Canadian Manufacturers & Exporters
Manufacturiers et Exportateurs du Canada

CME Pre-Budget Submission
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1. Economic Recovery and Growth

Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

Recent policies, such as the reductions in corporate income taxes, and the Accelerated Capital Cost Allowance (ACCA), helped drive business investment and soften the impact of the recent global economic downturn. These policies also helped position Canada as a primary location for global investment, which is critical, given increasing global competition for manufacturing investment. CME believes, however, that more work needs to be done to address the issue of tax competitiveness in Canada, including the following:

- The federal government should continue to push forward on the "taxation of corporate groups' reform, by allowing a loss-transfer system between corporate groups.
- The federal government should review the Canada-Netherlands Tax Treaty, as it was announced in 2009;
- Make the Accelerated Capital Cost Allowance for the acquisition of machinery and equipment used for manufacturing and processing a permanent feature of our tax system. Also implement the ACCA on railway freight cars (not just in locomotives, as it is currently the case), so we increase incentives to the railways and leasing companies to add or renew their fleets, and facilitate manufacturing exports at the same time;
- The federal government should study the possibility of giving a separate tax credits for the acquisition of machinery and equipment, which are the most important drivers of productivity.
- Implement refundable SR&ED tax credits to provide more focused support to private sector R&D, and expand eligibility for Accelerated Capital Cost Allowance to include machinery and equipment used for R&D purposes to provide support for capital investments

Countries are aggressively competing to capture manufacturing investment because, more than any other sectors, value-added manufacturing drives long-term growth across many sectors of the economy, it creates high-skilled and high-paying jobs, and drives exports.

Today, in addition to expanding business in traditional markets as the global economy recovers, Canada also has a significant opportunity to grow and strengthen its economy through the developing natural resource sector, shipbuilding, and other major projects coast-to-coast. These projects are projected to have an estimated value of $500 billion in the next decade. Canada's ability to maximize the value of these opportunities is based on our ability to create world-class upstream and downstream value-added manufacturing, services, and technology supply chains that support the development of these major projects. While these supply chains will be developed, and can be developed anywhere in the world, we must implement policies and programs that drive investment and innovation domestically to capture as much of the opportunity as possible.

According to CME's recent survey of Canadian industry, the top three priorities for attracting investment are the availability of skilled labour, labour costs (including taxes), and government investment support programs. From this, other priority recommendations for budget 2013 are:

- Take action to support the development of the domestic labour pool as well as increase access to foreign skilled workers as necessary;
- Reduce payroll taxes and encourage employee training by providing an Employers' Training Tax Credit creditable against EI premiums;
- Strengthen collaboration between academic institutions and industry in order to implement educational and training programs more relevant to industry needs.

2. **Job Creation**

As Canadian companies face pressures resulting from factors like uncertainty about the US economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada? This includes that which occurs as a result of enhanced internal and international trade.

Job creation in Canadian industry relies on our ability to attract investment in new production, research and development and product mandates for local and global markets. However, the competition for these investments continues to strengthen as all countries are looking to expand their wealth-creating, value-added, high wage-paying manufacturing sector. Canada has been aggressive in some areas of federal policy to make the country more attractive to global investors, including reduction in some tax rates, introducing reforms on international and domestic labour mobility, expanding trade agreements, and introducing investment incentives. At the same time, other measures such as increases in EI rates, complex regulatory policies, and the reduction of the

SR&ED tax credit, are making Canada less globally competitive to attract investment.

There are several major initiatives that should be focused on to increase both domestic and international trade, critical to investment and long-term job creation and prosperity in Canada. To strengthen internal trade, CME believes the government should focus on:

- Simplifying regulations and process approvals for new products;
- Increasing regulatory consistency and application between provinces and with federal standards while ensuring consistency with international commitments; and
- Eliminating barriers to the movement of skilled labour between provinces through normalizing provincial regulatory bodies.

The federal government has a major role to play in ensuring Canadian businesses have access to export markets and are aware of their potential as a source of new customers. In this regard, CME has been fully supportive of the Government's decision to extend EDC domestic financing powers in last year's budget. CME is also supportive of making EDC domestic powers permanent, under certain criteria, given that financing conditions for manufacturers and exporters are still uncertain. CME is also an active participant in and supporter of the government`s Global Commerce Strategy. However, companies face a variety of barriers when attempting to access and expand business in foreign markets. CME's Management Issues Survey highlighted several areas that are most pressing to industry, and as such, CME's priority for government action is to:

- Ensure that international agreements are focused on eliminating non-tariff and other regulatory barriers to enter markets. While 23 per cent of respondents highlighted tariffs as restricting access in foreign markets, 38 per cent said that protective regulations are the biggest obstacle;
- Improve trade infrastructure, including transportation infrastructure and border security processes, with key trade partners, especially the United States and Asia; and
- Remove protectionist procurement practices in foreign markets by implementing a reciprocal market access procurement provision.

3. **Demographic Change**

What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging Canadian population and skills shortages?

CME's 2012 Management Issues Survey (MIS) asked many questions about the primary concerns of companies, including those relating to labour markets and investment. When examining the results, respondents noted that attracting and retaining labour was the third most pressing challenge facing companies, with 45 per cent of respondents claiming it as a major concern (behind only competition from competitors with 56 per cent and the continued strength of the Canadian dollar with 46 per cent). Some of the specific responses included:

- 41 per cent stating Canadian labour conditions worsened over the past three years (the highest percentage from a variety of business and policy areas) while only 13 per cent felt it had improved;
- 48 per cent stating they face labour and skills shortages today;
- 31 per cent stating they would move operations to another jurisdiction as a result of labour challenges; and
- The professions that will be hardest hit by the aging workforce are skilled workers (38 per cent) and management (31 per cent).

