



CANADIAN MANUFACTURERS & EXPORTERS

2010 ONTARIO PRE-BUDGET SUBMISSION

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Canadian Manufacturers & Exporters (CME) is Canada's leading trade and industry association and the voice of manufacturing and global business in Canada.

The association directly represents more than 10,000 leading companies nationwide. More than 85% of CME's members are small and medium-sized enterprises. As Canada's leading business network, CME, through various initiatives including the establishment of the Canadian Manufacturing Coalition, touches more than 100,000 companies from coast to coast, engaged in manufacturing, global business and service-related industries.

CME's membership network accounts for an estimated 82% of Canada's total manufacturing production and 90% of exports.

Despite the recent economic challenges, the manufacturing and exporting sector continues to be the largest business sector, contributing \$300 billion to GDP and representing approximately 800,000 jobs. Many of these jobs are highly skilled and highly paid. Many of these are high skilled and high wage jobs. Another 1.5 million Ontarians are indirectly employed in manufacturing. Every dollar invested in manufacturing, generates \$3.25 in total economic activity. Manufacturing and exporting is on the cutting edge of Ontario innovation. 75 percent of all private sector research and development takes place in the sector.

We are emerging from what has been a deep and protracted recession. Manufacturers and exporters have been impacted significantly. Manufacturing shipments are down by 13 percent from a year ago and our November survey of manufacturers indicates that 68 percent of companies have had to cut their workforce over the last 12 months. Companies are adapting quickly to rapidly changing circumstances. They are taking the necessary steps to survive in this very challenging environment.

CME was pleased to see the Ontario government taking bold steps to address the challenges that are impacting manufacturers and exporters. In particular, we strongly support the harmonization of the PST with the GST corporate tax rate reductions, significant new infrastructure spending and measures to encourage skills training and

development. These initiatives have helped with the economic recovery and continue to make Ontario an attractive place to invest over the longer term.

And we know that we must not become complacent in the knowledge that we have made great strides. Other jurisdictions have not and will not remain idle. CME encourages the government to implement additional measures that will free up cash for manufacturers to make investments in innovation, productivity and ultimately hire more people. Under the present fiscal constraints, it is critical to focus government resources on interventions that drive new investment. Manufacturing investment has the highest multiplier of any sector of the economy.

Manufacturers and exporters will evaluate this budget and this government on the net benefit of all activities. There is a danger that the significant progress that has been achieved on tax reform will be eclipsed by other risks that could dampen investor confidence. Examples of these include energy (electricity) costs; WSIB unfunded liability, pension reform measures that increase pension costs or the costs of administration; and new regulation and enforcement on health and safety, environment and accessibility. The government must take action to ensure that the overall business environment is favourable and sufficiently competitive to retain and grow manufacturing investment in Ontario.

There is a real opportunity for this budget to address priorities that will not cost the government a lot of money and have a significant positive impact on existing and new businesses in Ontario. Some of these areas include regulatory reform, energy regulation and relaxation of the pension funding rules on a long term basis

New orders are picking up and fewer companies are reporting additional layoffs. However, we are also witnessing the re-emergence of issues such as the volatile Canadian dollar and input cost pressures and the restricted access to financing and regulatory burden that threaten to curtail these positive trends.

In this context CME has the following recommendations to address these concerns and foster a more fulsome recovery for the manufacturing and exporting sector and the Ontario economy as a whole.

Recommendations:

Endorse the Extension of the CME SMART Program

In 2008 the Ontario government made an investment in CME to design, develop and deliver a program that would help manufacturers to address and improve productivity challenges, particularly in the areas of lean, IT, and energy efficiency. We called this our SMART Program. This grant of \$25 million dollars has allowed over 400 companies to implement a productivity plan at their facilities. This has ensured the retention and creation of thousands of jobs, and improved operations that are helping Ontario companies to better compete in the global marketplace. Given the success and ongoing need, we hope this committee will unanimously support continued investment in this program. This is a unique partnership opportunity that will benefit the Ontario Government, the CME and most importantly, Ontario manufacturers.

Proceed with Comprehensive Tax Reform

CME is supportive of the harmonized sales tax and the implementation approach.

There is always room for improvement and we have two specific recommendations that, if implemented would generate maximum benefit to manufacturers, exporters and the Ontario economy.

They are:

1. Eliminate input tax credit restrictions for large businesses on HST as quickly as fiscally possible;
2. Consider mitigation for those manufacturers that will be negatively impacted in terms of cash flow. and,

There are also three areas that CME feels should be addressed going forward including monetization of all existing and future tax credits, complete elimination of the Corporate Minimum Tax (CMT) and property tax equity for manufacturers.

Monetization of Tax Credits

In order to generate cash flow for companies that are not currently profitable (i.e. most in need of relief) or those that are looking to make significant new investments; the budget should make all new and existing tax credits refundable, effective January 1st, 2010. During difficult economic times, when companies need to invest they require immediate cash support. If they are in a loss position they often cannot immediately benefit from tax credits. Making tax credits refundable will provide more effective stimulus for companies to sustain their investments in innovation throughout this period of economic challenge.

The following existing credits should be considered for refundability in the Bill:

- The Scientific Research & Experimental Development Tax Credit
- Corporate Minimum Tax credits, in addition this tax should be eliminated effective January 1st, 2010.

