Canadian Manufacturers & Exporters

Manufacturiers et Exportateurs du Canada

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Good afternoon Mr. Chair and members of the Committee.

Thank you for the invitation to speak today on behalf of Canada's 90,000 manufacturers and exporters and our association's 2,500 direct members. CME believes that market access, business competitiveness and Canada's investment attractiveness are among the most important challenges facing the Canadian economy today. We are glad to see this committee take an interest in these issues.

Our position on trade generally is this: we support free and fair trade for Canadian manufacturers. That is to say, we believe in securing trade agreements that eliminate all market access barriers and, more importantly, result in increased value-added exports and domestic production.

While we assume that free trade will generate new export growth, too often we end up disappointed with the results. Not including NAFTA, which has been unambiguously positive for all three countries, Canada has signed 12 free trade agreements which cover 42 countries around the world.

Since each of those 12 agreements came into effect, Canadian value-added exports to those 42 countries have increased by just 1.3 per cent total. Meanwhile, imports have risen by 15.6 per cent.

Our failure to make meaningful market access gains from free trade speaks to a number of overlapping challenges that need to be addressed. I would like to highlight three of these today.

The first is that we need to ensure that our trade agreements provide reciprocal market access and level the playing field for Canadian manufactured goods. Non-tariff barriers like discriminatory regulations, direct export subsidies, procurement exemptions and currency manipulation can all impede market access. We need our trade agreements to provide strong protection against those practices.

Second, governments need to do a better job of demystifying their export support programs. In our most recent biannual survey of Canadian businesses, we asked companies about their experience with a wide range of programs or services like EDC, the Trade Commissioner Service, the CanExport program and so on. The good news is that companies that used these programs found them to be helpful. The bad news was that most companies had never used them or didn't even know they existed.

Finally, and most importantly, we need to take a long hard look at our business tax competitiveness in Canada. If we want to succeed abroad, we need to be competitive at home. However, recent trends suggest a major looming problem: businesses are not investing in Canada.

- New Greenfield foreign direct investment in Canada has fallen by 40 per cent since the pre-financial crisis period. Meanwhile, in the US it has increased by 41 per cent.
- Business capital investment in Canadian manufacturing has fallen by 15.3 per cent over the last three years.
- Our businesses now invest less as a percentage of GDP than any other country in the OECD except for Greece.

And these figures all predate NAFTA renegotiations and US tax reform.

Companies weren't investing in Canada when we had a business tax advantage over the US. And now that advantage is gone. Not only are US taxes falling, but the cost of doing business in Canada is heading full steam in the opposite direction.

We are deeply concerned that this widening cost gap will mean even less investment in Canada and more companies moving to the US or making their next big investment in that country. And that is to say nothing about the fact that Canada is sending the message loud and clear that we are not interested in developing our natural resources and we cannot approve major projects in this country.

Uncertainty around NAFTA will only magnify this problem. Canada's chief selling point as an investment destination is access to the North American economic space. The issue is not even about what happens if NAFTA is terminated, or if a new deal is worse than the one we have now. The real issue is the business uncertainty that has already been created.

As I mentioned in November to your colleagues on the National Finance Committee: Why would a business invest in Canada and expose itself to that uncertainty when it could just invest in the US and avoid it altogether? We need to have a very good answer to that question and, at present, we have no answer at all.

To conclude, we urgently recommend that the federal government work with the business community to adopt an outcomes-based approach to trade and tax policy. That starts with a comprehensive review and modernization of our business tax and regulatory environment. We need a tax system that is simple, transparent and fair. It must make our businesses more globally competitive. And it must be structured to reward companies for growing. Right now, our tax structure rewards companies for staying small.

We also recommend that future trade agreements be negotiated with an eye to achieving free and reciprocal market access that generates meaningful growth in Canadian value-added exports.

Finally, we recommend that the government re-examine its existing trade support programs and services. This includes:

- Additional funding and support for the trade commissioner service;
- Enhanced corporate funding for trade missions, research, and export promotion;
- Developing a simple, business-friendly approach to deliver, and increase awareness of, existing trade support programs;
- Expanding and improving the national export accelerator program to boost SMEs export-readiness; and
- Introducing an export tax credit for companies who are actively increasing their exports.

CME is willing to work closely with the federal government to advance these goals.

Thank you for your time and I look forward to any questions you may have.