CANADIAN MANUFACTURERS & EXPORTERS

MANUFACTURIERS & EXPORTATEURS DU CANADA

WRITTEN SUBMISSION FOR THE PRE-BUDGET CONSULTATIONS IN ADVANCE OF THE 2023 BUDGET

BY: CANADIAN MANUFACTURERS & EXPORTERS (CME)

RECOMMENDATIONS

- **Recommendation 1:** That the government increase incentives and enact reforms that accelerate innovation, investment, and the adoption of advanced technologies and promote commercialization and domestic production in Canada's manufacturing sector.
- **Recommendation 2:** That the government reform the immigration system and the Temporary Foreign Worker Program and provide more funding for programs and incentives to help manufacturers hire, upskill, and retain workers and address current and anticipated labour and skills shortages.
- **Recommendation 3:** That the government provide more support to manufacturers to help them adapt to and advance Canada's climate change plan.
- **Recommendation 4:** That the government provide more funding for trade-enabling infrastructure and services to help Canadian businesses increase their value-added exports.

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INTRODUCTION

Manufacturing is one of Canada's economic pillars. The country's 90,000 manufacturers directly generate almost 10 cent of Canada's GDP and more than 60 per cent of our merchandise exports. Including indirect and induced impacts, the sector's footprint amounts to one-quarter of Canada's total economic activity. As well, the sector directly employs 1.7 million Canadians and supports 3.4 million more Canadian workers through supply chain activity and employee spending.

The pandemic reminded Canadians of the importance of having a strong and nimble domestic manufacturing sector. By virtue of being an essential industry, most manufacturers stayed open during COVID lockdowns, some even ramping up or shifting production to make vital supplies to fight the deadly virus. However, despite its critical role, the manufacturing sector still suffered a significant decline in output in spring 2020. Unfortunately, the recovery to date has been slow and uneven, hampered by a number of challenges including snarled supply chains, workforce shortages, and soaring costs.

More worrisome, the perennial issue of weak business investment continues to plague the sector. One only has to compare trends in Canada and the United States to understand the extent of the problem. Between 2004 and 2020, manufacturing investment in the U.S. increased by 40 per cent, but it fell by 8.4 per cent in Canada. The pandemic may have kickstarted talk of reshoring manufacturing production to Canada, but the reality so far tells a different story. Surveys indicate that, as of today, only a partial rebound has been seen in manufacturing investment.

Against this backdrop, climate change and the transition to a low-carbon economy is a major focus of the government. Canadian manufacturers are committed to creating a clean and healthy environment, and many of our top industrial companies have pledged to reach net-zero emissions by 2050. However, this transition will be incredibly difficult and prohibitively expensive, requiring billions of dollars of investment every year. Given Canada's recent poor investment performance, it will only succeed if the government provides serious incentives and enacts reforms that strengthen our economic competitiveness.

A strong and resilient manufacturing sector must be a central pillar of Canada's economic growth plan. With both the pandemic and the Russian-Ukraine war exposing the fragility of supply chains, the potential for reshoring manufacturing in Canada has become a real possibility. This, along with the enormous potential of Canadian firms to tap into the rapidly growing clean technology sector, suggest that there is no better time to push for a revival of Canadian manufacturing. To seize this opportunity, and to build a more competitive, cleaner, innovative, inclusive, and resilient economy, the federal government must work with our sector to implement this submission's recommendations.

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RECOMMENDATIONS

Recommendation 1: Increase incentives and enact reforms that accelerate innovation, investment, and the adoption of advanced technologies and promote commercialization and domestic production in Canada's manufacturing sector

Canada lags other industrialized countries when it comes to business investment, digitization, and the adoption of advanced manufacturing technologies. Between 2015 and 2019, Canada accounted for a mere 1.2 per cent or $21.6 billion per year of all the manufacturing investment generated in 31 OECD countries ($1.77 trillion per year). CME's goal is to increase Canada's share of OECD manufacturing investment to 2 per cent. Industry is willing to lead this effort, but it requires a strong partner in government.

Canada also suffers from a low rate of business R&D spending, which is another factor holding back our ability to grow the economy and create jobs. Reversing this trend could be best accomplished by enhancing the Scientific Research and Experimental Development Tax Credit Program (SR&ED), the main mechanism through which the federal government supports business R&D.

Canada also struggles with commercializing ideas and bringing products to markets. One tool available to the government to help Canada overcome its commercialization gap would be to adopt a patent box regime. A patent box significantly reduces the corporate tax rate on revenue from qualifying intellectual property, providing firms with a strong incentive to undertake innovation, commercialization and production activities locally.

Given all these challenges, CME recommends that the government:

1. Introduce a nationwide 10 per cent refundable investment tax credit on the purchase of new machinery, equipment and software.
2. Extend the Accelerated Investment Incentive's current rate for three more years. In line with Canada's Critical Mineral Strategy, the incentive should be expanded to include mining and metal manufacturing activities (included in tax classes 41, 41.2 and 43).
3. Expand and make permanent the Strategic Innovation Fund (SIF) and commit at least $2.5 billion per year in funding to support large capital projects in manufacturing.
4. Reform the SR&ED program to close the commercialization gap by expanding the list of eligible activities beyond early-stage R&D to include capital improvements and product and process innovations, increasing the refundable portion of the tax credit, streamlining administration to improve certainty in claims, and by raising the tax credit rate to 20 per cent.
5. Implement a patent box regime to incentivize the commercialization and production of goods in Canada.
6. Expand the Canada Digital Adoption Plan (CDAP) by creating a dedicated manufacturing stream including a non-repayable component to offset the high cost of software critical to process automation. This would help small and medium-sized manufacturers accelerate the transition to Industry 4.0.

