

June 1992

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PROSPERITY CONSULTATIONS

**Fabricated Materials: Gateway
to the New Economy**

A Contribution to the



PROSPERITY INITIATIVE

This report has been prepared by a private sector consultation group at the request of the Honourable Michael Wilson, Minister of Industry, Science and Technology and Minister for International Trade as a contribution to the Prosperity Initiative. This document is one of a series of reports setting out the conclusions and recommendations arising from intensive consultations on the competitiveness challenges facing major industry sectors across Canada.



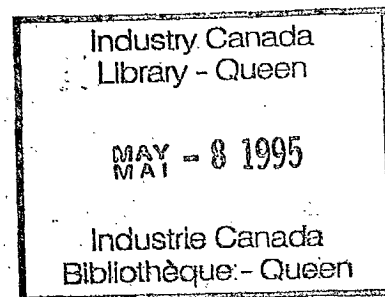
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to the New Economy**



A Contribution to the



PROSPERITY INITIATIVE



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INTERNATIONAL
QUALITY
RECOGNITION

June 22, 1992

The Hon. Michael H. Wilson
Minister of Industry, Science and Technology and
Minister for International Trade
Ottawa, Ontario
K1A 0H5

Dear Mr. Minister:

Attached is the report from the Fabricated Materials Sector, entitled "Gateway to the New Economy". Its message is sincere and, I believe, clear: to prosper, our sector needs, and it deserves, the enthusiastic co-operation of government at all levels.

I was honoured to have been invited to chair the committee, and I found the process to be extremely pleasurable.

Thank you for the opportunity I have had to express myself.

Sincerely

Peter J. Irvine

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PROLOGUE

In his recent paper "Canada at the Crossroads" Michael Porter stated "it is the primary purpose of society to create a high and rising standard of living for its people". In the pursuit of this objective, the government is the elected steward of the people, responsible to them for the achievement of their goals. And private sector businesses, if successful, can provide the government the wherewithal to meet these goals. To do so, business has no alternative but to continually adapt to the ebb and flow of global economic forces. Government policies which do not actively support this process can only result in a lowered standard of living for the people.

Canada is an unusually placed society, truly at a crossroads. With free trade, North America is becoming a homogeneous continent in which ten percent of the population has for the past two centuries been insular and inward looking, always having lived behind economic tariff barriers. Now, with the barriers removed, there is an unravelling of the economic fabric which existed behind them; and a resultant outflow of companies from Canada, as industries coalesce around their North American epicentres.

What will emerge to fill the gaps?

Prevailing wisdom suggests that small Canadian companies search out comfortable North American niches in which to hide, or be replaced by higher technology activities. But such reasoning appears flawed: our more advanced trading partners have long since occupied the niches and monopolized the high tech industries which we covet.

Alternatively, the emerging pockets of Canadian strength should perhaps centre on Canadian owned companies utilizing existing skills to add value to the country's primary source of natural competitive advantage, its mineral and petroleum wealth: transitional companies capable of serving the emerging "New Economy": pivotal companies which process plastics or metals into intermediate or finished products, such as those in the "Fabricated Materials Sector".

We conclude that the Canadian government must create a hospitable environment for the transition of sectors such as ours to North American cost competitiveness, else all Canadians will suffer.

EXECUTIVE SUMMARY

This report presents the recommendations of an ISTC commissioned private sector task force for improving the competitiveness of the Canadian Fabricated Materials Sector. In summary, our findings are:

- **Driven largely by advances in materials and applications technology since the 1950's, the Fabricated Materials Sector has been a dependable engine of growth and job creation for Canada's industrial sector for over thirty years.**

- **Currently the Fabricated Materials Sector is undergoing a difficult structural dislocation driven by such things as environmental issues, the recession, free trade and the deteriorating relative cost base of the Canadian economy. Companies which do not adopt technology intensive strategies to counter these forces and generate rising productivity will fail.**

- **Yet the Fabricated Materials Sector represents a unique opportunity for the Canadian people and their government in this troubled period:**

- **In aggregate, the sector is a large, Canadian owned employer of both skilled and unskilled people.**
- **It is ideally positioned downstream of the country's resource sector, and in addition to traditional sectors such as Packaging and Automotive, it serves the needs of the emerging "New Economy": Computer/Electronics, Health & Medical, Telecommunications and Instrumentation.**
- **Its individual companies, by contrast to those in many of the other sectors being studied, are almost equal in size and technical competence to their U.S. competitors. The odds are not stacked against us.**

EXECUTIVE SUMMARY - Continued

- **In the sector, the companies which will excel in a free trade environment are those which gain economies of scale in the near term through technical excellence, internal growth, or merger and acquisition. They will succeed because they have made the necessary intellectual and financial commitment to continuous improvement in upgrading:**
 - **the skills of their workforce**
 - **their capital base**
 - **their technology**
 - **their focus on customer satisfaction**

- **To win out against world competition, such companies must gain ready access to:**
 - **the best people, wherever located**
 - **world class manufacturing technology**
 - **sufficient capital at competitive rates**

- **The federal government must provide the environment by enacting legislation which will encourage:**
 - **immigration by qualified people**
 - **improved business and technical education**
 - **improved research and investment activities**
 - **capital accumulation and its investment and retention in manufacturing enterprises**

- **It is also the responsibility of government to provide its own services promptly, effectively and at world competitive rates. To do this, the government must engage in the same wrenching productivity improvement initiatives that the private sector is currently undergoing.**

The report that follows is the work of a dedicated group of Canadian business leaders, each of whom volunteered his services, and each of whom made a material contribution to its content. It is submitted in the sincere belief that the government will act on its recommendations.

