



PATHS TO PROSPERITY

ADVANCED MANUFACTURING FOR A BETTER ONTARIO

An Ontario PC Caucus White Paper

July 2013



Skeptics like to write off Ontario, saying that manufacturing is dead and that we can't compete against China, or even Mexico.

To put it bluntly, they're wrong.

Ontario has the ideas, the workers, the resources and the geographic location to succeed. The challenge is to turn our ideas and experience into jobs, and that won't happen without a strong manufacturing sector to create products we can sell. Research and training without a manufacturing sector to capitalize on them is as useless as a two-legged stool.

Let's be clear. Manufacturing is a business of the future, not the past. Anyone who thinks otherwise just hasn't been paying attention to the world economy.

Advanced manufacturing is already returning to North America, driven by rising transportation costs and higher wages in Asia. Businesses that rely on low-skill, low-wage workers to produce trinkets and t-shirts will go elsewhere. But North America is re-establishing itself as the home of high-skill, high-wage manufacturing jobs for precision engineered products from life-saving drugs to fuel-efficient automobiles to the latest subway cars.

A thriving manufacturing sector is vital to Ontario's future because it drives productivity advances, investments in research and development, and trade. Advanced manufacturing involves much more than assembling products. It also creates jobs in design, advertising, customer service and global marketing. Combine these services with Ontario's strong telecommunications and financial sectors, and you have a series of advantages that can't be offset by the inexpensive labour of Asia and South America.

Jobs are returning, and we have to move quickly to get a piece of that action. This is the opportunity Ontario must seize, but the world isn't going to sit still and wait for us to do it.

What Ontario workers and employers need is a government that believes in them and knows that our ability to build and sell innovative products is as good as anyone's. We are the manufacturing heartland of this continent, and always will be. Most importantly, we need a plan that will turn those beliefs into policies that create jobs.

I know manufacturing is destined for a bright future in Ontario. Our Ontario will always build things, make things and fix things.

Let's get going on a new approach to advanced manufacturing and usher in a new era of prosperity for this great province.

A handwritten signature in black ink, appearing to read 'Tim Hudak', with a stylized, cursive script.

Tim Hudak
Leader of the Official Opposition



Monte McNaughton

MEMBER OF PROVINCIAL PARLIAMENT,
LAMBTON-KENT-MIDDLESEX

As a former three-term municipal councillor and now an MPP from southwestern Ontario, I have seen first-hand what happens when government treats economic development as an afterthought. The closed plants, lost jobs and families struggling to survive are the inevitable outcome of runaway power costs, over-regulation and a failure to understand what entrepreneurs need to succeed.

Ontario's manufacturers require a champion who will ensure power rates are competitive, that the provincial transportation system works well, that our schools and colleges educate people for the workplace of the twenty-first century and that the regulations government imposes encourage competition, not deter it.

Right now, we don't have those conditions in Ontario, and our towns and cities are paying the price. Since 2003, Ontario has lost over 300,000 manufacturing jobs. We can't afford to simply give up and pretend that Ontario can thrive without a strong, advanced manufacturing sector. It can't.

There is, however, room for optimism. Major Ontario companies like Celestica, Magna and BlackBerry are innovative market leaders. Smaller Ontario companies lead in their own sectors in areas as diverse as cranes, health care devices, liquid rubber and office floor tiles.

The current government has erected a number of barriers to new jobs, including layers of unnecessary red tape and one of the highest minimum wages in the country. Other governments have been more rational and have vigorously fought for jobs by encouraging crowd-funding, creating entrepreneurial visas and by developing a training wage for young employees to get the experience they need.

In the United States, we are seeing major corporations bring home production from abroad because they need highly skilled workers and because they want to produce nearer to their customers. Even Chinese companies are starting to make *their* products in North America. We need a dedicated effort to repatriate companies back to Ontario; to seek out and to help facilitate companies to relocate and return home.

There is great opportunity for Ontario, but we are competing directly with other provinces and U.S. states, many of which already have the flexible labour markets, lower power rates and streamlined business regulations that the Ontario PC Caucus has proposed.

We need to catch up, and we need to start now. Let Ontario's comeback begin.

A handwritten signature in black ink that reads "Monte McNaughton". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Ontario PC Caucus Critic for Economic Development and Innovation
and Member of the Ontario PC Job Creation Task Force

Ontario's Manuf

20,000

manufacturing operations

Nearly
half of Canada's
manufacturing
IS DONE IN ONTARIO

15 PER CENT

of Ontario's Gross Domestic Product

responsible for **75%**
**OF PRIVATE-SECTOR
R&D SPENDING**

ADVANCED MANUFACTURING CLUSTERS

in automotive, aerospace, food processing, pharma, nuclear energy, petrochemicals, metals, plastics, forest products and mining equipment, among many others

Manufacturing Sector

75 PER CENT

OF ONTARIO'S INTERNATIONAL EXPORTS

Wages & salaries
in manufacturing
are on average

**25%
higher**

than non-manufacturing jobs

One dollar

of manufacturing output

creates

\$3.50 *in economic activity*

\$275 billion

ANNUAL MANUFACTURING SALES

85 PER CENT

of manufacturers are small-to-medium sized businesses

INTRODUCTION

Ontario’s manufacturers compete in a global economy, against the best companies in the world. That will never be easy, but things are looking up for North American manufacturing.