Recommendation 2: Reform the immigration system and the Temporary Foreign Worker Program and provide more funding for programs and incentives to help manufacturers hire, upskill, and retain workers and address current and anticipated labour and skills shortages

Manufacturers often cite labour and skills shortages as one of their most pressing challenges. One solution involves increasing the labour market participation of underrepresented groups—women, Indigenous peoples, persons with disabilities, and visible minorities. In 2022, CME's Women in Manufacturing (WIM) campaign reaffirmed its goal of increasing the number of women in the sector by 100,000 by 2030. While the program has made good progress so far, more funding to support WIM and other inclusion programs would help achieve so much more.

Another solution involves reskilling and upskilling the existing workforce. While businesses are eager to upgrade the skills of their workers, they tend to underinvest in training and development due to concerns over turnover and poaching. Given the wider societal benefits of workforce upskilling, it makes sense for governments to provide financial assistance to firms to increase their training activities.

A third solution entails increasing the intake of economic class immigrants and improving the Temporary Foreign Worker (TFW) program to make it easier for Canadian employers to access the workers they need.

Thus, CME recommends that the government:

1. Renew and increase funding for programs that encourage more members of underrepresented groups to seek a career in manufacturing, including CME's WIM initiative.
1. Provide employer-led training benefits including a 50 per cent tax credit to offset half the costs of employee training.
2. Increase funding of the Canada Job Grant to $1 billion annually, make it permanent, and expand it to include on-the-job training.
3. Increase the intake of economic class immigrants to 500,000 a year by 2025 and reform Canada's immigration point system to better align it with the skills needed in the manufacturing sector.
4. Speed up the Temporary Foreign Worker (TFW) program by creating a trusted employer program that pre-approves qualifying companies and by streamlining the Labour Market Impact Assessment (LMIA) application.

Recommendation 3: Provide more support to manufacturers to help them adapt to and advance Canada's climate change plan

The scale and magnitude of the government's climate change plan requires strong government support to help ease the transition to a net-zero economy for Canadian businesses, especially those in energy-intensive, trade-exposed industries (EITEs) and small and medium-sized enterprises (SMEs) that lack the financial resources and expertise to get started. The right government policies and

supports will also be needed if Canadian manufacturers are to compete and win in the rapidly growing global market for clean technology.

Federal government support is needed now more than ever in light of the recent passage of the Inflation Reduction Act (IRA) in the US, which could impair Canada's ability to attract business investment for clean technology. This legislation earmarks nearly $400 billion for clean energy and climate change mitigation initiatives. While the Government of Canada has already invested billions of dollars in the fight against climate change and has pledged billions more, it will need to ramp up its commitment to match the IRA's incentives if we are to have any hope of maintaining and growing our industrial base through the net zero transition.

Therefore, we recommend that the government:

1. Provide direct investment supports for emitters of all sizes to help them adopt emissions-reduction technologies, ensuring that support approaches are technology-agnostic.
2. Provide financial support for the creation, commercialization, and manufacture of low and no-carbon products in Canada through tax incentives and government procurement.
3. Create an effective and targeted SME net-zero transition strategy that focuses on education and awareness campaigns, operational assessments and strategic business plans, and global supply chain competitiveness.
4. Expand and make permanent the Net Zero Accelerator Fund, providing a minimum of $5.0 billion annually in funding to support large-scale investments that reduce emissions in manufacturing.

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Recommendation 4: Provide more funding for trade-enabling infrastructure and services to help Canadian businesses increase their value-added exports

Canada is a trading nation, with exports accounting for over 30 per cent of the country's GDP. The manufacturing sector is a key reason why Canada has earned this reputation: it is responsible for roughly two-thirds of the country's outbound goods. Indeed, Canada's manufacturing sector has such an outsized economic footprint because it is export-oriented—by selling its goods abroad, it brings new income into Canada as opposed to simply recirculating the income already present within the country.

Unfortunately, Canada's export performance in recent years leaves much to be desired. Over the past 20 years, Canada has posted the slowest growth in exports of manufactured goods among the G7 countries (valued in US dollars). Clearly, more needs to be done to help Canadian companies, especially SMEs, to go global.

Therefore, CME asks the government to:

1. Fund the creation of an Exporter Concierge Service that enables trade associations to develop programs that link their members to government export agencies and services.
2. Create a "Trade Barrier Hotline" for exporters to call and report trade barriers and to offer exporters assistance to overcome them.
3. Increase investments in infrastructure that facilitates trade and industrial development.
4. Expand funding for existing programs and services—RDAs, EDC, CCC, BDC—to help SMEs go global.
5. Reduce the red tape involved in administering Canada's export permits system so that it not only protects Canada's foreign policy interests, but it also streamlines export procedures.

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