

Minister of
Innovation, Science and
Economic Development



Ministre de
l'Innovation, des Sciences et du
Développement économique

Ottawa, Canada K1A 0H5

Mr. Dan Ruimy, M.P.
Chair
Standing Committee on Industry, Science and Technology
House of Commons
Ottawa, Ontario K1A 0G6

Dear Colleague:

Pursuant to Standing Order 109 of the House of Commons, I am pleased to provide the Government Response to the Standing Committee on Industry, Science and Technology's report entitled *The Canadian Manufacturing Sector: Urgent Need to Adapt*, which was tabled in the House of Commons on May 31, 2017.

The Government of Canada extends its gratitude to the Committee for its work, recognizing that its study was conducted over many months and involved a range of stakeholders through public consultations, meetings with entrepreneurs from the manufacturing sector in Montréal, and written submissions from across the country. The government also expresses its appreciation to the stakeholders who appeared as witnesses over the course of the Committee's study.

The different perspectives heard on Canada's manufacturing sector are a testament to the importance of the government's and the Committee's commitment to holding an open and transparent dialogue with Canadians on the future of the Canadian manufacturing sector.

The comprehensive report demonstrates the Committee's dedication to finding solutions to strengthen this sector. Its recommendations to protect and promote manufacturing skills and employment, to encourage and support innovation and commercialization, and to retool financing and assistance programs for businesses will serve to guide the government's approach going forward in this important Canadian sector.

Sincerely,

A handwritten signature in cursive script that reads "N. Bains".

The Honourable Navdeep Bains, P.C., M.P.

Enclosure

Canada

**GOVERNMENT RESPONSE TO THE SIXTH REPORT OF THE
OF THE STANDING COMMITTEE ON INDUSTRY, SCIENCE AND TECHNOLOGY:
*THE CANADIAN MANUFACTURING SECTOR: URGENT NEED TO ADAPT***

INTRODUCTION

The Government of Canada is pleased to respond to the Sixth Report of the House of Commons Standing Committee on Industry, Science and Technology (INDU) entitled *The Canadian Manufacturing Sector: Urgent Need to Adapt*.

The Government commends the members of the Committee, and the witnesses who appeared before it, for their insight and commitment to better understand and address the challenges faced by Canada's manufacturing sector.

The Government appreciates the comprehensive analyses, views and recommendations developed by the Committee, and is working collaboratively with federal, provincial, territorial and industry experts to adequately address several of the challenges highlighted throughout the report. Details are provided below regarding the Government's response to the specific recommendations of the Committee in this regard.

THE CANADIAN MANUFACTURING SECTOR

Canada has a strong and diversified manufacturing sector that generates growth across the Canadian economy. The sector directly supports more than 1.7 million middle class jobs and contributes \$175 billion to gross domestic product. The sector accounts for more than two-thirds of total exports and increasingly contributes to the growth of IT, private sector research and development (R&D) and engineering services.

In a world where foreign governments have been investing heavily on manufacturing innovation, Canada has an opportunity to leverage a highly skilled workforce and strong science base to strengthen R&D and technology adoption and attract global mandates. A growth strategy for advanced manufacturing is a platform to maximize the benefits of new technologies benefits workers, companies and consumers.

RECOMMENDATIONS

Recommendation 1: *That the federal government develop a strategy for the Canadian manufacturing sector based on the recommendations in this report. This strategy should include clear objectives and timelines for the Canadian manufacturing sector in terms of production, employment and exports. Regular progress reports should be published to identify achievements to date, as well as any corrections that may be required.*

The Government is supportive of this recommendation. The Government is committed to develop industrial policy moving forward that would better support Canadian manufacturers to innovate by adapting enabling technologies and processes to improve their productivity and competitiveness. The Government has consulted with manufacturing stakeholders, including groups such as the Canadian Manufacturers and Exporters, to explore ways to best position Canada's manufacturing sector for growth. The Government has worked with companies and key stakeholders on addressing manufacturing competitiveness issues. This includes the

important work led by the Canadian Manufacturers and Exporters on Industrie 2030 and technology projects with specific companies and groups.

Announced in Budget 2017, the Innovation and Skills Plan focuses on people and addresses the changing nature of the economy to ensure it works for all Canadians. It is an agenda to build Canada as a world-leading innovation economy that will create jobs and grow the middle class. Through the Plan, the Government has introduced a number of mechanisms to support and position Canadian manufacturing at the global forefront of innovation, connecting stakeholders, including developing programs that will help drive economic growth and create high quality jobs for Canadians.

The Plan includes the creation of Canada's economic growth strategies by developing six Economic Strategy Tables to identify innovation opportunities in advanced manufacturing, agri-food, clean technology, digital industries, health/bio-sciences and clean resources. While there is a specific Table for advanced manufacturing, it is expected that there will be a manufacturing angle for each of the Tables giving a broad perspective on the needs of manufacturing companies in Canada. On August 16, 2017, the Government announced that Charles Deguire, Co-founder of Kinova Robotics of Boisbriand, Quebec, will chair the advanced manufacturing table.

As a result of these and other initiatives outlined in the Government's Innovation and Skills Plan, it is anticipated that Canadian manufacturing sector companies will gain better access to a skilled workforce, achieve greater results in commercializing new products, scale, extend their exports to new markets and help create new opportunities for Canadians to access high-value, well-paying meaningful jobs.