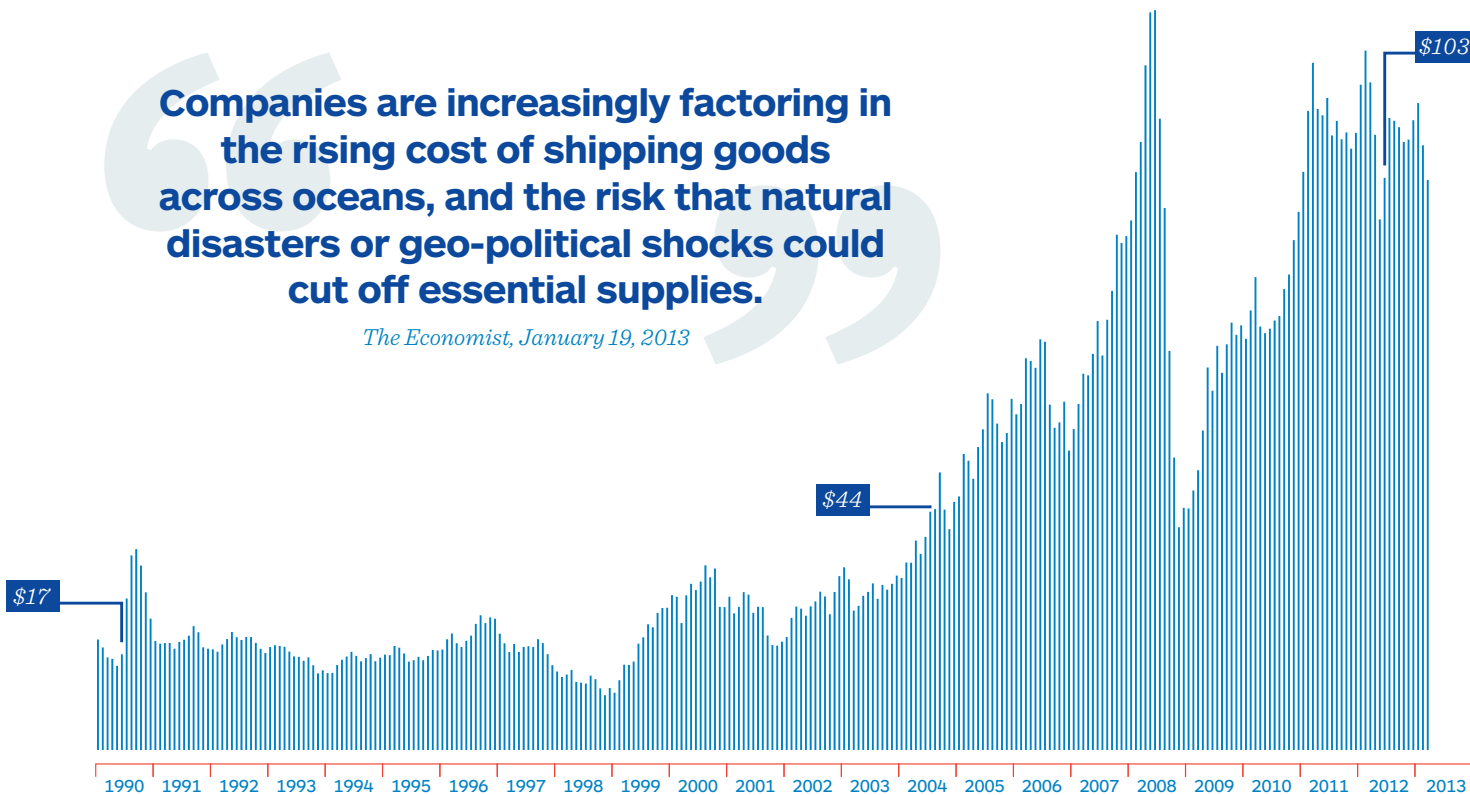
Three global trends give sound grounds for optimism.

Advanced manufacturing is already returning to North America. For example, Rolls-Royce has opened a new plant in the U.S. and General Electric has moved its washing machine production from China to the Midwest. Even Chinese corporate giants are now choosing to manufacture cutting edge products in North America, with Lenovo deciding to build laptop computers in North Carolina.

All the experts – from Boston Consulting to the World Economic Forum to McKinsey to *The Economist* – predict advanced manufacturing will be a growth industry in the U.S. for reasons that include the transportation cost and unreliability of making products thousands of kilometres from your markets, rising Chinese labour costs and the value of highly skilled North American workers in increasingly sophisticated advanced manufacturing activities, such as making HIV drugs or precision equipment.

Companies are increasingly factoring in the rising cost of shipping goods across oceans, and the risk that natural disasters or geo-political shocks could cut off essential supplies.

The Economist, January 19, 2013



OIL PRICES OVER THE LAST 25 YEARS

Source: U.S. Energy Information Administration, 2013.

The second factor is the rise of the global consuming class. Rapidly expanding economies in Asia and Latin America are not just competitors, they are customers. As their economies grow and wages rise, there will be more demand for goods like smartphones, pharmaceuticals and automobiles, the kind of things that are designed and made in advanced economies like Ontario's.

When the experts look at all of this, they predict five million new manufacturing jobs will be created in the U.S. alone by 2020. If Ontario could capture just six per cent of those jobs, then we would add 300,000 new manufacturing jobs to our economy. That should be our goal. But that's not going to happen just because we want it to, though.

Over the next 15 years, another 1.8 billion people will enter the global consuming class and worldwide consumption will nearly double to \$64 trillion.

—McKinsey Global Institute, November 2012

The third thing driving a rebirth in North American manufacturing is the discovery of large quantities of inexpensive natural gas. While Ontario itself doesn't have vast shale gas deposits, it is readily available in our market. This is nothing short of a game changer for Ontario manufacturing because it not only provides lower-cost power and heating, natural gas is a feedstock vital to the production of pharmaceuticals, fertilizers and chemicals. That helps make our manufacturing sector more competitive. We will have more to say about leveraging the shale gas revolution for more Ontario jobs in a forthcoming white paper on our resource economy.

Companies are coming to understand that "Made in America" and "Made in Canada" are brands that mean quality in the eyes of consumers. When people want the world's best winter coat, they buy a Canada Goose jacket made in Toronto, not a knockoff made in Thailand.

What our manufacturers need is a government that understands how its policies affect competitiveness and job creation, and acts accordingly. Cost-effective and high-quality public services are needed to support competitive, high-quality businesses. Government needs the right policies on trade, taxes, regulations, power costs, infrastructure, education and labour rules. Done right, those policies will give our businesses an advantage over those in other provinces, states and countries.

Sadly, that is not now the case in Ontario. It's no surprise that Ontario's manufacturing sector is in decline. Deliberate government decisions to push up power prices, raise taxes and bury business in unnecessary regulations have hurt Ontario's ability to compete. New business investments and expansions grind to a halt waiting for every interested government ministry, agency or commission to give its approval. Ontario has also failed to provide the roads and rail our economy requires, and the skilled workers our businesses need.