SECTION I - BACKGROUND

A. OUR MANDATE

In late fall of 1991, at the request of the Honourable Michael Wilson, P.C., M.P., Minister of Industry, Science and Technology and Minister for International Trade, a sectoral competitiveness committee was convened under the chairmanship of Peter J. Irvine of Toronto.

This committee, one of sixteen so constituted, was charged with the responsibility of contributing, from a sectoral perspective, to the forging of a natural consensus on how to ensure Canada's future prosperity. Specifically, it was the mandate of the committee to develop a consensus plan of action to ensure the ongoing competitiveness and prosperity of the "Fabricated Materials Sector".

This sector, made up of perhaps five thousand companies employing approximately a quarter of a million Canadians manufacturing parts, components, subassemblies and end products of plastic and metal, is a diverse and fascinating one.

The task was challenging and rewarding.

B. MAKEUP OF THE COMMITTEE

Our committee was made up of twenty-four prominent businessmen, each directly linked to the sector. Like many other of the sectoral committees, we were unsuccessful in recruiting either an academic or a labour leader. David F. Ross of Ross & Associates acted as consultant to the group.

In recruiting, we were assisted by the ISTC and The Society of the Plastics Industry, each of whom recruited seven or eight of the committee members. The chairman recruited the remainder from a reservoir of people of stature and judgement not only in the sector but also from amongst its major suppliers and customers.

In the end, we emerged with a vocal group of well informed, intelligent and perceptive business leaders. Their names appear in Appendix I. Each contributed significantly to our deliberations. Each will recognize his input, if not in a specific recommendation, then in a point of emphasis or a turn of phrase.

We are indebted to each of them for their efforts.

SECTION I - Continued

C. THE PROCESS

Committee activity began in earnest in early January of 1992. At that time four meetings, one per month until April, were arranged. Each meeting was a full half day and centred around one phase of a sequential agenda.

- Meeting 1: The existing structure of the industry and issues identification.
- Meeting 2: The ideal future structure of the industry. Key success factors which would be needed to execute the transformation.
- Meeting 3: Facilitating actions that could be taken by individual companies, the industry, governments, and other participants such as the educational and banking communities.
- Meeting 4: Recommendations to the Minister. Reviewing and critiquing a draft copy of our report.

Appendix II contains an outline of the process, a meeting schedule, and the agendum of the four meetings.

SECTION II - A SECTOR WORTH SUPPORTING

The recent ISTC Consultation Paper "INDUSTRIAL COMPETITIVENESS - A Sectoral Perspective" describes the Fabricated Materials Sector as "fragmented - characterized by a large number of small, entrepreneurial Canadian-owned firms, established to supply domestic demand".

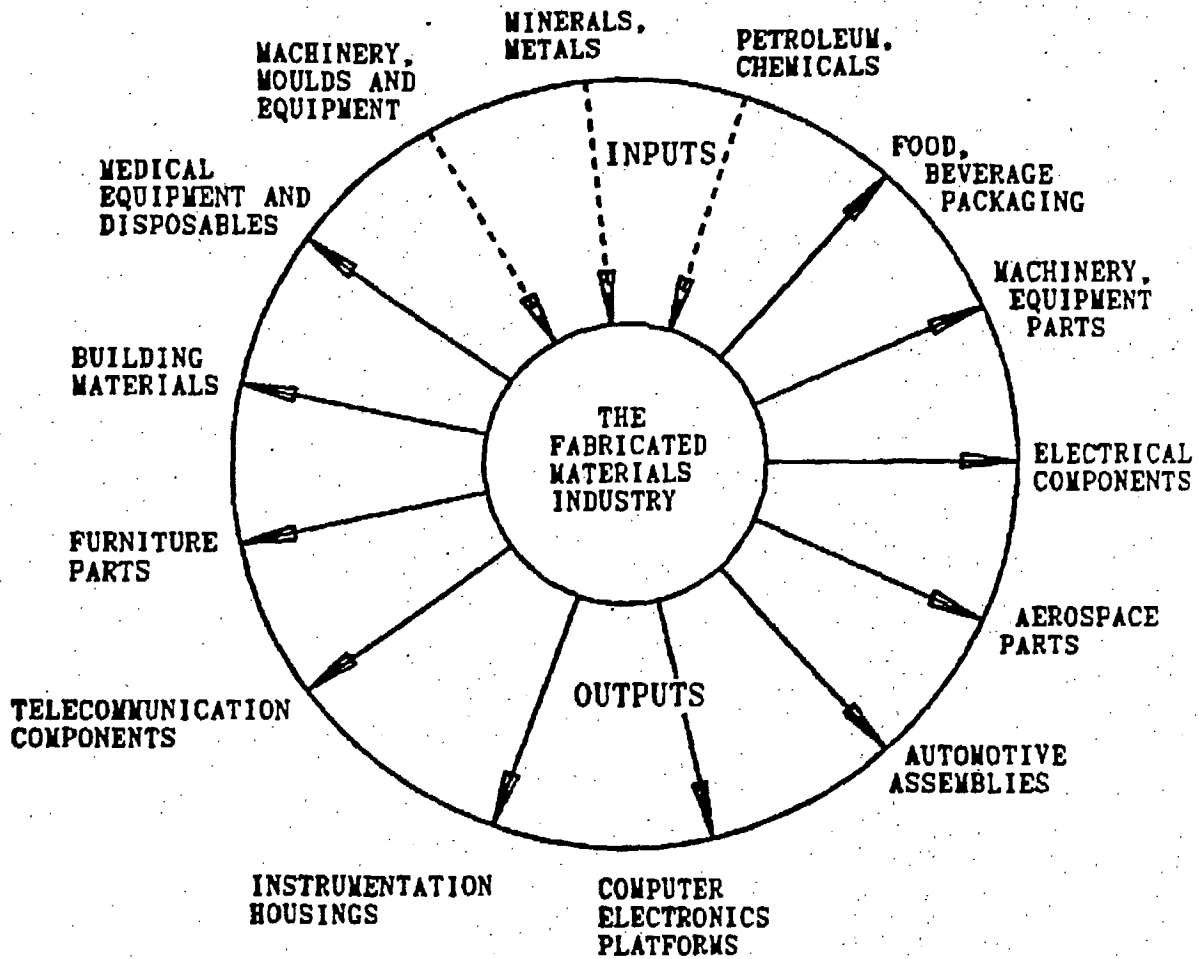
The sector is currently going through the most severe period of structural dislocation in its history: environmental issues, technology advances, the recession, the loss of market share by North American automobile manufacturers, free trade and the North American rationalization of customer facilities, uncompetitive interest rates, and the high cost Canadian economy are all buffeting its participants. And the sector is overpopulated, currently operating at about sixty percent of capacity. In all likelihood, only the strongest competitors will survive to the turn of the century.

