Industrie 2030

Increasing Sales in Domestic and Foreign Markets

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 and Skilled Workforce for Growth;*
- *Accelerating Adoption of Advanced Manufacturing Technologies*;
- *Fostering Innovation, Commercialization and New Product Development in Canadian Markets*;
- *Manufacturing a Competitive Business Environment in Canada*; and
- *Increasing 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, *Increasing Sales in Domestic and Foreign Markets*, 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**.

Partner Summary

Peter Hall
Vice-President & Chief Economist
Export Development Canada

Canada's manufacturers are facing extraordinary times. Global demand for their products has gyrated over the past decade. It was decimated by the Great Recession, wracked by the turbulence brought on by the introduction and then rapid withdrawal of public stimulus funds, and it is weathering the very perplexing multi-year period of global stagnation. To top it off, it faced a plunge in commodity prices in mid-2014. One of these events alone would have been bad enough, but this confluence of adverse developments has tested the limits of our endurance.

At the same time, Canadian manufacturers had to deal with a currency at parity with the greenback, increased protectionist measures and heightened global competitiveness. Many didn't make it. The survivors have had to endure the recession's slow-growth aftermath and its resulting pitched battle for market share.

More recently, revived US growth has given certain key sectors a lift. Higher activity levels have spurred investment in places we didn't really expect to see it. Barely had this begun when the populist pivot occurred. Voters, tired of waiting for policymakers to set things straight, sided with the 'Leave' campaign in the UK, asking for separation from the Continent. Similarly, Americans embraced the anti-trade rhetoric of the Trump campaign, registering their discontent with 'the system'. Suddenly, Canadian manufacturers have to cope with a political uncertainty they have never really seen before.

The Industrie 2030 initiative deals with the critical concerns of Canadian manufacturers and exporters. In this increasingly uncertain environment, securing sales both at home and abroad is a greater concern than ever, and requires careful thought and strategizing. The initiative's lofty goal of doubling exports is laudable, and achievable. The hesitant global business environment is creating a unique opportunity for Canadian firms to go where others are somewhat more tentative. But there's nothing automatic about it; leveraging this opportunity successfully will require carefully thought-out action plans.

EDC has long been a partner with CME, enjoying a shared vision of Canadian manufacturing enterprises succeeding in the international arena. Like CME, EDC has aggressive targets aimed at engaging Canadian exporters in markets across the world. Those targets are not likely to be achieved without an acknowledgement of the core challenges facing Canadian manufacturers and exports, the significant opportunities they face in the current environment, and the potential action plans for achieving the stated targets.

This report addresses all three issues, and it is our hope that the increased awareness and action that it spurs succeeds in growing the sales activity of Canadian manufacturing and exporting firms for many years to come. In many ways, Canada is uniquely positioned to enjoy great success in its future international business. It's now time to make that happen.

Executive Summary

Mathew Wilson
Senior Vice President
Canadian Manufacturers & Exporters

Customers drive business decisions. From investment in their operations to new product development, manufacturers' primary focus is to serve their existing customer base and to work to expand that base.

As such, finding new customers – and increasing market share with existing customers – is critical to a thriving, profitable and growing manufacturing sector. It increases domestic output and generates the need for ongoing investment in existing and new facilities. This investment drives new-product development and the adoption of leading-edge technologies. That, in turn, leads to higher production rates, more jobs and additional economic growth.

However, recent trends in domestic and international markets are pointing in the wrong direction for a sustainable and healthy manufacturing sector in Canada. On the export side, manufacturing is critical to Canada's global success, comprising more than two thirds of our total exports. However the sector is losing ground to its international competitors. Canada accounted for 3.7 per cent of global manufactured goods exports in 2000. By 2015, that share had fallen to just 1.8 per cent.

From a domestic standpoint, Canadian manufacturers are similarly losing ground to our international competitors. Imports from China and other newly-industrialized jurisdictions have eaten into Canadian manufacturers' share of the domestic market over the past twenty-five years. In 1990, about 55 per cent of Canadian domestic demand for manufactured goods was filled by domestic producers. That share has fallen to only 38 per cent today.

These realities show themselves directly in Canada's overall trade balance in manufactured goods. Since 2000, this trade balance has deteriorated from nearly break-even to a deficit of roughly $122 billion by 2015.

These trends are not sustainable for Canada's manufacturing sector, or for the economy as a whole. This decline is directly causing slower economic growth, lower investment, and job losses. Progress is urgently needed if we are to reverse the gradual erosion of Canada's global manufacturing presence and increase wealth generation at home.

Canada has a great opportunity to reverse these trends by leveraging our current and traditional strengths, and targeting our efforts on solving the major challenges facing Canada and the world. Our strengths include our natural resource base, our inherent competitive capabilities and the skill sets of our people and workforce. For example, clean, safe and sustainable food production, rooted in our strong agricultural and seafood sectors, can feed the world. Our oil and gas sector is one of the largest in the world and an important local market for manufactured goods. Canada has some of the best software engineers on the planet. The technology companies where they work can and should be integrating their solutions into global industrial operations to create safe, reliable, and productive workplaces. Similar stories exist in many other manufacturing and related service sectors where Canada has natural and historical advantages including health care, education, transportation and communications.

However, Canadian companies, especially the small- and mid-sized companies that make up the majority of domestic manufacturing, struggle to capitalize on the market opportunities that exist domestically and internationally. They are restricted from accessing many of those markets, and they often face a range of market-access challenges that benefit their global competitors. And unlike other countries, Canada lacks a national strategy to leverage our natural expertise and resources to support domestic and international market growth opportunities.

From an international perspective there are three core components to increasing sales. First is the capabilities and willingness of Canadian companies to expand globally. Second is the manner and extent to which Canadian governments support industry in going global. And third, there is the issue of, whether or not trade is taking place on fair and reciprocal terms. On the first two points, while the federal government is doing its job in opening new markets for manufacturers through negotiating and implementing free trade agreements, the reality is that most manufacturers are simply not taking advantage of those opportunities either because they lack the knowledge or the internal capacity to do so. It is clear from the results of the 2016 *Management Issues Survey* that most Canadian companies are neither aware of, nor are they using, the vast array of government support programs available to them. In fact, most of Canada's smaller manufacturers report that they lack information about market opportunities, how to navigate the rules and regulations in foreign countries and how to find customers and local partners. One potential explanation for this apparent contradiction is that trade advice is often focused on how to access a specific foreign market, rather than how to access global supply chains of larger companies operating in those markets.

