti-dumping and countervailing measures.

Introduce government procurement reforms that promote domestic innovation and production by eliminating the lowest bidder rule

To encourage domestic production and to help companies scale-up and commercialize made-in-Canada technologies, governments can do a better job of leveraging procurement. This could best be accomplished by taking more than cost into consideration and by broadening assessment criteria to include local economic, societal, and environmental benefits.

For example, to advance the protection of the environment and to support sustainable development, the government should integrate environmental performance considerations into its procurement decision-making process, as set forth under the Treasury Board’s directive, Greening Government Strategy. Given Canada’s high environmental standards, domestically manufactured products tend to have lower carbon footprints than those from many other countries. In other words, domestic industry would stand to benefit if Canada adopted a green procurement policy.

Ensure Canadian industry has access to predictable, reliable and affordable energy to power its operations

Energy is essential to the manufacturing sector. From operating machinery and equipment in the factory to the movement of goods at facilities and between suppliers and customers, the sector is fueled by the energy it uses. Energy is also a major cost component in most manufacturing operations, and in many cases the third-largest cost after materials and labour. While not a universal challenge across the country, high energy costs have become massive impediments to production and investment in several larger manufacturing provinces.

As Canada strives toward a net-zero electricity grid, economic competitiveness must be a foremost objective. Next to regulatory policies, one of the most significant challenges faced by Canadian industry in the transition to net-zero will be energy supply and pricing. To remain globally competitive, Canadian industry will need access to a fast-growing, stable, and affordable supply of clean energy to power their operations.

Energy use accounts for over 50 per cent of the sector’s emissions. The sector has worked hard over the past decade to move toward clean energy supply by both switching from higher to lower carbon fuels and by switching from fossil fuels to renewable and recyclable energy (nuclear, hydro, wind, and solar). Despite the global push to decarbonize the energy system, Canada and the world have no choice but to rely on fossil fuels until more progress can be made in renewable energy technology and expansion.

Given these realities, governments should support the manufacturing sector during the transition to a cleaner energy supply by taking the following actions:

• Ensure a stable supply of cost-effective energy, including low-carbon energy sources, until carbon-free energy sources are reliably available.
• Take an “all-of-the-above approach” to energy policy that is market-driven and technology-agnostic, so it is unbiased towards any one particular technological solution.

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10 Canada, “2021 Open Societies Statement.”
4. SPEED UP AND EXPAND CLEAN TECHNOLOGY INCENTIVES TO HELP MANUFACTURERS ADAPT TO AND ADVANCE CANADA’S CLIMATE CHANGE PLAN

OVERVIEW

Some consider the race to build the clean economy to be one of the most significant economic transformations since the Industrial Revolution. Many countries, including the U.S., are delivering significant incentives to encourage domestic manufacturers to build clean technology and renewable energy, aiming to lead this transformation. The federal government has responded with incentives of its own, though they have yet to be made operational and they do not fully close the gap in incentives between Canada and the U.S. As such, Canada’s manufacturing sector remains at risk of being left behind in the global race to develop clean technology.

Canada’s manufacturing sector has made great strides in reducing its carbon footprint, with emissions falling from 137.2 metric tons of carbon dioxide equivalent (Mt CO2 eq) in 1996 to 105.8 Mt CO2 eq in 2021. Nevertheless, the sector still accounted for about 16 per cent of Canada’s total emissions of 672 Mt CO2 eq in that year. Therefore, along with incentives to boost clean technology manufacturing, the sector will need additional government funding to support the ongoing decarbonization of Canada’s industrial facilities and manufacturing processes. This support is crucial to keep the sector globally competitive and to prevent carbon leakage.

WHY IT MATTERS

Global demand for clean technology products is set to increase sharply in the coming years. With the right policy framework and investments, Canadian clean technology manufacturers could be in a prime position to capture more than their fair share of this global demand, presenting a tremendous opportunity to drive economic growth and create good jobs for Canadians.

Still, achieving the outcome of a growing and competitive manufacturing sector that reaches net-zero emissions by 2050 will be a daunting task, especially given that Canada has a relatively high share of emissions-intensive trade-exposed (EITE) companies. Only through a strong partnership with industry can the federal government achieve its ambitious dual goal of achieving deep domestic absolute emissions reductions, while at the same time growing the economy.

SOLUTIONS

To support the growth of clean technology manufacturing in Canada and to support the industry in its decarbonization efforts, CME recommends that governments:

Speed up implementation of the new and expanded investment tax credits (ITCs) proposed in Budget 2023 and introduce additional measures to close the gap in incentives relative to the U.S. Inflation Reduction Act

The U.S. has several measures to attract investment and support its domestic manufacturing sector, including the Inflation Reduction Act (IRA), the CHIPS and Science Act, and Buy America policies. CME and its members welcomed and supported the steps taken by the federal government in Budget 2023 to respond to the IRA, although this legislative package still leaves Canada with a gap in incentives relative to the U.S. Accordingly, governments should consider introducing additional measures to further close this gap, including production tax credits that are competitive with those available in the IRA.

Moreover, the implementation of the new ITCs has lagged the U.S. While the IRA has already passed its first anniversary, the Canadian government has so far only released draft legislation for two of the five proposed ITCs. Many companies planning capital projects in Canada are waiting for the ITCs to be rolled out before proceeding.

