House of Commons
Chambre des communes
Canada

House of Commons Standing Committee on Finance – Pre-budget Consultations 2013

This brief is submitted by:

(●) **an organization** **Organization name:** Canadian Manufacturers & Exporters (CME)

or

( ) **an individual** **Name:** _____

Topic: Manufacturing and value-added processing

*Recommendation 1: Please provide a short summary of your recommendation.

As a result of drastic changes in market environments in the last decade and especially since the global financial crisis, companies have optimized their cash balance levels (estimated at $45 billion in 2011 in Canada only). This is a unique opportunity to tap into Canadian and foreign business spending to boost Canada's economic growth.
CME is recommending the establishment of a $150 million Capital Investment Fund (CIF) which will directly aid in the development, expansion, or upgrading of production facilities that will result in job creation and productivity improvements.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

$100 million -$499.9 million

5 or more years

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

The changes to the SR&ED tax credit that were introduced in the 2012 budget represent savings for the federal government of 664 million a year. While the federal government has committed to reinvest these funds into direct funding for business R&D, not all funds have been reallocated yet. In the last two federal budgets, a total of $515 million a year was committed to new direct support measures accessible exclusively to businesses (excluding funds allowed to research institutions for basic research and restructuring). We recommend that the new fund be granted a budget of $150 million a year.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

Eligible projects would include any project that would increase manufacturing and procession output in Canada, including building new production facilities, expanding current facilities, or revamping existing facilities that would result into an increase production in Canada. Both buildings and machinery and equipment would be eligible for funding. All sectors of processing and manufacturing would be eligible for the funding, to a maximum of 30% of total project cost. Provinces with similar programs could also match the federal contribution.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

By capping the federal contribution to one-third of total project costs, and by allowing the provinces to match the federal contribution (one-third as well), the $150 million envelope from the federal government could leverage an additional $300 million a year in capital investments from other levels and governments and the private sector. Building new and expanding current facilities will create new jobs, while revamping existing facilities will make Canada gain in productivity, which will in turn increase standards of living of all Canadians.

Topic: Innovation and commercialization

Recommendation 2: Please provide a short summary of your recommendation.

CME estimates that since 2001, Canadian companies (non-CCPCs) have accumulated $6.8 billion dollars in unused tax credits under the Scientific Research and Development Tax Credit (SR&ED). CME recommends the creation of a “swap” program whereby companies could trade their unused tax credits for government contributions for R&D related capital expenses, including buildings (new laboratories or expansion of existing ones) or Machinery and equipment used for R&D purpose.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

$10 million-$99.9 million

5 or more years

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

The elimination of capital as an eligible expenditure under the SR&ED program creates a big gap in government's policy to support business R&D. According to the Department of Finance, the elimination of capital expenditures under the SR&ED program represents $45 million a year in tax savings for the government. CME recommends that the full envelope is being invested in this new SWAP program. However, given that these tax credits have been earned by companies and will eventually be claimed, the real cost for the federal government is $0.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

Any company that has accumulated R&D tax credits in the past and that has carried them forward. More than 75% of the funds would go to manufacturing and ICT sector, given that they represent the majority of SR&ED claimants.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

By capping the contribution to 33% of total project costs, to a maximum of $5 million per project, the government could increase business expenditures in R&D by $135 million on an annual basis, just for capital. “In the case of new laboratories or R&D facilities, there would be further benefits beyond the initial R&D capital expenditures in terms of scientists employed and M&E acquired. CME estimates that this $45 million program alone could boost annual R&D expenditures of Canadian companies by 2.7% of total business R&D expenditures annually, at no additional cost for taxpayers.

Topic: Innovation and commercialization

Recommendation 3: Please provide a short summary of your recommendation.

The federal government should implement Advanced Manufacturing Funds, such as the one announced in budget 2013 for Southern Ontario, in all Regional Economic Development Agencies across the country. Current programs supporting advanced manufacturing are either sector-specific or only available in certain regions of the country; this policy would ensure that the funds have a national scope and are accessible by manufacturers across the country.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

$10 million-$99.9 million

5 or more years

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

Each regional economic development agency would be responsible for finding ways to fund the program by re-allocating existing funds within their department, the same way it was performed by the Southern Ontario Economic Development Agency. No new measures or new funding is required to implement this recommendation.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

All manufacturing sub-sectors would be eligible. Funds would cover the adoption of transformative technologies related to process or product innovation. All manufacturers across the country should have access to direct funding mechanism to be able to compete globally.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

Advanced manufacturing and adoption of transformative technologies will transform the way we make things. The huge gains in productivity that will result from a stronger advanced manufacturing sector are going to make possible the rapatriation of manufacturing activities from low-cost countries in North America. Some companies have already rapatriated production as a result of the adoption of game-changing processing technologies and digita manufacturing.

Please use this page if you wish to provide more explanation about your recommendation(s).

The 2008 financial crisis and the ensuing protracted recession was the final push which resulted in all advanced economies seeking out innovative methods of production, and aggressively pursuing legislation that will keep them globally competitive. It is from such a crucible of intense and prolonged global competition that an advanced manufacturing industry has begun to take shape – one that holds the promise of future economic prosperity for generations to come.

Advanced manufacturing processes in the form of nano-manufacturing, additive technology, and the industrial internet is next logical step for what is already a highly innovative Canadian manufacturing sector – one that holds the ability to revitalize existing manufacturing facilities, while simultaneously giving life to new ones.

The dramatic reformation of manufacturing as an advanced, high-tech sector holds the promise of true economic prosperity, but such prosperity will not be shared among all advanced economies. As with many examples of transformative technologies, only the countries that seize this rare opportunity will see the greatest concentrated benefits for their societies. Early adopters of new advanced production technologies will be the industrial leaders of tomorrow, and it is critical that Canadian policy makers at all levels of government understand the urgency of the situation. Only with the accelerated adoption of digital technologies and advanced manufacturing techniques can Canada hope to be among the industrial leaders of the future.

The Government can help the emergence and growth of a strong advanced manufacturing sector by:

- implementing a national capital Investment Funds that will attract business capital investments that are likely to sustain Canada's economic growth in the near future;
- creating SWAP program that would give large companies access to a portion of their SR&ED unused credits for specific R&D related capital expenses;
- making sure that new direct support for advanced manufacturing technologies is accessible across sub-sectors and across the country by implementing Advanced Manufacturing Funds in all regional economic development agencies across the country.

Transformative and sophisticated technologies offer to pay dividends to the countries who harness their remarkable power for economic activity. This revolution will not be easy, and will require action from all levels of Canadian governance. It will become necessary for government to produce the right incentives, establish the right policy, and provide the competitive advantage that over the long-term will help this country realize its potential as a global manufacturing centre.

*Please note that at least one recommendation must be provided