Industrie 2030

Manufacturing a Competitive Business Environment in Canada

Canadian Manufacturers & Exporters

Manufacturiers et Exportateurs du Canada

CMC

About Industrie 2030

Industrie 2030 is a national strategy developed by Canadian Manufacturers & Exporters (CME) and our strategic partners to leverage the opportunities presented by the Fourth Industrial Revolution and usher in a new era of manufacturing growth in Canada.

Manufacturing is the largest and most important business sector in Canada, directly and indirectly accounting for 28 per cent of all economic activity and 27 per cent of all employment. However, the sector has been struggling in recent years and along with it, so too has the Canadian economy. Output and employment have stagnated, investment and innovation have declined, and trade deficits have ballooned.

Industrie 2030 began with a simple question: What would it take to double Canadian manufacturing output and value-added exports by the year 2030? This question was the beginning of a months-long research and consultation process that formed the heart of the exercise. We heard about the issues, challenges and opportunities manufacturers see every day while running their businesses, and what would help them grow their operations, output and sales. CME and our strategic partners held 55 community consultations across Canada that were attended by more than 750 business leaders. In addition, we received over 550 responses to our bi-annual *Management Issues Survey* to add qualitative depth to our analysis.

From these consultations emerged five major themes – areas where specific and direct action are needed if we are to achieve our goal of doubling manufacturing output and exports by 2030 and to reverse recent trends in manufacturing and in the Canadian economy as a whole. These are:

- *Building a Strong Labour Pool and Skilled Workforce*;
- *Accelerating Adoption of Advanced Manufacturing Technologies*;
- *Fostering Innovation, Commercialization and New Product Development*;
- *Manufacturing a Competitive Business Environment in Canada*; and
- *Expanding Sales in Domestic and Foreign Markets*.

The Industrie 2030 summary report, *Manufacturing Growth, Innovation and Prosperity for Canada* provides an overview of the issues, challenges and opportunities in each of these five priority areas and offers specific recommendations for action in each. In addition to this strategic report, additional research reports published in 2016 included *Roadmap to 2030: A path towards doubling manufacturing output and exports* (April); *Management Issues Survey 2016* (October); *Industrie 2030: A National Strategy for Canadian Manufacturing in the Digital Age* (October) and *Manufacturing and Exporting in Canada* (October).

This document, *Manufacturing a Competitive Business Environment in Canada*, is one of five reports that provide detailed analysis and recommendations in each of the priority action areas. It is itself a stand-alone strategic blueprint: it identifies the specific challenges manufacturers face; it examines the factors contributing to these challenges; it highlights the impacts that these challenges pose to manufacturing in Canada; and it proposes detailed solutions.

These reports and recommendations reflect the realities of Canadian manufacturing as heard during our research and consultation process throughout the summer of 2016. We understand that these priorities can change as economic and political realities shift. However, this is not an excuse for inaction. Given the importance of manufacturing to the Canadian economy, we can and must act immediately to address the challenges and opportunities the sector faces today. The core recommendations in this report are the beginning of that process. We will adjust our priorities and actions as the changing business context requires, keeping long-term growth in manufacturing as our overarching focus.

The Industrie 2030 objective is to double manufacturing output and exports by 2030. Working together with our strategic partners, members, and all levels of government across Canada, CME is firmly committed to reaching this goal. All recommendations, reports, background information and analysis from the Industrie 2030 initiative are available at: **www.industrie2030.ca**.

Welcome Message

Michael Graydon
CEO
Food & Consumer Products of Canada

Food and Consumer Products Canada (FCPC) is proud to partner with Canadian Manufacturers & Exporters' (CME) Industrie 2030 initiative, and to sponsor the *Management Issues Survey* and the report: *Manufacturing a Competitive Business Environment in Canada*.

The report develops a strategic roadmap, with concrete recommendations, to build a more competitive manufacturing climate in Canada. This will help create and sustain long-term economic growth, with benefits to middle-class Canadians living in communities across the country.

Food processing is the largest employer in the manufacturing sector in Canada, providing approximately 300,000 Canadians with high-quality jobs in over 6,000 manufacturing facilities in every region of the country. FCPC's membership is truly national, providing value-added jobs to urban and rural Canadians in more than 170 federal ridings in every region of the country, and is well-positioned to play an even greater role.

There is enormous growth potential for our industry. The world's population is estimated to grow to 9.6 billion by 2050; this will require a 70 per cent increase in global food production. Food is going to be one of the biggest businesses in the world and Canada has the potential to be a global leader in food production, according to the Chair of the Advisory Council on Economic Growth, Mr. Dominic Barton.

We are optimistic that we can reach our potential with our safe, high quality, made-in-Canada products. The report outlines the steps needed to build, in collaboration with government, a business environment that encourages manufacturers to invest, grow and compete.

Global competition continues to be fierce, however, presenting significant challenges to Canadian businesses. As a result, investment in processing plants, advanced technologies like automation and robotics, and R&D in food manufacturing facilities in Canada has not kept pace with our competitors.

The report finds that Canadian manufacturers right across the country are under-investing in their domestic operations and that foreign direct investment remains low. These investments are critical for the long-term growth and competitiveness of Canadian manufacturers. Of equal concern, is that Canada's share of global manufacturing output is falling.

We need to continue to make improvements to the business environment in Canada. Nearly half of the respondents of the *Management Issues Survey* (MIS) believe that the federal government does not support investment and growth in their company. Chief among the concerns raised was that Canada's regulatory environment is becoming less supportive and more onerous compared to 2014 levels.