On the latter point, Canadian manufacturers are gravely concerned about unbalanced trade. To be clear, this is not an anti-trade sentiment. Manufacturers understand that Canada's market is too small and they need access to foreign markets for growth opportunities. However, manufacturers often face a wide range of tariff- and non-tariff barriers, such as constantly-shifting regulations that effectively block access to foreign markets. Meanwhile, some sectors here at home are being significantly harmed by foreign competitors that are not abiding by the terms of global trade agreements like the WTO or who are artificially manipulating prices by dumping their goods or engaging in other illegal trade tactics.

While international markets are critical to growth, company sales almost always start at home before expanding globally. When domestic markets are distorted by illegal dumping, Canadian companies lose in multiple ways that impair investment and growth. Prices, sales volumes and profitability are all affected. To successfully export, businesses need a strong domestic base from which to grow. Illegal trade practices are preventing that from happening.

And unlike their competitors in other parts of the world, Canadian manufacturers receive little assistance from governments and other support networks for selling their products in the domestic market. There are no "Buy-Canada" promotional campaigns that celebrate what technologies, services, and products are made here. Neither do we promote Canadian-made products well around the world. There are no strategies to leverage domestic public and private procurement to foster product development, innovation and increase sales. Supply chains linking Canadian manufacturers to our extractive industries are underdeveloped, which represents a failure to capture the full value-added potential from our non-renewable resources.

Throughout the Industrie 2030 consultations, participants offered a number of solutions to help them address these challenges and find new customers and grow in domestic and international markets, including:

1. Create a promotional campaign celebrating Canadian-made products.

a. The Canadian government should focus the efforts of its foreign trade offices, embassies and High Commissions around the world to enhancing trade opportunities for Canadian businesses. This would include additional resources for the Trade Commissioner Service, as well as using our foreign offices to showcase innovative products made, designed or engineered in Canada.

b. To account for the increasingly globalized nature of manufacturing, the federal government should lower the Canadian content requirements for goods deemed to be “Made in Canada” or a “Product of Canada.” New designations for Canadian-engineered or Canadian-designed products should also be introduced.

c. Governments should create a marketing campaign to promote awareness of locally-made manufactured goods, similar to those that exist in many provinces to promote agricultural products.

2. Leverage Canada’s domestic procurement system to foster new product development, innovation and local production.

a. Government procurement policies should be amended so that contracts are awarded based on total installed costs, and ongoing operational costs along with the economic value created by sourcing goods with domestic content. And to encourage innovation, procurement specifications should focus on functionality requirements rather than pre-determined specifications.

b. Provincial governments should implement a royalty tax credit program for businesses in non-renewable resource extraction industries that source their manufactured goods domestically. Companies would receive a royalty tax credit equal to a percentage of the value of domestic manufactured content purchased for their operations.

3. Negotiate Free Trade Agreements that increase value-added exports through reciprocal access and include strong trade enforcement mechanisms.

a. Trade agreements should focus on countries that have the greatest potential for export growth and be structured to ensure Canadian companies receive fair and reciprocal access to foreign markets through the elimination of both tariff- and non-tariff barriers. Agreements must also have rigorous and enforceable dispute-resolution mechanisms that Canada should use whenever the letter and spirit of those agreements is violated.

b. Canada must modernize and strengthen its trade remedy laws to protect domestic interests, and to align them with our major trading partners.

4. Improve export support programs offered by governments, especially to SMEs.

a. The federal government should improve the CanExport program by speeding up the timelines for approval and reimbursement, and by removing all restrictions on product type and market.

b. Using the existing Canadian Technology Accelerators (CTA) program as a model, the federal government should create a National Export Accelerator Program to assist high-growth, market-ready Canadian companies to build export knowledge and capacity by addressing company-specific barriers to exporting and providing mentorship support.

c. Governments should explore new avenues for existing departments and agencies to promote export-preparedness, awareness of market opportunities and international partnerships, especially for SMEs. All programs and services should be designed and delivered with effectiveness, business awareness and ease-of-use as the highest priorities.

How market access ties into the Industrie 2030 Strategic Goals:

- Increasing sales domestically and internationally is fundamental to increasing manufacturing output and exports.
- Removing barriers to trade will allow Canadian manufacturers to compete on a level playing field internationally.
- Greater access to domestic procurement markets will open new opportunities for growth and investment in Canadian manufacturing.
- Improving export-readiness will allow more small manufacturers to explore new markets and avenues for growth.
- Improving manufacturing supply chain linkages into domestic resource industries will keep more of the economic benefit from resource extraction here in Canada.
- Skills, technological adoption, innovation and an attractive business climate mean little if Canadian manufacturers cannot access markets at competitive, reciprocal terms.

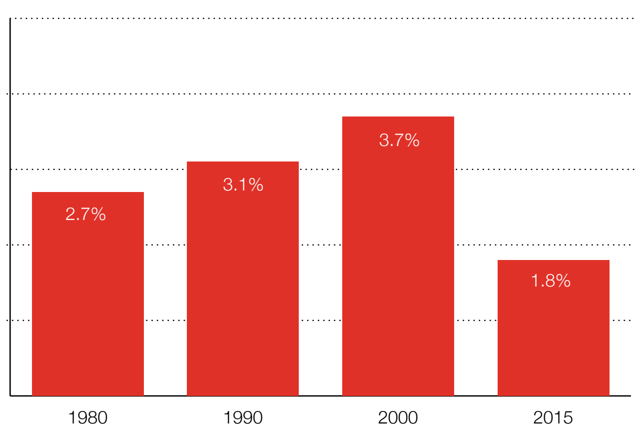
The problem: Canadian manufacturers are not realizing their full potential in domestic and foreign markets

Finding new customers is critical to a thriving manufacturing sector. It leads to new products, increased domestic output and creates the need for investment in new plants and facilities. New investment leads to higher production, more jobs, and additional economic growth.