Yet, the sector has been a net creator of Canadian manufacturing jobs during all of this century. Currently, its five thousand companies employ about a quarter of a million people (1), tied with Food & Beverages as the second largest employer amongst the industrial sectors being studied (2). In addition to its unskilled and semi-skilled workers, the sector employs a large number of engineers and technicians.

(1) According to ISTC's "Industrial Competitiveness, a Sectoral Perspective". Curiously, the Chemicals Sector task force has taken issue with ISTC's sectoral groupings, including plastics processors in their definitions of the "Chemicals Sector" thereby attributing processing employment to themselves. ISTC considers plastics processors to be the customers of the Chemicals Sector, not a part of it. We agree with ISTC, although we understand that plastics processors and metals fabricators, despite their many similarities, are not identical. For a well researched and thoughtful analysis of the unique opportunities presented by the plastics processing industry, see "The Strengths and Weaknesses of Ontario's Plastics Industry" written in May, 1992 for the Ontario Ministry of Industry, Trade and Technology by Bill Empey of the ARA Consulting Group, who notes "the choice of clusters or task forces by the Prosperity Initiative seems arbitrary. Hopefully there are no plans to make these groupings permanent". Mr. Empey feels strongly that sectoral industrial policy must be coordinated between Ottawa and the provinces, arguing for a rigidly applied common definition of sectors, in which plastics processors and steel fabricators would be treated as distinct and separate.

(2) After Forestry with 300,000. Fabricated Materials employs 26% more people than Automotive, the fourth largest at 175,000.

EXHIBIT I



FABRICATED MATERIALS - A PIVOTAL INDUSTRY

- SERVING THE CANADIAN ECONOMY -

SECTION II - Continued

Moreover, the sector is ideally positioned from a strategic perspective to attain the Canadian government's value added objectives. It is a labour intensive, medium technology industry consuming raw materials from Canada's mining and petroleum resource sectors, and serving, in addition to eight other sectors chosen for this study (1), all of the emerging "New Economy" sectors (2). Thus the Fabricated Materials Sector plays a pivotal role in linking together almost all of the elements of Canada's manufacturing economy. Exhibit I makes the point.

Our information suggests that, with annual revenues of about \$5 million, the average fabricator is almost as large as his U.S. counterpart, trailing slightly in the use of current technology and currently experiencing lower productivity and higher wages. Some possess the necessary marketing and engineering skills, the total quality systems, the leading edge technology, and the financial strength to excel in world markets. A handful have already done so, establishing leadership positions in North American markets, and achieving annual volumes in the \$50 million to \$250 million range. Many, however, which are small and oriented to the domestic market, promise to remain so. Thus, the average Canadian fabricator may start at a disadvantage; but he is probably as likely as his slightly larger U.S. competitor to succeed, within the decade, in the race to achieve the minimum revenue required to enjoy economies of scale, \$15,000,000 per year (3).

The playing field remains open. While the Canadian starts at a disadvantage, his chances are immeasurably better than are those of Canadians in most other sectors. In most sectors, foreign owned firms are dominant, Canadian plants are dwarfed by their U.S. competitors, and decisions as to plant location, product mandates and employment are made outside the country (4). But in Fabricated Materials, the odds are not stacked against us.

(1) *The Food and Beverage, Equipment, Electrical, Aerospace, Automotive Transit, Textiles, Furniture and Construction, employing 1,440,000 Canadians.*

(2) *Health & Medical, Telecommunications, Instrumentation and Computer Electronics.*

(3) *Per ISTC's "Industrial Competitiveness - A Sectoral Perspective". Confirmed by Coopers & Lybrand in "Government Policy and the Plastics Industry: Priorities for the 1990's".*

(4) *The difference in commitment can be demonstrated within the sector; while Canadian owned fabricated materials firms undertake R&D activities about equal to U.S. averages, U.S. owned firms in Canada do almost no R&D. Of course this is understandable. For all but the most huge conglomerates, R&D is logically a centralized activity which takes place as close as possible to Head Office.*

SECTION II - Continued

At present, the sector's activities are regional in nature, because the economical shipping radius at current productivity levels is no more than 250 miles. For this reason, the industry is located close to its suppliers and customers, many of whom are large multinationals. Sixty percent of the sector is located in southern Ontario and twenty-five percent in Quebec, where market size and density approaches that in bordering industrialized states such as Michigan and Ohio. Only the larger companies with economical shipping radii in the five hundred mile range can economically serve the North American market from Canadian locations.

The Federal Government has concluded, appropriately, that the sector needs a climate that will foster the retention in Canada of multinational customers and suppliers, and the sector's orderly consolidation into larger, more economically viable units, capable of serving North American, not Canadian, markets.

