Industrie 2030

Management Issues Survey

2016

BDO

FCPC
Food & Consumer Products of Canada

Canadian Manufacturers & Exporters
Manufacturiers et Exportateurs du Canada

CMC

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Canadian Manufacturers & Exporters

Executive Summary

CME's biannual Management Issues Survey (MIS) is one of our most important tools for taking the pulse of the manufacturing community. It provides valuable insight into the mindset, aspirations and concerns of manufacturers – both in terms of their day-to-day struggles as well as their longer-term strategic goals.

Companies responding to this survey represented a broad cross-section of Canadian industry. We heard from small businesses with only a handful of employees, all the way up to large, multi-national companies. Survey results reflect the views of business spanning a wide range of economic activities and representing every part of the country.

Although each company has its own unique challenges and concerns, a number of consistent themes were evident in the 2016 survey. First, businesses were cautiously optimistic about what the future holds. Most expect modest growth in the coming years, fuelled both by higher sales in the domestic market, as well as in the United States, where the combination of stronger economic growth and a more favourable exchange rate will give Canadian manufacturers a leg up on their competitors.

Canadian businesses take pride in customer service. They believe their greatest strengths to be in meeting or exceeding customer expectations, adapting to changing customer demands, and offering differentiated products and services.

At the same time, however, businesses face a number of pressing challenges that threaten future growth and competitiveness. The issue of labour and skills shortages once again topped the list. Even in a time of sluggish economic growth, two of every five businesses face immediate labour shortages and 60 per cent anticipate scarcity within the next five years. These shortages – which span a wide range of occupation types from general labourers to skilled tradespeople to senior management – are constraining business growth and innovation. They are causing investment opportunities to pass Canada by and, in some cases, are forcing manufacturers to shut down their local operations and move production overseas.

Survey respondents were also clear that they need more from their governments. Close to half of businesses felt that the federal government was not supporting their efforts to invest, grow, and build a strong manufacturing sector in Canada. The level of dissatisfaction was even higher at the provincial level.

Where businesses need the most help is in minimizing the uncertainty associated with investing in new advanced manufacturing and digital technologies. Manufacturers recognize that the pride they take in satisfying their customers – not to mention remaining globally competitive – requires embracing these technologies. However, it is not as simple as buying an off-the-shelf piece of equipment and putting it on the shop floor. The research, planning, testing and implementation process, when added to the purchase cost, creates considerable risks and an uncertain economic return.

The 2016 MIS was extensive and tested the patience of respondents. However, it provided an invaluable glimpse into the specific challenges manufacturers face and the policy solutions they see. The survey points to clear actions needed in the following areas:

1. **Labour, skills and training:** Manufacturers want improvements to the suite of programs available for in-house training, and they want more financial support for that training. They also want governments to work with post-secondary institutions to improve existing training programs and to expand work-integrated learning programs in Canada.

2. **Taxation and regulatory policy:** Manufacturers are concerned about the creeping rise in the cost of doing business in Canada. Action is urgently needed in any of a number of areas to reverse this trend.

3. **Innovation and technology adoption:** Uptake of advanced manufacturing technologies in Canada is low, but businesses want to reverse that trend. Respondents believe tax credits and other incentives will help offset investment risks. They also want more opportunities to examine and test these technologies.

4. **Trade and global business:** Manufacturers are eager to find new customers for their products. However, they are largely unaware of the suite of trade assistance programs available to them. They also urgently need improvements to existing trade-related transportation infrastructure and funding to support travel for overseas business development.

FCPC
Food & Consumer Products of Canada

Joslyn Higginson
Vice President, Public & Regulatory Affairs
FCPC

Food and Consumer Products Canada (FCPC) is proud to partner with Canadian Manufacturers & Exporters' (CME) Industrie 2030 initiative, and to once again sponsor the Management Issues Survey. The results of this survey will help manufacturers – along with government, academic and research partners – plot a strategic roadmap to accelerate innovation and economic growth in key sectors.

