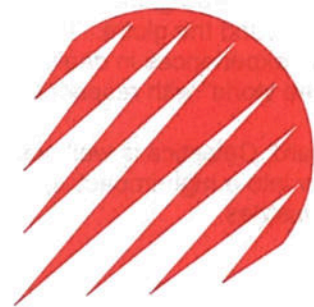


Brief to the House of Commons Standing Committee on Finance

August 2014



Celestica™

About Celestica

A former division of IBM, Celestica was established in 1994 as a stand-alone company, with its headquarters and founding site located in Toronto, at Don Mills Road and Eglinton Avenue East. Today, Celestica is a global company, with over 20 manufacturing and design operations in North America, Asia, and Europe. The company currently employs approximately 28,000 people globally, has revenue of US\$5.8 billion, and trades on the Toronto and New York Stock Exchanges. In Toronto, Celestica employees approximately 1,500 people in both corporate roles and advanced manufacturing and global supply chain roles.

Celestica was among the first Canadian companies to embrace globalization and the global outsourcing model and establish operations in emerging markets such as China, Thailand and Eastern Europe. It also has a wealth of experience in supporting a wide variety of products in diverse sectors that have faced external forces such as globalization and commoditization.

Over the years, the company has developed industry-leading expertise in areas such as engineering and design, global supply chain management, order fulfillment, product testing, process improvements, and innovations such as lead-free soldering in the electronics manufacturing process. These value-added services have been extended to Celestica's global key customers in different sectors, who include Cisco, EMC, Oracle, IBM, Honeywell, and others. Celestica services a vast array of end-products such as smart phones; wireless and telecommunications equipment; aerospace and defense electronics, including in-flight entertainment and guidance systems; healthcare products; and a range of industrial and green technology equipment including solar panels and inverters.

Given Celestica's large global footprint, the company's Toronto location generates ideas and innovations and shares them with its sites around the globe. This collaboration across the company's global locations enables employees to share best practices and experiences in dealing with globalization and commoditization. As such, Celestica may be viewed as a "window to the world" with respect to macro-economic trends with its Toronto location serving as the nerve centre.

Moving forward, Celestica is well positioned for growth as the company transforms its global business from a contract manufacturer into a high-impact, knowledge-driven, and collaborative supply chain solutions partner to its customers in a variety of industries.

Submission

Celestica is pleased to provide members of the House of Commons Standing Committee on Finance with their comments on the 2014-15 pre-budget consultations. The hearings that you will undertake with Canadians and the briefs that you will review will again assist the federal government in making some important decisions in preparation for the tabling of the 2015 federal budget; an exercise that will help to shape Canada's future.

At Celestica, we are committed to working with the federal government to build on the successes we have achieved as a country through the Economic Action Plans.

Our brief is focused on one of the themes you have requested comments from Canadians: ***Increasing competitiveness of Canadian businesses through research, development, innovation and commercialization.***

In Canada, the well-documented commercialization gap remains one of the major impediments to growth in the electronics and technology sector in the country. There are many reasons for this gap. They include:

- The shift in manufacturing to low-cost geographies has depleted supply chain knowledge and skills in Canada;
- Most Canadian companies lack the resources and expertise to launch products on global scale;
- The absence of infrastructure to commercialize new products in Canada and to help companies to access global markets.

We strongly believe that Celestica's three priority recommendations would further drive innovation and prosperity in the knowledge-based economy.

It is imperative that Canada provide the necessary infrastructure and support for commercialization through a financial model that supports business innovation and further encourages Canadian companies to invest in innovative leading-edge technology that will drive productivity and global competitiveness, while supporting the development of a high-technology manufacturing cluster.

1. To provide the infrastructure and support for commercialization through a financial model that supports business innovation.

We deem that a Commercialization Vouchers Program (CVP) would enable Small and Medium Enterprises (SMEs) with strong commercialization potential to obtain the support they require to commercialize their products and improve market outcomes. If executed properly, the CVP would enable SMEs to access world-class manufacturing and supply chain capabilities, such as we currently offer at Celestica.

The concept that we envision can draw down financial support to offset risk associated with supporting emerging and small businesses looking to establish a successful global company based on their innovative product or service.

The program, which we refer to as the “manufacturing readiness fund” will be designed to put the onus on the large company or network to help the small and emerging businesses address technical challenges, improve productivity, identify partners overseas, and increase exports. In fact, it is similar to Ontario Centre's of Excellence's (OCE) Voucher for Innovation and Productivity (VIP) program, but with the responsibility for success reversed so that the larger entity is accountable for the growth of the smaller one. In our view, tapping into the knowledge and expertise of existing networks is infinitely more valuable and efficient than expecting the individual student or researcher to navigate the complexities of business growth and economies of scale for themselves.