While we, on the committee, concur, we leave it to others to determine how to persuade multinationals to remain in Canada after free trade (1). We will concentrate on providing concrete recommendations for improving the sector, and by implication strengthening the emerging companies of the "New Economy" (2).

(1) Officials of ISTC are familiar with the exhaustive study of this issue recently completed for EMAC by Geo. Schrijver of WCM consulting. His work is extremely informative.

(2) Our recommendations may seem to infer that the task force favours sectorally neutral policies. This is not the case: although most recommendations, broadly applied, might benefit all industry, one of them specifically favours process research and one specifically favours growth by acquisitions; both are uniquely necessary to strengthen the sector. Moreover, if it were to prove too costly to apply recommendations across-the-board, Ottawa might be forced to implement a more selective industrial policy that deliberately favours certain sectors on the basis of their "strategic importance". In such a case we would urge the government to carefully consider the attractiveness of the Fabricated Materials Sector.

SECTION III - UNDERLYING THEMES

The primary challenges facing the Fabricated Materials Sector are set out in preceding sections. To meet these challenges, companies will have to continue improving in a broad range of operational areas such as technological capability and specialization, quality and cost control, value added percentages and market penetration. It is our view that competent Canadian companies can and will succeed in achieving the critical mass that will generate economies of scale and enable them to penetrate North American and world markets if they have ready access to: (1) skilled people wherever found, (2) leading edge technology, and (3) capital at competitive rates.

People, technology and capital: These three themes dominated our discussions and emerged as the focal points of our recommendations. We are convinced that, if they are to succeed, Canadian companies must:

- A. HIRE THE MOST TALENTED PEOPLE; EDUCATE AND TRAIN THEM.**
- B. INVEST IN LEADING EDGE TECHNOLOGY.**
- C. BUILD A STRONG CAPITAL STRUCTURE.**

Responsibility for success rests with the individual companies, supported by their industry and industry associations.

The appropriate role of government is to introduce programs and policies which will facilitate, encourage and perhaps most importantly reward those companies which demonstrate the competence, make the investments, and accept the risks necessary to succeed. Nothing should, or in the view of the Committee can, be done by any level of government to save incompetent companies.

In February, while the committee was developing its recommendations, the federal government brought down its budget. Steps in the right direction included an increase in C.C.A., a reduction in manufacturing profits tax and dividend withholding tax and a commitment to improve the R&D tax credit program. We commend the federal government for these initiatives, and suggest with respect that future steps might include efforts to ensure that provincial favouritism ceases, that quality, labour, and environmental legislation is harmonized with competing jurisdictions, and that government services are provided as promptly and cost effectively as they are by the best of our trading partners.

SECTION IV - RECOMMENDATIONS TO THE MINISTER

In Section III we emphasized that to succeed, companies must hire the best people, invest in the latest technology, strengthen their balance sheets, expand and grow. And the federal government must facilitate, encourage and reward such initiatives, creating in the process a positive attitude towards business in the minds of the Canadian people. Our recommendations for action, which are set out below, are discussed in detail on the pages which follow and are summarized in Appendix 3.

A. EASE ACCESS TO THE BEST PEOPLE

- 1) Ease the immigration of skilled people.
- 2) Improve the education system.
- 3) Reward in-company training.

B. EASE ACCESS TO LEADING EDGE TECHNOLOGY

- 1) Improve incentives for technology investment.
- 2) Locate and import current technologies.

C. EASE ACCESS TO CAPITAL AT COMPETITIVE RATES

- 1) Reward equity investment.
- 2) Update the small business deduction.
- 3) Provide incentives for export sales.
- 4) Compensate for high interest rates.

Our detailed recommendations follow.

SECTION IV - Continued

A. EASE ACCESS TO THE BEST PEOPLE

A. 1. EASE THE IMMIGRATION OF SKILLED PEOPLE

To immediately ease the shortage of skilled technical and managerial people, increased immigration of qualified individuals should be encouraged. It is instructive to note that barriers to personal mobility, which have been eliminated in Europe, remain significant in North America in spite of free trade. The following changes are recommended:

1. The point system for immigrants gives preference to applicants with skills which are in short supply. These lists should be made more reflective of current shortages, and the point system should give greater preference to applicants with needed skills.
2. Companies can benefit dramatically in international markets through the temporary or permanent importation of an individual with a unique background or reputation. Yet, even when such companies compensate for the higher cost of living in Canada, their efforts to attract such people are often frustrated because the often highly skilled families of the individual cannot get work permits or the Canadian taxation level is too high.

Industry would benefit greatly if:

- a) the immediate families of such individuals were permitted to work upon entering the country.
- b) for a few years, each was permitted to pay the lesser of the Canadian tax rate or that prevailing in their home country.

Such a policy would eliminate barriers to temporary immigration for orientation and familiarization, and greatly ease the transition if the family's residency became permanent. In deserving cases, some other countries already make such concessions; in Canada, Quebec does so.

SECTION IV - Continued

A. 2. IMPROVE THE EDUCATION SYSTEM

In the longer term, skills shortages must be solved by strengthening the country's education system. Starting with basic skills such as literacy and numeracy, Canadian education must be made more effective at all levels:

1. Set national standards from primary through secondary levels which address the skills requirements of the economy, perhaps based on standards such as the International Baccalaureate or the German, British, Japanese and American systems.
2. Radically improve apprenticeship programs in Canada, using industry to outline curricula and provide training opportunities.
3. Alter the provincial funding system for universities to further favour sciences and mathematics.
4. Make the university/college system more effective by upgrading the course content, eliminating duplication and coordinating course offerings.

Consideration might also be given to tying the funding of schools to their production of effectively educated graduates. And, perhaps through co-op programs, teachers might benefit from some experience in industry or business before beginning to teach. An uninformed or worse, negative attitude towards commerce in the minds of our teachers could be a dangerous thing.

