



## About 3M Canada

3M Canada was established in 1951 as one of the parent company's first international subsidiaries. With a head office in London, Ontario for over 60 years, 3M Canada employs more than 1800 people across the country including at manufacturing facilities in London, Brockville, Mississauga and Perth in Ontario, and Morden, Manitoba. Half of 3M Canada's sales are generated by our eight Canadian manufacturing facilities. The great majority of which are exported to the United States.

At 3M, we apply science in collaborative ways to improve lives daily. 3M is a global science company that never stops inventing. Our inventions have improved daily life for hundreds of millions of people all over the world. With \$32 billion in sales, our 91,000 employees connect with customers all around the world.

There is a strong thread that connects our five business groups to the vast amount of science we do and the thousands of scientists and researchers we have around the world — it's our research and development. R&D is the heartbeat of 3M. We invest about 5.8 percent of our sales back into the science that makes 3M strong. That investment helps produce more than 3,000 patents each year and a steady stream of unique products for customers.

If our 46 technology platforms—ranging from adhesives and abrasives, to ceramics and nanotechnology—represent our body of work, our research and development team is our heartbeat. And our success would not be complete without our designers, who translate insights into creative solutions around the world.

While 3M continues to invest in science, research, innovation and talent, there are several federal measures that would help Canadian businesses become more competitive and productive, particularly in the highly competitive global technology industries. One of the most powerful levers any government has at its disposal is taxation. Taxation can, and should, be used as a tool to encourage investment in Canada and drive innovation. It is crucial for the Government of Canada to ensure our tax regime remains competitive compared with other nations especially our close neighbours, USA and Mexico.

## Executive Summary

3M Canada is grateful for the opportunity to provide some recommendations to the Standing Committee on Finance as you examine ways to make Canadian businesses more competitive on a global stage. In our view, to encourage capital spending, attract foreign direct investment and drive export growth the Government should:

1. Use tax policy and fiscal incentives to drive meaningful innovation and promote commercialization;
2. Create a federal innovation agenda with tools aimed at enhancing Canadian industry performance including a world class regulatory system and tools to reinvest carbon pricing;
3. Renegotiate a fair and balanced NAFTA



We look forward to having the opportunity to discuss our recommendations further at the pleasure of the Members of the Standing Committee.

**Recommendation #1 – Use tax policy and fiscal incentives to drive meaningful innovation and promote commercialization**

One of the most powerful levers any government has at its disposal is taxation. Taxation can be used as a tool to encourage investment in a jurisdiction, and it can be used as a tool to drive innovation.

According to a June 2018 report published by the Canadian Manufacturers and Exporters (CME) and BDO, capital investment growth in Canada since 2011 is two and a half times lower than the OECD average and more than three times slower than in the US. Moreover, Canada's manufactured goods exports are growing at less than the rate of inflation and our trade deficit in manufacturing has ballooned to a record \$136 billion.

In an increasingly global competitive environment, both manufacturing and research and development investments are subject to competition when it comes to choosing one jurisdiction over another. Business investment decisions within 3M and many other global companies will factor in taxation as a major driver in determining which jurisdictions to invest in manufacturing or research and development activities.

Investment is increasingly used by multinational corporations to expand production in foreign markets. Increasing global investment in Canada will drive innovation, productivity and competitiveness. It is crucial for the government to ensure Canada's tax regime remains competitive compared with other nations especially our close neighbours, USA and Mexico.

Research shows that inward Foreign Direct Investment positively impacts a host country's tax base and government revenues. It also impacts productivity performance through technical knowledge, intra-industry spill-over and supply chain effects. Large companies typically employ highly-skilled and well-paid employees. In addition, large companies support an ecosystem of businesses in the communities where they are located. This includes high value services and small and medium sized businesses that support operations and form an integral part of the corporate supply chain.

To make Canada a more attractive place to do business, we recommend committing to a full review of the corporate tax system including the Scientific Research and Experimental Development program to ensure that it is competitive and attracts new investment to Canada.

To help accelerate the commercialization of intellectual property developed in Canada, we would still recommend the creation of a "patent box". A patent box is used by many western countries to incent R&D investments and encourage businesses to develop and commercialize patents locally. A patent box provides a preferential tax rate to manufacturers on income derived from patents and other intellectual property.



While action at the provincial level is needed and most welcome, action is also required at the federal level to develop a truly effective and compelling Canadian patent box system to help attract manufacturing and R&D investments for growth.

Additionally, 3M Canada echoes the recommendations made by the CME and proposes that business competitiveness be restored by lowering the corporate income tax rate and matching the accelerated capital cost allowance provisions now in place in the United States.

**Recommendation #2 – Equip the federal innovation agenda with tools aimed at enhancing Canadian industry performance**

A competitive business environment is critical to the success of manufacturing in Canada. Canadian manufacturers compete against companies in low-cost jurisdictions for mandates. We believe the federal innovation agenda needs to provide a competing strategy that will ensure policy frameworks are in place to help businesses make the case for investment here versus elsewhere.

3M supports the following recommendations from the Conference Board of Canada on setting up policies and programs aimed at enhancing Canadian industry performance while spending public funds.

- Seek private sector advice before developing new research and innovation initiatives, choosing among priorities in public spending on innovation, and evaluating the effectiveness of existing programs;
- Institute accountability based on measures of economic value centered on Return on Investment (ROI) and Viable Sustainable Business (VSB) indicators for government institutions and programs.
- Increase spending on innovation and investigate whether the current mix of tax incentives and direct support successfully stimulates spending and investment.

In addition, Canada needs a world-class, robust, predictable, consistent and transparent regulation system that supports innovation and competitiveness, while protecting the environment, and the health and safety of Canadians.

The regulatory burden in Canada is increasing and the Government should develop an approach to regulatory modernization that is focused on achieving desired policy outcomes including a consistent, fair and transparent cost-benefit component when creating and modifying regulations.

Finally, as the federal government implements its national carbon pricing backstop, as well as other GHG reduction initiatives, it should take into consideration the impact of these policies on Canadian manufacturers' competitiveness. The government should implement mechanisms to reinvest carbon-pricing revenues into offsetting the cost of purchasing new technologies and machinery & equipment to protect manufacturers' competitiveness.



Recommendation #3 – Negotiate a fair and balanced NAFTA trade agreement avoiding trade retaliations measures that are currently impacting integrated supply chains.

As NAFTA negotiations continue to be top of mind, we would like to further emphasize the importance of negotiating a successful NAFTA trade agreement and avoiding trade retaliations measures that are currently impacting integrated supply chains.

3M has a longstanding history in both Canada and the US and would like to see that strong trading relationship continue. 3M Canada is a net exporter from Canada and more than a thousand of our Canadian employee's job are dependent on our ability to sell globally.

NAFTA has been, and will continue to be, the driver of the North American region's global competitiveness for manufacturing and supply chain optimization.

We support the government in preserving NAFTA to enable Canadian businesses to successfully compete in foreign markets and look forward to working with the government on any initiative that strengthens Canada's trading relationships.

3M is committed to Canada and will be a part of its growth in the long term and would like to see that strong trading relationship continue.