However, a combination of factors is preventing Canadian manufacturers from penetrating domestic and foreign markets to the greatest extent possible. The result is foregone production and growth opportunities and the loss of market share to foreign competitors.

On the export side, Canada is losing ground to other countries. According to the World Trade Organization (WTO), Canada accounted for 3.7 per cent of global manufactured goods exports in 2000. By 2015, that share had fallen to just 1.8 per cent.

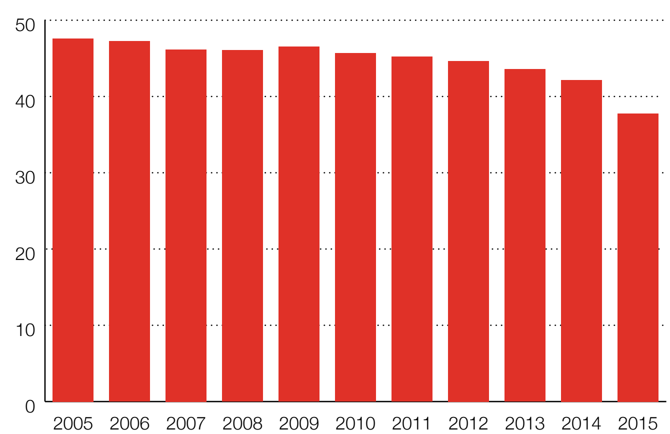
CANADIAN MANUFACTURERS ARE LOSING GLOBAL MARKET SHARE
(Canada's share of global manufacturing exports, in %)



Most of that decline was because of the tremendous rise of China as a global manufactured goods exporter over the past 15 years. As exports from China have exploded, simple math tells us that the proportion of total exports from other countries must fall.

Here at home, imports from China and other low-cost jurisdictions are eating into Canadian manufacturers' share of the domestic market. In 1992, about 55 per cent of Canadian demand for manufactured goods was filled by domestic producers. That share fell slowly through the 1990s and 2000s, but has plunged in the past two years, falling from 44 per cent in 2013 to 38 per cent last year.

CANADIAN MANUFACTURERS' SHARE OF THE DOMESTIC MARKET
(in %)



However, other industrialized economies have done much better at preserving their market share. While Canada's share of global manufactured goods exports fell by more than 50 per cent from 2000 to 2015, the US share fell by 37 per cent and the EU's share by just 15 per cent.

Contributing Factors

There are a number of factors underpinning the challenges that Canadian manufacturers face when trying to find new foreign and domestic customers. Some of these are issues specific to exporting and the business climate in foreign markets. Others are home-grown.

Market Access

On the international side, market access remains a major barrier for Canadian manufacturers. Over the years, the federal government has been active in trying to remove these barriers by signing free trade agreements with countries around the world. However, while these agreements are useful for removing tariff barriers, they do not guarantee that foreign markets will be truly open.

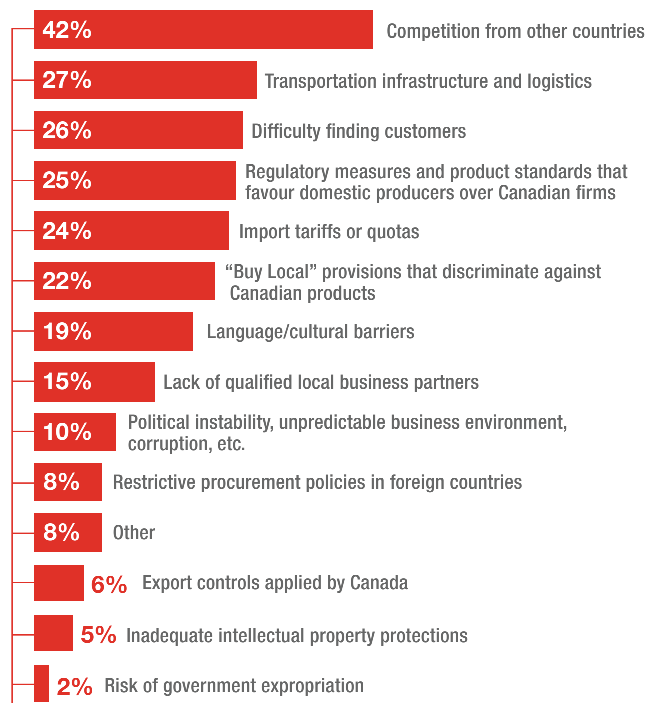
Industrie 2030 participants noted throughout the consultations that many countries employ subtle (or not-so-subtle) methods to discriminate against foreign suppliers, preventing them from gaining a foothold in those markets, even under ostensibly free trade. We also heard that these agreements do not always provide reciprocal market access; for example, many businesses in Canada do not have access to procurement opportunities in international markets to the same extent as Canada opens its doors to foreign suppliers.

Another issue is that, while Canada is a trading nation, we are not necessarily a nation of traders. Exports make a significant contribution to the Canadian economy, but most of those exports are accounted for by a small number of large companies. Moreover, a significant share of that trade is intra-firm – companies shipping goods back and forth between their own facilities, which happen to be located on either side of an international border – typically between Canada and the US. Historically this has been very beneficial to Canada and our economy. Growing Canada's corporate presence into more international supply chains should be a primary focus of industry and governments.

In other words, many of Canada's smaller manufacturers are not export-oriented. They lack information about market opportunities, about how to navigate the rules and regulations in foreign countries, and how to find customers and local partners.