A. 3. REWARD IN-COMPANY TRAINING

Currently there are some incentives for investment in training employees, but companies are mainly motivated by anticipated improvements in performance. The committee recommends change based on the German system, which generously rewards companies for investing in training:

1. Companies which invest in training should be eligible for tax incentives, perhaps in a similar manner to the way they currently are rewarded for investment in Research and Development.

SECTION IV - Continued

B. EASE ACCESS TO LEADING EDGE TECHNOLOGY

B. 1. IMPROVE THE INCENTIVES FOR TECHNOLOGY INVESTMENT

We have stated that Canadian companies will have to invest ever increasing amounts in technology and market expansion to remain competitive. Such investment requires R&D expenditures, and these must result in productivity improvements or commercial success to be useful expenditures of time and money. Much of Japan's high level of R&D investment is in processing equipment and machinery, allowing Japan to achieve high levels of productivity; in the U.S., R&D is directed to product development. Both are useful. The Canadian government should help companies evaluate and make investments in both, up to the point of successful commercialization.

1. Extend the Scientific Research and Experimental Development tax credit system to include the improvement of production processes and the initial commercialization of new products (1). Simplify it to make it more easily accessible by small companies.
2. Raise Capital Cost Allowance rates to levels which more nearly compensate investment on a present value basis, considering inflation as well as obsolescence.
3. Create a highly accelerated C.C.A. rate, perhaps equal to the existing rate for applications software, for productivity enhancing equipment such as robotics, computers, CAD, CAM & CIM.

Consideration might also be given to making R&D incentives partially contingent on success.

(1) ISTC has already begun work in this area. Revenue Canada Information Circular No. 86-4R2, Supplement 2 "Plastics Industry Application Paper" (in progress) is an informative and useful piece of work.

SECTION IV - Continued

B. 2. LOCATE AND IMPORT CURRENT TECHNOLOGIES

Canada is responsible for approximately 2% of the patents issued worldwide. Obviously, unless we become highly creative overnight, we will have to be a net importer of technology for some time. The location and importation of foreign technology should therefore be encouraged:

1. The federal government's two programs designed to assist in accessing technology, Industrial Research and Assistance Program (IRAP) and Technology Inflow Program (TIP), are unknown by most small businessmen. They should be aggressively marketed and given higher funding. Such funding might be made partially contingent on successful commercialization.

In conjunction with business, priorities might be set which favour technologies which would set Canadian firms apart and ahead in selected activities on a North American basis.

EXHIBIT II

**- A TAX ANOMALY -
(Per \$100 of Earnings)**

1. TAX PAID IF BONUSED OUT WHEN EARNED

Top marginal tax rate paid on personal earnings = \$48

**2. TAX PAID IF RETAINED AND DIVIDENDED OUT LATER
(EARNINGS UNDER \$200,000)**

a. Corporate Profits Tax When Earned = \$ 22
b. Personal Tax When Dividended = \$ 26

THEREFORE TOTAL TAX PAID \$ 48

**3. TAX PAID IF RETAINED AND DIVIDENDED OUT LATER (1)
(EARNINGS OVER \$200,000)**

a. Corporate Profits Tax When Earned = \$ 40
b. Personal Tax When Dividended = \$ 20

THEREFORE TOTAL TAX PAID \$ 60

THUS THE TAX SYSTEM FAVOURS IMMEDIATE WITHDRAWAL OF EARNINGS FROM COMPANIES WHEN TAXABLE INCOME IS ABOVE \$200,000. THE SOLUTION IS TO REDUCE CORPORATE TAXES ON INCOME ABOVE \$200,000 TO ENCOURAGE RETENTION.

(1) Admittedly, corporate profits which are left in the business and never drawn out only attract tax of forty percent, but that is hardly comparable to a situation where the money has reached the investor; in fact it could be argued that it is unfair to tax an investor anything on profits he will never receive.

FABRICATED MATERIALS: Gateway To The New Economy

SECTION IV - Continued

C. EASE ACCESS TO CAPITAL

C. 1. REWARD EQUITY INVESTMENT

Canada's taxation regime has the effect of providing business owners a financial incentive to remove as much capital as possible from their businesses each year. Exhibit II makes the point. The tax environment must be altered to provide:

1. A financial incentive for the retention of earnings in the business. Corporate tax rates should be altered so that the retention decision above \$200,000 would marginally favour retention, and thus would greatly favour retention below \$200,000.
2. A broadly based personal tax credit for individuals making equity investments, provided it was invested for a minimum holding period, say 5 years (1).
3. A program for employees to invest pre-tax dollars in their companies via Employee Share Ownership Plans ("ESOPS") such as those used in the U.S. Such investment could be treated in the same manner for tax purposes as are our highly successful RRSP's (1).

C. 2. UPDATE THE SMALL BUSINESS DEDUCTION

1. The \$200,000 income limit for favourable tax rates has not been increased since 1982. It should now be indexed at something in excess of the rate of inflation since 1982. This change would make the deduction more, not less, meaningful than it was at that time, and direct the tax break at the larger economic units which have a better chance of surviving in the global free trade competitive arena.
2. Introduce legislation that will allow the \$200,000 income limit to survive the merger/acquisition of two companies, preferably for a five year period and on a declining scale for the following five years. This amendment will correct the punitive effect of increased taxation on industry consolidation, and contribute to the evolution of sorely needed stronger economic units.

(1) Existing labour sponsored investment funds are partially directed towards encouraging investment along the lines set out in paragraphs 2 and 3 above. But their motives seem clouded, they are narrow in their approach, and their cap is much too low to encourage the unfettered raising of meaningful amounts of money.