Food processing is the largest employer in the manufacturing sector in Canada, providing approximately 300,000 Canadians with high-quality jobs in over 6,000 manufacturing facilities in every region of the country. FCPC's membership is truly national, providing value-added jobs to urban and rural Canadians in more than 170 federal ridings in every region of the country, and is well-positioned to play an even greater role.

The 2016 Management Issues Survey underscores the many challenges facing all manufacturers across the country. Business leaders' outlook in key areas such as the regulatory burden, and government support for manufacturing and attracting investment has not changed significantly since 2014. Businesses still face significant hurdles in adopting new technologies, investing in R&D and therefore in seizing innovation opportunities to become more productive and competitive.

Notwithstanding these challenges, there is a renewed sense of optimism in this report, fueled by a focus on productivity and efficiency, and the long-term competitiveness of Canada's manufacturing sector.

Food manufacturing represents one of Canada's biggest global economic opportunities. The world's population is estimated to grow to 9.6 billion by 2050; this will require a 70% increase in global food production. This growth in food production will need to be achieved sustainably and responsibly – and technology, research and investment will be absolutely critical.

Canada is well positioned to play a vital role in feeding the world with its safe, high quality, made-in-Canada products. Our sector's – and our country's – economic growth depends on shifting away from a commodity-based strategy toward one that drives future growth opportunities in value-added production. This strategy hinges on a competitive manufacturing sector, and an operating environment that fosters R&D, innovation and investment.

There is much that industry and government can achieve together.

Consistent with the findings of the survey, more incentives are required to encourage food and consumer product manufacturers to re-invest in their Canadian plants and/ or open new modern facilities. Other countries are fiercely competing for these investment dollars and Canada needs to be in the game if we want to keep and grow value-added jobs in this country.

The adoption of advanced technologies like automation and robotics is especially important for our industry and there is a lot of potential to grow in this area. Also critical is R&D in Canada for the industry's long term growth and competitiveness. And yet, as the survey finds, many obstacles remain to the adoption of new technologies –cost and uncertainty chief among them.

At the same time, Canada's regulatory regime governing food and consumer products is woefully outdated, and hinders the ability of our companies to innovate and to invest. It takes an average of 28 months to bring a new or reformulated food product to market in Canada – far longer than in trading partner countries. To some extent, the success of the Innovation Agenda in the agri-food sector will depend on our ability to modernize regulations in a timely and competitive manner. As we look to unleash the innovation potential of sectors like agri-food, the government must carefully measure the impact of the volume of new regulation it seeks to impose.

Overall, Canada's food, beverage and consumer goods manufacturers share in the optimism of this report, and look forward to playing a critical role in Canada's Innovation Agenda.

Michael Gillespie
Partner, National Manufacturing Leader
BDO

In recent years, Canadian manufacturers who have survived, and indeed thrived, have responded to competition from low cost jurisdictions; in many cases they have developed facilities and supplier relationships in those same jurisdictions as part of their business strategy, and many are now actively selling into these markets. As they continue to compete, companies must continue to manage their cost structure while increasingly providing excellent customer service, supported by extensive R&D and innovation.

Manufacturing remains one of Canada's key industries. In its various guises the Canadian manufacturing industry employs 1.7 million people, accounts for 11% of all economic activity, with total sales of over $600 Billion.

Manufacturers have always been among the earliest adopters of new technologies and processes; the continued strength of Canadian manufacturing lies in these new ideas, supported by extensive Research and Development (R&D) and innovation. Indeed, currently the manufacturing industry accounts for 45 per cent of private sector research and development in this country, and there continue to be plenty of opportunities for manufacturers to gain a competitive edge, as individual organizations and as a collective industry.

We at BDO are also investing in new ideas – allowing our people to better understand the issues affecting the companies we serve in the manufacturing sector, and developing a wide range of services to meet their needs.

No matter how challenging the market conditions, the manufacturers that will succeed are the ones that remain relentlessly focused on their customer, and reinvest in their people, products and processes. The coming fourth industrial revolution, based on the use of automation, data exchange, technology and technology-enabled supply chain communications, is just the latest example of technology providing a threat as well as an opportunity for those companies nimble enough to embrace it.