The food and consumer product industry shares in the regulatory concerns outlined in the report. In our industry, modern regulations are urgently needed to encourage companies to manufacture in Canada, grow their operations, introduce new innovative processes and products – and, to do this in a timeframe that is competitive with other markets. A modern regulatory framework is essential if we want to position Canada as a leader in global competitiveness.

Business leaders across Canada also raised concern over the unpredictability of new regulations, and their potential impact on their operations in Canada. Government needs to provide reassurance to businesses that new regulations will be balanced and transparent, and their impacts carefully assessed prior to implementation.

We also need to better communicate what we are doing to make Canada a more attractive place for businesses. There is an opportunity to help communities attract jobs, and this requires all levels of government improving how they work together. Interested investors – including existing companies in Canada – continue to be frustrated as they are pointed in different directions by multiple levels of government due to a lack of coordination. The lack of a single coordinating agency in Canada leaves potential investors unaware of the range of government programs and services available to them.

The federal government has a leadership role to play in promoting investment in Canadian communities, and making it easier and more welcoming. Importantly, the report outlines the need for a centralized concierge service that can coordinate a whole-of-government response to interested investors. We are pleased to see support for this also shared by the Advisory Council on Economic Growth in their first wave of recommendations to the Minister of Finance.

On behalf of my members, I look forward to continuing to work in partnership with CME along with all levels of government, research partners, industry groups and advisory councils who share an interest in building an optimal operating environment for manufacturers to grow, innovate and invest in Canada.

Executive Summary

Mathew Wilson
Senior Vice President
Canadian Manufacturers & Exporters

Investment in operations is critical to the health and long-term success of manufacturing. Businesses need machinery and equipment and new technologies to remain competitive. They need to engage more in new product development to secure new customers and market share. They need to invest to maximize the skills of their workforce. Without ongoing investment in capital equipment, output will not grow factories become unproductive and uncompetitive, new products will not be produced, and jobs will not be created.

Canada, and Canadian manufacturers, are constantly competing for this investment. This is a struggle between jurisdictions – where Canada and its provinces are competing globally to attract investment that leads to new production, product mandates, and jobs. On top of that, Canadian provinces, US states and Mexican states are competing amongst themselves to attract production mandates to serve the NAFTA market.

Global competition to attract new investment in manufacturing is fierce. Companies decide where in the world to locate their operations based on where the economic return will be highest. They look for specific factors in assessing that return: accessibility of markets; profitability; and net input advantage – the combination of access to raw materials, human resources and other local attributes like transportation infrastructure and logistics.

Among the factors that investors consider, the overall business environment is perhaps the most important. The business environment refers to the prevailing tax and regulatory burden in a jurisdiction, as well as the perceived willingness of governments to partner with the private sector to support growth. This has a direct bearing on investment decisions and companies' ability to operate profitably.

Unfortunately, the business climate in Canada is getting worse, not better. Nearly half of all respondents to the 2016 *Management Issues Survey* believe the federal government does not support investment and growth in their company. That share rises to 60 per cent for provincial governments. Most respondents also felt that government support has grown worse, not better over the past three years.

Industrie 2030 participants identified a wide range of tax increases and government policy changes that are making it more difficult and costly to do business in Canada and are eroding our global competitiveness. Payroll taxes are rising, carbon taxes and other levies are being expanded, and the corporate tax rate is going up in several provinces. Renewable energy policies are also driving up energy costs for manufacturers, eliminating what was once a core competitive advantage for the sector. The regulatory burden continues to intensify as governments are seeking certifications, approvals, requirements that cover all aspects of operations and products.

While no single one of these changes is significant enough to drive investment away, in aggregate they are death by a thousand cuts. And they are increasingly putting Canada out of step with its international competitors. For example, Canada is competing for business with countries like the United States and Mexico which offer tax holidays, free land, refurbished facilities, direct investment incentives and a range of other supports to locate in their jurisdiction. These are not random, sporadic, or sector-specific offers. US state governments aggressively recruit manufacturers away from Canada by cold calls from government officials trying to sell them on moving to their state, offering concierge services and a range of significant incentives. Unfortunately, Canadian businesses are not turning these offers down.

The impact of the widening gap between Canada's investment climate and that of its international peers has been both sobering and predictable. From 2009 to 2014, foreign investment in manufacturing in the US grew by 134 per cent. In Canada, it grew by less than 7 per cent. Even domestic manufacturers are investing less in Canada. Planned capital construction in manufacturing fell to $4.2 billion in 2016 – its lowest level in six years. For every dollar Canadian manufacturers invest in fixed assets, their US counterparts invest $8.65.

Clearly if manufacturing is going to grow in Canada we need to reverse these trends and build a much more competitive manufacturing investment business climate. Achieving this objective requires taking the following steps:

1. Create a globally-competitive business tax structure in Canada that supports growth.

a. Canadian governments should reform the corporate tax structure so that only distributed profits are subject to tax. Business income that is retained and re-invested in growth should be tax-exempt.

b. The business tax structure should be reformed to reward companies for growing and adding value rather than for being small. This means carefully re-examining the gap between small-business and corporate tax rates, as well as various other tax exemptions for which only small companies are eligible.

c. The federal government should establish a national manufacturing and processing tax credit that reduces the effective federal corporate tax rate from 15 per cent to 12 per cent.