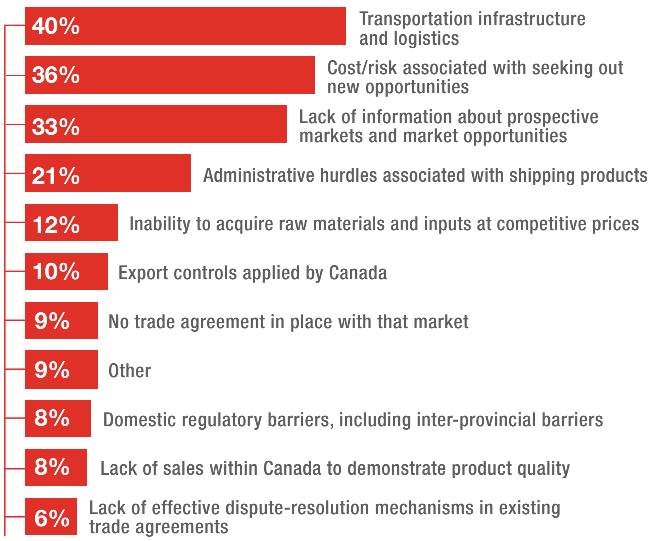
The 2016 *Management Issues Survey* (MIS) confirmed these points and shed some light on other challenges Canadian manufacturers see when trying to sell their goods abroad. When asked about their biggest external challenges to trade, 42 per cent pointed to stiff competition from other countries. Twenty-seven per cent stated that transportation infrastructure was a major obstacle, while 26 per cent cited difficulty finding customers.

WHEN DOING BUSINESS IN FOREIGN MARKETS, WHAT ARE THE MOST SIGNIFICANT EXTERNAL CHALLENGES YOUR COMPANY FACES?



Respondents also confirmed that non-tariff barriers are a significant hurdle. One quarter of those surveyed said that they struggle with overseas regulatory measures and product standards that favour domestic suppliers over Canadian firms.

WHAT ARE THE MOST SIGNIFICANT INTERNAL OR DOMESTIC CHALLENGES YOUR COMPANY FACES WHEN EXPORTING?



Not all barriers to trade are found in overseas markets, however. The MIS also asked businesses about the domestic obstacles to finding more international customers. Three responses stood out above the rest. First, more than 40 per cent of those surveyed said that Canada's network of transportation infrastructure was a major barrier to trade. This is a critical finding. Getting goods to market as quickly and efficiently as possible lowers costs and, in an age of just-in-time delivery, can make the difference between making and losing a deal. If the transportation infrastructure network is inadequate, even 100 per cent open market access will not be enough to increase exports. This issue and the recommendations were covered in more detail in the Industrie 2030 report *Manufacturing a Competitive Business Environment in Canada*.

The other two domestic hurdles relate to a lack of information about market opportunities. Specifically, more than 36 per cent of respondents stated that the search costs associated with exploring new market opportunities were a major barrier to trade, while one third pointed to a lack of information about markets and market opportunities.

The fact that manufacturers feel they lack information and support speaks to another challenge. There are many trade assistance programs available to help businesses become export-ready, to research market opportunities, to provide sales and political risk insurance, and even to offset the cost of overseas travel to explore new market opportunities. The MIS asked businesses about their experience with a range of these programs. The results were startling. In most cases, the clear majority of businesses were either unaware of these services or had never used them.

Finally, increased competition from foreign suppliers is eating into Canadian manufacturers' share of their own domestic market. Canadian manufacturers are not low-cost producers, but they can be counted on to deliver reliable, customized and high-quality products. There are two specific issues here.

The first is that domestic manufacturers have been significantly harmed by countries not abiding by the terms of trade agreements and illegally dumping goods into the Canadian market. Effective and enforceable penalties for such violations are critical for Canadian businesses to benefit from free and fair trade and not be undercut by dumped goods in their own backyard.

For example, manufactures noted during the consultations that Chinese goods dumped in the Canadian market are not only harming domestic producers, they are deterring future investment in Canadian manufacturing. Participants stated that, to prop up domestic employment, China was over-producing core manufactured goods and then dumping their surplus production in markets like Canada at prices below cost or below those at which those products sold at home. This claim has been supported by recent Canadian International Trade Tribunal (CITT) findings against Chinese imports. While countries like the United States have adjusted their trade remedy systems to lessen the impact of illegal dumping, Canada has been slow to adapt. As a result, manufacturing investment in Canada has weaker economic returns and businesses are left with fewer resources with which to reinvest in productivity-enhancing technologies. Addressing Canada's trade remedy system will make investment in Canada more attractive.

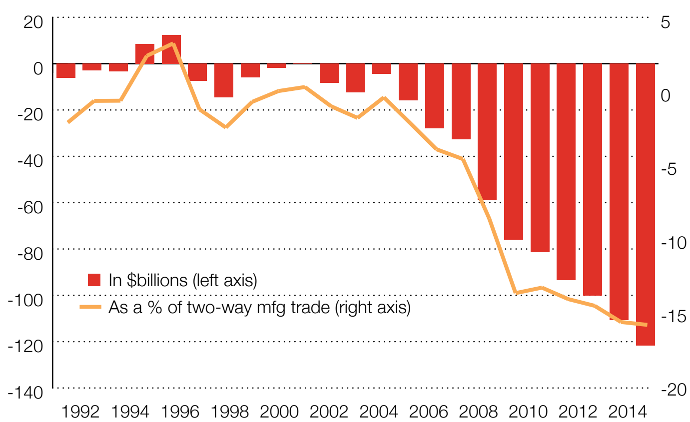
The second issue is that, too often, public and private sector procurement bodies in Canada make purchase decisions based on the sticker price of a good rather than employing a broader view of the range of costs associated with such a decision. These costs – the total installed costs – include initial purchase cost plus transportation, storage, possible delays in resolving issues if products arrive damaged or below spec, and follow-up repair and maintenance work. Industrie 2030 participants recounted numerous cases of losing domestic contracts to foreign suppliers, only to have the purchaser experience untold delays, problems and unexpected cost overruns.

Regulatory differences

Impact of underdeveloped market access

As a result of these and other factors, Canadian manufacturers are not maximizing their growth opportunities in either domestic or foreign markets. Canada is losing market share globally and our manufacturers are seeing imports displace local production at home. The results are slower growth, lower investment, foregone opportunities to scale up production, and reduced competitiveness.

