

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday, August 26, 2020

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Good morning. Thank you for inviting us here today on behalf of our associations 2,500 direct members to discuss Ontario's recovery from the COVID-19 pandemic.

Before commenting on both strategic and specific actions the government should take, it is important to first acknowledge what the government has already done. CME worked closely with the government through this crisis to provide ongoing input from our sector and to provide policy, regulatory and program advice that would help our sector survive. Actions such as the freeze on WSIB premiums, the deferral of provincially regulated taxes, industrial electricity rate relief measures, and flexibility on infectious disease leaves have been greatly appreciated by our members.

Most recently, CME has been proud to be able to partner with the government on the deployment of Ontario Made, a program to identify, celebrate, and promote locally manufactured products to Ontarians. This program while important to the sector, also sends a strong message to all Ontarians that manufacturing matters once again to this province.

When we launched this program with the Premier last month, he made it clear then, and on many other occasions, that he would never again let Ontario be left in the position it was during the early stages of the pandemic – reliant on foreign interests who clearly did not have the best interests of Ontarians in mind. In addition, he has also made it clear that this government will once again make Ontario the hub of Canada's economy through a strong and vibrant manufacturing sector. We applaud him for his words, now we must focus on putting those words into action. And we have a lot of work to do.

For years, CME has highlighted the challenges that our sector, supply chains, and economy has faced. In short, investment in new productive capital equipment has been fleeing Ontario for years. We have a poor track record of commercializing innovation, and we are uncompetitive on the global scene. In 2018, CME consulted the sector and published a growth strategy for the sector called Industrie 2030 that laid out the blueprint to drive growth in our sector once again. And while the government modeled many of its plans on our work, especially those for the automotive sector, several of the game changing ideas they have been unable to move on.

We believe now is that time. We believe Ontario should aggressively pursue a modern industrial strategy that focuses on three pillars: size, technology, and our natural assets.

First: Size Matters. Ontario is a small market inside a global small market filled with primarily small companies. Ontario needs policies and programs aimed at increasing the size of our population and the size of our companies to grow the economy and return to prosperity. Increasing our population through aggressive talent attraction programs will not only boost the local consumer base but also increase the talent pool so desperately needed by companies to grow. At the same time, tax measures should be considered to incentivize growth which will lead to economic expansion, jobs, and prosperity. Tax policies in Ontario and across Canada reward companies for being and staying small, this must be addressed. As a start, the small business tax rate limits have been stuck at \$500,000 for decades and should be both adjusted for inflation and doubled in size to encourage expansion. And to specifically encourage manufacturing and the growth of manufacturing companies in Ontario, the M&P rate for larger manufacturers should be reduced from 10 per cent to at least 7 per cent. Ontario should also introduce a patent box system that would reward companies for turning intellectual property (IP) into locally commercialized and produced products through a lower tax rate during the scale up period.

Second: Technology will drive change. Technology is rapidly changing the face of global manufacturing, and Ontario is falling further and further behind in adoption. New technologies allow for higher rates of efficiency, lower operating costs, improved energy, and environmental performance, and allow for greater flexibility to match changing consumer demands. At the same time, Ontario is home to a massive and thriving global technology sector that is driving much of this global change. Ontario should focus attention on expanding the technology manufacturing sector and increase programs and policies aimed at technology adoption for manufacturers. From a tax perspective, Ontario should introduce direct tax incentives for investment – such as what is done in competing jurisdictions like Michigan or even Atlantic Canada which has a 10% investment tax credit. Education of the importance of technology adoption in the manufacturing sector will be key and the province should consider supporting the opening of an Ontario Made technology demonstration center and investing in technology awareness campaigns through virtual and in-person education.

Third: Leverage our assets. Ontario is home to great natural assets. Our people first and foremost can drive change and we must continue to expand programs to upskill and train workers. At the same time, we must look at creating new economic opportunities at home that can leverage our assets. Clearly, there must be a focus on leveraging our natural resources including food, forestry, and mining, including the Ring of Fire. This resource strategy must be focused not only on extracting the resources, but leveraging them through upgrading strategies, and to expand the sales of manufactured goods into the extractive resource sector, which is a massive customer base for the sector. And one area that never gets attention from an economic standpoint that must be leveraged is our health care system, which should be leveraged to drive economic growth through the procurement system. Ontario should establish a US “DARPA” like system for health care that challenges manufacturers to come up with new technologies and treatments that would be commercialized through the health care system and then able to export to markets globally.