The decline of manufacturing in Ontario is not the result of global events beyond our control. Even prior to the 2008 recession, Ontario had already lost 200,000 manufacturing jobs. Unfortunately, bad government policy has continued to make the situation worse, and Ontario's decline has taken the rest of the country with it. Only a decade ago Canada was the ninth biggest manufacturer in the world; today it is ranked 15th.

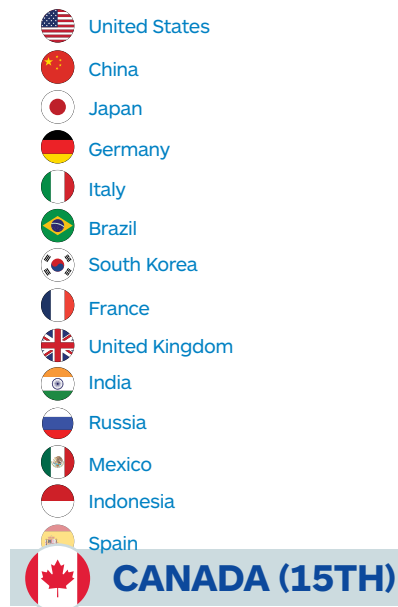
spending and reforming archaic workplace rules, we have laid out our ideas to get Ontario's economy moving and get government spending under control. You can see the full details on our caucus webpage at www.PCcaucus.com. *Advanced Manufacturing for a Better Ontario* shows how those ideas will work together like the pistons of an engine.

WORLD'S TOP MANUFACTURING NATIONS

2000



2010



Source: McKinsey Global Institute analysis, 2012.

A recent report by the Conference Board of Canada concluded that Ontario's workers don't have the right skills to fill existing jobs, or to let our businesses expand. Inadequate training and education are costing Ontario's economy \$25 billion a year. Not only does that mean Ontarians can't find work and businesses can't expand, it means the provincial government can't collect the \$3.7 billion in taxes that economic activity would have produced.

In the past decade, Ontario has lost 300,000 good manufacturing jobs while it has added 300,000 government jobs. That is a pretty good indicator of where the current government's priorities lie. Rather than action, it has offered only "conversations," studies and more talk. The premier has even dismissed this decline of manufacturing as a "myth."

Reinvigorating Ontario's manufacturing sector requires more than one or two policy adjustments, or increasing the pot of money for corporate handouts.

In previous *Paths to Prosperity* discussion papers on energy, the economy, education, reducing government

MANUFACTURING FUNDAMENTALS, ONTARIO STRENGTHS

One list of "fundamental factors" for a competitive manufacturing industry – compiled by the McKinsey Global Institute – reads like an historical economic profile of Ontario:

- Access to high-skill labour
- Proximity to demand
- Efficient transportation and logistics infrastructure
- Availability of inputs such as natural resources or inexpensive energy
- Proximity to centres of innovation

Ontario has lost ground on several of these measures, most significantly on energy costs, gridlock and access to skilled labour.

Source: McKinsey Global Institute, "Manufacturing the future," 2012

MORE JOBS WITH AFFORDABLE POWER

It is well known that affordable energy is a key to economic growth, but in recent years Ontario has gone in absolutely the wrong direction.

High Ontario power rates blamed for deterring investment.

– CBC News headline, June 4, 2013

Instead of keeping power rates down to help create jobs in the broader economy, the current government has focused on creating jobs in the power sector itself, and it has been willing to make consumers pay any price necessary to achieve that limited goal.

Thanks to government policy, Ontario's power market is now flooded with high-priced wind and solar power for which there is inadequate demand. In addition to these costs, other power plants are required to back-up these wind farms and solar panels, because the wind doesn't always blow or the sun shine. The result is a significant power surplus that can't be stored. Instead, Ontario pays Quebec and New York to take it in the middle of the night. That drives up the costs for all power users, and it's hitting our manufacturers and resource sector particularly hard because of their significant energy use.

Most recently, development of new mines in the Ring of Fire, Ontario's largest natural resource opportunity, has

been delayed partly because of unpredictable future electricity costs. In 2010, Ontario's uncompetitive electricity rates caused mining giant Xstrata to move processing operations from Timmins across the border to Quebec, taking 670 good jobs with it. The Ontario PC Caucus heard from manufacturers and resource firms in every corner of the province that Ontario's high-priced electricity is a significant concern holding back job creation.

Ontario's economy will grow again when we keep power rates down for businesses, not raise them to benefit one narrow niche of the economy. Ontario can't afford a future where money desperately needed to invest in productivity and job creation is spent instead on power bills that have become dramatically higher simply because of government decree. Creating green-collar jobs is good, but not at the expense of existing blue-collar jobs.

AVERAGE INDUSTRIAL ELECTRICITY PRICES

\$ Per Megawatt Hour



Source: Association of Major Power Consumers of Ontario, 2013.

We propose rational energy policies that support job growth and expansion of the broader economy:

Replace the subsidy program for wind and solar projects with an energy policy based on what's best for the economy. The current approach is saddling power users with unrealistically priced electricity, affecting every family and business in the province.

Establish a new power rate for manufacturing and resource-based industry. This rate should be set independently using objective economic criteria like an average of electricity prices in neighbouring provinces and states.

Negotiate trade deals with other provinces and states to acquire emissions-free, low-cost hydroelectricity and to sell our surplus power in an orderly way, so that we do not dump it off at the last minute at the lowest possible price.



BUILDING THE BEST WORKFORCE

Job creators need to be able to quickly meet changing global demand, to take advantage of new market opportunities and to take on tough new competitors.

The ability of Ontario employers to do that is being hampered by workplace rules and educational practices that are decades out of date.

We believe that significant changes are required to give Ontario workers and businesses the flexibility to compete with the best in the country and the world.

A skilled workforce is the most important ingredient in Ontario's advanced manufacturing future, because the highest-value manufacturing activities will not be in labour-intensive industries like textiles, cheap furniture or plastic toys, but rather innovative operations like electrical machinery, nuclear energy, pharmaceuticals, automobiles and subway cars. These types of advanced manufacturing activities involve computer software, lasers and precision equipment. Government has a big role to play in making sure the workers of today and tomorrow have the education and training they need.

