

Canadian Manufacturing Coalition (CMC)

Chair's Report

March 5th, 2012

CMC continues to grow and now represents 48 associations from a variety of industry sectors with members from across Canada. Our focus continues to be to develop and support, with a common voice, policy initiatives aimed at improving the competitiveness and growth potential of Canada's manufacturing industries.

As you know, 2011 was a challenging year. Whether it was the tsunami in Japan or floods in Thailand, the uncertainties and the currency and commodity market volatility resulting from the European debt crisis, slow market growth, the increasing cost of regulatory compliance, or the challenges of taking advantage of new business opportunities, our members face a range of issues that seem to change by the minute.

Challenging business conditions make our work all the more important, but as we can all attest they also mean that resources are extremely thin. I see CMC as a mechanism that allows us to share intelligence, pool resources, speak with a common voice, and leverage our joint strengths. I hope that you have found the Coalition valuable in helping you in supporting your members.

Working on your behalf:

Our collective efforts make a real difference on the national policy front. We scored some big wins over the past year. And, we need to keep up the pressure this year to ensure continuing benefits. Here are some of the priority issues that we need to continue to press.

- 1. Accelerated Capital Cost Allowance – 2-Year Write-off for machinery & equipment**
Working with members of the Cabinet and MPs from all parties, we were successful in convincing Finance Minister Jim Flaherty and the Prime Minister that the two-year write-off is a critical tool in supporting manufacturers, providing them up-front cash at a time when credit is hard to come by and when investments in new equipment and technologies need to be made.

The ACCA was extended to the end of 2013 in last year's federal budget, providing manufacturers with an estimated \$2.5 billion in additional cash for investment purposes and tax savings of \$620 million over the next five years.

Now our goal is to make the two-year write-off for manufacturing investments a permanent part of Canada's tax system.

Collectively we and our members have sent a very loud message to Finance and the PMO. We need to keep up the pressure. I know the response has been that the ACCA will end in 2013. But we have been told the end is nigh every time we have asked for an

extension. And now there are some important reasons the Government might want to act. It's clear the ACCA is working – manufacturing investment is up significantly. The Government wants to support manufacturing, strengthen productivity, and enhance business innovation and the ACCA is an important tool to do so. PMO and Finance are both aware that Canada needs to compete with proposed changes in the US tax system that would provide tax credits and a lower tax rate for manufacturing. Moreover, the longer the ACCA is in place, the less expensive it is for the Government to extend it.

It is clear that there is absolutely no support for the ACCA among the bureaucrats at Finance. If we are to be successful, it will be a political decision. Our support for the Government's tax plan has certainly helped. On top of that, we need to keep engaging Ministers and MPs, particularly asking our members to invite them into their facilities to show what the ACCA and other tax measures actually mean – technology always impresses. We will continue our discussions with the Finance Minister's office and with PMO as well. Budget 2013/14 will be decisive.

2. Canada/US Perimeter Security and Regulatory Cooperation:

The Beyond the Border Working Group and Regulatory Cooperation Council were created in February 2011. Throughout the year, the CMC made representations and led industry coordination across Canada and the United States aimed at streamlining border operations and identifying unnecessary differences in regulation.

Details of the Border and Regulatory Cooperation Agreement were announced in December 2011 with an action plan mirroring the input and guidance provided by the members of the CMC. (The Action Plan contained 32 items recommended by CMC.) Now we need to focus on effective implementation of the action plans in order to realize real cost savings for our members. We need to identify specific irritants, define what success would look like, track progress, and hold both governments' feet to the fire in demanding bottom-line improvements. This is when the work really begins.

3. Industrial Innovation, research and commercialization:

This has been a high priority for CMC members throughout the past year. In particular, we focused our efforts around the Federal Expert Panel on Innovation (the Jenkins Panel). CMC came together to submit recommendations to the panel prior to its report and then to coordinate an effective response to its recommendations, which if implemented as is, would depreciate the value of the Scientific Research & Experimental Development Tax Credit while leaving the nature of direct support for industrial research and commercialization in question.

CMC's response, and our subsequent lobbying efforts vis-à-vis Ministers' offices, the Prime Minister's office, and the official opposition, has emphasized the need to strengthen support for industrial innovation and commercialization through strengthening the SRED program by loosening the rules around eligibility, lessening the role of consultants, and simplifying the application process. In addition, we have supported the report's recommendation to introduce a "voucher" program that would allow companies greater flexibility, choice, and financial support in selecting their own preferred programs and services in support of their commercialization efforts.