Recommendation 2: *That the federal government improve the labour market information it produces, notably connecting jobs in occupations in demand (such as in the sciences and specialized trades), locally and at the national level, with skills available with job seekers.*

The Government supports this recommendation and recognizes the importance of labour market information such as employment forecasts, skills requirements, wage information, and current and projected labour shortages. It is committed to providing up-to-date and detailed labour market information at the local, regional, and national level, for economic sectors, key occupations and in-demand skills. This information will assist students, job-seekers, employers, academic and training institutions, and other stakeholders in their education, career, and business development decisions.

Recognizing that labour market information is not just limited to occupational forecasting, the Government is establishing a new skills and measurement organization which will focus on improving information about skills gaps in Canada's labour market. This organization will work with provinces and territories, the private sector, educational institutions, and not-for-profit organizations to identify the skills sought and required by Canadian employers; to explore new and innovative approaches to skills development; and to share information and analysis to help inform future skills investments and programming. This organization will work with provinces and territories, the private sector, educational institutions and not-for-profit organizations to

identify new skill sets required by Canadian employers, to explore new ways to approach skills development and to share information and analysis to inform future investments in skills.

The Government, through Statistics Canada and Employment and Social Development (ESDC), produces and disseminates labour market information through several sources, including:

- The **Job Bank** was developed as a tool to allow employers and individual users to seek for and fill job vacancies, and learn more about the wage, skills and education needed for various occupations, sectors, and geographic regions;
- The **Canadian Occupational Projection System (COPS)** produces projections that enable the identification of occupations that may face future labour shortage or labour surplus conditions;
- Through the **Sectoral Initiatives Program**, industry-driven labour market information is also produced and disseminated for key sectors ; and,
- The **Labour Market Information Council**, with a goal to work with industry sectors and Post-Secondary Education institutions, ensures accessible, timely, reliable, and comprehensive Labour Market Information (LMI) is available to all Canadians to make informed decisions. The LMIC addresses LMI gaps, improves the coherence, reliability, timelines and accessibility of information, and reduces duplication of efforts between various jurisdictions.

Recommendation 3: *That the federal government establish sector councils in order to make students and post-secondary institutions more aware of what skills are required by manufacturing businesses, advanced manufacturing, in emerging fields that will be important to Canada's growth. These sector councils could be tasked to work with local educational institutions to create streams to employment, including work experience for students, and share best practices on processes and innovation as well as promoting investment.*

The Government supports the gathering of intelligence on required skills in the manufacturing sector in order to better inform students and post-secondary institutions.

The Government works with established stakeholders that have the capacity and partnerships to impact their respective sectors through the Sectoral Initiatives Program (SIP). Through SIP, the Government partners with industry leaders in key sectors of the Canadian economy to identify and address challenges in skills development, share best practices, tools, and sector-specific labour market information which support users in being more informed about the sector. Further to this, in Budget 2017, the Government announced a commitment to providing students with increased opportunities for workplace-based learning through Student Work Integrated Learning (SWILP), to better equip them to succeed in the labour market, and to ensure that employers increase their engagement with on-the-job skills development. Employers and post-secondary education (PSE) institutions are working collaboratively through multi-stakeholder partnerships to create more work-integrated learning placements for young Canadians enrolled in science, technology, engineering and mathematics (STEM) and business programs. The advanced manufacturing industry is being targeted as a key growth sector, where employers and educational and training institutions can work together to align skills training with jobs in demand by manufacturers.

The Government is also committed to the creation of a new national skills and measurement organization that will bring together willing stakeholders from provinces and territories, the private sector, educational institutions and not-for-profit organizations, to explore and implement new and innovative approaches to skills development.

The Government has committed to furthering the work-integrated learning opportunities for Canadian students through an investment of \$221 million over 5 years to Mitacs, a not-for-profit organization that builds partnerships between industry and educational institutions. The investment will more than double the number of work-integrated learning placements for post-secondary students each year – from 3,750 placements to 10,000. The funding will connect top students to opportunities within businesses and not-for-profit organizations — helping students develop on-the-job skills to launch their careers, while also helping companies tap into new, innovative talent.

Recommendation 4: *That the federal government increase options to address labour shortages: above all, by promoting on-the-job-training of Canadian and prospective employees, either through an increase in the Canada Job Grant or other means; also, by examining the possibility of using the Temporary Foreign Worker Program as a gateway to permanent immigration; and by expediting the process through which foreign students can become permanent residents, as a way to attract and retain top talent and skilled workers.*

The Government supports this recommendation. Each year, the Government invests over \$2 billion in the Labour Market Development Agreements (LMDAs) with provinces and territories (P/Ts) so they can support unemployed Canadians with employment assistance and training.

Under the LMDAs, Employment Benefits enable current and former EI claimants to gain skills and work experience through a combination of interventions such as training and wage subsidies. LMDAs also support the provision of employment assistance services for all unemployed Canadians. Employment assistance services include employment counselling, job search assistance, needs assessments, information on government employment programs, and the development of return to work action plans.

While the Government provides funding under the LMDAs, decisions regarding the delivery of employment programs and services are the responsibility of the P/T governments, and they have the flexibility to develop labour market programming best suited to their specific needs.

Budget 2017 announced that the Government will provide an additional \$1.8 billion over six years to the P/Ts for the LMDAs, beginning in 2017-2018. In addition to these investments, the Government committed to amend the EI Act to broaden worker eligibility for programs and services under the LMDAs, allowing even more Canadians, including underrepresented groups, to access EI-funded skills training and employment supports. With this change, Labour Market Partnerships may be used to provide assistance for employed persons who are facing loss of employment or needing that assistance to maintain their employment.