Based on these realities, it is not surprising that respondents to the MIS noted that their primary labour market priorities included the rising cost of labour, upgrading skills of employees, the aging workforce, and payroll taxes. As such, we believe it is essential to support the development of the domestic labour pool, as well as increase access to foreign skilled workers as necessary. As such, our recommendations for the government are to:

- Support workplace training by providing an Employers' Training Tax Credit. The MIS showed that 63 per cent of respondents would increase employee training with the availability of a training tax credit;
- Increase the availability of labour for industry through the implementation of labour market inclusion strategies for unemployed, youth and aboriginals; and
- Streamline the regulatory processes for companies to bring in foreign workers when needed.

4. **Productivity**

With labour market challenges arising in part as a result of the aging population and ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?

Productivity enhancements come through a variety of measures for manufacturers, but primarily through the investment in machinery and equipment that can reduce production costs and increase output, as well as through greater innovation in processes and products.

CME's recommendations are to:

- Make the Accelerated Capital Cost Allowance (ACCA) permanent: The federal government implemented the ACCA as a temporary measure in its 2007 budget and has renewed it every two years since then, recognizing the positive effect of this tax incentive of business investment in productive assets, such as machinery and equipment. CME recommends the ACCA be made a permanent feature of Canada's tax system. Seventy-three per cent of respondents to CME's Management Issues Survey felt the ACCA was an important tax measure.
- In addition to making the ACCA permanent, the federal government should consider the implementation of a separate tax credit specifically for the acquisition of machinery and equipment, so that Canada catches up with other countries in terms of productivity.
- Review the proposed changes to the SR&ED tax credit in light of the need to attract more global multinational's R&D activities in Canada: In its last budget, the federal government proposed measures that will reduce the incentives for large companies to conduct R&D activities in Canada. Given that 75 large corporations account for roughly half of all business expenditure in R&D in Canada, CME recommends the federal government introduce additional changes to the SR&ED program in order to attract more global companies to conduct R&D projects in Canada. Seventy-five per cent of respondents to CME's Management Issues Survey felt that improving the SR&ED tax credit system was important. CME's recommendations for improving the SR&ED system include:
- Providing an accelerated depreciation rate for machinery and equipment related to business R&D. With the elimination of capital expenditures from the SR&ED tax credit, Canada will not offer any incentives to capital-intensive innovative companies to undertake large R&D projects in Canada. CME recommends the government provide an accelerated depreciation rate for machinery and equipment used for R&D purposes, similar to the ACCA used for manufacturing and processing machinery and equipment.
- Increasing direct support for R&D by making the SR&ED refundable for large companies. The government has already indicated its intent to provide more direct support to business R&D. CME recommends the government use the current SR&ED program to provide direct support through a refundable tax credit. CME believes using the tax system to provide direct support instead of granting agencies will not only reduce the administration costs, but it will also prevent the issue of `picking winners' by making direct support available to any company conducting R&D activities that fit into the government's criteria, and audited by the CRA.

5. **Other Challenges**

With some Canadian individuals, businesses, and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges being faced, and what specific federal actions are needed to address these challenges?

Regulatory compliance is an increasingly important trade barrier and driver of cost for Canadian companies when doing business at home and abroad. In CME's Management Issues Survey, several interesting statistics emerged from Canadian companies, including:

- Twenty three per cent feel that compliance costs in dealing with regulations and environmental approvals one of the most pressing issues their company faces;
- Sixteen per cent stated regulations were causing delays in investment, expansion and/or product approvals domestically;
- Despite significant government efforts aimed at improving the regulatory environment, 83 per cent felt the federal regulatory environment had either remained the same or worsened in the past three years;
- Despite similar efforts on improving and streamlining border processes and security, 80 per cent stated those regulations had either remained the same or worsened in the past three years; and
- Fifteen per cent of companies spend more than five per cent of total annual revenues on regulatory compliance.

In order to improve the regulatory environment in Canada, CME has been actively engaged in many government initiatives regarding regulatory process and improvement, including those internationally such as the Canada-US Perimeter Security and Economic Competitiveness Action Plans. While these are excellent initiatives, the results of previous similar initiatives show that the regulatory environment is not improving and that more must be done to address the regulatory burdens facing companies. To be clear, we are not advocating for less stringent regulations, however we believe regulations can be created and enforced in a smarter, more efficient manner, through the following recommendations:

- Ensuring regulators fully implement the letter and the spirit of the Canada-US agreements aimed at strengthening security and improving economic competitiveness, including the harmonization of regulations and streamlining of border processes. For both regulations and border compliance, "trusted company" approaches should be created and adopted by regulators to minimize the resource constraints on both governments and industry and allow for companies to self-regulate as is already done in many sectors today;

- Ensure strategic regulatory alignment and cooperation with the US via timely implementation of the recommendations outlined in the Regulatory Cooperation Council (RCC) and Beyond the Border initiative. Concerning RCC, we are pleased with the progress to date and would be fully supportive of a sequel to address our concerns that were not included in the first round.
- Cabinet and Treasury Board rules for regulatory development must be strengthened to include more complete cost-benefit analysis as well as domestic and international cooperation components for new regulations to avoid unnecessary and costly duplication in processes and reporting; and
- To help Canadian businesses succeed in adapting to more stringent and rapidly changing regulatory requirements, CME recommends that for every new federal regulation requiring businesses to make investments in new technologies, systems and processes, the government provide a regulatory compliance tax credit to facilitate regulatory compliance and offset the impact of new regulatory requirements on investment budgets.