CANADA'S BALLOONING TRADE DEFICIT IN MANUFACTURING



The evidence is concerning. In the Industrie 2030 paper, *Manufacturing and Exporting in Canada*, it was observed that Canada's trade deficit in manufactured goods is exploding, rising from $15.9 billion in 2004 to an all-time high of $122 billion in 2015. In an era of global supply chains and specialized production, it is unreasonable to assume that Canadian producers should meet all our domestic manufacturing needs. However, a manufactured-goods trade deficit that large and growing that quickly must be cause for concern. Whether because our exports should be higher or our imports lower, at the end of the day, this trade deficit points to lost production, investment and job creation. It means we are leaving economic growth opportunities on the table for all Canadians.

One area where the impact is especially pronounced is in the underdeveloped supply chain linkages between Canadian manufacturing and our resource industries. A recent study by CME used the oil sands as just one example of this problem: only 43 per cent of the manufacturing supply chain opportunities from capital and operational expenditures go to businesses located in Canada. The remaining 57 per cent of manufactured goods are imported.

This result is in no way unique to the oil sands; it holds true for Canada's other energy and mining industries as well. It represents billions of dollars of foregone manufacturing activity and a fundamental failure to capture the full benefits of developing our non-renewable resource base.

Solutions

Improving our record on foreign market penetration and regaining domestic market share – in other words, finding new customers – is a necessity if Canadian manufacturing is to grow and prosper. Through the results of the 2016 *Management Issues Survey* and the Industrie 2030 consultations, manufacturers pointed to several areas where progress is urgently needed if we are to reverse the gradual erosion of Canada's global manufacturing presence.

1. Create a promotional campaign celebrating Canadian-made products.

Canada has a long history of making new products that have changed the world. Sonar, insulin, the snowmobile, the cardiac pacemaker, the IMAX movie system and the hockey goalie mask are just some of the Canadian inventions that make a difference in lives of people around the world every day. Innovators continue to work on and develop new products every day. But these successes and innovations often are not even known to Canadians, never mind to those outside the country. This lack of awareness undermines economic opportunities for Canadian companies.

We believe governments have a strong role to play in both identifying what is made in Canada and also promoting those products at home and internationally.

International Promotion

Reputation matters. A strong brand is invaluable to businesses looking to expand to new markets or to find new customers here at home. As a country, Canada has a positive international image, but awareness of Canadian ingenuity and product quality is low. This has a cost. If Canada does not have a reputation as a country of innovators and entrepreneurs, and a leading source of new ideas and new technologies, then even the most game-changing new product will be at an immediate disadvantage.

The federal government has a critical role to play in highlighting Canadian success stories. Showcasing Canadian-made, designed, or engineered products in our foreign trade offices and embassies will help build our reputation as an innovation leader. Increasing support for Canadian companies to find business connections and partnerships in these local markets would help even more.

Recommendation 1a: The Canadian government should focus the efforts of its foreign trade offices, embassies and High Commissions around the world to enhancing trade opportunities for Canadian businesses. This would include additional resources for the Trade Commissioner Service, as well as using our foreign offices to showcase innovative products made, designed or engineered in Canada.

Domestic Promotion

Promoting Canadian manufacturing here at home will have similar results. If Canadian manufacturing is associated with advanced technology and ingenuity, it will attract more investment, more skilled labour and more entrepreneurship to the country. This is critical to the development and commercialization of new products and finding new customers around the world.

To make a difference, the very concept of "Made in Canada" needs a refresh. First, from a legal perspective, the rules of what constitutes a "Made in Canada" product need to be modernized and updated to take into consideration the global nature of manufacturing supply chains and parts sourcing. Many products that are manufactured in Canada fall short of the strict 51 per cent domestic content requirement needed for a good to qualify as being "Made in Canada," never mind the 98.5 per cent requirement for "Product of Canada."

These rules need to be broadened to allow more products that are manufactured in Canada to meet these designations and be marketed as Canadian goods. One possible solution is to lower the thresholds described above. Another is to allow for products where the final assembly or last major transformation was completed in Canada to be labeled as domestically-made.

Additionally, the government should look at creating new legal designations that not only showcase the added value of Canadian innovation, but also recognize modern realities of international business and manufacturing: products can be designed and created in one country and manufactured in another. Such designations could include "Engineered in Canada" or "Designed in Canada."

Recommendation 1b: To account for the increasingly globalized nature of manufacturing, the federal government should lower the Canadian content requirements for goods deemed to be "Made in Canada" or a "Product of Canada." New designations for Canadian-engineered or Canadian-designed products should also be introduced.

Second, the federal and provincial governments need to aggressively pursue branding exercises that highlight goods that are manufactured in Canada. In the agricultural sector many provinces have marketing campaigns – such as Ontario's "Good things Grow" – which promote locally-grown products. A similar campaign for domestically manufactured goods should be developed in partnership with industry.

A model of such a campaign is operated by CME's Newfoundland and Labrador's division called "Manufactured Right Here." The campaign identifies products which are created locally, allowing businesses to label their products with "Manufactured Right Here" logos. These products are highlighted in local stores and are more likely to be purchased by consumers. The campaign has run for nearly 30 years and successfully increased consumer awareness of locally-made goods and increased sales of those products. This type of campaign needs to be replicated across the country through industry/government partnerships.

Recommendation 1c: Governments should create a marketing campaign to promote awareness of locally-made manufactured goods, similar to those that exist in many provinces promoting agricultural products.

2. Leverage Canada's domestic procurement system to foster new product development, innovation and local production.

Canadian manufacturing supply chains into both government and private-sector procurement opportunities are underdeveloped. This not only stifles domestic innovation and commercialization, it also prevents Canadian manufacturers from growing and investing in their own future. In other markets around the world, there is a much greater understanding of the importance of domestically developed and manufactured goods to the overall economy. That understanding is reflected in their government and private sector procurement policies.

Government Procurement

Governments around the world apply a range of "buy local" policies that encourage innovation, research and development and commercialization because they understand the importance that local value-creation can have. While the most well-known of these are trade-restrictive US Buy American policies, the US also has a range of programs that leverage domestic innovation and manufacturing, including the Defense Advanced Research Projects Agency (DARPA) and the Small Business Innovation Research (SBIR) program. These last two programs (discussed in the Industrie 2030 paper, *Fostering Innovation, Commercialization, and New Product Development in Canada*) are model programs that governments across Canada can, and should, emulate at a local and national level to leverage the opportunities created by procurement activities.