BDO would like to thank the CME for inviting us to join the journey in developing a roadmap for Canada as a "strategic leader of the fourth industrial revolution" and achieving the goal of doubling manufacturing output and value-added exports by 2030. A clear long-term strategy is what is needed to empower Canadian manufacturers.

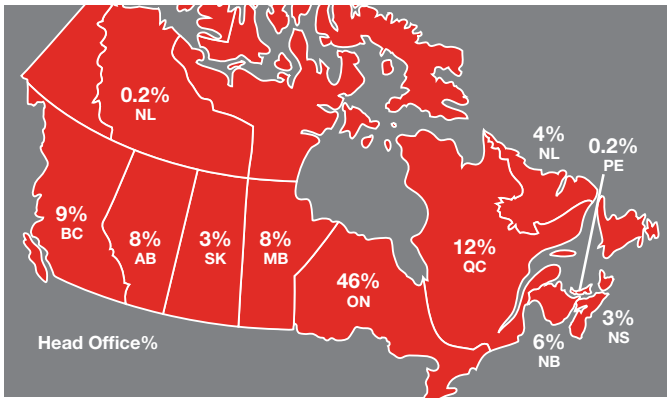
Respondent Profile

Where in Canada does your company operate?

In total, 553 companies responded to CME's 2016 Management Issues Survey (MIS). There was strong representation from across Canada, and a majority of businesses operated in more than one province.

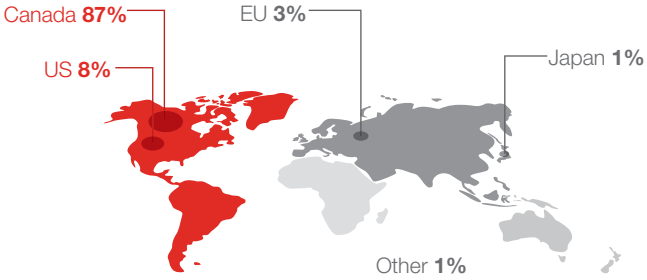
The largest share of respondents – about 46 per cent – was headquartered in Ontario. Quebec had the next highest share of primary operation, at just below 12 per cent, while BC was home to 9 per cent of head offices. In total, nearly 58 per cent of businesses operated out of Central Canada, 28 per cent in the West and just under 14 per cent in Atlantic Canada.

However, many survey respondents – about 44 per cent – had operations in multiple provinces. Nearly two thirds had at least one facility in Ontario, while 32 per cent and 31 per cent had business concerns in Alberta and BC, respectively.



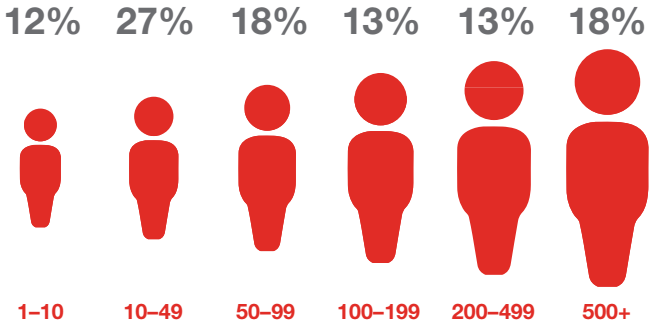
Where is the global headquarters of your company?

The vast majority of survey respondents (87 per cent) were Canadian-based. Of those with international headquarters, 61 per cent had their head office in the United States. EU-based companies made up 21 per cent of foreign-owned respondents, while 7 per cent were headquartered in Japan.



What is the size of your company's workforce in Canada?

Survey respondents tended to be small- and medium-sized businesses. Nearly 57 per cent of all reporting businesses had fewer than 100 employees. About 26 per cent were mid-sized companies, while about 18 per cent were large companies with more than 500 employees. Compared to our 2014 survey, the number of large-company respondents is down slightly, while there has been an increase in responses from smaller businesses.