SECTION IV - Continued

C. 3. PROVIDE INCENTIVES FOR EXPORT SALES

Canada lags in the encouragement of export sales. The United States, for example, gives preferential tax treatment to certain small business export sales compared to domestic sales. Many competitive export credit agencies approve applications much faster than our Export Development Corporation. Canada is losing production opportunities because of these things. The committee would like to see these changes:

1. Institute legislation which would parallel the Foreign Sales Corporation legislation in the U.S.A. A simplified system would give a real competitive advantage to small but growing Canadian exporters.
2. All aspects of the Export Development Corporation's services, such as the length of time taken to make financial commitments, should be competitive with the export agencies of the country's international competitors.

C. 4. COMPENSATE FOR HIGH INTEREST RATES

Canada has long had interest rates which have averaged 200 - 400 basis points higher than the U.S., perhaps due to our historical reliance on imported capital to finance resource based mega projects; perhaps because Canada has not, historically, been well known by international investors; or perhaps because of our higher per capita deficit. But, although mega projects have started to decline and Canada is now a prominent member of the G7, interest rates have not begun to equal those in the U.S. These lower rates represent a substantial advantage to American manufacturers on both short term and long term financing. The committee would like to see this situation redressed, while at the same time respecting the inflation control goals of the government:

1. Establish an investment tax credit for business to offset the higher cost of borrowing in Canada. This would serve as a means of stimulating investment.

These three, easing access to people, to technology and to capital, are our recommendations to the Minister of Industry, Science and Technology, and to the Government of Canada.

SECTION V - IN SUMMARY

We have submitted a long list of recommendations directed at making the Canadian investment and business climate more hospitable.

Our recommendations have been made in the knowledge that government policy must be set in the context of the Free Trade Agreement, and policy options may be limited by it. And we are conscious that environmental concerns will increasingly colour competitive balances in the years ahead; in this regard, Canadian policy makers must be careful not to get so far ahead of competing jurisdictions as to render Canadian companies uncompetitive.

We have studiously avoided recommending macro measures such as massive tax cuts, increases in government spending, or across the board reductions in interest rates or the level of the dollar. Like the federal government, we believe that such simplistic approaches would be impractical, ineffective and costly. Our recommendations by contrast are for selective fine tuning of the system in order to encourage the accumulation and long term investment of capital in people and technology. We believe such changes can be made with negligible immediate effect on government revenues. And we believe the government's financial position will improve markedly in the near term as their forward looking policies result in a resurrection of Canadian competitiveness.

APPENDIX 1

MEMBERS OF THE COMMITTEE

<u>NAME</u>	<u>TITLE</u>	<u>COMPANY</u>
LEN ADAMS COLIN ANTHONY	VICE PRESIDENT & GM V.P. OPERATIONS	EXCEL METALCRAFT DOOR SYSTEMS GROUP, ATOMA INTERNATIONAL
GEOFF CLARKE DON CRYDER RON EVASON	PRESIDENT & CEO PRESIDENT PRESIDENT	AT PLASTICS COOPER CROUSE HINDS THE SOCIETY OF THE PLASTICS INDUSTRY
DON FANSTONE RON GARLICK BOB GILLESPIE DAVID HURST PETER IRVINE DICK LEVAN BILL LINCOLN JOHN MORRISON JACQUES NADEAU RALPH NOBLE DENIS O'REILLY MAURICE PANCHYSHYN DOUG RICHARDSON ROBERT SCHAD	CEO PRESIDENT EXECUTIVE V.P. EXECUTIVE V.P. CHAIRMAN & CEO CHAIRMAN PRESIDENT PRESIDENT GENERAL MANAGER PRESIDENT PRESIDENT PRESIDENT PRESIDENT PRESIDENT	BAILEY METAL PRODUCTS AURORA STEEL SERVICES G.E. CANADA RUSSELSTEEL TORONTO PLASTICS WESTERN FOUNDRY BALL PACKAGING NORDION PLASTI-DRAIN SYNERGISTICS VICWEST STEEL M & R PLASTICS PRECISIONEERING HUSKY INJECTION MOULDING SYSTEMS
MIKE SCHMIDT BILL SWINIMER ROLY THOMPSON GRAHAM WHITE	PRESIDENT CHAIRMAN & CEO PRESIDENT & CEO PRESIDENT	ABC GROUP UNIPLAST INDUSTRIES GSW EFFEM FOODS

ADMINISTRATIVE COMMITTEE

PETER IRVINE, TORONTO PLASTICS LIMITED, CHAIRMAN
CHRIS LECLAIR, SOCIETY OF THE PLASTICS INDUSTRY
SHARYN MAHON, TORONTO PLASTICS LIMITED
DAVID ROSS, ROSS AND ASSOCIATES, CONSULTANT TO THE COMMITTEE

APPENDIX 2

GOVERNMENT OF CANADA
PROSPERITY INITIATIVE

CONSULTING GROUP
ON THE
FABRICATED MATERIALS SECTOR

OUTLINE OF PROCESS

I. PURPOSE

To submit a consensus report setting out issues and actions required "to contribute, from a sectoral perspective to the forging of a national consensus on how to strengthen Canada's competitiveness".

II. PARTICIPANTS

Opinion leaders selected from the "Fabricated Materials Sector" (metal & plastics processors), plus supplier, customer, labour and academia representatives, if available. All participants will be volunteers. (Tentative list attached)

III. PROCESS

A series of four group meetings to identify, analyze, discuss, distil and recommend actions to redress, the priority issues impeding the sector from achieving North American competitive leadership. Meetings will take place in Toronto, unless the group decides otherwise.

