

Chris Forbes  
Federal-Provincial Relations and Social Policy Branch  
Department of Finance  
L'Esplanade Laurier  
15th Floor, East Tower  
140 O'Connor Street  
Ottawa, Canada K1A 0G5

**Re: Employment Insurance Rate Setting Consultation**

Dear Mr. Forbes,

Canadian Manufacturers & Exporters (CME) is pleased to provide input to Human Resources & Skills Development (HRSDC) regarding the 2011 Employment Rate Setting Consultation as posted on August 18, 2011.

Canadian Manufacturers & Exporters (CME) is Canada's largest industry and trade association. We represent businesses in all sectors of manufacturing and exporting activity across Canada. Our mandate is to promote the competitiveness of Canadian manufacturers and the success of Canada's goods and services exporters in markets around the world.

We focus on the issues that are most critical to our members – manufacturing competitiveness, US business opportunities, international markets, people and skills, energy and the environment. Their challenges are our priorities.

CME's members are Canada's leading manufacturing and exporting businesses. Together, they account for an estimated 82 per cent of Canada's manufacturing production and 90 per cent of Canadian goods and services exports. While CME's membership includes many of Canada's largest businesses, more than 85 per cent of our members are small and mid-sized enterprises.

Through our partnerships with other associations, CME's network extends to more than 100,000 companies from coast to coast, engaged in manufacturing, global business and service-related industries.

**The Importance of Manufacturing & Exporting**

Manufacturing in Canada contributes \$500 billion to the Canadian economy or 12% of Gross Domestic Product. The sector employs approximately 1.8 million Canadians directly and another 3 million are indirectly dependent on manufacturing. Every dollar invested in manufacturing, generates \$3.05 in total economic activity, the highest multiplier of any sector. Manufacturers and exporters are at the cutting

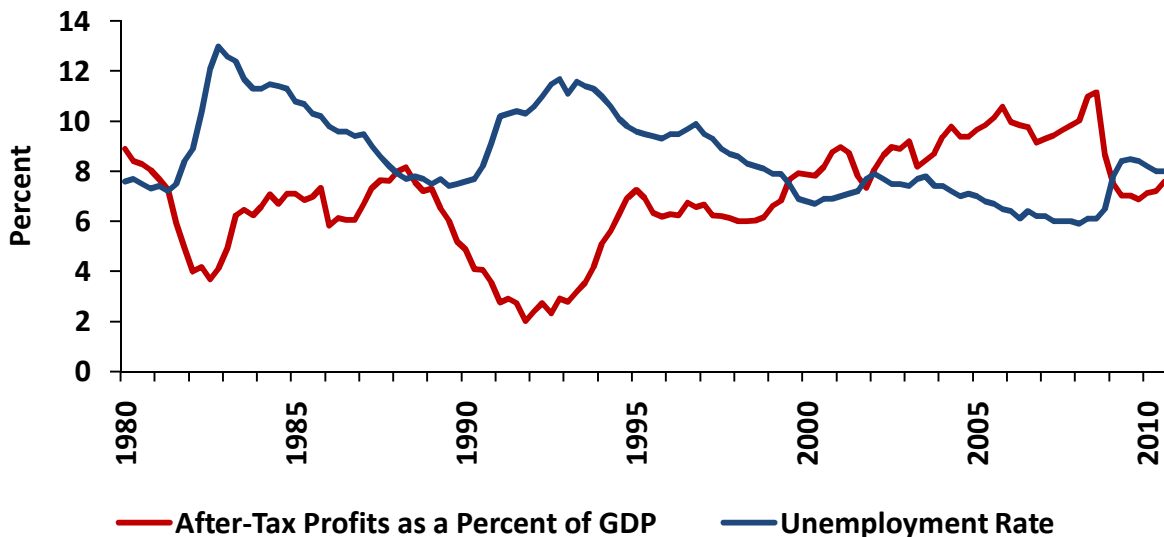
edge of innovation, representing 54 percent of private R&D and 85 percent of new products commercialized.

### Economic Context

While manufacturing shipments have increased steadily from the depth of recession, employment in the sector has not. The primary reason for this divergence is the fact that while production has increased, after tax profitability has not. Gradual economic recovery has also resulted in rising input costs and a corresponding rise in the value of the Canadian dollar. As a result, manufacturers are making more products without making any money. There is a strong correlation between after-tax profitability and

employment. Until profitability improves, it is unlikely that there will be much in the way of employment growth in Canadian manufacturing.