We are still uncertain as to whether the Government's March 29th budget will make changes to the SR&ED program. Whether or not it does, there are probably going to be further consultations with industry over the design and administration of the tax credit. We need to be involved in those discussions and drive them to a speedy conclusion – the uncertainty surrounding the future of the SR&ED program has itself become a problem with respect to attracting investment and incenting investments in R&D.

4. International Trade Agreements:

Opening foreign markets through fair and commercially effective international trade agreements is another extremely important issue for CMC. We have focused mainly on the Canada-EU Comprehensive Economic and Trade Agreement (CETA) that has moved very close to conclusion, as well as Canada's entry into the Trans-Pacific Partnership (TPP), an issue that emerged near the end of 2011.

There are still significant issues that need to be resolved between Canada and the EU before CETA is successfully concluded, such as rules of origin and tariff phase-ins, intellectual property protection, trademarks, country-of-origin markings, access to provincial and municipal procurement, and areas for regulatory cooperation. All of these issues are sensitive from a political and business perspective. It is expected that in order for an agreement to be finalized, political trade-offs will likely need to be made by mid-2012 at the latest. CMC is well positioned to be able to feed specific industry concerns into the Canadian Government when final decisions have to be made. Our bottom line is that there has to be a clear net benefit for Canada's manufacturing sector in the agreement.

It seems that we are a lot further away from concluding a Trans-Pacific Partnership agreement, or even negotiating a seat at the negotiating table. In Washington, there are two views of Canada's participation in the TPP talks. US officials are deciding whether it would be better to negotiate an agreement with its current negotiating partners (including Australia, New Zealand, Chile, Malaysia, and Singapore) and then allow Canada to apply to enter the treaty after it is concluded – on terms that would eliminate Canada's supply management system – or allow Canada in as an ally if Japan were to join the trade talks (a strategy that would be important in achieving the USA's geopolitical goal of ensuring market-oriented economies not China dominate the Pacific region. CMC has written to the Trade Minister requesting Canada's inclusion in the agreement on favorable terms for Canadian industry to ensure that Canada remains a competitive market for industrial growth and investment.

5. A Policy Strategy for Manufacturing:

CMC has been active on two fronts in our attempt to develop a coordinated policy approach both within Canada and with the United States in support of manufacturing.

First, we have been pressing the PMO to treat CMC representatives as Canada's Manufacturing Council to advise central government officials and periodically the PM himself about current conditions in the sector and policy recommendations. We will report back when we have a firm response from PMO. Meanwhile, we also need to aim at reaching out to our provincial branches to form similar coalitions at the provincial level.

Second, we are working with industry associations in the United States to develop a common set of priorities for manufacturing in both countries. The goal is to avoid US protectionism by emphasizing the common interests of an integrated supply chain, recruit as many allies as possible in the US in advising US trade, commerce, White House, and congressional officials, and see if there are policy or program initiatives that might be of value in implementing here in Canada.

To that end, CMC members supported and participated in the first North American Manufacturing Competitiveness Summit held in Montreal last September. The focus and intention of the Summit was for the first time to bring together major manufacturing associations and companies with Cabinet Ministers and senior government officials from both Canada and the United States to discuss and agree on a common policy platform in support of manufacturing competitiveness and investment. The Summit allowed us to push for many of the policy changes we support and helped to create a pathway for joint advocacy initiatives going forward.

CMC needs to continue to advocate collectively on behalf of our members to respond to new policy challenges as they arise and ensure effective implementation of the policy wins we were successful in achieving over the past year.

I propose that we aim at the other additional objectives over the course of 2012:

- Coordination of an intergovernmental manufacturing investment and growth strategy for Canada;
- Creation of a Prime Minister's Manufacturing Advisory Council;
- Passage of a federal Regulatory Modernization Act;
- Launch of a formal review by the House of Commons Industry Committee focusing on the changing nature of manufacturing in Canada and policy changes required to support the sector;
- Creation of a unique CMC website that will focus on our collective policy priorities as well as the image of manufacturing;
- Organization of a manufacturing lobby day on the Hill in the fall of 2012.

CMC has been instrumental in affecting policies in support of manufacturing because we work effectively together and speak where possible with a common voice. By leveraging our strengths we will continue to make Canada a better place for our members to do business.