IV. TIMING

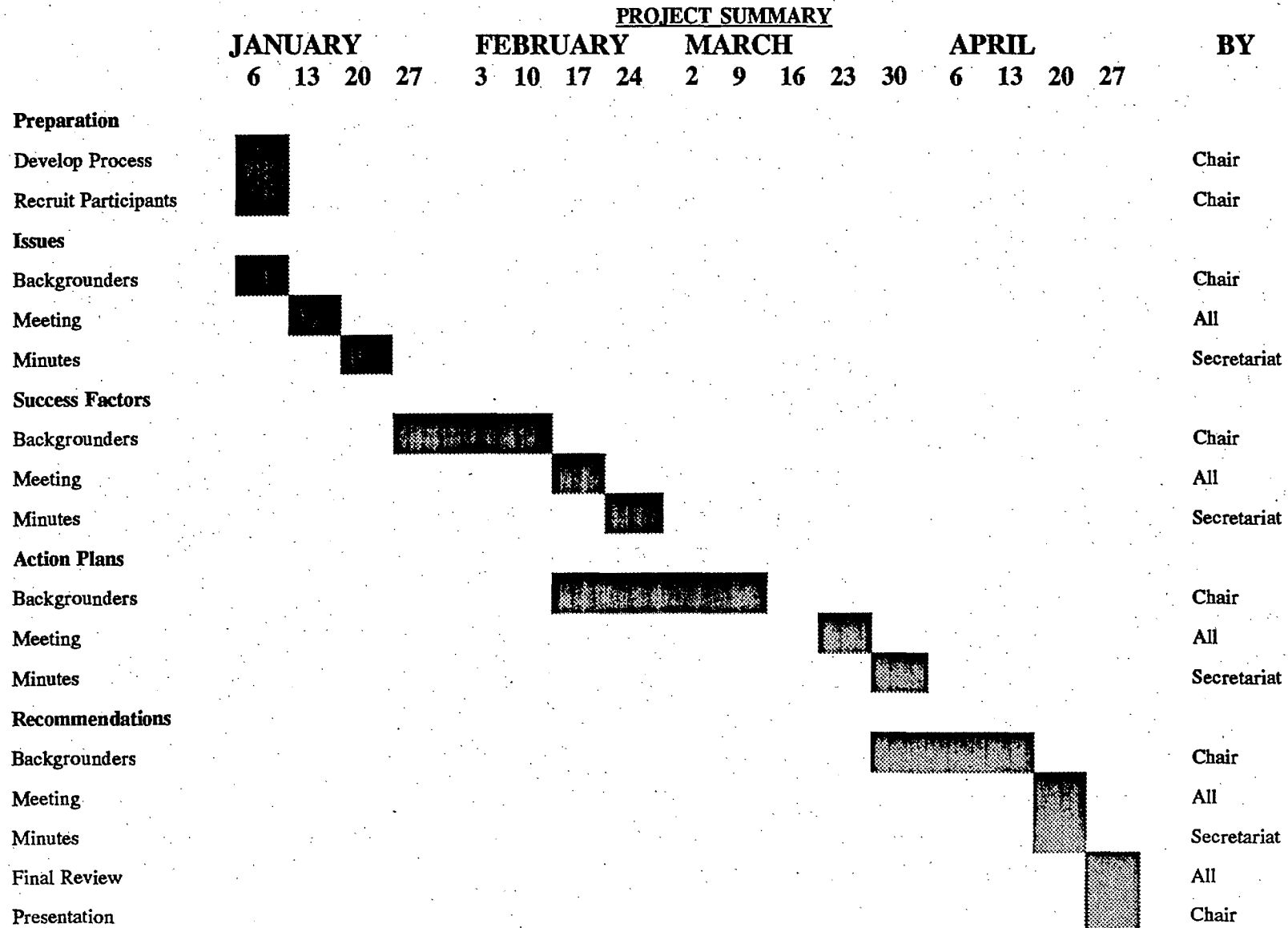
The kickoff meeting is scheduled for Friday, January 17, 1992 at 1:30 p.m.; at it we will identify and discuss the major issues facing the sector. Three subsequent meetings are planned as follows:

<u>Meeting</u>	<u>To Define</u>	<u>Date & Time</u>
#2	Key Industry Success Factors	Feb. 18, 1:30 p.m.
#3	Proposed Action Plans & Alternatives	Mar. 17, 1:30 p.m.
#4	Recommendations to the Federal Government	April 21, 1:30 p.m.

Tentative meeting agendas and a project schedule are attached. Meetings will be held in Toronto, with Montreal a possible alternative for meeting #3; if so agreed by the committee.

**APPENDIX 2
GOVERNMENT OF CANADA
PROSPERITY INITIATIVE**

**CONSULTING GROUP
ON THE
FABRICATED MATERIALS SECTOR**



APPENDIX 2

GOVERNMENT OF CANADA
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AGENDA

MEETING #1
"ISSUES"
FRIDAY, JANUARY 17, 1992

<u>TIME</u>	<u>SUBJECT</u>	<u>BY</u>
1:30 - 2:00	INTRODUCTIONS	ALL
2:00 - 2:15	PROSPERITY INITIATIVE - MANDATE - PROCESS - OUTPUT	CHAIR
2:15 - 2:30	SITUATIONAL ANALYSIS - THE PORTER STUDY	CHAIR
2:30 - 3:15	THE GOAL - NORTH AMERICAN COMPETITIVE LEADERSHIP - KEY SUCCESS FACTORS	ALL
3:15 - 3:45	A COMPETITIVE FRAMEWORK - COMPETITIVE INTENSITY - GOVERNMENT INFLUENCE	CHAIR
3:45 - 4:45	ISSUES AND IMPEDIMENTS - THE STRUCTURE OF OUR INDUSTRY - THE COST OF DOING BUSINESS - THE COST OF MAINTAINING GOVERNMENT - THE IMPACT OF GOVERNMENT POLICIES & REGULATIONS	ALL
4:45 - 5:00	SUMMARY - ACHIEVED - READING MATERIAL - NEXT MEETING	CHAIR