2. Introduce government investment concierge services.

a. Governments should establish investment concierge services that create a single point of contact to help businesses navigate through government support programs, regulations, and tax incentive programs.

3. Establish a Regulatory Bill of Rights for businesses.

a. In consultation with businesses, governments should develop and adopt a Regulatory Bill of Rights that increases transparency and predictability and focus regulations on achieving desired policy outcomes rather than attempting to prescribe business processes.

4. Increase investment in economic and trade-related infrastructure, including physical, energy and electronic infrastructure.

a. Public infrastructure investment needs to prioritize strategic economic and trade infrastructure above other types of infrastructure spending with investments being focused on maximizing economic impact.

How a competitive business environment ties into the Industrie 2030 Strategic Goals:

- An attractive tax and regulatory environment can bring new manufacturing investment to Canada
- Low taxes free up money to reinvest in new capital and advanced technologies
- A strategic taxation policy can reward companies for growing
- An easy-to-navigate regulatory environment reduces the cost of doing business in Canada and makes domestic companies more competitive
- Strategic government spending on economic and trade-related infrastructure improves productivity and Canada's ability to compete in foreign markets

The Problem: Canada’s manufacturing business climate is uncompetitive

The business climate refers to the economic and policy context in which manufacturers and other businesses operate. Taxes, the regulatory compliance burden, government standards, policy decisions, and supportive infrastructure all affect the economy and the cost of doing business.

On the whole, Canada does not have a competitive business climate. To its credit, Canada has made some modest progress over the past 15 years, but more work is clearly needed. In 2000, Canada’s corporate tax burden was ranked 33rd out of 34 OECD countries. Last year, it was ranked 22nd.

However, corporate tax rates only tell part of the story. When payroll taxes, property taxes, the cost of regulatory compliance, the impact of government policy decisions and other factors are included, Canada has a difficult time competing with other jurisdictions for investment.

Compounding that issue, other countries aggressively pursue businesses, offering attractive tax holidays, free land, refurbished facilities and a range of other incentives. Canada is nowhere near as aggressive. Moreover, these concessions are usually negotiated informally, meaning that comparisons of headline tax rates are meaningless for many companies. What matters at the end of the day is that many countries, including the United States and Mexico, offer such incentives. Canada’s support is much more limited and focused on only a couple of regions and sectors.

This reality is reflected through international studies and investment decisions that show that Canada is losing ground in terms of its global manufacturing competitiveness. According to Deloitte’s 2016 Global Manufacturing Competitiveness Index, Canada is the 9th most competitive manufacturing location in the world. However, that ranking is down from 7th in 2013 and is projected to decline to 10th within the next five years.

Meanwhile, Mexico has risen from 12th in 2013 to 8th this year and is expected to rise to 7th position by 2021. Countries like Vietnam, Indonesia and Malaysia that are currently ranked below Canada are also expected to become more competitive in the coming years.

World’s Most Competitive Manufacturing Jurisdictions

Ranking	2013	2016	2021
United States	3	2	1
China	1	1	2
Germany	2	3	3
Japan	10	4	4
India	4	11	5
South Korea	5	5	6
Mexico	12	8	7
United Kingdom	15	6	8
Taiwan	6	7	9
Canada	7	9	10
Singapore	9	10	11
Vietnam	18	18	12
Malaysia	13	17	13
Thailand	11	14	14
Indonesia	17	19	15

Source: Deloitte 2016 *Global Manufacturing Competitiveness Index*

More concerning still, the competitiveness gap between Canada and the United States is large and is expected to widen further. The US already ranks as the second most competitive manufacturing jurisdiction and it is expected to rise to first. The new Trump Administration promises to dramatically reduce corporate income taxes, simplify and streamline the regulatory burden on domestic business, and has committed not to introduce carbon taxes. Meanwhile, Canada is moving in the opposite direction with increasing tax and regulatory burden (detailed below).

As a result, if we are to succeed, Canada must act aggressively not only to overcome its current investment image challenges, but to respond to this widening gap. Failure to do so will only accelerate the rate at which manufacturing investment passes Canada by.

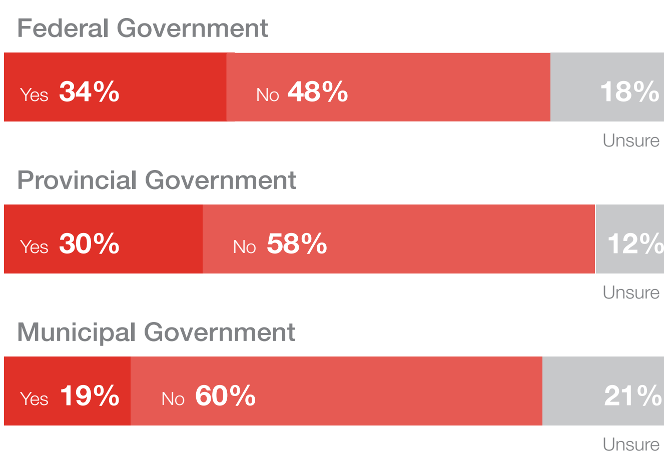
Contributing Factors: The increasing cost of doing business

Creating a more attractive business climate is an important requirement for meeting our Industrie 2030 goals. Simply put, investment drives economic activity in the short term and, in the longer term, generates wealth and prosperity nation-wide. However, the convergence of a number of trends is pushing the cost of doing business in Canada in the wrong direction: the tax burden is going up, not down; and government regulations and policies in areas such as energy pricing are only making the problem worse.