In addition to these recommendations, government should implement a "buy-first" procurement policy in Canada and modernize the procurement system itself. Through the procurement system, governments can become a first buyer of new innovations and technologies to support the commercialization and production of new goods developed and manufactured in Canada. Doing so would foster business innovation and help manufacturers find new customers.

Unfortunately the procurement process itself is a major challenge for many innovative manufacturers. Government procurement typically focuses on lowest price and product specifications rather than best long-term value, performance or function. This has the effect of discriminating against new products and stifling innovation. As a first step, governments need to stop looking at procurement as simply an exercise in meeting a need as cheaply as possible. In the long run, goods that seemed cheap at the outset often end up among the most expensive. There are numerous examples across Canada to back this up – most recently there has been several instances of foreign structural steel used in infrastructure projects that was delivered late and, when it did arrive, was found to be of poor quality. The end result: project delays and massive cost overruns. Governments should amend procurement rules to consider total cost as well as economic value. Total cost should reflect both installation and ongoing operational costs (which often isn't considered today), while the concept of economic value should be broadened to include domestic design, engineering, and manufacture, not simply "supply."

In addition, throughout our Industrie 2030 consultations, several manufacturers provided examples where their products met or exceeded the functionality requirements set out in procurement tenders, but since their goods did not conform to pre-determined specifications – which, by definition, can only include known or established products – they were disqualified from the procurement process. Not only does this rigid conformity stifle innovation, it makes it more difficult for companies to find new customers elsewhere. One of the most common questions businesses hear when trying to break into new markets is, "Who in Canada has bought your product?" If our own governments will not stand behind our companies and purchase innovative new goods, it is hardly a ringing endorsement in foreign markets.

Recommendation 2a: Government procurement policies should be amended so that contracts are awarded based on total installed costs, and ongoing operational costs along with the economic value created by sourcing goods with domestic content. And to encourage innovation, procurement specifications should focus on functionality requirements rather than pre-determined specifications.

Corporate Procurement

Similarly, much more can and should be done to boost domestic procurement and business linkages. Companies often complain that they struggle to sell to government through procurement markets because of the process is focused exclusively on cost. At the same time, within their own procurement processes they source almost exclusively on cost, rather than on quality, value, and service. Like governments, companies themselves need to start sourcing, when practical, from Canadian manufacturers that can provide enhanced quality and broader economic benefit, rather than simply looking at the lowest initial cost.

Resource Royalty Tax Credit program

One of the most glaring examples of a large and underdeveloped customer base for Canadian manufacturers and the lack of domestic corporate procurement strategies is in the natural resource sector. Canada is blessed with a rich endowment of natural resources. Our energy, minerals, forests, agricultural land, and oceans are the feedstock of the Canadian economy, providing us with the raw materials and inputs needed to build final goods. Our entire economy, including the services sector, relies on these goods to function.

The resources sector and manufacturing have a symbiotic relationship. Resource industries rely on machinery, metals, specialized instruments and a host of other manufactured goods to be able to extract (or grow) raw materials. Manufacturers, in turn, use these raw materials as feedstock and inputs into the production of intermediate and final goods.

However, Canadian supply chains linking domestic manufacturers to our resources industries are underdeveloped. Using the example of the Alberta oil sands, a recent study by CME showed that Canadian facilities captured only 43 per cent of the manufacturing supply chains from capital and operational spending. The remaining 57 per cent are lost to imports, taking potential jobs and value-added economic activity with them.

This represents a significant loss of opportunities for economic growth, prosperity and economic diversification. In the case of the oil sands, if steps were taken to improve supply chain penetration so that Canadian businesses captured 60 per cent of the supply chain instead of 43 per cent, the economic benefits would be considerable – an estimated $61 billion in new manufacturing output between now and 2030. Similar benefits can be expected in the mining, forestry, energy and agri-food industries.

To help achieve those economic gains, CME proposes that provincial governments implement a royalty tax credit program for non-renewable industries that rewards project developers that source their manufactured goods domestically. Such a policy would provide energy and mining companies with an added incentive to build stronger domestic supply chains and result in a greater share of the value-added economic benefit from natural resource development to stay in the country.

Recommendation 2b: Provincial governments should implement a royalty tax credit program for businesses in non-renewable resource extraction industries that source their manufactured goods domestically. Companies would receive a royalty tax credit equal to a percentage of the value of domestic manufactured content purchased for their operations.

3. Negotiate Free Trade Agreements that increase value-added exports through reciprocal access and include strong trade enforcement mechanisms.

Canada has vigorously pursued trade liberalization agreements many countries in an effort to improve global market access for Canadian businesses. Free trade agreements have been largely supported by many in the business community as a way to create new market opportunities, diversify trade and develop new business and investment partnerships. Unfortunately, with the notable exception of the North American Free Trade Agreement, Canada's experience with these agreements, has often been a reduction in export activities. Simply put, Canadian companies are not taking advantage of these opportunities or are being restricted from doing so. Neither outcome is satisfactory.

To begin to overcome this problem, Canada must start choosing new negotiating partners base on where significant trade already takes place, or where there is significant interest from the business community. In the 2016 MIS, Canadian manufacturers and exporters were asked which foreign market contained the most promise and growth opportunity for their companies. Not surprisingly, the United States topped the list by a wide margin. This makes sense given the size of the US market, along with the existing deep integration of manufacturing supply chains and customer bases, proximity, and the presence of a common language and legal frameworks. Simply put, if companies are going to export, expanding in the US is the safest and strongest business play. As such, given the ongoing uncertainty in the US with the new Trump Administration, it is critical the Canadian government continue to aggressively pursue policies that maintain, if not expand, market access.

After the US, Canadian manufacturers see the European Union as representing the next greatest opportunity for increasing exports. Based on the feedback from the Industrie 2030 consultations, this stems from three factors – the soon-to-be-implemented of the Canada-Europe Comprehensive Economic and Trade Agreement (CETA); the size and relative strength of the market; and the general belief that we share a relatively equal regulatory, tax and legal framework – something that is critical for balanced and fair trade. It is also important to note that since this survey was conducted, the EU has changed with the United Kingdom voting to leave the Union under its "Brexit" vote. Based on ongoing feedback and input from Canadian industry, this has created two priorities; first, complete ratification and implementation of CETA, and second, begin negotiations on an free trade agreement with the UK at the earliest time possible using CETA as the framework.