APPENDIX 2

GOVERNMENT OF CANADA
PROSPERITY INITIATIVE

CONSULTING GROUP
ON THE
FABRICATED MATERIALS SECTOR

AGENDA

MEETING #2
"SUCCESS FACTORS"
TUESDAY, FEBRUARY 18, 1992

<u>TIME</u>	<u>SUBJECT</u>
1:30	INTRODUCTIONS & REVIEW
1:40	ISSUES - CONTINUED
2:15	THE "WORLD CLASS" FABRICATOR IN THE YEAR 2000
3:00	IDENTIFYING THE LOG JAMS
4:00	ACTIONS WE CAN TAKE - PART I
4:45	SUMMARY

APPENDIX 2

GOVERNMENT OF CANADA
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CONSULTING GROUP
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AGENDA

MEETING #3
FRIDAY, MARCH 13, 1992

<u>TIME</u>	<u>SUBJECT</u>
12:00	LUNCHEON
1:30	SPEAKER: DAVID MCCAMUS, CO-CHAIRPERSON STEERING GROUP ON PROSPERITY
2:00	ACTIONS WE CAN TAKE - CONTINUED
3:00	ADDITIONAL IDEAS (FROM HOMEWORK)

APPENDIX 2

GOVERNMENT OF CANADA
PROSPERITY INITIATIVE

CONSULTING GROUP
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AGENDA

MEETING #4
"REVIEWING DRAFT REPORT"
TUESDAY, APRIL 21, 1992

<u>TIME</u>	<u>SUBJECT</u>	<u>BY</u>
1:30	REVIEW PROGRESS TO DATE	CHAIR
1:45	REVIEW DRAFT REPORT	CHAIR/D.ROSS
2:30	FEEDBACK ON REPORT	ALL
4:15	SUMMARY	CHAIR

APPENDIX III
SUMMARY OF RECOMMENDATIONS

WHAT THE SECTOR NEEDS TO BE COMPETITIVE	SPECIFIC CHANGES TO IMPROVE COMPETITIVENESS	WHAT INDUSTRY MANAGEMENT IS GOING TO DO	HOW GOVERNMENT COULD ASSIST
A. EASE ACCESS TO THE BEST PEOPLE	1) Ease the immigration of skilled people	<ul style="list-style-type: none"> • Search out and hire the best candidates in the world 	<ol style="list-style-type: none"> 1. Improve responsiveness of immigration system to skills shortages 2. Allow immigrant family members the right to work 3. Allow immigrants to pay favourable tax rate
	2) Improve the education system	<ul style="list-style-type: none"> • Provide extensive support to the upgrading of standards, courses & institutions 	<ol style="list-style-type: none"> 1. Set national standards for primary and secondary levels 2. Radically improve apprenticeship programs 3. Alter university funding to favour sciences/mathematics 4. Improve college/university course content

APPENDIX III
SUMMARY OF RECOMMENDATIONS

WHAT THE SECTOR NEEDS TO BE COMPETITIVE	SPECIFIC CHANGES TO IMPROVE COMPETITIVENESS	WHAT INDUSTRY/MANAGEMENT IS GOING TO DO	HOW GOVERNMENT COULD ASSIST
			<ol style="list-style-type: none"> 5. Consider tying funding to school's performance 6. Encourage teachers to experience business/commerce before being certified
	<ol style="list-style-type: none"> 3) Reward in-company training 	<ul style="list-style-type: none"> • Invest in training its employees 	<ol style="list-style-type: none"> 1. Tax credits for companies which invest in training
B. EASE ACCESS TO LEADING EDGE TECHNOLOGY	<ol style="list-style-type: none"> 1) Improve incentives for technology investment 	<ul style="list-style-type: none"> • Invest in new technology and market expansion 	<ol style="list-style-type: none"> 1. Extend research and development tax credits to initial commercialization and simplify the system 2. Improve C.C.A. rates 3. Accelerate C.C.A. for productivity enhancing equipment

**APPENDIX III
SUMMARY OF RECOMMENDATIONS**

WHAT THE SECTOR NEEDS TO BE COMPETITIVE	SPECIFIC CHANGES TO IMPROVE COMPETITIVENESS	WHAT INDUSTRY/ MANAGEMENT IS GOING TO DO	HOW GOVERNMENT COULD ASSIST
C. EASE ACCESS TO CAPITAL AT COMPETITIVE RATES	2) Locate and import current technologies	<ul style="list-style-type: none"> • Search for new technology worldwide 	1. Promote technology research programs to small and medium size business (TIP & IRAP)
	1) Reward equity investment	<ul style="list-style-type: none"> • Increase equity portion of capital structure 	1. Lower tax system incentives for owners to withdraw earnings annually 2. New equity investment tax credit to earn tax deduction 3. Pretax employee share ownership plans
	2) Update the small business deduction	<ul style="list-style-type: none"> • Consolidate into larger units 	1. Index \$200,000 small business tax rate ceiling from its last update in 1982 2. Allow small business tax rate to survive merger/acquisition for a specified period

APPENDIX III
SUMMARY OF RECOMMENDATIONS

WHAT THE SECTOR NEEDS TO BE COMPETITIVE	SPECIFIC CHANGES TO IMPROVE COMPETITIVENESS	WHAT INDUSTRY/MANAGEMENT IS GOING TO DO	HOW GOVERNMENT COULD ASSIST
	3) Provide incentives for export sales	• Boost Export sales	1. Institute preferential tax rate on specified foreign sales 2. Export Development Corp. should be competitive against equivalent foreign bodies
	4) Compensate for high interest rates		1. Make interest rates on investment in fixed assets competitive with those in the USA by offering investment tax credits to offset higher cost of borrowing

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