REMARKS OF VINCENT CARON, DIRECTOR OF POLICY & ONTARIO GOVERNMENT RELATIONS, CME

BILL 146, BUILDING A STRONG ONTARIO TOGETHER ACT (BUDGET MEASURES), 2023

STANDING COMMITTEE OF FINANCE AND ECONOMIC AFFAIRS

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CHECK AGAINST DELIVERY

Mr. Chair,

Committee members,

Thank you for your invitation to speak today on behalf of manufacturers from across the province on the Fall Economic Statement.

In the last two years, Ontario's manufacturing sector has experienced what many have called renewal or a renaissance.

One could simply call it hope.

The hope is reversing the negative trend of manufacturing investment we have seen since the early 2000s, which has seen factories shut down, capital dwindle and prospects for our workers be diminished, a little bit more, every year.

A simple illustration of this can be found in CME's latest report, called *Manufacturing Canada's Future* – it shows the trend of business investment in non-residential structures, machinery and equipment, which to this day struggles to recover over its 2014 peak.

Reversing long trends like that is not simple, but we have reason to believe it is finally happening. With investments in automotive, green steel and broader manufacturing that came after the pandemic, we have great hopes that the transition to low carbon production will be at the advantage of Ontario.

But now that hope is being tested.

When we talk to them, manufacturers continue to struggle to reconcile the policy pathway to net zero with the incentives concretely available to them. We had to wait months for key details of new federal tax credits, and only today are we beginning to see the full picture. I will say more on this in a moment.

Early indications show that the US is more successful in pursuing green industrial investment. As of July 2023, US private manufacturing construction was up 76.5% year-to-date compared to the same period in 2022 – which can be described as a factory-building boom.

In Canada, investment at factories and plants was up a more moderate 35.6%.

These numbers tell us more work remains to be done to build a lasting competitive advantage for manufacturing in Ontario.

Which brings me to the Ontario Fall Economic Statement. The document confirmed measures which will help as companies navigate significant cost pressures and uncertainty:

- The addition of $100M in funding to the Invest Ontario Fund will build on a more proactive approach to investment attraction. Just last week, Invest Ontario announced a contribution to a $60M expansion for Dana operations in Cambridge. We need more like this.

- The extension of gas tax and fuel tax cuts until June 30, 2024 will provide more relief from energy costs that remain high versus other north American jurisdictions.

- And, we look forward to see how the new Ontario Infrastructure Bank will leverage private sector and federal investments to improve congestion and critical infrastructure. Location is a big part of Ontario's competitive advantage, but when goods are stuck on the road, it does not matter anymore.

Still, for CME, the most important piece of the update was a small paragraph on p.31, which confirms Ontario's proceed distribution under the Emission Performance Standards (or EPS).

Under this policy, which CME recommended in its *Industrial Net Zero Strategy* published last year, all EPS industrial carbon tax proceeds will be returned directly to eligible industries. This allocation is instrumental in funding manufacturers' efforts to implement carbon reduction initiatives.

It is also a better policy design than what we are seeing federally, where manufacturers pay industrial carbon tax under the OBPS, without ever knowing if they will be successful in funding GHG reduction projects through competitive program allocations.

What we understand from Ontario's Ministry of Environment is their program will create dedicated allocations for each company paying proceeds, which can be accessed for a defined period of time.

Structuring the policy in that way, under the "use it or lose it" principle, is a much more certain way to retain investment in Ontario. We applaud the government of Ontario for its leadership and willingness to listen to manufacturers on this issue.

Finally, it is interesting that I am addressing you today as we wait to hear the federal Minister of Finance provide clarifications on the application of federal investment tax credits meant to be Canada's response to the US *Inflation Reduction Act*.

This is noteworthy, because here we are, six months after Budget season, and while we still wonder whether the supports the federal government committed will concretely help businesses, <u>we already had that response for Ontario.</u>

Through the Ontario Made Manufacturing Investment Tax Credit, companies have access to a new 10 per cent refundable Corporate Income Tax credit for investments in buildings, machinery and equipment used in manufacturing.

The details of this measure were confirmed in provincial regulation *days* after the 2023 budget, and we have been able to use the summer to tell our members: "take advantage of it".

Those two examples offer a bit of a "do" and "don't" guideline, when thinking about the design of industrial incentives. We heard a lot from members on this subject as we consulted for the Ontario Advanced Manufacturing Council this year.

Policy makers often neglect the importance of good implementation. If there is a tax credit – who qualifies? For what? When is funding available?

As any business leader will tell you, it is critical that the product you sell be out there in the market, actually solving the problem of customers.

Just like a car that is pre-ordered, but parked in a lot, waiting for electronic chips to be installed - an investment incentive that has no regulations and does not apply yet is of no use to anyone.

Therefore, as you turn your mind to Budget 2024 and the many things we can do to build an Ontario industrial strategy, I have one simple ask - please keep implementation in mind.

Thank you.