In Budget 2017, the Government also announced that it will work with provinces and territories to consolidate the Canada Job Fund agreements, Labour Market Agreements for Persons with Disabilities, and the former Targeted Initiative for Older Workers into new Workforce Development Agreements. Budget 2017 also provides an additional \$900 million over six years,

starting in 2017-2018 for this initiative. This new agreement will provide provinces and territories with increased flexibility to design and deliver employment and skills training programming to address local labour market needs and respond to emerging issues.

The Government also has measures in place to increase transitions of foreign workers and international students to permanent residence through Canada's Express Entry system. These work permits allow recent international graduates to gain Canadian work experience in any job anywhere in Canada for up to three years, depending on the duration of their studies.

In addition, the Government has launched the Global Skills Strategy in June 2017, to provide businesses in Canada with a faster way to bring in global talent in order to scale up and grow.

Recommendation 5: *That the federal government explore ways to create an index of existing patents in Canadian post-secondary institutions so they can be readily identified by industry, and explore ways to promote and encourage the transfer of intellectual property from post-secondary institutions to Canadian industry.*

The Government acknowledges this recommendation. To help encourage collaboration between post-secondary institutions and private Canadian businesses, the Government will examine best practices in reducing barriers to access information about available public sector intellectual property. For example, countries such as Australia and Denmark have worked to overcome this challenge by creating voluntary online marketplaces which help to expose potential collaboration opportunities to businesses seeking to work with public sector research partners and to facilitate quick and easy contact. As announced in Budget 2017, the Government will be addressing intellectual property issues through its new intellectual property strategy which will ensure that Canada's intellectual property regime is modern and robust and supports Canadian innovations in the 21st century.

Recommendation 6: *That the federal government consider all pertinent information regarding predicted impacts for Canada in terms of employment and production, by industry, when considering signing trade agreements.*

The Government supports this recommendation and is committed to enhancing the evaluation on the impact of trade and investment agreements on the Canadian economy.

Global Affairs Canada undertakes the assessment of the economic impacts such as exports, imports, production changes on all sectors of the Canadian economy as a result of the implementation of Canada's trade agreements. It also conducts environmental assessments of Canada's trade agreements. The in-house analyses are complementary to other studies done by academics, think tanks and other governments.

Furthermore, the Government will continue to work in close consultation with manufacturers and businesses to ensure that Canadian industry can fully benefit from the market access gains from our international trade agreements.

Recommendation 7: *That the federal government conduct a comprehensive assessment of its programs to support research, innovation and commercialization in the manufacturing sector in order to simplify those programs, quantify how well they meet their objectives, and determine whether eligibility criteria based on region or company size are still appropriate.*

The Government supports this recommendation. As part of the Innovation and Skills Plan, the Government is in the process of undertaking a review of the dozens of innovation programs across government departments. The review will seek to consolidate and simplify program offerings and ensure their continued effectiveness.

Regional Development Agencies (RDAs) make strategic investments that build on competitive regional advantages. The new Investing in Regional Innovation and Development framework aligns the strengths of the Regional Development Agencies to support the implementation of the Government's Innovation and Skills Plan for Canada. Priority areas identified in the framework include: Regional Innovation Ecosystems; Investment in and Scale-Up of Firms; Clean Growth; and Community Economic Development and Diversification.

Recommendation 8: *That the federal government consider ways to improve the Industrial Research Assistance Program, the Strategic Aerospace and Defence Initiative, and the Technology Demonstration Program to include support for commercialization activities.*

The Government supports this recommendation. The Strategic Innovation Fund was launched in July 2017 in response to feedback from the Innovation and Skills Plan consultations conducted in 2016. Consultations indicated that federal programs were not user-friendly in terms of supporting business investments in innovation and firms noted that support was restricted to certain sectors of the economy.

In order to attract and support innovation from all sectors of the economy, the four sector-specific programs within Innovation, Science and Economic Development (the Strategic Aerospace and Defence Initiative, the Automotive Innovation Fund, the Automotive Supplier Innovation Fund and the Technology Demonstration Program) were consolidated under a common program to provide streamlined innovation support to firms of all sizes and regions of the economy. Manufacturers across all sectors of Canada's diverse economy may now benefit from innovation support.

The new program places particular emphasis on commercialization and offers a specific stream to support research and development and commercialization of innovative products, processes and services. The flexible funding of the program enables the government to offer innovative recipients, where appropriate, conditionally repayable support that reflects a risk-sharing approach. Under this approach, repayments would be performance-based and dependent on the firm's corporate gross business revenues.

The National Research Council of Canada's Industrial Research Assistance Program (IRAP) is a cornerstone in Canada's innovation system helping about 7,800 SMEs annually from all industry sectors. IRAP is delivered by a network of more than 250 Industrial Technology Advisors (ITAs), who are located in over 123 offices distributed in communities across Canada. ITAs are well-rounded and seasoned professionals with significant business and innovation experience with engineering or science and entrepreneurship backgrounds. Using their breadth of knowledge and experience, ITAs help Canadian SMEs identify opportunities and help firms to successfully commercialize innovative new products and services. Acting as mentors and advisors, ITAs help SMEs navigate the innovation cycle at different stages of growth by providing them with access to a wide array of support including: business and technology advisory services, competitive

intelligence, financial assistance, and links to IRAP's extensive national and international networks.

ITAs further accelerate the growth of Canadian SMEs by increasing access to export opportunities and reducing barriers to internationalization. ITAs leverage their domestic and international networks and create linkages to Multinational Enterprises' (MNEs) to facilitate commercialization opportunities through access to MNE global value chains via collaborative R&D projects and consortia participation such as Eureka cluster programs.