That starts in our elementary and secondary schools, where we must make sure our children have the strong literacy and numeracy skills required to succeed in the jobs of the twenty-first century. Standardized test results in Ontario show that student achievement on basic skills has flatlined well short of the standards we should expect. Science scores, in particular, fell over the last five years, while performance in mathematics has not improved since 2003. In secondary school, we must increase the emphasis on job skills and on courses that lead students either to employment, college or university.

Although Ontario has high unemployment, there are still good jobs going unfilled because of outdated apprenticeship rules. Ontario makes employers hire five veteran workers for every new learner they take on. That's like providing five teachers for every student. In practice, this means employers often can't hire an apprentice. Other provinces have a more sensible ratio of one experienced worker for each new person.

It is no surprise that places with the most flexible labour rules are the ones attracting the most new investment and creating the most new jobs. Labour flexibility is necessary for efficiency, productivity and innovation, all of which lead to job creation and rising wages. Flexible labour markets also mean more opportunities for workers, a key element to retaining and attracting the very best talent to our province.

ONTARIO'S LOOMING SHORTAGE OF SKILLED WORKERS

Presented to the Standing Committee on Finance & Economic Affairs

"The skills shortage is only projected to intensify as baby boomers continue to exit the workforce and other sectors and jurisdictions vie for top talent. The government can help by promoting a more positive image of manufacturing, investing in technology programs, improving apprenticeship ratios and continue to strengthen relationships between industry and educational institutions."

Source: Canadian Manufacturers & Exporters, "2013 Ontario pre-budget submission," March 22, 2013

People want more freedom in their lives, including their workplaces. We think workers should be allowed to freely choose their employer, and employers should be able to hire new people regardless of whether they choose to be a part of a labour union. But under current Ontario law, union leaders have the power to require new employees to join in order to work, forcing people to spend money on costly, mandatory dues with no control over how that money is spent. We have no problem with unions, but they must be accountable to their members. Making them voluntary, as well as their dues, is a big step in that direction.

Ontario must do more to make sure laid-off manufacturing workers have the skills required to power an expanding economy. The federal government's recent announcement of \$15,000-per-worker training program that would be cost-shared equally between employers and the federal and provincial governments offers the right kind of solution for this important problem. We would work with the federal government to make participation simple and practical for all businesses.

Even with the most efficient use of Ontario's workforce, we will still not be able to fill all the jobs created by an expanding manufacturing sector. That's why we champion federal initiatives like the Provincial Nominee Program and Canadian Experience Class program that

make it easier for job-ready immigrants to move to and remain in Ontario and share in our future economic success. That's how we got to be on top in the first place, and it is an essential ingredient to putting Ontario back on the right track.

We need to prepare the provincial workforce for the twenty-first century economy:

Shift our priorities so that our schools will deliver not just an education for the twenty-first century economy, but training for a job as well.

Change the apprentice-to-journeyman ratio to one-to-one and make community colleges the entry point for trades training. Abolish the College of Trades, which is nothing but a tax on workers and a costly bureaucracy that gets in the way of new job opportunities.

Give workers more control over their own careers by giving them a choice about joining unions and paying union dues. Outdated labour laws are a barrier to productivity, innovation and new jobs.

Work with the federal government and Ontario employers to make sure unemployed workers get the retraining they need to find jobs.

Support new federal immigration tools that have been underused by the current government, such as the Canadian Experience Class program and Provincial Nominee Program. These federal programs will make it easier for immigrants who are job-ready to come here and immediately contribute to our economy.



ENCOURAGING INVESTMENT LEADS TO JOB CREATION

A modern, advanced manufacturing sector for Ontario is going to take a lot of business investment. We believe those investments should be made with corporate dollars, not tax dollars, but there are some important things government can do to encourage those vital investments.

The first, and most important, is to balance the government's own books. Well-run provinces attract well-run businesses. With annual deficits of more than \$10 billion and a provincial debt that has doubled over the last decade, one need not be a chief financial officer to know that is a recipe for higher taxes, reduced services, or both.

Businesses want stability, not unpredictable future cost pressures. Uncertainty is the enemy of investment. It

furniture, trucks and software applications, that leads to economic growth and job creation. We want to encourage that, not hold it back.

Those kinds of investments by companies also increase productivity. Workers know they can get more done in a day when they have up-to-date technology and the right tools to do the job. If one carpenter used hand saws and hammers and his competitor used power saws and nail guns, the worker with the good equipment would

Ontario residents pay the most in payroll taxes at \$9,970.

– Toronto Star, June 16, 2013, based on Fraser Institute's Tax Freedom Day analysis

is up to government to control its own spending and to create that stable environment, so that businesses will invest and private-sector jobs will be created. Ontario can't grow its way out of these historic deficits. That will require reducing spending, and the economic growth that spending control will foster.

It is important to keep government's budget balanced, so that taxes on job-creating businesses don't go up. This includes taxes like the fees and premiums paid to the Workplace Safety and Insurance Board. While we believe that businesses should pay their fair share of taxes, those taxes should be structured so that they will enhance competitiveness and job creation.

Ontario needs an expanding economy, and it doesn't make sense to tax things that will lead to that expansion. That's why we are proposing two tax changes that will boost the innovation and productivity our manufacturers need to succeed. These changes will help Ontario companies grow and create more jobs.

We would fix the complicated tax rules that penalize expanding companies. When companies invest in new technology, heavy machinery, buildings, factories,

build more houses in a year, and earn more money, and so would his employer. The houses would also likely be higher quality and less expensive. That's productivity and it's what we want to see in Ontario.

Unfortunately, the current tax system is a complex net of arbitrary rules that discourage productivity-enhancing investments. For example, a manufacturer can deduct the full amount of a simple stapler, but has to recover the cost of an expensive 3D printer through complicated depreciation methods over several years. There is also a huge paperwork burden involved in tracking the thousands of items a business uses. You could end up in one of fourteen categories depending on whether your building was made from stucco on frame, or acquired after 2007, or whether your equipment is power-operated and movable or used for general purpose data-processing.