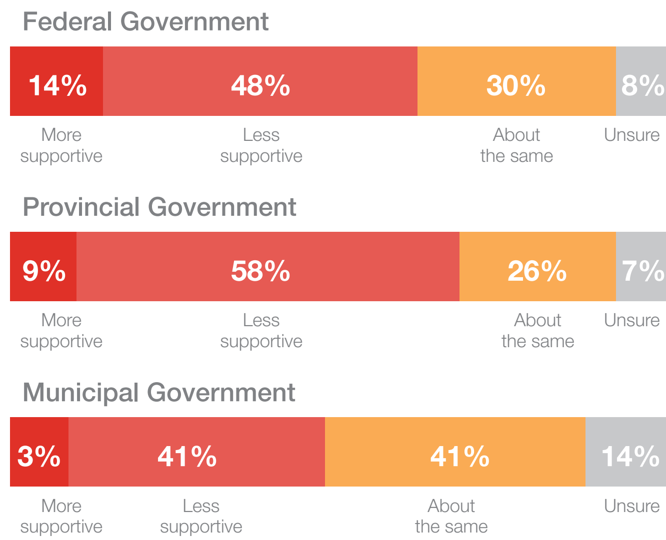
At a broad level, despite their economic contributions Canadian manufacturers do not believe that governments value their success. This perspective was clear from the results of the 2016 *Management Issues Survey*. Nearly half of all respondents think that the federal government is not supporting investment and growth in their company. The same share also thinks that federal government policies have actually grown less supportive over the past three years. Only 14 per cent thought that Ottawa was doing more today to help than it was three years ago.

Businesses are even more concerned about provincial governments. Close to 60 per cent of respondents thought that today's provincial governments are not supporting growth and that they had become less supportive over the past three years. Less than 10 per cent of respondents thought that provincial governments had grown more supportive since 2013.

DO YOU BELIEVE GOVERNMENTS ARE SUPPORTING INVESTMENTS IN, AND GROWTH OF, YOUR COMPANY?



HAVE GOVERNMENT TAX AND REGULATORY POLICIES BECOME MORE OR LESS SUPPORTIVE OVER THE PAST THREE YEARS?



At our Industrie 2030 roundtable discussions, manufacturers pointed to several examples to support this view. At the provincial level, corporate taxes are beginning to rise again. Since 2013, BC, New Brunswick, Alberta, and Newfoundland and Labrador have all raised their corporate tax rates. The latter province also scrapped its Manufacturing & Processing Tax Credit in its most recent budget.

On top of that, cost pressures from a range of other sources are rising as well. The expansion of the Canada Pension Plan, and the rollback of planned cuts to Employment Insurance premiums are raising payroll taxes. Carbon taxes and cap-and-trade programs in several provinces will add to the cost of doing business in Canada, while the recently-announced plan to introduce a national carbon-pricing plan will likely ensure that no province is unaffected.

Other policy decisions are raising business costs as well. Minimum wage increases – including significant ones in Alberta – have a ripple effect through the pay structure of a manufacturing business. While most manufacturers have few if any minimum-wage jobs, these changes place upward pressure on all other wages.

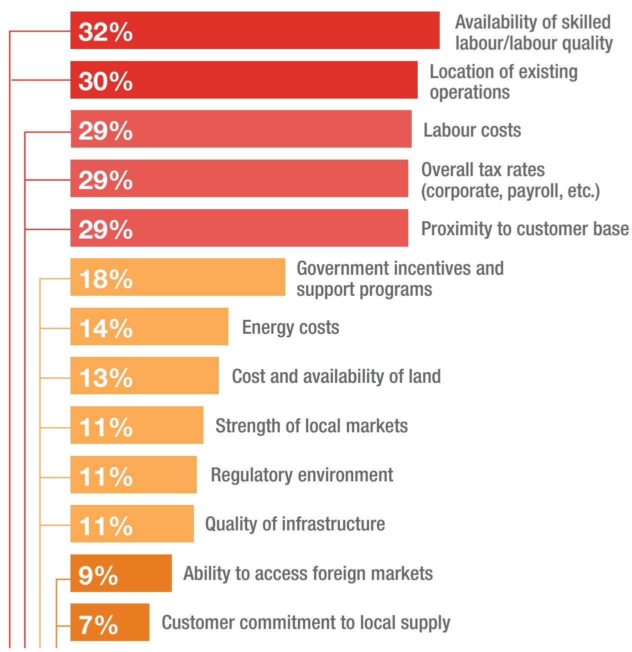
Renewable energy policies in Ontario are also pricing businesses out of that province. A recurrent subject in our Ontario Industrie 2030 hearings was that the province's green energy policy was effectively subsidizing local manufacturers to relocate to the United States. Ontario consumers pay high prices for electricity to support the development of green energy in the province. At the same time, the province produces far more energy than it consumes. Since energy cannot be effectively stored in sufficient quantities, it is sold into the US market at bargain-basement prices. Ontario-based manufacturers, many of whom are being actively recruited to relocate to the US (discussed further below), then have a choice to make: remain in Ontario and pay some of the highest energy costs in the world; or move across the border to New York or Pennsylvania and consume the same Ontario power at a fraction of the price.

In the grand scheme of things, no one of these tax increases, regulations or policy actions is significant enough to chase investment away from Canada. Together, however, they represent death by a thousand cuts. Government policies are making it more difficult and more costly to do business in Canada. In addition, tax and policy certainty often matters more than the level of costs they impose. In today's climate, manufactures do not know what their underlying cost and tax structure is going to look like five years from now. Instead, they have learned to fear that it will probably worsen over time.