Innovation support for Canadian entrepreneurs is also available through Concierge, a single access point service implemented and operated by the National Research Council of Canada's Industrial Research Assistance Program in collaboration with federal and provincial partners. Concierge provides one-on-one advice about innovation programs and services, and refers businesses to their network of partner programs and federal initiatives.

Recommendation 9: *That the federal government: improve the Scientific Research and Experimental Development Program by providing ongoing, standardized training to assessment agents across the country so that eligibility criteria are interpreted consistently; expand and/or ensure that experimental development of new manufacturing processes is eligible for the program; provide ongoing seminars to teach industry how to apply for the program; and that the federal government report publicly on the changes and their impacts.*

The Government supports this recommendation. The Canada Revenue Agency (CRA) has been working to improve the consistency of the interpretation of the eligibility criteria. Since 2012, the CRA has delivered a 2-week instructor led training course to all Research and Technology Advisors whose role is to assess the eligibility of work for Scientific Research and Experimental Development (SR&ED) tax incentives. These mandatory courses are repeated every year for all new staff. In addition to these core courses, the CRA regularly provides more advanced courses to staff in specific industrial sectors in order to ensure that the legislation is applied consistently in those sectors.

In addition to training, the CRA has implemented, in 2015, a new Quality Assurance Initiative for the SR&ED Program. This Quality Assurance Initiative will further enhance consistency by reviewing SR&ED claims from across Canada to ensure that the assessments were done according to legislation and policy. Any deficiencies observed during quality assurance are shared with the assessors and their managers as well as with the SR&ED Directorate in order to improve national training if necessary.

Expanding and/or ensuring that experimental development of new manufacturing processes is eligible for the program:

The Government confirms that experimental development of new manufacturing processes can qualify for the SR&ED Program if it meets the definition of SR&ED and expenditure provisions. In summary, experimental development is work undertaken for the purpose of achieving technological advancement for the purpose of creating new, or improving existing, materials, devices, products or processes.

Providing ongoing seminars to teach industry how to apply for the program:

Starting in the fall 2017, the CRA will put more emphasis on engaging industry associations throughout Canada in various key sectors in order to reach SMEs directly. Information sessions will be tailored in order to provide businesses with more relevant and specific information. These sessions will provide an opportunity to discuss sector issues and will allow the CRA to consult with various industrial associations on initiatives that can further facilitate access to the tax incentives for their members.

Reporting publicly on the changes and their impacts:

The CRA reports publicly on any changes to legislation or policy affecting the SR&ED Program on the Government website. In addition, the CRA provides a variety of free services to support claimants.

Recommendation 10: *That the federal government study the best way to link the various innovation centres to create a network in which entrepreneurs could receive all the federal services available to manufacturing companies, and that it report publicly on the results.*

The Government acknowledges this recommendation. The Government recognizes that program offerings for entrepreneurs are varied and have multiple touchpoints across government departments, often making it challenging for businesses to identify and access services and support.

The Government has engaged Canadians, entrepreneurs and industry leaders from across the country to hear ideas on how to foster innovation and ensure that all Canadians benefit from a growing economy. Budget 2017 announced the creation of Innovation Canada, a new platform led by Innovation, Science and Economic Development Canada that will coordinate and simplify the support available to Canada's innovators. In time, Innovation Canada will serve as a one-stop shop for Canada's innovators and entrepreneurs. This new platform will make it easier for Canadian innovators to access and benefit from Government-led innovation programs, ultimately putting more money in the hands of Canadian innovators to grow their business.

Flagship programs such as the Innovation Superclusters Initiative, the Strategic Innovation Fund and Innovative Solutions Canada will be delivered by Innovation Canada. The platform will also lead the work of the Economic Strategy Tables to develop innovation opportunities for priority sectors, including advanced manufacturing. Innovation Canada will also work closely with the Treasury Board Secretariat on the horizontal review of business innovation and clean technology programs, with an eye towards simplifying and more effectively coordinating the support made available to Canadian innovators.

Innovation support for Canadian entrepreneurs is also available through Concierge, a single access point service implemented and operated by the National Research Council of Canada's Industrial Research Assistance Program in collaboration with federal and provincial partners. Concierge provides one-on-one advice about innovation programs and services, and refers businesses to their network of partner programs and federal initiatives.

On a regional basis, Canada Economic Development for Quebec regions (CED) is the federal lead in Quebec, in partnership with other federal departments, for the Accelerated Growth Service, a 'single window' for federal programs to which manufacturing businesses and

entrepreneurs in rural regions can participate. CED supports Info entrepreneurs in Montreal and Ressources Entreprises in Quebec City which provide information via telephone or via their web site on federal programs that can help them at each stage of their business development.

Atlantic Canada Opportunities Agency (ACOA) is also leveraging its on-the-ground expertise in delivering the Accelerated Growth Service in Atlantic Canada to support high-growth firms by providing coordinated and client-tailored advice, knowledge and support services.

Similarly, the Federal Economic Development Initiative for Northern Ontario (FedNor) deliver the AGS in Northern Ontario to support innovative firms with high grow potential. Through its programs and services, and through partnerships with other federal departments and agencies, FedNor is committed to supporting Northern Ontario's economy by encouraging communities and businesses to become more innovative, productive and competitive through the adoption, adaptation and commercialization of new technologies, fostering technology linkages between business and institutions, advancing technological research and development, and promoting community innovation initiatives.

