



GREATER KITCHENER WATERLOO
CHAMBER OF COMMERCE
BUSINESS BUILDING COMMUNITY

2013 PRE-BUDGET SUBMISSION

TO THE

HOUSE OF COMMONS

STANDING COMMITTEE ON FINANCE

Panel 3

Supporting Research and Innovation

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The Greater Kitchener Waterloo Chamber of Commerce and Waterloo Region – A Profile

The Greater Kitchener Waterloo Chamber of Commerce serves over 1800 members representing all sectors of the local community. Our membership includes small, medium, and large employers in one of Canada's most progressive and economically diverse regions.

Waterloo Region is designated as Canada's tenth and Ontario's fourth largest urban area, with a current population of 540,000 expected to reach 729,000 by 2031.

Our local economy is among the most diverse in Canada, with concentration across advanced manufacturing, financial services, automotive, and information technology. Industry analysts have frequently cited this diversity as the fundamental strength of Waterloo Region's globally successful and entrepreneur-driven business sector.

Proposals for Supporting Research and Innovation

Our comments and recommendations in this submission relate primarily to application of new technologies and innovation for increasing productivity and efficiency across the national business sector.

1) International Trade Agreements

The growth and success of Canadian research and innovation is highly dependent upon opening new markets for domestic products and technology.

In a recent letter addressed to Canada's Premiers, the Canadian Manufacturers & Exporters (CME) indicated that the Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union (EU) is an historic achievement and critically important for Canadians.

Jayson Myers, President & CEO of the CME noted that the opportunities from CETA will be greater than business-as-usual economic models predict, primarily because the EU is a sophisticated market in which Canadian technologies, services and advanced manufacturing products will thrive. New opportunities will be available for small and medium-sized enterprises in both economies to export, invest and find business partners to help them commercialize new technologies and enter new markets.

An October 18, 2013 news release from the Canadian Chamber of Commerce (CCC) states that CETA is the most important trade deal signed by Canada, surpassing NAFTA in scope. The CCC hopes that momentum generated by signing this deal will help push forward Canada's other major trade talks, including Japan, India, Korea and the Trans-Pacific Partnership countries.

To escalate trade and ensure maximum Canadian benefit for exports, the Canadian Chamber of Commerce proposes:

- Continued and expanded support for export financing services with particular focus on small and medium-sized enterprises;
- Renewed commitment to Canada's trade commissioner services for supporting Canadian businesses in new markets;

- Reliable legal arrangements and regulatory cooperation between Canada and its trading partners; and
- Collaboration between business and government on the planning of trade missions and related activities.

2) FedDev Ontario and Support for Advanced Manufacturing

In our organization's submission to this committee in October 2012 we recommended an extension of the Federal Economic Development Agency for Southern Ontario (FedDev Ontario) beyond an original five year mandate that commenced in 2009. We were therefore highly supportive of the announcement in the 2013 Economic Action Plan proposing that the program be renewed for an additional five years with \$920 million in new funding.

Included in the second mandate is \$200 million over five years for an Advanced Manufacturing Fund commencing in April 2014. This new allocation will support investments by manufacturers in activities that create new and innovative products or production methods. Also included in our submission last year was a recommendation to extend the Accelerated Capital Cost Allowance for the acquisition of machinery and equipment used in manufacturing and processing. Again, we were highly supportive of Minister Flaherty's two-year extension incorporated in the 2013 Economic Action Plan.

The recent Budget notes that more than 25,000 manufacturers have taken advantage of this initiative since it was first introduced in 2007. Adopting new and innovative technologies to increase productivity will allow businesses in Canada to meet current challenges and improve long-term prospects, helping them compete globally while creating jobs and growth in all parts of Canada.

The manufacturing sector produces employment for 1.8 million people across Canada and provides one in five jobs across Waterloo Region. As noted by the Canadian Manufacturing Coalition¹, now is the time for leadership and action by all levels of government that focuses attention on shaping the environment to drive investment and economic growth.

3) Skills Shortages and Workforce Productivity

A Conference Board of Canada report from June of 2013² notes that Ontario is losing out on as much as \$24.3 billion in economic activity and \$3.7 billion in provincial tax revenues annually because employers cannot find people with the skills they need to innovate and grow in today's economy. Michael Bloom, Vice President, Organizational Effectiveness and Learning at the Conference Board noted that closing the skills gap could help the province reduce public debt or invest in much needed infrastructure improvements. Skill deficits currently affect a significant percentage of Ontario's economy, including manufacturing, health care, and financial industries.

Benjamin Tal of CIBC Economics states that a labour shortage is not a national issue but rather a mismatch in skills.³ According to his calculations, filling every open job in Canada with a suitable worker would generate an extra \$5 billion annually for the federal government in higher tax revenues and reduced jobless benefits.

¹ Manufacturing Our Future. The Canadian Manufacturing Coalition. October 2012

² The Need to Make Skills Work- The Cost of Ontario's Skills Gap. Conference Board of Canada. June 2013

³ Canada's labour pain: 1.3 million jobless, but not enough skills. The Globe and Mail, March 31, 2013

The Canadian Chamber of Commerce in their 2013 report *Tackling the Top 10 Barriers to Competitiveness* noted that the key driver of productivity is, overwhelmingly, business investment in technologies, plant and equipment, and human resources. Canada is not a low cost producer – regulated working conditions, high environmental standards, wages and benefits all escalate costs. To retain these beneficial characteristics of Canada and deliver products and services at competitive rates requires us to all work more efficiently.

A further drag on the Canadian economy is the low level of essential skills in the national workforce. According to the Canadian Literacy and Learning Network, workers in mature industries need a minimum of Level 3 literacy skills. Approximately 48 percent of adults in Canada do not have this education level, translating to an inability to adapt to new technologies and related responsibilities.

Our Chamber is supportive in principle of the Canada Job Grant as outlined in the 2013 Economic Action Plan and anticipate that an agreement can be reached on a program that will address the on-going national skills shortage. An October 2, 2013 editorial in the Windsor (Ontario) Star noted that skilled workers are one of the keys that contribute to our ability to compete globally. A skills shortage is a deficit we cannot afford and Ottawa needs a plan which ultimately deserves our support.

4) Government and Tax System Support for Research & Development

Maintaining a competitive edge in the global economy requires innovation, and successful enterprises recognize that innovation and productivity are intrinsically connected. A business environment that rewards innovation will generate benefits by increasing wages, return on investment, profitability, and employment.

The Canadian Chamber of Commerce in their above referenced report on competitiveness noted that while the government of Canada has many programs to promote innovation, there is no coherent knowledge-based economic strategy to restore our competitive edge.

Our organization supports the general approach of the report *Innovation Canada: A Call to Action* (2011) compiled under the expert panel chaired by Tom Jenkins. Their recommendations supported a simplified and more focused approach to the \$5 billion worth of research and development funding provided annually through the federal government.

The Jenkins report noted that relative to the size of the Canadian economy, government support for business R&D in Canada is among the most generous in the world however we rank relatively low in actual business innovation investment. After significant discussions with a wide group of stakeholders, the panel discovered a funding system that is unnecessarily complicated and confusing to navigate.

In particular, the Scientific Research and Experimental Development (SR&ED) program was evaluated as unnecessarily complicated, discouraging eligible businesses from applying. Also, the promotion of home-grown innovation as a component of government procurement is “commonsense”.

We thank the committee for the opportunity to advance our recommendations for the 2014 federal budget.