Based on recent conversations with officials from the Ontario government and the OCE, we know there may be an opportunity to combine the administrative expertise of the OCE with the resources available at the Business Development Bank of Canada (BDC) and the Ontario Government to deliver a program that facilitates the above described program. The OCE will play its role by leveraging its expertise in identifying and selecting innovative small businesses with significant global potential, and then facilitate introductions for that company with an appropriate partner. The large company or network will then have access to funds in the program to offset risk associated with scaling the company and introducing them to foreign markets. This program could be resourced through funding available at the BDC, the Ontario government and the Federal government. This program could be piloted in the near future, and be allocated a set limited amount of funding for a set limited amount of projects. However, we suggest that a longer term approach should be contemplated at the same time.

The concept of leveraging Canadian businesses and networks to bring innovative products to the global market more quickly and more efficiently is one that we believe should be more broadly embraced. From Canada's perspective we envision the benefits of this proposed program to be far reaching and numerous. Some of these benefits include:

- Addressing the persisting problem of Canada's “commercialization gap” while engaging industry to help accelerate growth for innovative small businesses in Canada;
- Facilitating immediate productivity advantages for emerging companies wanting to scale quickly and remain in Canada;
- Helping government inspire Canadian youth to pursue entrepreneurship;
- Retaining talent in Canada, and helping government receive a greater return on investment (ROI) for each student it supports through the post-secondary education system;
- Incentivising large Canadian industries to transition to the new knowledge based economy;
- Supporting Canada's economic goals with respect to productivity, exports and job creation.

2. To further encourage Canadian companies to invest in innovative leading-edge technology that will drive productivity and global competitiveness.

We need to further incentivize Canadian companies to leverage and invest in technology. This may be more in the form of tax policy and how capitalization is dealt with when companies invest in technology.

As highlighted in the report “*Innovation Canada: A Call to Action*,” authored by Tom Jenkins and the Independent Panel on Federal Support to Research and Development, business innovation drives competitive advantage and prosperity. Following on the recommendations made in the report, we would like to reinforce that it is critical that the government act quickly to develop new ways to encourage and support business innovation.

In addition to what the Jenkins report and others have contributed, we feel this support can take the form of increased and more targeted business support programs offered through agencies like the Federal Economic Development Agency for Southern Ontario (similar to Jenkins report recommendation #5; help high-growth innovative firms access the risk capital they need through the establishment of new funds where gaps exist), develop a focussed approach on education campaigns that target business at all stages of growth, and through efficient transfer of technology from the education and research communities to established Canadian entities to help innovate existing automation systems to increase productivity and give businesses the edge they need to increase global market share.

Celestica believes that a proposed centre of excellence in advanced electronics manufacturing located at the company's Toronto headquarters, is a project that is aligned with the government's stated priorities with respect to business innovation. Many of the building blocks to help us realize our vision are in place today. With careful planning, effective execution, government partnership, and adequate investment, the centre of excellence can be realized in a relatively short timeframe. The centre would benefit Celestica, the post-secondary sector, research organizations, large and small businesses, and the government in a number of forward-looking sectors. In addition, it has the potential to be an early example of success in innovation in Canada.

3. To support the development of a high-technology manufacturing cluster.

For years, Celestica has had a vision for a technology cluster that is similar to the Downsview Aerospace cluster. In the high-technology manufacturing cluster, Celestica could play a predominant and essential role in support of the commercialization of new products and help companies to maintain and sustain their competitiveness in global markets. More importantly, it would provide companies with: a) easy and efficient access to prototyping tools and environments; b) expertise to assist them with lateral innovation beyond their core products; and, c) develop a better understanding of how to on-ramp into global markets. Celestica and Communitech are currently working together to create this ecosystem for Canada.

We have coined this cluster the ZONE. Canada's Manufacturing ZONE will help SMEs accelerate their entry into global markets. The ZONE, a commercialization marketplace, will put high-potential SMEs in an environment where they can be surrounded by all of the resources they need to scale their business and succeed. For example, the ZONE will feature access to prototyping tools and infrastructure such as 3D Printing, injection molding and part sourcing; design services; collaborative R&D project management expertise; supply chain management expertise; and a deep partner network of suppliers and capital providers. The ZONE will enable companies to share their expertise across sectors like energy, healthcare, aerospace and defense.

We envision Canada's Manufacturing ZONE to be a \$100M public-private partnership focused on accelerating commercialization and retaining Intellectual Property for Canada. Initiated by Celestica and Communitech, the ZONE will become a robust ecosystem for manufacturing entrepreneurs and SMEs in Canada. Properly executed, we believe the ZONE could help attract R&D investment and capital to Canada as well as create highly skilled jobs.

However, Celestica cannot do it alone. Building on the success of [Refined Manufacturing Acceleration Process \(ReMAP\)](#), a Business-Led Networks of Centres of Excellence (BL-NCE), in assembling a strong team of partners, ZONE would look for participation from academia, government and established industry players such as Cisco Canada.

Conclusion

Thank you for giving us the opportunity to provide our input into the budgetary process for 2015. Celestica is committed to working closely with the federal government to increase Canada's competitiveness on a global scale. We look forward to the opportunity to further discuss the recommendations we have outlined in our brief.

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