In the province of Ontario, Canada Business Ontario (CBO) is a service delivery agent of Federal Economic Development Agency for Southern Ontario (FedDev Ontario) and the Ontario member of the Canada Business Network (CBN). CBNs promote entrepreneurship and innovation through a network of business service centres in each province and territory. CBO, which is mandated to support all of Ontario, has three main service channels: contact centre services, an informational web presence, and outreach. CBO participates in outreach activities and has a referral relationship with community partners across over 200 locations in Ontario.

Recommendation 11: *That the federal government assess the impact of research funding that is granted to colleges and polytechnics in support of Canadian manufacturing industries; and that this analysis be made public.*

The Government supports this recommendation. In Budget 2016, the Government took action to reinvigorate Canada's research and science base by investing in infrastructure at post-secondary institutions and federal laboratories, fostering research excellence, and accelerating the diffusion and commercialization of knowledge into applications that benefit industry and society as a whole. ISED, the lead federal department for science programs, currently supports applied research at Canadian colleges and polytechnics through the Natural Sciences and Engineering Research Council's College and Community Innovation Program, with an annual budget of \$55 million.

The College and Community Innovation Program undertakes regular mandatory reviews that provide an assessment of the program's relevance and performance. The last review was completed in 2013 and a new review will be released in the fall of 2017. Since the program's inception, the Government has awarded more than \$347 million, supporting 1,670 projects at 106 colleges, polytechnics and CEGEPs across Canada.

Recommendation 12: *That the federal government identify how the Business Development Bank of Canada (BDC) can play a more active role in developing manufacturing companies from start-up through to commercialization; and that the performance of this initiative be included in BDC's annual report.*

The Government supports this recommendation. BDC is playing a significant role in carrying out Government policies to foster an ecosystem conducive to investment in innovation and research. It plays an active role in ensuring access to affordable and flexible financing to SMEs in the manufacturing sector, having committed over \$6.2 billion in financing and growth & transition capital (GTC) to more than 7,200 manufacturing clients as at March 31, 2017. This represents 24 percent of BDC's total financing commitments and 32 percent of its total GTC portfolio. Specifically, BDC supports businesses in the manufacturing sector through the following services:

- Equipment financing loans to purchase production line machinery and equipment, specialized technology such as lab equipment and commercial vehicles and more;
- Medium-term working capital to support a range of activities that include those that enhance productivity, enable product or market development, and improve sales;
- Venture capital and equity financing which increases access to equity financing in Canada for high-growth businesses, many of which are developing new concepts that will lead to greater innovation in the manufacturing sector;
- Innovation Insights events, in partnership with Canadian Manufacturers and Exporters, through which manufacturing participants learn about the latest advances in advanced manufacturing to help them innovate and be more productive;
- Portfolio guarantees to the Laurentian Bank of Canada on a portfolio of commercial equipment financing to SMEs mainly in the manufacturing, oil and gas, and forestry sectors;
- Advisory services that include business and financial planning, as well as operational efficiency and lean manufacturing;
- An automotive lending facility for tooling and parts manufacturers lacking the financial means to capitalize on growth opportunities; and
- Pre-approved lines of credit that allow entrepreneurs to make equipment purchases over a 12-month period with guaranteed terms and conditions.

Consistent with the Committee's recommendation, Budget 2017 included new initiatives to help manufacturing companies grow and succeed, including the Venture Capital Catalyst Initiative (VCCI), the Accelerated Growth Service (AGS), and the cleantech initiative. Through its involvement in these initiatives, described below, and its ongoing activities, BDC is increasing its support to manufacturing companies.

The Government's \$400 million VCCI is aimed at increasing late stage venture capital available to innovative Canadian companies, including firms in manufacturing sector, to help them grow and expand their business into successful ventures.

BDC's advisory services help SMEs in all sectors. For example, BDC plays an active role in the development and deployment of the AGS, launched in June 2016. The AGS delivers coordinated, client-centric federal support, including financing, advisory services to high-growth firms from a variety of sectors including manufacturing. BDC further supports these firms

through its own internal Growth Driver Program through which it aims to meet specific needs of companies to help them scale-up, improve productivity, invest in innovative technology and expand internationally.

A part of Budget 2017, the Government committed BDC and the Export Development Canada to provide \$1.4 billion in new financing to help Canadian clean technology firms grow and expand. This initiative is aimed at encouraging scale-up and innovation among the clean technology sector, many of which are manufacturing companies, and is expected to significantly reduce manufacturing costs as a result of commercialization.

BDC will continue to address the challenges faced by firms in the manufacturing industry by contributing to the transition toward a more productive manufacturing sector. The Government will continue to look at how the BDC can play a more active role in developing manufacturing companies from start-up through to commercialization.

Recommendation 13: *That the federal government: regularly review its regulations; ensure that federal regulatory authorities have the necessary resources to quickly approve products requiring certification; play a leadership role in an inter-provincial process aimed at greater harmonization of provincial and territorial standards and regulations to encourage domestic trade; and continue its efforts for better harmonization with international standards in order to encourage international trade.*

The Government supports this recommendation. The Government has taken important steps to improve regulatory framework and certification in Canada in manufacturing industries such as transportation, food safety, and natural health products as well as the environment and financial services. For instance, Budget 2017 provides Transport Canada with \$76.7 million over five years, starting in 2017–18, increasing Transport Canada's ability to establish and provide the standards and certifications that transport-related industries will need to safely use new technologies, so that new products and services can be brought to market faster, and enhance the industry's competitiveness.