## Jobs Depend on Business Profitability



There is also increasing risk that Canada could re-enter a period of economic contraction as a consequence of serious credit issues in other parts of the world, particularly in the EU and the United States.

The Organization for Economic Cooperation and Development has recently revised its 2012 forecast for Canada down from 2.8 percent to 1.9 percent based on deteriorating export market conditions,

concerns about the European debt crisis and the ongoing strength of the Canadian dollar ([www.oecd.org](http://www.oecd.org)).

### **The Employment Insurance System**

The employment insurance system has been and should continue to be used to mitigate against the negative effects of economic contraction. The primary function of the EI system should be to provide short term partial remuneration for individuals that have become unemployed due to economic changes beyond their immediate control and to encourage re-employment. There is also a role for the EI system in providing targeted strategic funding for skills upgrading to support workforce re-integration and changing labour market conditions.

Innovative programs such as Work-share have been used successfully to pre-empt wide spread layoffs, avoiding added costs to the system and helping employers and employees to remain connected during difficult economic times.

The most significant action that can be taken to ensure the sustainability of the employment insurance system is to foster private sector economic growth and employment, thereby reducing demand on the system. This must be a central consideration in any rate setting approach taken by the government.

### **Consultation Questions:**

#### **1. What is a reasonable amount of time in which the EI program should be expected to break even?**

The break-even time for the funding of the EI program should be flexible enough to adapt to changing market conditions. Reasonable targets should not be based on a year to year analysis but look at the entire economic cycle. At a minimum, the 2015 target is unreasonable and must be extended to reflect the current economic environment.

CME has supported the creation of a surplus in the past; however, it is important to note that there have been surpluses in the account in the past that have been diverted into general government revenues. It is critical that any steps to return to surplus do not unduly burden employers or employees when they can least afford it.

#### **2. What is an acceptable maximum change in EI Premiums?**

The maximum change in EI should also reflect market conditions and be adjusted on a countercyclical basis. When there is uncertainty or contraction in employment, rates should remain frozen or decrease depending on the severity of the conditions. When the economy is growing, rates should only increase at a rate that will not disrupt growth.

#### **3. What should be the rate setting process?**

The rate setting process should involve input from various stakeholders including employer representatives and economists to determine market conditions. At a minimum, the process should include four steps:

1. preliminary stakeholder input,
2. open and transparent draft rates,
3. Feedback from stakeholders on the draft rates;
4. Final communication of EI premium rates

### **Key Recommendations for the EI System and Rate Setting**

#### ***Freeze Premium Rates for Employers:***

CME recognizes that the EI fund is in a negative position and steps must be taken to ensure that the system is adequately funded. However, raising premium rates during this period of economic uncertainty could potentially exacerbate the economic challenges that employers are facing by increasing mandatory overhead. In this economic environment, government can help private sector employers by looking for opportunities to freeze or even reduce mandatory overhead.

The government should also consider having equal allocation of payment between employers and employees. Currently, employers pay 1.4 times that of employees. We feel that in the current context, this can no longer be justified.

#### ***Streamline EI Programs Including Work-share:***

CME strongly supports the work-share program. Many CME members used the program to avoid more serious layoffs and workforce disruptions during the most recent recession. However, many have expressed concerns that the application process was lengthy and cumbersome. The government should take steps to make it more efficient for companies to establish work-share arrangements with employees. One specific example would be to allow for electronic employee acceptance, as opposed to the current requirement for individual signatures. Particularly for larger employers, this can be a significant administrative burden.

#### ***Replenish EI System Through Government Contributions During Economic Uncertainty***

Employers have not forgotten that there was a surplus of approximately \$57 billion in the EI account that were diverted into general revenues. While it is critical that the fund be strictly segregated from general revenues going forward, CME believes that government should contribute to the fund at least until the account returns to surplus and during periods of recession.

***Employer Sponsored Training Tax Credit:***

CME recommends that the government implement an employer sponsored training tax credit, creditable against EI premiums to encourage companies to invest in critical training, even during periods where cash-flow is constrained (i.e. recessions). Employers that can demonstrate that they have invested in training for employees would receive a refundable tax credit to offset rising EI premiums.

**Conclusion:**

The EI system is important to Canadian society and important to manufacturers and exporters. There is significant scope for improvement to the system that will make it more beneficial for both employers and employees. The rate setting process must strike the balance between ensuring that the system is

adequately funded in a way that does not inadvertently contribute to the circumstances that it was designed to mitigate (recession).

CME appreciates the opportunity to provide comment and we would welcome any further dialogue on the subject.

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