We want to simplify the rules for deducting capital costs. If the expense is eligible and you spent the money this year, you should be able to claim it this year. The American and Canadian federal governments have allowed such rapid cost recovery temporarily. We would work with the federal government toward a permanent fix.

Much of Ontario's future advanced manufacturing success depends on the development of unique and cutting edge products that will give us a competitive advantage. Innovation is important to manufacturers, especially technological innovation of the type we see from companies in Ottawa and Kitchener-Waterloo.

That's why we believe that Ontario's start-up companies deserve special attention. These young companies, many in the technology field, are in their high-growth phase and create about half of all new jobs in the province. Many of them manufacture their own products, others develop breakthroughs for existing manufacturers.

The biggest problem they face is access to capital, so they can expand, export their products and hire

more people. Canadians are, by nature, cautious investors, and this makes it tough for our promising new businesses to grow. We don't believe that government bureaucrats can pick winners in the marketplace, or that government should create pots of money to dole out to private corporations. Instead, we want to trust the instincts of savvy investors who are putting their money into start-ups and growth businesses. We propose encouraging their investment with a refundable tax credit. A similar program in British Columbia has been proven to boost start-up growth.

Together, our tax changes to encourage people to invest in both new and established businesses will boost manufacturing, and jobs.

What is needed to create the financial fundamentals for business success:

Eliminate the province's deficit faster than the current government's five-year promise, and do it with a real and detailed plan. Entrepreneurs risking their own money need to know that government finances and taxes are stable and predictable.

Reform tax rules on major capital investments to promote efficiency and free up money for job creation. Businesses should be allowed to deduct one-hundred per cent of an investment's cost when they spend the money, not years afterward.

Implement a new tax credit for investors in expanding start-up companies, to help Ontario's next generation of business stars succeed.

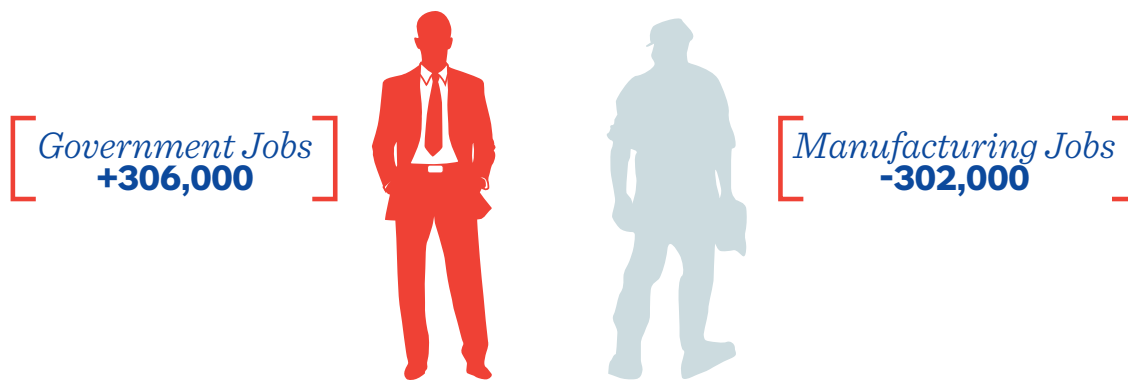


ENDING THE RED TAPE RUNAROUND

Government plays a major role in setting safety and environmental standards to protect both consumers and workers. That's important, but creating government regulations has become a growth industry in Ontario, one that creates jobs for bureaucrats, but not jobs in the private sector.

MANUFACTURING JOBS vs. GOVERNMENT JOBS

(2003 vs. 2013)



Source: Statistics Canada, data tables, 2013.

We believe that regulations need to be focused on increasing economic activity. A good regulation produces a publicly useful outcome, not a lot of paperwork.

Here are a couple of examples of the kinds of regulations that affect the competitiveness of our manufacturers.

Ontario's *Toxics Reduction Act* creates complex and costly procedures to track the use of toxics in manufacturing and processing. Trouble is, it duplicates rules that already exist under the federal *Environmental Protection Act*. It also needlessly includes ingredients used in Ontario's food processing and agri-business sectors, such as wheat flour and animal feed. Businesses are forced to fill out a lot of paperwork for no environmental benefit.

Another is the Western Climate Initiative, a cap-and-trade program that includes Quebec and California. Original members like Arizona, Montana, New Mexico, Oregon, Utah and Washington have all pulled out. The governor of New Mexico said she would not put businesses in her state at a competitive disadvantage by joining a regional cap-and-trade experiment. We think that Ontario, too, should quit this agreement. These kinds of regionalized environmental programs don't create real change. They just burden our economy with new costs that result in fewer jobs being created. What's needed is a continent-wide commitment to reduce emissions that treats all states and provinces equally.

\$11,859,000,000
TOTAL COST OF REGULATIONS

Source: Canadian Federation of Independent Business, 2013

Ontario employers face the biggest regulatory burden in Canada.

We propose cutting through the forest of unnecessary regulations, so that Ontario manufacturers can spend less time filling in forms and more time on their customers' needs:

Submit all regulations to a public cost-benefit analysis, starting with the most expensive and burdensome for business. Reduce the total government regulatory burden by one-third over three years. That will mean eliminating 128,750 regulations. Cabinet ministers' pay should be tied to hitting this target.

Simplify the bureaucratic approvals process with a one-window approach for entrepreneurs, expanding businesses and manufacturing plants locating in Ontario. Prioritize and speed up approvals for major job creators like a new auto parts facility or mineral processing plant.

Withdraw from the ineffective Western Climate Initiative cap-and-trade program that will lead to higher costs for Ontario manufacturers and fewer jobs for our province.



BUILD THE INFRASTRUCTURE WE NEED

After a decade in power, the current government has suddenly discovered that traffic gridlock in the Greater Toronto Area is a big problem.

People and shipments stuck in gridlock cost us over \$6 billion a year in wasted productivity. Canadian manufacturers can't compete in the global market if they can't get their products out the factory door in a timely way.