There are other concerns as well, relating specifically to business competitiveness and the extent that Canada's manufacturing sector is trade exposed. Two such issues emerged from our consultations: health and safety standards; and environmental regulations. While manufacturers have no issue whatsoever with maintaining a healthy and safe work environment, the problem is that the federal and provincial governments will impose high standards on companies operating in Canada, but will then allow the importation of competing products from jurisdictions where standards are much lower or non-existent. The same is true for environmental standards and professional certifications. Manufacturers pay a price to abide by these regulations. Many of their foreign competitors do not and it creates a massive imbalance in trade competitiveness.

Finally, there is the issue of what governments are doing to attract investment and growth. There are some incentive programs in place federally and provincially, but these fall almost comically short of what is happening elsewhere. In our Industrie 2030 roundtables, we heard numerous reports about Canadian companies receiving cold calls from government representatives in several US states who were actively recruiting Canadian companies to relocate to their jurisdiction. These recruitment drives were like US colleges trying to land the next basketball superstar: they offer tax holidays, free land, training, a furbished facility, and a host of other incentives. Offers were not just limited to big players, either. Mid-sized and smaller companies are being actively lured away as well. Unfortunately, Canada is just not in the same game, and the playing field is increasingly tilting in the wrong direction.

WHAT ARE THE MOST IMPORTANT FACTORS YOUR BUSINESS CONSIDERS WHEN DECIDING WHERE IN CANADA TO INVEST?



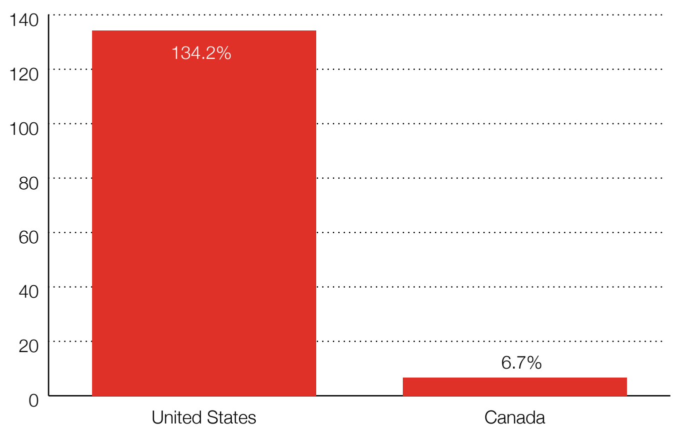
Impact of an Uncompetitive Business Environment: Declining Investment

Global business capital is highly mobile. Manufacturers of all sizes base their investment decisions on where they will receive the greatest economic return. While a host of considerations factor into the decision-making process, if business costs – especially a country's tax or regulatory burden – are too high or are not offset by other advantages, investment will migrate to another location.

The consequences of an increasingly uncompetitive business environment are clear. Canadian manufacturers are under-investing in their domestic operations, Canada's share of global manufacturing output is falling, foreign investors are passing us by, and domestic companies are either delaying investment, or putting their money elsewhere.

This latter consequence is evident when comparing how Canada has attracted new foreign direct investment (FDI) in manufacturing compared to the United States. From 2009 to 2014 (the most recent year for which US data are available), foreign investment in manufacturing in the United States grew by 134 per cent. In Canada, it was less than 7 per cent.

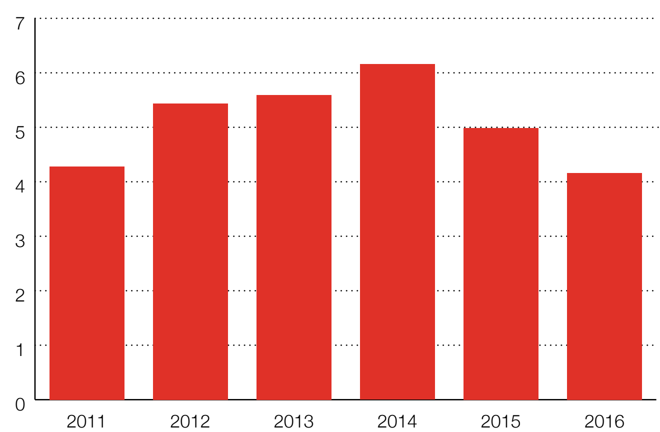
GROWTH IN MANUFACTURING FDI BY COUNTRY 2009-2014



High business costs not only deter new foreign investment, they also take money out of the hands of established manufacturers – money that could otherwise be spent on purchasing new machinery and equipment, making capital investments, buying new green technologies, hiring more Canadians or otherwise improving business competitiveness.

We need look no further than recent trends in domestic manufacturing investment. In 2016, manufacturers planned to spend about $4.2 billion on new capital construction – a decline of about 32 per cent compared to two years ago. Capital construction in Canadian manufacturing is now at its lowest level in six years. Purchases of machinery and equipment are following a similar trend. This is a direct result of growing uncertainty about the investment climate in Canada.

CONSTRUCTION CAPITAL EXPENDITURES IN MANUFACTURING
(actual and intentions, in $billions)



Finally, high business costs make it difficult for Canadian manufacturers to compete internationally. Other countries already enjoy many advantages over Canada, including more government support, lower labour costs and higher productivity levels. The growing tax and regulatory burden only compound our challenge to compete internationally and grow exports.