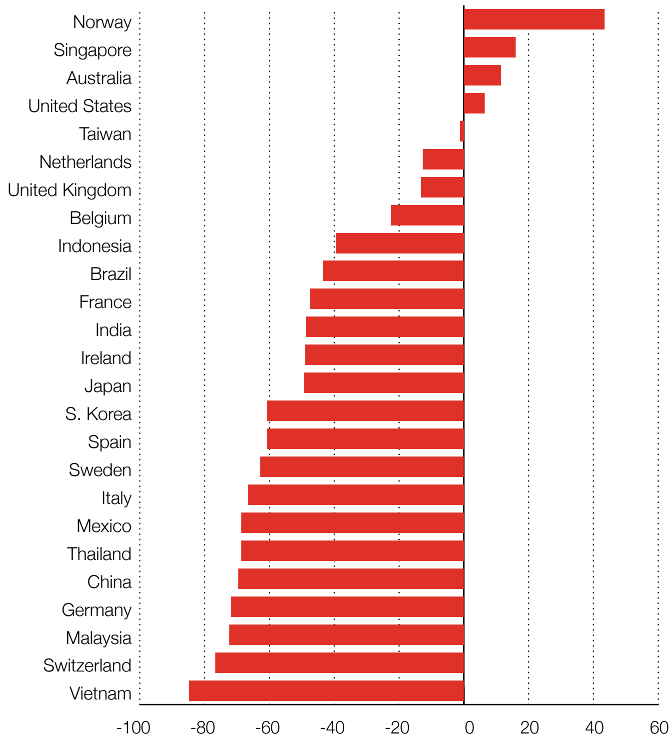
Next on the export opportunities list is Mexico followed closely by China and then India. Based on the roundtable consultations, these three countries span a range of issues and interests for Canadian exporters. On Mexico, Canadian companies clearly support our ongoing trade relationship and expect to maintain continued access through the NAFTA. China and India are much more complicated for a variety of reasons. Companies see the potential in these massive markets and their rapidly-growing middle classes. At the same time, they see tremendous risks in a free trade agreement, especially with China given the size and strength of its growing manufacturing sector, the rapidly-rising trade imbalance that Canada faces, and the very different regulatory and legal framework within which companies operate. This last point causes the most difficulty for Canadian companies because on the one hand, it is difficult for our exporters to penetrate that market, while on the other, it is much easier for Chinese businesses to sell into our market due to much lower operational costs and much higher export supports.

Canadian manufacturers support free trade. They believe that if the playing field is level, they can compete with the best in the world. The problem is, the playing field is almost never level, even when trade agreements are in place. As noted above, these agreements are seldom able to dismantle the maze of non-tariff barriers that Canadian manufacturers face when trying to access new markets. Any manufacturer with exporting experience – especially to non-US markets – can quickly and easily point to a number of barriers preventing them from competing on a level playing field with local businesses.

Making matters worse is that Canada is often described as being naively altruistic when it comes to negotiating, implementing and enforcing these trade deals. We ensure that foreign businesses have the same access to domestic markets as do local companies. The problem comes when these arrangements are not reciprocal. If other countries have non-tariff barriers to trade in place – whether they be discriminatory regulations, biased procurement policies or something else – and Canada does not, then trade agreements actually put Canadian businesses at a disadvantage. In these cases, Canada must take more aggressive action to protect market access rights of Canadian exporters and ensure speedy resolution when there are challenges.

A glance at Canada's manufacturing trade imbalance by country shows where this problem is most pronounced. Amongst its largest manufacturing trade partners, Canada has a positive trade balance (expressed as a percentage to two-way manufacturing trade) with a small number of countries, including the United States. It also has modest trade deficits with the UK, Netherlands, Taiwan and Belgium.

CANADA'S MANUFACTURING TRADE BALANCE BY COUNTRY
(as a % of two-way trade in manufacturing)



At the bottom of the list, however, there are clear problems with Canada's ability to access certain Asian markets. Meanwhile, large trade deficits with Germany are more likely because of its high productivity and competitive advantage in advanced manufacturing.

Manufacturers need access to global markets if they are to find new customers and grow. However, free trade is not good enough. Trade agreements must be fair as well and must create the opportunity for companies, especially SMEs, to export abroad.

Recommendation 3a: Trade agreements should focus on countries that have the greatest potential for export growth and be structured to ensure Canadian companies receive fair and reciprocal access to foreign markets through the elimination of both tariff- and non-tariff barriers. Agreements must also have rigorous and enforceable dispute-resolution mechanisms that Canada should use whenever the letter and spirit of those agreements is violated.

Recommendation 3b: Canada must modernize and strengthen its trade remedy laws to protect domestic interests, and to align them with our major trading partners.

4. Improve export support programs offered by governments, especially to SMEs.

Increasing exports is critical to improving Canada's wealth. A country's prosperity and ability to grow depends on how much it is able to sell internationally. The same is true of individual businesses. Finding new markets and new customers is vital to growth.

As noted earlier, Canada's exports of manufactured goods have been underperforming for more than a decade. This, despite the fact that the global economy has been more or less steadily growing and that Canada has signed multiple new free trade agreements over that time. In order to reverse these trends, Canada must get more of its SMEs exporting more products.

One of the biggest challenges facing small manufacturers looking to explore new market opportunities is the cost of business development. It takes time to build relationships and business connections. These often requiring travel, multiple in-person meetings, and at no point is a sale ever guaranteed. These costs can be prohibitive to small companies looking to expand beyond Canada. International business development may represent their best opportunity to grow, but they cannot afford to do it.

This view was confirmed by the results of the 2016 *Management Issues Survey*. When asked what government supports would have the biggest positive impact on export growth, the top response by a wide margin was help offsetting these early-stage business development costs.

