

## Written Submission for the Pre-Budget Consultations in Advance of the 2021 Budget

Canadian Manufacturers & Exporters  
August 2020

## RECOMMENDATIONS

- **Recommendation 1:** That the government leverage strategic opportunities in health care and in other areas of Canada's competitive advantages. Specifically: (i) Implement a strategy that encourages the development of natural resources, builds up supply chains for manufacturing inputs, and supports upgrading where practical; (ii) Create the Health Advanced Research Procurement Agency (HARPA) to drive innovation and new production in pharmaceuticals and medical devices.
- **Recommendation 2:** That the government support business investment and productivity growth in manufacturing. Specifically: (i) Re-finance existing investment support programs and streamline and speed their application processes to provide business certainty; (ii) Relaunch investment support grant programs for smaller firms; (iii) Fund productivity training in manufacturing, including those that encourage lean process, and energy efficiency improvements.
- **Recommendation 3:** That the government reform the Scientific Research and Experimental Development (SR&ED) program. Specifically: (i) Modernize the definitions of eligible costs and R&D, (ii) Increase the base rate from 20% to 25 % and introduce complementary measures, such as a Patent Box tax incentive (iii) Expand efforts to reduce red tape for companies making SR&ED claims.
- **Recommendation 4:** That the government capitalize on increased demand for local manufactured products and the urgent need for more resilient supply chains. Specifically: (i) Introduce a "Made in Canada" goods promotion strategy; (ii) Conduct a supply chain mapping of Canada's manufacturing sector.
- **Recommendation 5:** That the government provide supports to help transition unemployed Canadians and youth into new jobs and help address labour and skills shortages in manufacturing. Specifically: (i) Create an Employer Training Tax Credit; (ii) Fund programs that encourage more youth to choose a career in manufacturing; (iii) Increase the number of economic immigrants admitted to Canada each year and update Canada's immigration point system to better align with employer needs.
- **Recommendation 6:** That the government support initiatives to keep workers safe by implementing a program to offset the mounting costs to businesses of purchasing personal protective equipment (PPE) and training on new protocols.
- **Recommendation 7:** That the government's climate policies minimize negative economic impacts and emissions leakages. Specifically: (i) Fully recycle all revenues from climate change policies into the manufacturing sector; (ii) Introduce a green tax credit to support GHG-reducing investments; (iii) Establish procurement policies that consider the inherent carbon benefits of Canadian manufactured

goods in domestic infrastructure projects; (iv) Introduce an export tax credit for businesses that export to countries without carbon pricing systems comparable to our own.

- **Recommendation 8:** That the government undertake a full review of Canada's tax and regulatory competitiveness. Specifically: (i) Reduce the reliance on taxes that are the most economically harmful; (ii) Modernize, simplify, and harmonize Canada's regulatory system.

## INTRODUCTION

By any measure, manufacturing is critical to Canada. The country's 90,000 manufacturers directly generate over 10 per cent of the country's GDP and nearly two-thirds of its merchandise exports. Including direct and indirect impacts, the sector's footprint amounts to nearly 30 per cent of Canada's economic activity. More importantly, the sector directly employs 1.7 million Canadians and supports their families and communities through stable, high skill, high wage jobs, and supports over 3 million more Canadian jobs through its massive integrated supply chain.

The sector's critical importance has been amplified during the COVID-19 pandemic. While much of Canada's economic activity stopped in mid-March to slow the spread of the virus, most manufacturers continued to operate, given the sector's status as an essential service. In fact, many manufacturers ramped up or shifted production to make more food, PPE, and other health care products that have helped in the fight against COVID-19. But because firms have also had to contend with supply disruptions as well as depressed demand for certain products, the industry's overall production still declined sharply over March and April. Although a recovery began in May and picked up steam in June, the economy and manufacturing sector still have a very big hole to climb out of.

While the economic effects of COVID-19 are deeply concerning, this current weakness is built on the back of longer-term negative trends in Canadian manufacturing. Output and exports of Canada's manufactured goods have grown at much slower rates than in other developed countries, and this is largely due to a steady decline in manufacturing investment that started in the early 2000s. In recent years, Canada has ranked near the bottom among Organization for Economic Cooperation and Development (OECD) countries when it comes to growth in machinery and equipment investment and in productivity. This all points to an overall decline in global competitiveness for Canada's economy and manufacturing sector.

This long-term erosion of our industrial and economic competitiveness directly impacts the ability of manufacturers to respond to the current crisis or any future crises. Indeed, if Canada is to be better prepared for the next crisis, actions must be taken that enable the manufacturing sector to survive in the

short term and prosper over the long run. To achieve this, the federal government must work with our sector to implement this submission's recommendations, which are described in more detail below.

## RECOMMENDATIONS

### **Recommendation 1: Leverage Strategic Opportunities in Health Care and in Other Areas of Canada's Historic Strengths**

One of Canada's greatest strengths is transforming natural resources into economic opportunity and prosperity. It was fundamental in the growth and development of the country's manufacturing sector and remains so today. Therefore, a successful post-pandemic economic recovery plan must leverage Canada's competitive strengths and draw on manufacturers' expertise in turning raw materials into value-added products.

At the same time, Canada's health care system also provides huge opportunities for innovation, commercialization, and domestic production. Canada should leverage its nearly \$200 billion annually in public sector health spending to spur an industrial health care revolution. By harnessing health procurement, Canada could develop and manufacture the next generation of health care and life sciences technologies for domestic and export markets and improve health care outcomes for Canadians.