Solutions

Industrie 2030 consultations and *Management Issues Survey* (MIS) results offered a number of recommendations for how to improve the domestic business climate and once again make Canada an attractive place in which to invest.

The following proposals represent initial steps and broad directions. Over time, additional needs will be identified, policy suggestions refined, and adjustments made.

1. Create a globally-competitive tax structure in Canada that supports growth

Tax Competitiveness

Recent and planned changes to business taxes, payroll taxes, and carbon pricing are raising operating costs for manufacturers doing business in Canada. Manufacturers were clear throughout the consultations that they need to see the tax burden reduced if there is going to be sustained investment and growth in the sector. Simply put, after-tax cash is what drives investment in people, products and technology.

When asked in the MIS what governments should be doing to better support manufacturing in Canada and attract more investment to the country, two answers stood above the rest: businesses want help offsetting the risk of investing in new technologies and equipment; and they want a lower overall tax burden.

In terms of the overall tax burden, manufacturers are not especially concerned about which specific taxes should be lowered. At the end of the day, only two things matter: a relatively low tax load that allows businesses to keep more of their own revenues to invest in new growth; and predictability in the tax system that rewards growth and value-added activities.

One interesting international example is that of Estonia, which made the decision to focus its tax policy on promoting growth. Estonia now has the most competitive tax environment in the OECD, including a 20 per cent (total) tax rate on corporate income, applicable only to distributed profits. In other words, whatever profits companies retain to re-invest in growth is automatically exempt from taxation. This type of approach would reduce the tax burden dramatically on growing businesses and encourage investment in Canada – something that is critical to long-term economic success.

Recommendations 1a: Canadian governments should reform the corporate tax structure so that only distributed profits are subject to tax. Business income that is retained and re-invested in growth should be tax-exempt.

Rewarding Growth

The federal government and all provinces have a preferential tax rate for businesses below a certain revenue threshold. Federally, small businesses pay a rate of 10.5 per cent compared to the general rate of 15 per cent. Provincially, corporate tax rates range from 11 per cent to 16 per cent, while the corresponding small-business rates range from 0 per cent in Manitoba to 8 per cent in Quebec.

The intent of these preferential tax rates is to encourage new business start-ups and to ease the burden on small businesses that are often cash-strapped and struggling to establish themselves. Industrie 2030 participants were supportive of preferential tax rates for small businesses, but pointed to a specific unintended consequence: the wide gap between the general and the small-business tax rate creates a significant barrier for businesses to grow beyond a certain size. At some point, the increase in the marginal tax rate becomes prohibitive. Moreover, this barrier is growing larger as governments are maintaining or even lowering the small-business rate while the general corporate rate is creeping higher in many jurisdictions.

Canada needs a business tax structure that rewards companies not for being small, but for growing. For manufacturing – or any sector for that matter – to prosper, we want our small companies to become medium-sized companies. Further, we want those businesses to grow into large companies with a global presence. Small businesses deserve every chance to grow and succeed, but there is no inherent virtue in being small.

Worse for Canada under the current structure, companies are actively encouraged to stay small and not grow because of tax penalties, including corporate tax rates and other tax incentives such as the Scientific Research and Experimental Development tax credit system. Governments should review corporate tax regimes across Canada and make necessary modifications to encourage growth, rather than penalize it.

Recommendation 1b: The business tax structure should be reformed to reward companies for growing and adding value rather than for being small. This means carefully re-examining the gap between small-business and corporate tax rates, as well as various other tax exemptions for which only small companies are eligible.

Special Manufacturing and Processing Tax Rate

Several provinces have a special manufacturing and processing tax credit that allows qualifying businesses to pay a lower overall corporate tax rate than other industries. A number of Industrie 2030 participants suggested that such a tax credit should be implemented at the national level.

There are a number of reasons why this kind of tax credit would benefit Canadian manufacturing. First of all, it would send a clear signal that manufacturing is a national priority. It would send the same signal to the international investment community and could be a game-changer in terms of attracting new investment, growth and jobs to Canada. Putting more money in the hands of businesses also sets the stage for greater investment in new technologies and in new innovative products, and in creating new jobs and up-skilling the existing workforce.

The obvious question that this proposal raises is: why should manufacturers receive a special tax credit that other sectors do not? The answer lies in the relationship between manufacturing and the rest of the economy.

Simply put, manufacturing is the lynchpin of the Canadian economy. Every goods-producing or services industry needs manufactured goods to operate. Farmers need tractors. Accountants need computers. Doctors need medicines and equipment. Someone needs to make those goods. If Canadian manufacturers can produce more high-quality goods at a competitive price, the entire economy benefits.

As proof, we need look no farther than any one of Canada's many small towns that rely on a single manufacturing facility – whether it be a pulp and paper mill, an auto plant or a chocolate factory. Examples abound of the devastating impact that plant closures have on entire communities built around those facilities. The same cannot be said for any services-sector industry.

The manufacturing sector generates significant spinoff activity through the demand for goods and services it generates through its supply chains. Over 30 per cent of the Canadian economy is tied to manufacturing, including $58.6 billion in resource sector activity, $24.6 billion in wholesale and retail trade, $21.6 billion in transportation and warehousing, and $44.2 billion in business services activity. There are another $119 billion in benefits created in other sectors every year. A prosperous and growing manufacturing sector feeds those and other sectors of the Canadian economy.

Recommendation 1c: The federal government should establish a national manufacturing and processing tax credit that reduces the effective federal corporate tax rate from 15 per cent to 12 per cent.