Regulatory cooperation is a key element in fostering international trade and providing Canadian consumers with greater choice. In February 2017, the European Parliament voted to approve the implementation of the CETA, which was signed by leaders last October. CETA sets a new bar for progressive trade agreements that create good-paying middle class jobs.

With respect to domestic trade, the Canadian Free Trade Agreement (CFTA) came into force on July 1, 2017, and is the successor to the Agreement on Internal Trade (AIT). The CFTA commits federal, provincial and territorial governments to a comprehensive set of rules that will help to achieve a modern and competitive economic union for all Canadians. It will reduce barriers to trade, investment, and worker mobility, increase choice for consumers, expand access to government contracts, and create more jobs for Canadians.

As recommended in the Standing Senate Committee on Agriculture and Forestry's Report entitled, "Market Access: Giving Canadian Farmers and Processors the World" (May 2017) and the Standing Senate Committee on Banking, Trade and Commerce's Report entitled, "Tear Down These Walls: Dismantling Canada's Internal Trade Barriers" (June 2016), the CFTA includes a regulatory reconciliation process that will help federal, provincial and territorial

governments address regulatory differences that companies may experience when doing business across provincial and territorial borders. The process accommodates a variety of methods to reconcile regulatory differences, including mutual recognition, harmonization and equivalency, and will have the flexibility to address regulatory divergences in many areas, to be determined by the Parties to the CFTA. The CFTA also introduces a mechanism to promote forward-looking regulatory cooperation, which will equip governments to develop common regulatory approaches for emerging sectors.

Both the regulatory reconciliation and cooperation mechanisms are overseen by the Regulatory Reconciliation and Cooperation Table (RCT) – a federal-provincial-territorial body established by the CFTA, comprised of one senior level representative from each CFTA signatory. The RCT will prepare an annual report on its work that will be published on the CFTA’s website.

Recommendation 14: *That the federal government implement a procurement strategy that encourages procurement of innovative Canadian goods and services.*

The Government supports this recommendation. The Government encourages the procurement of innovative Canadian goods and services in a number of ways. To better support the growth of innovative small businesses in Canada, and the enhanced job growth they can enable, the Innovation and Skills Plan recognizes that Canada’s public sector can play an important role as a partner in the development of unique intellectual property (IP) and the subsequent validation of pre-commercial marketable ideas and processes. Budget 2017 responds to this need by announcing the establishment of Innovative Solutions Canada (ISC), a new innovation procurement program modelled on the very successful Small Business Innovation Research (SBIR) program developed in the United States. Under ISC, a portion of funding from federal departments and agencies will be allocated towards early-stage research and development, late-stage prototypes and other goods and services from Canadian innovators and entrepreneurs. It will also facilitate the subsequent testing and validation of prototypes, as well as preparing a pathway to commercialization and purchase of novel new products by government and non-government customers.

This program will be designed to be scalable, so that other Canadian jurisdictions can take part in the future, if they wish to do so. To encourage inclusive growth, particular effort will also be made to encourage procurement from companies led by women and other underrepresented groups. All jurisdictions will be encouraged to publicly share the results of this program.

The implementation of the ISC will build on existing Canadian best practices, such as the Government’s Build in Canada Innovation program (BCIP). BCIP operates as a supply-push procurement program that allows companies to propose their products and services as potential matches to federal departmental needs. The proposed ISC complements the BCIP by broadening the funnel of early-stage technologies with which federal departments are engaged.

Through the Defence Procurement Strategy (DPS), the Government undertakes a whole-of-government approach to defence procurement through the application of early and continuous engagement, timely and effective decision-making to guide and co-ordinate defence and major Canadian Coast Guard procurements while fulfilling the Government’s commitment to better

ensure that purchases of defence equipment create economic opportunities for Canadians. The Strategy has three key objectives: delivering the right equipment to the Canadian Armed Forces and the Canadian Coast Guard in a timely manner; leveraging our purchases of defence equipment to create jobs and economic growth in Canada; and streamlining defence procurement processes.

The Industrial and Technological Benefits Policy (ITB Policy) is the Government's primary tool for leveraging economic benefit from defence procurement, requiring prime contractors to undertake business activities in Canada equal to the value of the contract. The ITB Policy applies to all defence and major Coast Guard contracts over \$100 million, with defence procurements valued between \$20-\$100 million being assessed for eligibility, ensuring that Canada's significant investment in defence-related goods and services:

- Supports the long-term sustainability and growth of Canada's defence sector;
- Supports the growth of prime contractors as well as suppliers in Canada, including SMEs in all regions of the country;
- Enhances innovation through research and technological development (R&D) in Canada; and,
- Increases the export potential of Canadian-based firms.

Bidders are required to provide a Value Proposition at the time of bid which represents their commitment to help support Canadian economic development. The Value Proposition is a key factor in determining the outcome of a bid, along with price and technical considerations. In 2015-16, Value Propositions motivated over \$120 million in commitments to R&D investments in Canada.

Recommendation 15: *That the federal government better inform manufacturing companies and potential entrepreneurs in rural areas about federal programs.*

The Government supports this recommendation. Regional Development Agencies are key federal links to manufacturing companies and entrepreneurs in rural areas. Regional Development Agencies make strategic investments that build on competitive regional advantages and have a range of programs available for the manufacturing sector.