CME also recommends new tax credits to encourage new investments in targeted areas including green energy deployment, research and development, investments made to upgrade or retool manufacturing equipment and machinery, and training.

These measures would include:

- Providing a refundable tax credit (10 to 20%) for new investments in manufacturing and processing equipment effective January 1st, 2010.
- A refundable employer training tax credit to encourage investment in skills development and training to ensure a continuous improvement focus at a time when such investments are most difficult.

Completely Eliminate the Corporate Minimum Tax

The reduction in the CMT rate to 2.7 percent is welcome. However, the CMT is not a significant source of revenue for the government and continues to be an administrative

and financial burden on companies. CME recommends that the government eliminate the CMT entirely.

Property Tax Equity for Manufacturers

Inequities in the Property Tax system are widespread in Ontario with industrial taxpayers bearing a disproportionate burden. A recent study by *Walker Poole Nixon LLP* analyzed industrial, commercial and residential tax rates across seven jurisdictions in Ontario (Brampton, Cornwall, Hamilton, St. Catharines, Thunderbay, Toronto, Windsor). On average, industrial rates were 35 percent higher than commercial rates and nearly 400 percent higher than residential rates. Whatever the historical rationale for levying these disproportionately higher rates to the industrial base clearly no longer has a basis.

CME Recommends that the property tax rates for manufacturing and industrial facilities be reduced to that of commercial wherever such disparities exist across Ontario.

Furthermore, the province needs to move much more quickly to eliminate the capping and claw-back mitigation measure. The claw-back results in some taxpayers paying more than their CVA taxes (current value assessment) so that other taxpayers pay less. This is neither fair, nor equitable and should be eliminated immediately.

Other Non-tax Priorities:

CME has been consistent in our support for the comprehensive tax reforms that this government has implemented to date. The significant reductions in the marginal effective tax rate in Ontario will certainly improve the prospects for new and existing manufacturing investments in Ontario. We also know that the tax environment is not the only part of the investment decision. And we are concerned that regulatory and other business costs threaten to undermine the progress that has been made on the taxation front. There are a number of areas that CME has identified as areas of concern that cumulatively represent a real risk to the positives achieved in the previous budgets.

Workplace Safety and Insurance Board:

The Workplace Safety and Insurance Board's unfunded liability has grown again to approximately \$12 billion. CME is calling on the government to establish a Royal Commission to review first principals upon which the WSIB was established and to identify what type of workers compensation system is needed to meet the needs of employers and employees in a way that is sustainable.

Regulatory Burden:

CME has been supportive of the governments "Open for business" initiative which is working to reduce the number of regulations on businesses operating in Ontario. CME continues to encourage the government to focus on the impact that the regulation has on business and to address areas that are particularly onerous to businesses but do not contribute significantly to positive outcomes for stakeholders; and to consider other approaches that might produce equal or more positive results for all stakeholders.

Some examples of regulations that have been identified as being of particular or immediate concern include the Accessibility for Ontarians with Persons with Disabilities Act, The Toxics Reduction Act, the Waste Diversion Act, Air Standards, Violence in the Workplace and the Green Energy Act. In each of these areas the CME supports the overall intent of the initiative; however, we are concerned that the approach taken may not be optimal in terms of achieving results and certainly not in terms of fostering an environment for attracting investment.

Energy Costs:

CME is very concerned with the impact that rising energy costs are having and will continue to have on manufactures if not addressed quickly.

While the recession resulted in a significant drop in demand for electricity, the hybrid market failed to produce benefits (in the form of lower electricity rates) from these market forces. The reason for this is that the global adjustment mechanism (GAM)¹ is inversely correlated to the commodity price (HOEP). When the HOEP went down dramatically,

¹http://www.ieso.ca/imoweb/b100/b100_marketRebates.asp, the GAM is comprised primarily of OPG's regulated baseload generation, non-utility generators, conservation and demand management initiatives.

the GAM went up dramatically; offsetting any potential benefit that would have otherwise helped businesses through a very challenging time. Furthermore, the current formula cannot be hedged and is applied at a constant rate resulting in many manufacturers paying a disproportionate burden of the GAM costs. The GAM serves an important purpose in the hybrid market; to ensure that the costs associated with regulated assets are covered. However, this does nothing to encourage more appropriate use of electricity (i.e. Peak shedding). CME is currently working with the Independent Electricity System Operator (IESO) as it develops alternative allocation models that we believe will incent more appropriate behaviour and ultimately reduce costs to ratepayers.

CME supports a broad portfolio of electricity generation sources that includes renewable generation. We also support efforts to reduce emissions from generation sources. However, new supply must continue to be strictly governed by economic prudence testing at the Ontario Energy Board. CME is concerned that generation decisions are increasingly driven by environmental and social priorities that are not appropriately balanced with longer term economic considerations.

We encourage the government to implement changes to the regulations governing the global adjustment mechanism and to demand greater economic prudence in determining existing and future electricity generation and transmission.

Conclusions:

In conclusion, the comprehensive tax package will allow manufacturers and exporters to retain more of their money which they can use to make the necessary investments in order to remain competitive and ensure a more rapid and sustained economic recovery. CME also feels that the recommendations that we have highlighted here today are necessary to fully realize Ontario's vision for more jobs and growth.

Thanks you for your attention and we would welcome any questions at this time.

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