This is not a comprehensive list of tax proposals. There is a wide range of other measures that should be taken to improve the overall business climate for manufacturers in Canada. Steps like eliminating withholding tax requirements related to services performed in Canada (Section 105 of the Income Tax Act), introducing tax credits to offset the risk of new investments in machinery and equipment, and simplifying the overall tax system would all help to make Canada a more attractive place in which to do business and attract new manufacturing investment to the country. These last measures will be covered more fully in subsequent issue reports on innovation and technology adoption.

2. Establish government investment concierge services

Aggressive recruitment by state governments in the US is luring manufacturers away from Canada. US governments recognize the value of manufacturing – it creates high-quality middle-class jobs, tax revenue, economic growth and prosperity for residents. They are willing to offer substantial concessions and incentives to bring that manufacturing stateside.

Few Canadians would pass up a job offer in the US that paid a higher salary for the same work, offered a free residence, lower taxes and footed the bill for all moving expenses. There is no reason to assume that businesses would act any differently.

These recruitment efforts stand in sharp contrast to how Canadian manufacturers describe their experience here at home. While there are some government supports available, these are difficult to find in a sea of departments and agencies. There is usually no single point of contact within government to help businesses navigate the bureaucracy and, as they note, many elected members and officials seem indifferent to the fate of manufacturing in Canada, preferring to focus on trendier sectors of the economy.

And while Canadian governments are beginning to take some actions, more can be done across the country. For example, since the publication of the initial Industrie 2030 Summary report and recommendations, the Federal government announced the creation of the Canada Hub, which is an excellent step in this direction. Similarly the government of Ontario has created an investment concierge service. All governments are encouraged to develop these services and expand those that exist following the template established by US state offices. At the core, these services should be:

- Centralized coordinating offices that can operate across all government departments;
- Directly tied to the most senior decision-makers to speed decision making processes; and
- Able to influence an all-of-government response to investment attraction.

Recommendations 2a: All Canadian governments should establish investment concierge services that create a single point of contact to help businesses navigate through government support programs, regulations, and tax incentive programs.

3. Establish a Regulatory Bill of Rights that will increase transparency and predictability of regulatory processes

CME firmly believes that Canada's regulatory system can be a competitive advantage for Canadian manufacturers and can help fuel long-term growth. However, regulations can also be damaging and undermine investment, research and commercialization of products in Canada. Throughout the Industrie 2030 consultation process, companies outlined a range of opinions on Canada's regulatory system. Most of what they said was unflattering and focused on a common thread: regulations, and regulators, appeared to be operating simply to look like they were doing something. Their prevailing motivation appeared to be: the more regulation the better.

Recent attempts to streamline and simplify regulations were often appreciated by industry, including the Canada-US Regulatory Cooperation Council and various Red Tape Reduction initiatives. Frequently, however, these fell short of effectively dealing with the real burden facing businesses. Red Tape Reduction initiatives are a good example. While the number of regulations decreased in several cases, the number of actual regulatory requirements remained unchanged – governments simply combined multiple regulations into single, larger regulations and claimed victory.

Businesses are looking for an overall reduction in regulatory requirements, not simply in the number of regulations. Governments should adopt and follow a simple regulatory Bill of Rights that would increase transparency and predictability for all regulations. This Bill of Rights should follow guiding principles that ensure regulations are:

- Scientifically-based using publicly-available and agreed-upon data;
- Developed in consultation with all affected parties;
- Aligned with those of our major trading partners, especially the US;
- Considerate of all impacts and include a full economic impact analysis;
- Created using principles of LEAN processes to ensure efficiency in application; and
- Focused on the specific desired outcomes, rather than the process.

Recommendation 3a: In consultation with businesses, governments should develop and adopt a Regulatory Bill of Rights that increases transparency and predictability. Regulations should focus on achieving desired policy outcomes rather than prescribing specifications.

4. Increase investment in economic and trade-related infrastructure, including physical, energy and electronic infrastructure

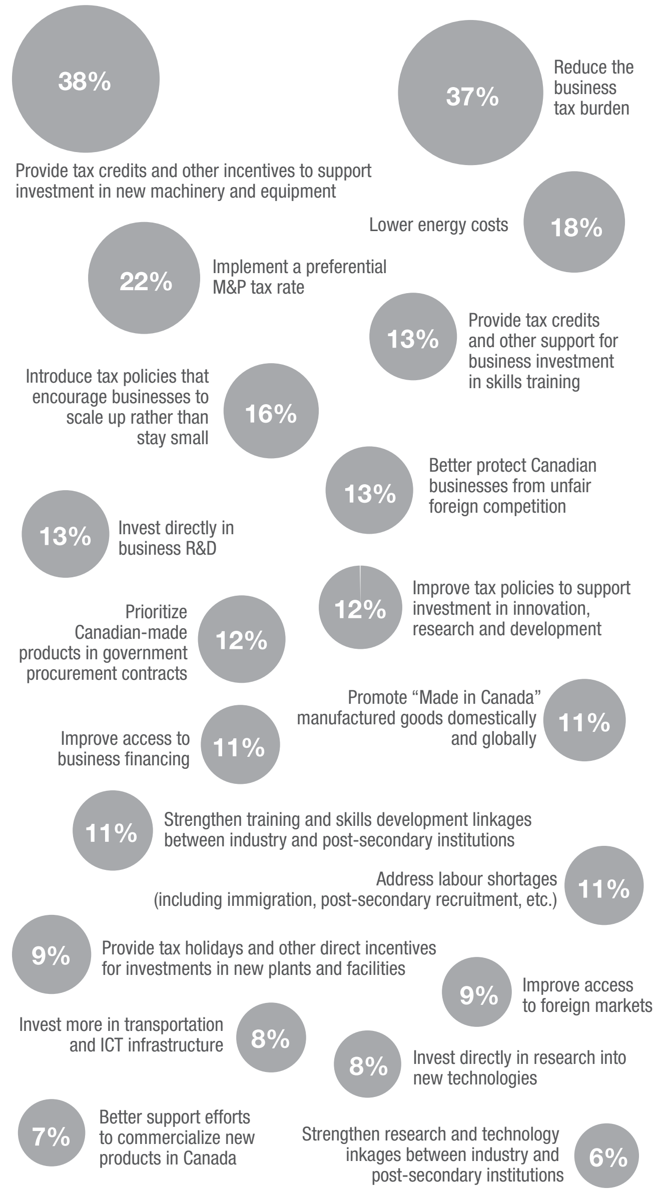
Federal and provincial governments have made considerable progress over the years in addressing the infrastructure deficit in Canada. Billions of dollars have been poured into construction projects in recent years, often as part of government strategies to kick-start the Canadian economy in times of downturn.