CED:

CED has twelve business offices across Quebec, nine of which are outside Montreal and Quebec metropolitan areas. Thus CED is very present in rural areas and is regularly in contact with rural manufacturing businesses and entrepreneurs as well as with organizations that can help them. CED officers in these regions understand their business needs and challenges. They keep them informed on CED programs as well as refer them, as necessary, to other federal programs that can assist them.

Through the Community Futures Program (CFP), CED provides operational funding to support 57 Community Futures Development Corporations (SADCs) to deliver programs and services that support rural economic development and small business growth across Quebec. CED also supports a network of 10 Community Business Development Corporations (CAEs), not-for-profit organizations, that have offices and provide financing in all Quebec rural regions. SADCs and

CAEs have \$265 million in assets for investment, and provide advice and financial assistance to over 10,000 businesses and over 1,000 local projects every year. The SADCs and CAEs also refer, as necessary, rural businesses and entrepreneurs to other federal programs that can help them.

FedDev Ontario:

FedDev Ontario communicates federal programs to entrepreneurs in rural communities through various channels.

Through the Community Futures Program (CFP), FedDev Ontario provides operational funding to support 37 Community Futures Development Corporations (CFDCs) to deliver programs and services that support rural economic development and small business growth across southern Ontario. This established network is key strategic asset that has been leveraged by both federal departments and provincial ministries, to provide information to rural entrepreneurs on government programs. The Agency uses the 15 CFDCs located in eastern Ontario to deliver the Eastern Ontario Development Program (EODP), which promotes business development, job creation and strengthened economies in rural eastern Ontario communities.

FedDev Ontario also conducts strategic engagement in the region through one-on-one meetings, site tours, and/or roundtables to discuss key issues and promote government priorities and programming. Regional tours have also been used to meet with stakeholders in rural communities to promote federal programming.

ACOA:

Recognizing the predominantly rural nature of Atlantic Canada, ACOA is working on a number of fronts to inform manufacturing companies and potential entrepreneurs in rural areas about federal programs.

ACOA's strong Atlantic presence and extensive on-the-ground delivery network (including 28 service points) provides companies, including those in rural areas, with access to programs that support innovation, new product development, technology adoption and adaptation and skills acquisition.

In addition, to support the Atlantic Growth Strategy and its focus on stimulating the Atlantic economy, the Canada Business network in Atlantic Canada is enhancing its services by providing companies, including exporting firms, with more export awareness and international market intelligence.

These efforts align with the Investing in Regional Innovation and Development framework released in April 2017 which that sets out an objective of further strengthening RDAs' client service and pathfinding role. In support of this framework, ACOA is actively engaging its extensive stakeholder networks to help Atlantic businesses scale up and become world-class players.

Western Economic Diversification Canada (WD):

WD supports the Western Canada Business Service Network (WCBSN), a grouping of organizations advancing WD's mandate to develop and diversify the western Canadian economy by providing support to entrepreneurs and SMEs. The organizations within the

WCBSN provide entrepreneurs in rural and urban communities with services and resources to help them start, grow and expand their businesses. This network promotes awareness of relevant federal programs and initiatives to ensure that entrepreneurs and SMEs in rural western Canada stay well informed. This network consists of: 1) CFDCs; 2) Women's Enterprise Initiative; 3) Francophone Economic Development Organizations; 4) Indigenous Business Development Services; 5) Entrepreneurs with Disabilities Program; and, 6) the Canada Business Network..

Through the Community Futures Program, WD provides operational funding to support 90 CFDCs to deliver programs and services that support rural economic development throughout rural Western Canada (34 in British Columbia, 27 in Alberta, 13 in Saskatchewan and 16 in Manitoba) reaching an estimated 2 million people living in rural areas, representing 18.1% of the western Canadian population.

FedNor:

FedNor is the Government of Canada's economic development organization for Northern Ontario. With presence in seven communities, FedNor works with government, businesses and community partners to build a stronger Northern Ontario. Through the Community Futures Program, FedNor supports a network of 24 CFDCs in Northern Ontario. CFDCs are local, not-for-profit organizations that offer many services that help small business address financing, planning or other needs.

Canadian Northern Economic Development Agency (CanNor):

Established in 2009, CanNor works to help develop a diversified, sustainable, and dynamic economy across Canada's three territories, and works with communities to develop and diversify local economies. CanNor houses the Northern Projects Management Office (NPMO), which provides issues management, path-finding and advice to industry and communities; coordinates the participation of federal departments in the regulatory review process; and publicly tracks the progress of projects to bring transparency, timeliness and effectiveness to the regulatory system. NPMO works with partners to advance community readiness, helping to maximize the positive socio-economic impacts of major projects on northern communities.

Recommendation 16: *That the federal government explore ways to continue to expand and improve broadband connectivity in rural areas in order to promote the growth of the manufacturing sector in rural areas.*

The Government supports this recommendation and recognizes the importance of access to high-quality, affordable telecommunications services for Canadian consumers and businesses, including in the manufacturing sector, to participate in the digital economy.

The federal government has put in place several targeted funding initiatives over the past decade to help expand connectivity in underserved rural and remote areas. In December 2016, ISED launched the Connect to Innovate (CTI) program, which will invest \$500 million by 2021 to expand and improve broadband access in rural and remote areas, including northern Canada. CTI will support broadband infrastructure that benefits businesses as well as institutions and households. CTI builds on the ongoing progress of the Connecting Canadians program, which

was launched in 2014 and will expand high-speed Internet access to approximately 300,000 households in rural and remote areas across the country by 2019.