Accordingly, Canada’s manufacturing sector remains at risk of being left behind in the global race for clean investment and production. While the U.S. is in the midst of a factory-building boom, with the IRA helping to drive private manufacturing construction to record highs, manufacturing investment in Canada is climbing at a much more moderate pace. In a single year, the IRA spurred $110 billion in clean energy manufacturing investments and created more than 170,000 new clean energy jobs.
Expand and extend the Net Zero Accelerator (NZA) initiative for at least ten more years, providing a minimum of $5.0 billion in annual funding to support large-scale carbon reduction investments

CME advocated for the creation of the Net Zero Accelerator (NZA) fund to help support carbon reduction investments at the largest emitting industrial sites in the country. The early investments and support from industry have been promising – spurring billions of dollars in investment that will improve processes and eliminate millions of tonnes of GHG emissions. For example, through this initiative, the federal government announced investments of $400 million and $220 million, respectively, at facilities operated by ArcelorMittal in Hamilton, Ontario and by Algoma Steel in Sault Ste. Marie, Ontario. Both companies have embarked on major projects to phase out coal-fired steelmaking, which together will reduce GHG emissions by up to 6 million tonnes per year.

However, given the staggering amount of investment needed to decarbonize Canada’s manufacturing sector, the NZA should be expanded and extended for at least ten more years, providing a minimum of $5.0 billion per year in funding. In fact, CME has conservatively estimated that, between 2021 and 2050, the cost of moving Canada’s manufacturing sector to net zero will require investments totalling about $180 billion in capital equipment alone, or $6 billion annually.

Create an SME net-zero transition strategy that focuses on education and awareness campaigns, operational assessments, and dedicated funding to secure their participation in global supply chains

One missing piece in Canada’s climate policy is a targeted net-zero transition strategy for SMEs. While some supports for Canada’s industrial SMEs are available, the programs tend to be modest and focused on energy efficiency instead of prioritizing more ambitious and effective initiatives such as education and awareness campaigns, operational assessments, and funding for major investments needed to meet net zero goals.

The primary challenge for SMEs is that many lack the financial resources and expertise to get started on the decarbonization path, which is why education and awareness is so important. A 2022 CME survey found that only 11 per cent of manufacturers with less than 100 employees had introduced carbon reduction plans, compared to 47 per cent of large manufacturers. This is a major policy concern given 96 per cent of the country’s 90,000 manufacturers fall into this category.

This challenge is complicated by the reality that many of these smaller manufacturers operate as suppliers to large corporations, and these large players will increasingly demand that their partners reduce their carbon footprints too or they will take their business elsewhere. As a result, large Canadian manufacturers will face growing competitiveness challenges if local SME suppliers do not make the necessary changes to decarbonize their operations, threatening the participation of Canadian SMEs in global supply chains and the long-term viability of Canada’s overall manufacturing sector.

Return all revenues from the federal fuel charge to manufacturers

While CME applauded the federal government for announcing plans in the 2021 Economic and Fiscal Update to return a portion of the proceeds from the price on pollution to SMEs, this principle of reinvesting revenues from the carbon price to businesses should be extended to companies of all sizes.

In CME’s view, the government has not fully considered the extent to which climate policies are increasing the costs of doing business and harming Canada’s competitiveness and, at the same time, increasing the risk of carbon leakage. The reality is that higher costs for energy, infrastructure, transportation, and regulatory compliance will erode profitability and therefore the ability of companies to invest in the new technologies required to make further progress in reducing emissions. Put another way, companies can only invest in the adoption of clean technologies if they are profitable and have cash to make these purchases. Many of these issues would be largely addressed if revenues from the federal fuel charge were reinvested in industry.

11 Canadian Manufacturers & Exporters, “CME Low-Carbon Transition Survey.”
Simplify and accelerate the approval process for new projects by enacting comprehensive permitting and regulatory reform and by identifying and eliminating redundant and outdated regulations

Comprehensive permitting reform will be necessary to advance federal, provincial and territorial climate and economic development goals. In fact, Canada’s climate commitments will require an economic transformation at a scale and speed that has never been attempted before. While regulations and permits are essential for ensuring environmental protection and safety, approval processes have become overly burdensome, complex, time intensive, with the unintended effect of slowing the development of major projects and impacting economic growth. In order to achieve Canada’s laudable goal of net-zero emissions by mid-century, these processes must become significantly more streamlined and easier to navigate.

To this end, CME is pleased to see that the federal government has committed to, by year-end, outlining a concrete plan to improve the efficiency of the impact assessment and permitting processes for major projects. The association will continue to urge the government to move as quickly as possible on this critical file.

CONCLUSION

Since the launch of the Industrie 2030 strategy seven years ago, Canada’s manufacturing industry has faced new and complex challenges, including a global pandemic, geopolitical fracturing, supply chain disruptions, a dramatic spike in labour and skills shortages, and the rising prominence of climate change and environmental issues on national and global agendas. Many of these challenges, especially the pandemic, served as a wake-up call for Canadian policymakers, a reminder of manufacturing’s critical role in the economy and the vital need to rebuild the nation’s industrial capacity.

The challenges that manufacturing has been facing has also affected the wider economy’s performance. In fact, labour productivity in Canada’s business sector has declined in 9 out of the last 10 quarters, the key reason real GDP per capita has decreased for four consecutive quarters and living standards have stalled. Without fundamental changes to our approach to labour productivity and economic growth, Canada’s future prosperity is in jeopardy.

Fortunately, the solution to Canada’s economic troubles is at our fingertips: the adoption of a comprehensive advanced manufacturing strategy that addresses the manufacturing sector’s core challenges and seizes the opportunities presented by current economic, geopolitical, and environmental trends. This strategy and its recommendations provide a vision and path for Canada to revitalize one of the country’s key economic growth engines.

In CME’s view, implementing a national strategy for the sector will result in a more competitive business environment, lead to higher levels of investment, innovation, and productivity, boost the sector’s production and exports, and contribute to emissions reductions. Given manufacturing’s far-reaching impact, its revival will help secure Canada’s prosperity for generations to come.
APPENDIX A—BIBLIOGRAPHY


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