There are clear benefits to strategic infrastructure investment for Canada. Building the right infrastructure increases business productivity and competitiveness by reducing the time and cost of transporting goods. It allows products to move efficiently through the supply chain and to end-use customers around the world.

The problem is that most of the recently-announced infrastructure investments do not appear to be prioritizing economic growth. Rather than building roads and bridges, upgrading intermodal linkages, or investing in energy or telecommunications infrastructure, most of these investments are focused on environmental and social infrastructure, and public transit. At the same time, equitable regional distribution appears to trump need in the distribution of these funds. While there is value in some of these investments, it is gravely concerning that the federal government does not appear to consider economic infrastructure to be a priority. Manufacturers and other businesses create jobs, economic growth and tax revenue. Without a healthy business sector, there will be no money with which to finance these other public investments.

Recommendation 4a: Public infrastructure investment needs to prioritize strategic economic and trade infrastructure above other types of infrastructure spending with investments being focused on maximizing economic impact.

WHAT MORE SHOULD GOVERNMENTS DO TO SUPPORT MANUFACTURING IN CANADA AND ATTRACT MANUFACTURING INVESTMENT TO THE COUNTRY?



Conclusion – Tracking Progress

A competitive business environment is critical to attracting investment and growth in Canada's manufacturing sector. Global and local capital is drawn to countries with low tax rates; a speedy, effective and efficient regulatory system; and a government interested in fostering business investment and growth. Canada needs to have one of the most competitive business tax regimes in the OECD to compete with countries that are offering manufacturers lucrative incentives to locate in their jurisdictions. This paper provides a blueprint for action on how achieve that goal and ensure that Canada will be a destination of choice for manufacturing operations.

However, success is not measured by whether or not these recommendations are implemented; it is measured by the results that they achieve. For this reason, the Industrie 2030 strategic plan has outlined seven KPIs that we will track over the next 15 years to monitor our progress. Five of these seven are directly or indirectly tied to improving the business climate in Canada:

- **Annual investment in manufacturing machinery and equipment in Canada will rise by 5 per cent per year to reach $24.5 billion by 2030.** A lower tax burden and growth-focused public policy will put more money in the hands of business with which to invest in research, commercialization and new equipment and technologies.

- **Canada will be among the top two G7 countries for manufacturing productivity growth in every five-year period ending in 2020, 2025 and 2030.** Strategic investments in public infrastructure, combined with the improved business investment outlined above, will fuel productivity growth in manufacturing.

- **Canada's position in the World Bank's annual Ease of Doing Business ranking rises from 14th in 2016 to 11th by 2020, 8th by 2025 and 5th by 2030.** A more competitive tax structure and less onerous regulatory system will make Canada an easier place in which to do business, helping to attract more foreign and domestic investment.

- **Canada's trade deficit in manufactured goods will fall by an average of $5 billion per year to reach $47 billion by 2030.** Attracting more manufacturing investment to Canada will increase domestic production, lowering the trade deficit in manufactured goods.

- **The share of manufacturers reporting that governments support the growth of their company in the biannual *Management Issues Survey* will improve at each level of government by 4 percentage points every two years. By 2030, it will rise to 62 per cent for the federal government, 58 per cent for provincial governments and 47 per cent for municipal governments.** More supportive government policies will be reflected in higher business satisfaction rates.

Political, social, economic and policy conditions are constantly changing; new problems will inevitably arise and new responses will be required. These KPIs ensure that we maintain an unwavering focus on improving the business climate for manufacturing in Canada and, by so doing, pave the way to double manufacturing output and exports by 2030.

Who We Are

Since 1871, Canadian Manufacturers & Exporters has been fighting for the future of Canada's manufacturing and exporting communities and helping them 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, 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.

www.cme-mec.ca | www.industrie2030.ca

Strategic Partners

CME's strategic partners have helped us throughout this process by defining the agenda and supporting the research and consultation exercise. Like CME, they believe that a strong Canada can and must have a strong manufacturing sector at its heart. From business associations to manufacturers to key service providers, these groups have been instrumental in creating this action plan and in supporting the growth of manufacturing in Canada.

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