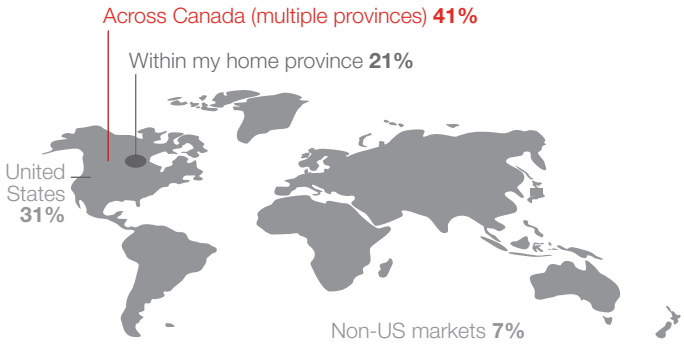


Fabricated metals	17%	Machinery & equipment	14%
Food & beverage products	8%	Automobiles, parts & components	7%
Electrical equipment, appliances & components	5%	Computers, electronics & advanced technologies	5%
Plastic & rubber products	4%	Furniture & related	4%
Wood products	4%	Consumer products	4%
Aerospace vehicles, parts & components	4%	Other transportation equipment & parts (rail, ships etc.)	4%
Paper products	4%	Clothing & textiles related	3%
Primary metals	3%	Chemical products	3%
Printing & packaging	2%	*Other	5%

*Other: Refined petroleum and petrochemical products, non-metallic minerals.

If your company is a manufacturer, what goods are produced?

Survey respondents represent a wide range of manufacturing activity in Canada. The largest representation was from companies in fabricated metals production at 17 per cent of total respondents. There were also a significant number of responses from businesses in food processing, automobiles and parts manufacturing, machinery and a range of consumer products.



What is the primary market for your sales?

Survey respondents tend sell into the domestic market. Just over 20 per cent stated that their primary business was in their home province, while about 41 per cent sold products across multiple provinces. However, a significant number of businesses – nearly 31 per cent of total respondents – reported that their primary market was in the United States.

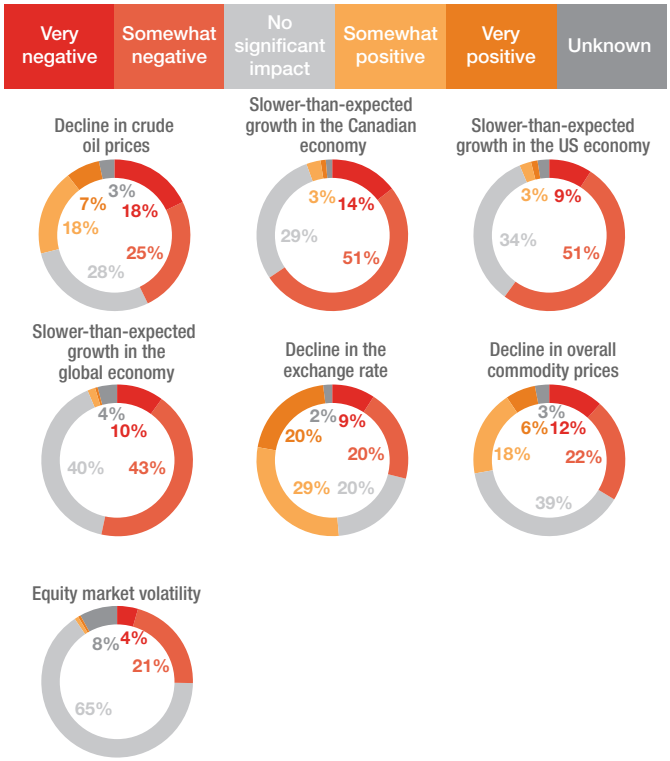
Economic and Business Outlook

What has been the impact of the following recent economic changes on your business?

Manufacturers have faced many economic challenges and headwinds over the last two years. Falling crude oil prices, exchange rate volatility and slower-than-expected economic growth in Canada and around the world have all contributed to an uncertain business environment.

Of particular interest, respondents' views on crude oil prices illustrate the close interconnection between the energy sector and manufacturing in Canada. Almost 43 per cent of respondents stated that falling oil prices had a negative impact on their business compared to just 25 per cent who thought the impact was positive.