Better roads and rapid transit are required across Ontario, but especially in the GTA and Hamilton. Gridlock is slowing business to a standstill. Government has to act, to expand both roads and transit. Expanding transit alone won't get shipments moving on our inadequate highways. Our manufacturers also need quick and reliable access to the U.S. border. We must work with the federal government to ensure that the necessary roads and bridges are built and to ensure that our exports can move across the border quickly.

The GTA and Hamilton need action now, but the current government has gotten bogged down in an unnecessary fight over raising taxes again. Ontario can afford to

expand roads and transit without higher taxes, but it means setting priorities. That's why we want to trim unnecessary spending from the provincial budget.

To get moving in the right direction, the province must seize the wheel. Today we have 10 different transportation agencies in the GTA and Hamilton. We would upload the TTC subways, merge them with GO Train and put one provincial agency in charge of all regional rail projects and highways. This would move people and goods faster and more efficiently. It will also reduce administrative costs and get more built quicker.

The Ontario PC Caucus is committed to subways and highways, not removing more car lanes for more streetcars. This means implementing a long-term plan and sticking to it. We will release more details of our GTA transportation plan in an upcoming discussion paper on the future of Ontario's cities.

Our ideas to get people and goods moving again:

Put all highways and rapid transit in the Greater Toronto Area and Hamilton under one agency run by the province to create a truly regional system that moves people faster.

Balance the budget quickly and prioritize transportation projects from existing provincial revenue. The amount required for transportation expansion is roughly 1.5 per cent of our current budget.

Restore balance between highway and rapid transit expansion. Recognize that Ontario is an exporter and that our long-term transportation plan should reflect that. Our priority for Toronto will be to build subways, not to permanently remove more car lanes for surface-level transit.



MORE TRADE OPPORTUNITIES FOR ONTARIO'S EXPORTS

While the federal government has been active in pursuing international trade agreements, Ontario's manufacturers still face considerable barriers to trade within their own country.

This affects Ontario manufacturers' ability to hire, to sell their goods and even to ship them.

For example, every province has its own rules and regulations for trucking. There are rules for everything from the size of a van to the number of axles to the weight a truck can carry. This makes moving goods from province to province unduly complex and expensive.

Engineers have to pay fees and meet qualifications in every province in which they work, as if engines, computers and calculus work differently in Saskatchewan than they do in Ontario. The fees are not related to the number of employees and are costly for small businesses. This limits opportunities for Ontarians and it limits Ontario companies' ability to compete in other provinces.

Apprenticeship rules across the country are an inconsistent hodge-podge, with provinces refusing to recognize training in other provinces. That effectively prevents tradespeople in training from moving from province to province.

These kinds of internal trade restrictions cost our provincial economy an estimated \$6 billion a year in lost economic activity. That means fewer jobs and fewer tax dollars generated in Ontario.

Some provinces are addressing the problem. The governments of British Columbia, Alberta and Saskatchewan have created the New West Partnership Trade Agreement – a deal that creates a common market for the West. It allows all businesses to compete for government work, allows certified workers to practice their occupations across provincial borders, simplifies business registration and eliminates conflicting and unnecessary business regulations.

We believe Ontario should embrace the opportunities in Alberta, Saskatchewan and British Columbia and tear down the barriers that separate us. With so much

economic activity taking place in the Alberta oil sands, in Saskatchewan potash and with China through B.C. ports, this only makes sense.

In particular, the continued development of the oil sands is an enormous opportunity for Ontario businesses. The oil sands depend on Ontario steel, Ontario trucks, Ontario chemicals, Ontario environmental technologies and Ontario engineers. There are more than five hundred Ontario-based companies involved in goods and services related to petrochemicals, many of them located in Sarnia and across southwestern Ontario. In addition to refining and transportation, Ontario jobs are created in steel, construction and machinery, control instruments, piping and tubing, and hundreds of other high-value manufacturing activities. Our workers are internationally recognized for their quality of work and strong safety record.

Businesses across Canada can work together for the greater benefit of all. Ontario needs a government that will knock down barriers to trade and help our businesses compete across the country.

It's important to remember that the complex and protectionist rules that govern trade between provinces also hurt Canada's ability to negotiate international trade agreements. Other countries look at the patchwork quilt of provincial rules and see a country where it is too complicated and expensive to do business.

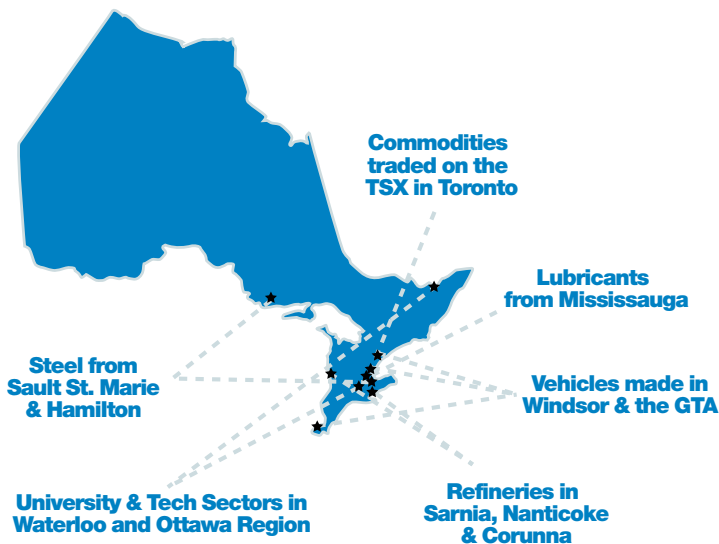
That hurts the whole country, but it especially hurts Ontario. The future of our economy and our manufacturers relies on international free trade. Just as one example, India is a country with an expanding economy, a rapidly growing middle class and an ever-increasing appetite for the services and products that Ontario produces. Just as we want to make it easy for people to do business *in* Ontario, we must make it easy for people in other countries to do business *with* Ontario.