CanExport Program Enhancements

In response to concerns like these, the federal government introduced the CanExport program in early 2016. This five-year, $50 million initiative provides direct financial assistance to SMEs looking to explore new market opportunities. Subject to certain limitations, the programs covers up to half of all qualifying costs for business travel, participation at trade fairs, market research, translation and development of marketing tools, and certain legal fees.

CanExport represents an important first step in helping small businesses overcome the initial hurdle of new market development. However, Industrie 2030 participants pointed to a number of improvements that need to be made. One of these is addressing the long delay between when businesses pay the expense for which they are being reimbursed and when they receive their rebate. This delay can be as long as a month or two if companies make the purchase a few weeks before the event takes place.

Industrie 2030 participants also noted that the approval process under CanExport was too long – sometimes causing them to miss specific windows of opportunity – participation in certain trade shows, for example. They also called for the program to have more flexibility around the application timeframes and duration of the funding agreement.

Finally CanExport is subject to a number of unnecessary restrictions that effectively discriminate against certain kinds of business activity. Notably, CanExport applications could be rejected if the product or market that business wishes to pursue fails to align with Government of Canada growth strategies. In our view, growth IS the strategy. Making approval contingent on the right product being exported to the right country does not make for an effective program.

Recommendation 4a: The federal government should improve the CanExport program by speeding up the timelines for approval and reimbursement, and by removing all restrictions on product type and market.

National Export Accelerator Program

The Canadian Trade Commissioner Service (TCS) manages and leads a Canadian Technology Accelerators (CTA) program that provides high-growth, market-ready Canadian companies with support to access global markets and entrepreneurship services within certain key sectors: life sciences; information and communications technologies and clean tech. The program offers mentorship services; support in accessing financing and strategic partners; and free office space in cities where CTA programs are in place.

The CTA program offers considerable value to companies in those specific sectors and should be expanded. Specifically, CME recommends that the federal government work with Canada's robust community of public and private-sector trade experts to build on the CTA to create a National Export Accelerator Program similar to what is available in other countries. This national accelerator program would focus on preparing successful applicants for new markets and addressing company-specific barriers to exporting, including training, technology gaps, productivity gaps, access to value or supply chains or financing gaps. It will help improve export readiness, and identify high-potential companies that can grow with a bit of coordinated support.

The program should also include a mentorship component that links new exporters with experienced ones for guidance and problem-solving advice. It should also include financing for shared trade export assistance resources that would allow SME exporters to hire a shared resource on a part-time basis. This type of support would provide SMEs with the financial support they need to offset the costs of part-time embedded staff that could provide technical and market/business development expertise.

Recommendation 4b: Using the existing Canadian Technology Accelerators (CTA) program as a model, the federal government should create a National Export Accelerator Program to assist high-growth, market-ready Canadian companies to build export knowledge and capacity by addressing company-specific barriers to exporting and providing mentorship support.

Strengthen Awareness of Existing Government Support Mechanisms

Canadian governments offer a wide range of export supports for businesses across the country. Unfortunately, it is clear from Industrie 2030 research that most of the available support is unknown to Canadian industry. Companies that are aware of, and use, the services of agencies and organizations like Export Development Canada, Trade Commissioner Service, Business Development Canada, and Canadian Commercial Corporation find great value. But not enough businesses take advantage of these services.

As noted above, these groups should be brought together to build a comprehensive export accelerator program for Canadian exporters. In addition, government should look to increase the range of activities that these groups can offer with a specific focus on promoting export opportunities, increasing international business linkages, and educating Canadian exporters, especially SMEs, on international opportunities.

Recommendation 4c: Governments should explore new avenues for existing departments and agencies to promote export-preparedness, awareness of market opportunities and international partnerships, especially for SMEs. All programs and services should be designed and delivered with effectiveness, business awareness and ease-of-use as the highest priorities.

Conclusion – Tracking Progress

Increasing access to foreign and domestic markets is the issue most directly tied to CME's Industrie 2030 goals. Not only is improved market penetration itself a necessary step towards doubling manufacturing output and exports, it also represents evidence that improvements are being made in the other key action areas that form the Industrie 2030 growth strategy. Productive, technologically-advanced, innovative manufacturers with a strong labour pool will undoubtedly be more competitive and more successful at finding new customers. However, as outlined in this report, there are a number of steps that can be taken in the meantime to improve market access and pave the way for future growth.

The recommendations set out in this paper are intended to help Canadian manufacturers secure new contracts and new production mandates and, therefore, to grow. That said, success is not measured by whether or not these 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. Of these seven, two are linked to helping businesses find new customers. They are:

- **The share of manufacturers reporting that governments support the growth of their company in the biannual 2016 *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.** There is an important role for governments to play in removing barriers to international trade; ensuring trade agreements are based on the principles of fairness and reciprocity; defending Canadian manufacturers from illegal dumping; and vigorously defending Canadian interests in international trade tribunals. At the same time, governments can help build the Canadian brand here at home and around the world, and improve access to domestic supply chain opportunities. Progress in these areas will make it clear to manufacturers that governments support investment and growth in their companies.
- **Canada's trade deficit in manufactured goods will fall by an average of $5 billion per year to reach $47 billion by 2030.** Improved access to foreign markets will increase Canadian manufacturing exports, while better domestic market penetration will lower the amount of manufactured goods imported into Canada. In combination, these will help close Canada's large (and growing) trade deficit in manufacturing.

Without fair and meaningful access to domestic and foreign customers, Canadian manufacturing cannot grow. Canada must work diligently to address existing market access barriers, while also responding quickly to new issues as they arise. The global economic and geopolitical landscape is constantly changing. These changes will create new challenges that will require new solutions and responses.

Our recommendations for improving market access will evolve over time, but our commitment to long-term results is unwavering. Expanding the customer base for Canadian manufacturers is a critical step towards meeting our goal of doubling 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.

A special thanks to:

BDO | Royal Bank | FCPC Food & Consumer Products of Canada | KPMG

EDC | salesforce | BOMBARDIER the evolution of mobility

Tenaris | ArcelorMittal DOFASCO | HAMILTON | xerox | Microsoft

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