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

2024 PRE-BUDGET CONSULTATION

STANDING COMMITTEE OF FINANCE AND ECONOMIC AFFAIRS

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CHECK AGAINST DELIVERY

Mr. Chair,

Committee members,

On behalf of CME members, I am grateful for the opportunity to speak today about our expectations ahead of Budget 2024.

It is the third time addressing this committee this year, and so I'd like to sincerely thank members for considering our recommendations.

Specifically:

- establishing an advanced manufacturing strategy for Ontario,
- moving forward on carbon capture, and
- redistributing proceeds of industrial carbon pricing in a way that builds investment.

There is positive movement on all those issues.

What we are witnessing is the creation of Ontario's industrial strategy for the decarbonization age.

As the year draws to a close, I would summarize the mood as tired optimism. We know that government action has helped, and will continue to help. Inflation is moving in the right direction, and new investments continue to roll in, as we saw in Windsor this week. But many business owners and executives are simply exhausted by the current rollercoaster of economic news.

They know governments are supportive of manufacturing, but they don't always <u>see</u> the result of government action in a way that really matters to their bottom-line.

A key challenge of Budget 2024 will be to make them see it.

To act both on the factors that provide long-term prosperity to the province, but also delivering concrete measures that can be used today.

We have three priorities to suggest:

- First, Act boldly on an Ontario Made buying strategy.
- Second, grow productivity, and
- Third, look at the tax system to lower costs for businesses.

The first one of course, is leveraging our purchasing power.

Over the next ten years, Ontario will build $185 billion in capital – roads, transit and other infrastructure. According to the IESO, we also need to double our energy grid over the next few decades. This adds to the more than $30 billion in goods and services the government already purchases every year. There has never been such an aggressive building agenda in our province.

Yet, we hear consistently of missed opportunities to effectively leverage this purchasing power to grow our economy, even when explicit allowances are baked in trade agreements. For example, on transit projects, the Canada-Europe Trade Agreement has contained local content allowances for years, but those have not been consistently utilized.

To its credit, the government has recognized this challenge in establishing the *Building Ontario Businesses Initiative Act*. We eagerly await the tabling of regulations under that act and hope it recognizes the contribution of businesses of all sizes and ownership structure, following a simple principle – if you make things in Ontario, you should be able to sell to the government.

We also believe more can be done to maximize the economic benefits of large infrastructure and energy projects.

To justify our lack of ambition in the past, governments have often hid behind overly cautious interpretations of trade risk.

We must keep this in mind of course, as Canada is a small jurisdiction, and the protection of market access for exporters is paramount.

But we must realize that we now live in a new era of industrial policy, where the relevance of WTO Trade Rules have declined, after being abused by non-market economies for too long.

Ontario must be ready to be more aggressive in setting minimum content requirements to ensure our buildings, transmission lines, hospital equipment, energy generation assets are made with Ontario or Canadian materials, components, technology and labour.

Where trade risks are too high for our exporters, we must get at this through an explicit priority to low carbon products and aggressively prepare our companies to take advantages of it.

We are behind on this.

In the US, the EPA has recently set aside direct funding for companies developing Environmental Product Declarations (or EPDs).

EPDs are a bit like the nutritional labels we mandated for food products decades ago. I am simplifying, but it's the same idea.

They tell a purchaser, in a standardized format, how much embodied carbon is in a given product, or industrial operation.

Like the US, Ontario should introduce a tax credit offsetting the costs for Ontario manufacturers of retaining third parties to conduct carbon assessments. This will support exports to likeminded countries and will allow us to use our low carbon advantage as a tool to grow domestic market share.

Government purchasers should also use programs like CME's Ontario Made program, and the database readily accessible at www.supportOntarioMade.ca to inform product specifications with what we already make here at home.

Now, on the labour front, there are other challenges. The main one being our long-term productivity gap.

In 2021, manufacturing investment per worker was $48,800 in the U.S., but only $13,200 in Canada – three times lower.

What can we do in response?

Well, the Ontario Made Manufacturing Investment Tax Credit will certainly help, providing funding to purchase new machinery and real estate.

Small changes to eligibility would improve the measure to make sure it can capture hardware, software, moulds and die, and benefit more companies who have a strong local footprint, but some level of foreign ownership.

We also believe this tax measure would be effectively supplemented by an on-the-job training incentive.

By providing matching funding for training done in relation to a technology improvement in a work environment, you give workers tools to succeed, not in a classroom environment, but in the real world, where the knowledge can immediately grow their skills and their income. You also make the business more productive.

Such training has been offered successfully in jurisdictions such as Kentucky and Georgia. We believe it is overdue in Ontario.

Finally, despite the progress in lowering the cost of doing business in Ontario, we need to continue moving the needle.

One area to focus on is our property tax, which continues to be a drag on investment, as it is essentially a tax on capital. Back in 2019, the government of Ontario lowered the Business Education Tax, which is the portion of the tax it controls.

As we move to a more predictable pace for property tax assessments, we should build on that measure. We recommend eliminating the tax altogether and creating some administrative efficiencies for the province and municipalities in the process.

Thank you for your consideration today.