In closing, it is time for Ontario to get serious about our industrial future and turn rhetoric into action. Throughout this crisis, there has been repeated comments from all political parties and all governments about the need for modern industrial strategies. CME wholeheartedly agrees. However, we need an all-in-government approach across multiple ministries to accomplish this. Not only do we need a manufacturing strategy that brings all of the components mentioned together, we must also not lose sight of the fact that we need to address the following policy areas in order to implement the strategy effectively: new programs that support consumer spending, property tax reform, reforms to defined benefit pension plans, the modernization of our government procurement system, and introducing new measures to lower industrial electricity costs. Only then, will we be on the path to a more prosperous manufacturing sector and be able to secure our industrial future.

Thank you again for the invitation to appear today, we look forward to the discussion.

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Most recently, CME has been proud to be able to partner with the government on the deployment of Ontario Made, a program to identify, celebrate, and promote locally manufactured products to Ontarians. This program while important to the sector, also sends a strong message to all Ontarians that manufacturing matters once again to this province. Given the positive results to date, this program should become a permanent part of Ontario's recovery strategy through increased, multi-year funding similar to the Good things Grow in Ontario campaign.

When we launched this program with the Premier last month, he made it clear then, and on many other occasions, that he would never again let Ontario be left in the position it was during the early stages of the pandemic – reliant on foreign interests who clearly did not have the best interests of Ontarians in mind. In addition, he has also made it clear that this government will once again make Ontario the hub of Canada's

economy through a strong and vibrant manufacturing sector. We applaud him for his words, now we must focus on putting those words into action. And we have a lot of work to do.

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We believe now is that time. We believe Ontario should aggressively pursue a modern industrial strategy that focuses on three pillars: size, technology, and our natural assets.

First: Size Matters. Ontario is a small market inside a global small market filled with primarily small companies. Ontario needs policies and programs aimed at increasing the size of our population and the size of our companies to grow the economy and return to prosperity. Increasing our population through aggressive talent attraction programs will not only boost the local consumer base but also increase the talent pool so desperately needed by companies to grow. At the same time, tax measures should be considered to incentivize growth which will lead to economic expansion, jobs, and prosperity. Current tax policies in Ontario and across Canada reward companies for being and staying small, this must be addressed. As a start, the small business tax rate limits have been stuck at \$500,000 for decades and should be both adjusted for inflation and doubled in size to encourage expansion. And to specifically encourage manufacturing and the growth of manufacturing companies in Ontario, the M&P rate for larger manufacturers should be reduced from 10 per cent to at least 7 per cent. Ontario should also introduce a patent box system that would reward companies for turning intellectual property (IP) into locally commercialized and produced products through a lower tax rate during the scale up period.

Second: Harness Technology. Technology is rapidly changing the face of global manufacturing, and Ontario is falling further and further behind in adoption. New technologies allow for improved productivity, lower operating costs, improved energy and environmental performance, and greater flexibility to match changing consumer demands. Ironically, while we are far behind globally in adopting technologies, Ontario is home to a massive and thriving global technology sector that is driving much of this global change. Ontario should focus attention on expanding the technology manufacturing sector and increase programs and policies aimed at technology adoption for manufacturers. From a tax perspective, Ontario should introduce direct tax incentives for investment – such as what is done in competing jurisdictions like Michigan or even Atlantic Canada which has a 10% investment tax credit. Equally important is education of the importance of technology adoption in the manufacturing sector will be key

and the province should consider supporting the opening of an Ontario Made technology demonstration center and investing in technology awareness campaigns through virtual and in-person education.

Third: Invest in our assets. Ontario is home to great natural assets. Our people first and foremost can drive change and we must continue to expand programs to attract, upskill, and train workers. At the same time, we must look at creating new economic opportunities at home that can leverage our other assets. Clearly, there must be a focus on leveraging our natural resources including agri-food, forestry, and mining, including the Ring of Fire. This resource strategy must be focused not only on extracting the resources, but leveraging them through upgrading strategies, and to expand the sales of manufactured goods into the extractive resource sector. One additional area that never gets attention from an economic standpoint that must be leveraged is our health care system, which can drive economic growth through the procurement system. Ontario should establish a US “DARPA” like system for health care that challenges manufacturers to come up with new technologies and treatments that would be commercialized through the health care system and then able to export to markets globally.

In closing, CME believes it is time for Ontario to get serious about our industrial future and turn rhetoric into action. Throughout this crisis, there has been repeated comments from all political parties and all governments about the need for modern industrial strategies. CME wholeheartedly agrees. However, we need an all-in-government approach across multiple ministries to accomplish this. Not only do we need a manufacturing strategy that brings all of the components mentioned together, we must also not lose sight of the fact that we need to address the following policy areas in order to implement the strategy effectively: new programs that support consumer spending, property tax reform, reforms to defined benefit pension plans, the modernization of our government procurement system, and introducing new measures to lower industrial electricity costs. Only then, will we be on the path to a more prosperous manufacturing sector and be able to secure our industrial future.

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