OIL SANDS' SUCCESS MEANS JOBS GROWTH IN ONTARIO

Ontario benefits the most outside of Alberta

Over the next **25 YEARS,** **OIL SANDS** would generate **\$33 TRILLION** in economic activity

Source: Government of Alberta, July 2012



OIL SANDS are forecasted to **CREATE 905,000** new jobs **BY 2035.**

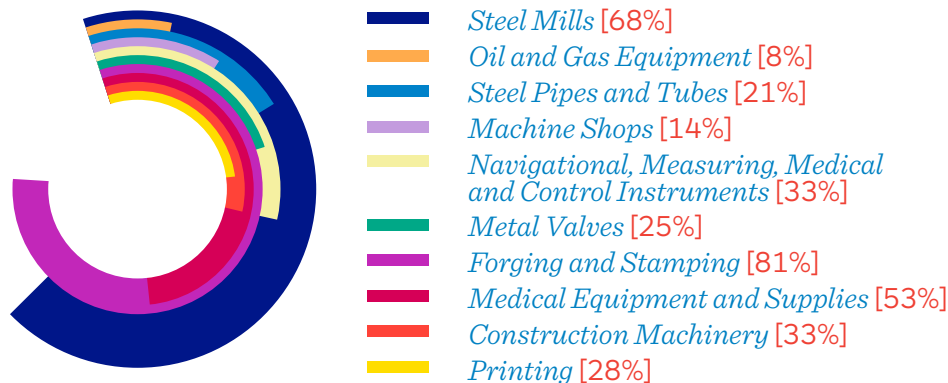
Source: Canadian Energy Research Institute, May 2011

Global demand for energy is expected to rise by 35% by 2035

International Energy Agency, World Energy Outlook 2011

ONTARIO'S SHARE OF CANADIAN EMPLOYMENT EFFECTS

Manufacturing Industries



Source: The Conference Board of Canada.

We need more trade opportunities for Ontario's exports:

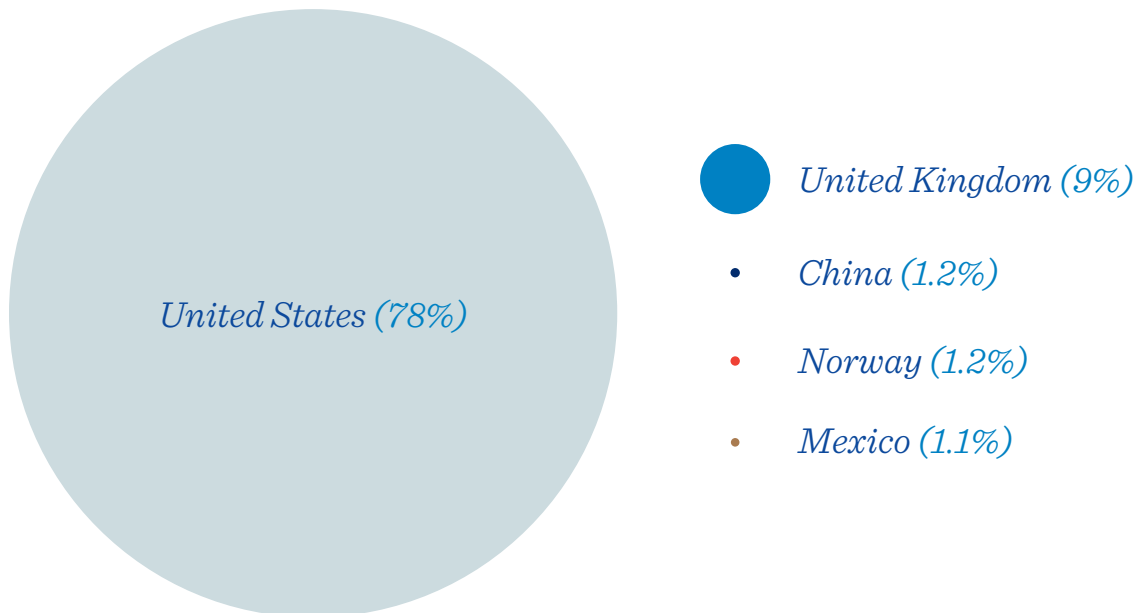
Aggressively push for more international and interprovincial free trade, to open new opportunities for Ontario's manufacturers and other businesses. As they start, Ontario should join the New West Partnership Agreement with Alberta, BC and Saskatchewan.

Work with Alberta's political and business leaders to maximize oil sands opportunities for Ontario businesses and workers. Numerous similar opportunities await Ontario ingenuity in the Ring of Fire, Saskatchewan potash and North American shale gas deposits.

Demonstrate national leadership with a plan to make the first two years of apprenticeship standard across the country, enabling Ontario entrepreneurs to attract the workers they need.

MAIN DESTINATIONS FOR ONTARIO'S EXPORTS

Percentage of total exports



Source: Ontario Ministry of Finance, 2013

CONCLUSION

Manufacturing has always been a core part of Ontario's success. This discussion paper proposes we build on that strength. But the last 10 years have taught us much about what not to do.

Ontario has lost 300,000 good manufacturing jobs, and it has been a painful lesson in what happens when bad government policy destroys a province's competitiveness. Now, we need to learn from that lesson.

Ontario didn't become the province it is by thinking small. We won't become the province we can be by building wind turbines no one wants to buy without massive government subsidies or sustaining businesses with corporate handouts to those savvy enough to work the backrooms.

our employers are small or medium-sized, typically owned by people who contribute a great deal to their communities. Many of the larger ones are broadly owned by the public, through their pension plans and mutual funds.

The services and goods produced by Ontario's businesses represent the sum of the effort of the majority of Ontarians. It is easy for government to forget that, as it spends most of its time and a lot of your money on enhancing the government sector.

The world's strongest economies have a significant manufacturing base.

– The Globe and Mail's Report on Business, April 24, 2012

Our goal is to make Ontario a global power in advanced manufacturing. It's an ambitious goal, but we can do it if we believe in ourselves, work hard and create the conditions for economic success.

Our policies on education, training, transportation, taxes, power, government regulation and trade will help Ontario manufacturers, and other businesses, succeed and create new jobs.

In addition to those good ideas, there is one less tangible point that is also critical to that success. In a June 2013 report, the Conference Board of Canada found, "One investment theme resonates with every part of the manufacturing sector, and that is attitude. If Canada hopes to attract more high-value-added activity, it has to make clear that investors are wanted."