Therefore, we ask the government to:

- 1) Implement a resource development strategy that encourages development of natural resources, develops domestic supply chains for manufacturing inputs, and supports upgrading where practical.
- 2) Create a new Health Advanced Research Procurement Agency (HARPA), to encourage the development, production, and commercialisation of new health care technologies.

### **Recommendation 2: Support Business Investment and Productivity Growth in Manufacturing**

Rebuilding Canada's manufacturing sector will require policy changes that encourage business investment and boost its productivity growth. We recommend the government:

- 1) Recapitalize existing investment support programs, such as the federal Strategic Innovation Fund (SIF), and streamline and speed their application processes to provide business certainty.
- 2) Relaunch investment support grant programs for smaller firms, which should be modelled after the successful CME SMART programs that operated after the previous recession.

3) Fund productivity training in manufacturing including those that encourage lean process and energy efficiency improvements, similar to those already managed through the Atlantic Canada Opportunities Agency (ACOA) and CME.

### **Recommendation 3: Support R&D Spending in Manufacturing by Improving and Enhancing the SR&ED Program**

Improving the Scientific Research and Experimental Development Tax Credit Program (SR&ED), the main mechanism through which the federal government supports business R&D, would be another way to foster investment and innovation in Canada's manufacturing sector. CME asks the government:

- 1) Modernize the definitions of Research and Development (R&D) and eligible costs.
- 2) Increase the base rate of the program from 20% to 25% and complement this measure by introducing a higher rate for incremental R&D and a patent box tax incentive.
- 3) Continue and expand efforts to reduce red tape for companies making SR&ED claims.

### **Recommendation 4: Capitalize on Shifting Demand for Local Manufacturing and More Resilient Supply Chains**

The COVID-19 outbreak and the accompanying shortage of PPE and other medical equipment has highlighted the importance of domestic production capacity for such vital goods. Unfortunately, the sector's ability to shift to PPE production was hampered by our limited understanding of Canada's domestic manufacturing supply chain and production capabilities. Without understanding what Canada makes today, it is difficult to understand how to make goods needed for future crises.

More generally, the pandemic has also exposed weaknesses in global supply chains, and companies are working to address this challenge by, among other things, seeking ways to move production closer to home. To capitalize on the shifting demand for locally manufactured products and to work towards more resilient supply chains, CME asks the government to:

- 1) Launch a "Made in Canada" campaign to promote Canadian made products. To be successful, Made in Canada rules must be modernized to match Canada's integrated manufacturing and global trade realities so that products that undergo final substantial transformation in Canadian factories qualify as domestically produced.
- 2) Conduct a supply chain mapping of Canada's manufacturing supply sector for a full accounting our domestic manufacturing capabilities and capacities.

### **Recommendation 5: Provide Supports to Help Transition Unemployed Canadians and Youth into New Jobs and Help Address Labour and Skills Shortages in Manufacturing**

The COVID-19 pandemic has had a devastating impact on the Canadian labour market. Despite the government's strong fiscal and monetary response, the unfortunate fact is that some portion of the pandemic-related job losses will be permanent. (In the previous three recessions, roughly 45 per cent of all laid-off workers were permanently laid-off.) Although manufacturers have also cut employment during the crisis, labour and skills shortages remain one of the sector's most pressing challenges. Accordingly, transitioning unemployed Canadians to manufacturing could be a win-win strategy. Therefore, we ask the government to:

- 1) Incentivize companies to invest in worker training by introducing an Employer Training Tax Credit.
- 2) Fund programs that encourage more youth to choose a career in manufacturing.
- 3) Increase the number of economic immigrants admitted to Canada each year and update Canada's immigration point system to better align with employer needs.

### **Recommendation 6: Implement a Tax Credit to Offset the Mounting Costs to Businesses of Purchasing PPE and Training on New Protocols**

The health and safety of workers is a top priority for CME members, and this is particularly true during the current pandemic. A recent Statistics Canada survey found that over 80 per cent of manufacturers are purchasing PPE to protect their works from COVID-19. Companies need help to offset these costs, so we ask the federal government to:

- 1) Implement a program that help offsets the cost of purchasing PPE and training on new protocols.

### **Recommendation 7: Ensure Government Climate Policies Minimize Negative Economic Impacts and Emissions Leakage**

CME recognizes and believes that all Canadians, including the manufacturing sector, have a responsibility to help address climate change. However, we also believe that a balance must be struck between the environment and the economy. But, in our opinion, the government has largely failed to explicitly consider the extent to which these policies are increasing the costs of doing business and harming Canada's competitiveness and, at the same time, increasing the risk of emissions leakage. Therefore, we recommend that the government:

- 1) Fully recycle all revenues from carbon pricing policies (including the Output-Based Pricing System) back to the manufacturing sector.
- 2) Introduce a green tax credit to support GHG reducing investments.
- 3) Establish procurement policies that consider the inherent carbon benefits of Canadian manufactured goods in domestic infrastructure projects, given that Canadian businesses in emissions-intensive industries have a generally lower emissions profile than many of their international competitors.
- 4) Introduce an export tax credit for businesses that export to countries without carbon pricing systems comparable to our own.

#### **Recommendation 8: Undertake a Full Review of Canada's Tax and Regulatory Competitiveness**

Once the COVID-19 pandemic has ended, Canada will need to refocus its attention on improving its competitiveness, which according to the World Economic Forum's flagship reports, has been deteriorating. CME asks the government to:

- 1) Undertake a full review of Canada's tax regime. Specifically, the government must work to reduce the tax burden on businesses and to change the system so that it rewards companies that grow rather than those that stay small.
- 2) Modernize, simplify, and harmonize Canada's regulatory system.