These initiatives are complementary to actions taken by the Canadian Radio-television and Telecommunications Commission (CRTC). In December 2016, the CRTC classified broadband Internet as a basic telecommunications service, established new broadband targets, and announced a new \$750 million fund to help achieve them. The CRTC's new fund will target underserved rural and remote areas, including the North.

Connectivity is also eligible under Infrastructure Canada's \$2 billion Rural and Northern Communities Fund. As with past Infrastructure Canada programming, provinces and territories will play an important role in identifying their priorities under the fund.

These funding initiatives are complementary, and collectively, will help ensure Canadian consumers and businesses are well positioned to take advantage of the opportunities afforded by the digital age.

Recommendation 17: *That the federal government identify the business opportunities and challenges to a significant portion of the manufacturing sector, due to the implementation of the Pan-Canadian Framework on Clean Growth and Climate Change, once the provincial and territorial governments have indicated their respective approaches to this. The Committee further recommends that the federal government commit to monitoring closely the development and implementation of the proposed changes to both the Canada Pension Plan and carbon pricing on the manufacturing sector in Canada.*

The Government acknowledges this recommendation. Budget 2016 provided \$109.1 million over five years, starting in 2016–17, to Environment and Climate Change Canada to continue to advance the Government's domestic climate change objectives. The resources will be used to undertake actions in four interconnected areas: science, data reporting, policy and regulations. Sustained action on climate change, framed by sound science and driven by transparent reporting of results and ambitious policy and regulatory measures, will support the transition to a low-carbon economy in Canada.

Pricing carbon pollution in Canada:

Putting a price on carbon pollution is the most efficient way to reduce GHG emissions. Pricing pollution will drive innovative solutions to provide low-carbon choices for consumers and businesses. Right now, 97 per cent of Canadians live in provinces and territories that already have a price on carbon pollution, or are working towards it. On May 18, the Government released a technical paper that outlines a proposed federal carbon pricing option, which will only apply in provinces and territories that do not have a carbon pricing system in place in 2018 that meets the benchmark announced by the Prime Minister in October 2016.

Ensuring polluters contribute their share in every province is central to a credible plan to tackle climate change. It reduces pollution and gives the incentive to companies to innovate and create cleaner solutions. Having a carbon price in all jurisdictions provides certainty that we are moving to a clean-growth economy and helps level the playing field across Canada. That is why

companies across Canada, from banks, to transportation firms, to oil and gas industry, have called for a price on carbon. They know pricing pollution makes good business sense.

Whichever system is implemented – federal or provincial/territorial – revenues from carbon pricing will remain in the province or territory of origin. Revenues from carbon pricing can be used to lower taxes, like in British Columbia, or support low- and middle-income families, like in Alberta. Ontario and Quebec invest their revenues in innovative green programs that create good jobs. The Government is currently evaluating how best to return the revenues.

The Pan-Canadian Framework on Clean Growth and Climate Change:

The Pan-Canadian Framework on Clean Growth and Climate Change is Canada’s plan to grow the economy while reducing greenhouse gas emissions and building resilience to adapt to a changing climate. The actions taken under the Framework will contribute to meeting or exceeding Canada’s 2030 climate change target of a 30 percent reduction below 2005 greenhouse gas levels.

A core component of the Framework is a focus on clean technology, and the federal government supports the development and commercialization of innovative clean technologies and practices that enhance economic growth while helping to meet Canada’s climate change and other environmental goals.

In support of these efforts, Budget 2017 includes a strong focus on innovation and clean technologies, proposing more than \$2.3 billion to support clean technology research, development, demonstration and adoption as well as to accelerate the growth of clean technology companies. The Budget increases financing support for Canada’s clean technology producers by making available more growth and project financing to clean technology firms. The increase in financial support available to Canada’s clean technology firms will help them grow their businesses.

To ensure a coordinated approach to this new federal funding for clean technology companies, the federal government is implementing the Clean Growth Hub. The Hub is being established as Canada’s federal focal point for clean technology, providing “no wrong window” service to clients and centralized stakeholder engagement. The Hub is working towards filling the financing and program support gaps that clean technology companies may face as they commercialize and scale-up, and improving service to clean technology companies across the country.

The Government is also working closely with provincial and territorial partners through an implementation plan for priority actions to enhance alignment of efforts and programs to support Canadian companies and clean technologies. The implementation plan supports the priorities outlined in the Pan-Canadian Framework to build early-stage innovation, accelerate commercialization and growth, foster adoption, and strengthen collaboration and metrics for success.

The Government is committed to monitoring the implementation of the Framework, and in collaboration with provinces and territories, will be reporting on progress to First Ministers at the end of 2017, and annually thereafter.

Canada Pension Plan (CPP):

The Government has committed to working with the provinces and territories to strengthen the CPP. Cooperative efforts as joint stewards of the program led to Canada's Ministers of Finance reaching a historic agreement in principle on June 20, 2016 to enhance the CPP.

Over the long term, greater CPP benefits will increase aggregate demand, providing a boost to economic output. This will be aided by higher aggregate savings through the CPP, which will increase the amount of financing available for investment. Real gross domestic product (GDP) is estimated to be between 0.05 to 0.09 per cent higher than under the status quo as a result of the CPP enhancement. Employment levels are projected to be permanently higher by between 0.03 and 0.06 per cent relative to the baseline. Similar to those of any pension plan, CPP contributions paid by employers can be considered part of overall compensation to employees, and CPP contributions paid by employees can be considered as part of their retirement savings. As a result of the enhancement, businesses would initially face an increase in compensation costs, the impact of which is expected to be very modest and be mitigated by the phase-in of contributions.