Ontario needs a government that believes in business, that knows that business is not just something to tax, but something to champion, something to encourage with policies that will help create jobs, not scare them off.

Business is not the enemy. In Ontario, 80 per cent of jobs are in the private-sector economy. Most of

Public services are vital to our quality of life and to the success of our businesses, but we can only afford those services if we have a dynamic, growing economy. Advanced manufacturing is critical to that. It sits on the top of the business supply chain. Every well-managed manufacturing plant creates jobs for service industries and suppliers, and drives innovation, trade and prosperity.

The debate in Ontario should not be about whether we will or won't have a manufacturing sector. We *must* have manufacturing. Ontarians need the good jobs manufacturing creates. These are real jobs that create demand for other real jobs throughout the economy because of manufacturing's demand for goods, services and raw materials. That's how you build an economy, not with subsidies to hire workers that businesses don't need.

The provincial government relies on manufacturing, too, for the taxes it generates.

The real debate is not about whether manufacturing has a future in Ontario; it is about the steps we must take to seize the opportunities described in this paper.

The Ontario PC Caucus wants to lead that discussion, and more important, lead the change that will help Ontario seize its great economic potential.

Neither the success, nor the failure, of Ontario's manufacturing sector is inevitable. The future is ours to shape.

Let's start with setting ourselves some bold goals.

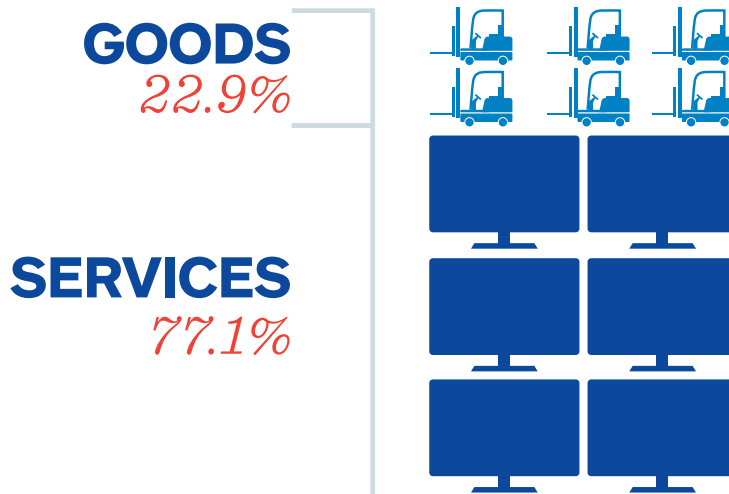
Those lost manufacturing jobs aren't coming back, but let's work hard to create 300,000 new ones.

Let's eliminate the lack of investment that makes our workers less productive than those in the U.S.

Let's strive to make Ontario the leading advanced manufacturing location, not just in Canada, but in the world.

A PICTURE OF THE ONTARIO ECONOMY

(Per cent distribution of GDP, 2012)



Source: Ontario Ministry of Finance, 2013



ADVANCED MANUFACTURING FOR A BETTER ONTARIO

More jobs with affordable power

Replace the subsidy program for wind and solar projects with an energy policy based on what's best for the economy. The current approach is saddling power users with unrealistically priced electricity, affecting every family and business in the province.

Establish a new power rate for manufacturing and resource-based industry. This rate should be set independently using objective economic criteria like an average of electricity prices in neighbouring provinces and states.

Negotiate trade deals with other provinces and states to acquire emissions-free, low-cost hydroelectricity and to sell our surplus power in an orderly way, so that we do not dump it off at the last minute at the lowest possible price.

Building the best workforce

Shift our priorities so that our schools will deliver not just an education for the twenty-first century economy, but training for a job as well.

Change the apprentice-to-journeyman ratio to one-to-one and make community colleges the entry point for trades training. Abolish the College of Trades, which is nothing but a tax on workers and a costly bureaucracy that gets in the way of new job opportunities.

Give workers more control over their own careers by giving them a choice about joining unions and paying union dues. Outdated labour laws are a barrier to productivity and innovation.

Work with the federal government and Ontario employers to make sure unemployed workers get the retraining they need to find jobs.

Support new federal immigration tools that have been underused by the current government, such as the Canadian Experience Class program and Provincial Nominee Program. These federal programs will make it easier for immigrants who are job-ready to come here and immediately contribute to our economy.

Encouraging investment leads to job creation

Eliminate the province's deficit faster than the current government's five-year promise, and do it with a real and detailed plan. Entrepreneurs risking their own money need to know that government finances and taxes are stable and predictable.

Reform tax rules on major capital investments to promote efficiency and free up money for job creation. Businesses should be allowed to deduct one-hundred per cent of an investment's cost when they spend the money, not years afterward.

Implement a new tax credit for investors in expanding start-up companies, to help Ontario's next generation of business stars succeed.

Ending the red tape runaround

Submit all regulations to a public cost-benefit analysis, starting with the most expensive and burdensome for business. Reduce the total government regulatory burden by one-third over three years. That will mean eliminating 128,750 regulations. Cabinet ministers' pay should be tied to hitting this target.

Simplify the bureaucratic approvals process with a one-window approach for entrepreneurs, expanding businesses and manufacturing plants locating in Ontario. Prioritize and speed up approvals for major job creators like a new auto parts facility or mineral processing plant.

Withdraw from the ineffective Western Climate Initiative cap-and-trade program that will lead to higher costs for Ontario manufacturers and fewer jobs for our province.

Build the infrastructure we need

Put all highways and rapid transit in the Greater Toronto Area and Hamilton under one agency run by the province to create a truly regional system that moves people faster.

Balance the budget quickly and prioritize transportation projects from existing provincial revenue. The amount required for transportation expansion is roughly 1.5 per cent of our current budget.

Restore balance between highway and rapid transit expansion. Recognize that Ontario is an exporter and that our long-term transportation plan should reflect that. Our priority for Toronto will be to build subways, not to permanently remove more car lanes for surface-level transit.

More trade opportunities for Ontario's exports

Aggressively push for more international and interprovincial free trade, to open new opportunities for Ontario's manufacturers and other businesses. As they start, Ontario should join the New West Partnership Agreement with Alberta, BC and Saskatchewan.

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