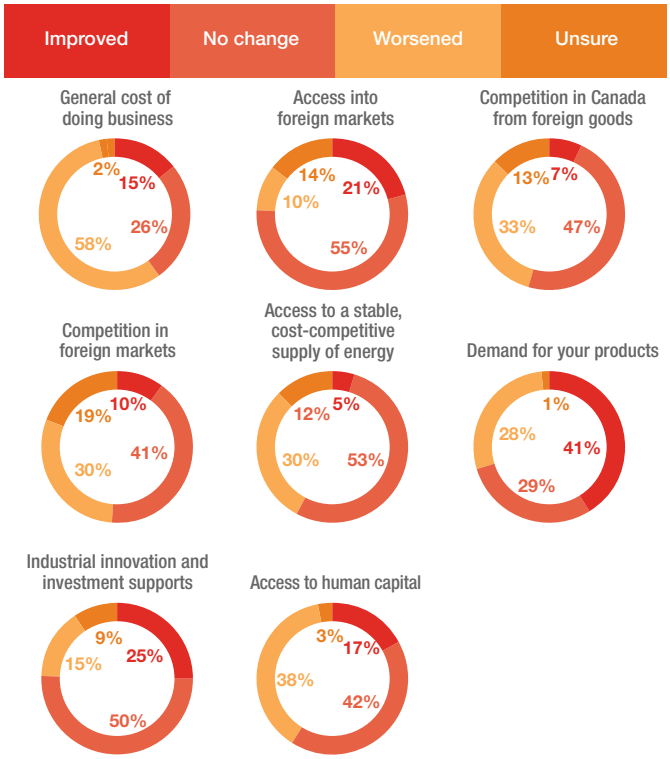
Unsurprisingly, most companies viewed a lower exchange rate as a positive development; a weaker loonie makes Canadian goods more competitive in foreign markets. However, a significant share of respondents (29 per cent) disagreed. The close relationship between the exchange rate and global crude oil prices means that a lower dollar is bad news for many businesses with ties to the energy sector.



How have your company's business conditions changed over the past three years?

Respondents generally reported that business conditions have grown more challenging over the past three years. A solid majority (nearly 58 per cent) reported that the general cost of doing business has risen. A significant share (38 per cent) also stated that challenges surrounding the attraction and retention of skilled labour have worsened. On top of that, many businesses noted that foreign competition is growing fiercer, both in the Canadian market and abroad.

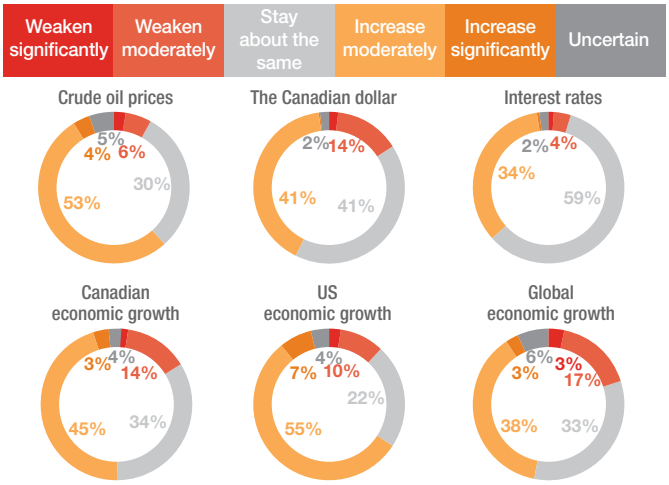
Business views on consumer demand were mixed, likely reflecting the split between those companies with ties to energy sector supply chains and those without. While 41 per cent of respondents stated that demand for their products has increased, close to 30 per cent reported the opposite.



What are your expectations for economic conditions over the next three years?

In spite of their current business challenges, manufacturers believe that economic conditions will improve over the next three years. A strong majority of respondents are especially pinning their hopes on accelerating growth in the United States. Nearly half also expect the Canadian economy to pick up.

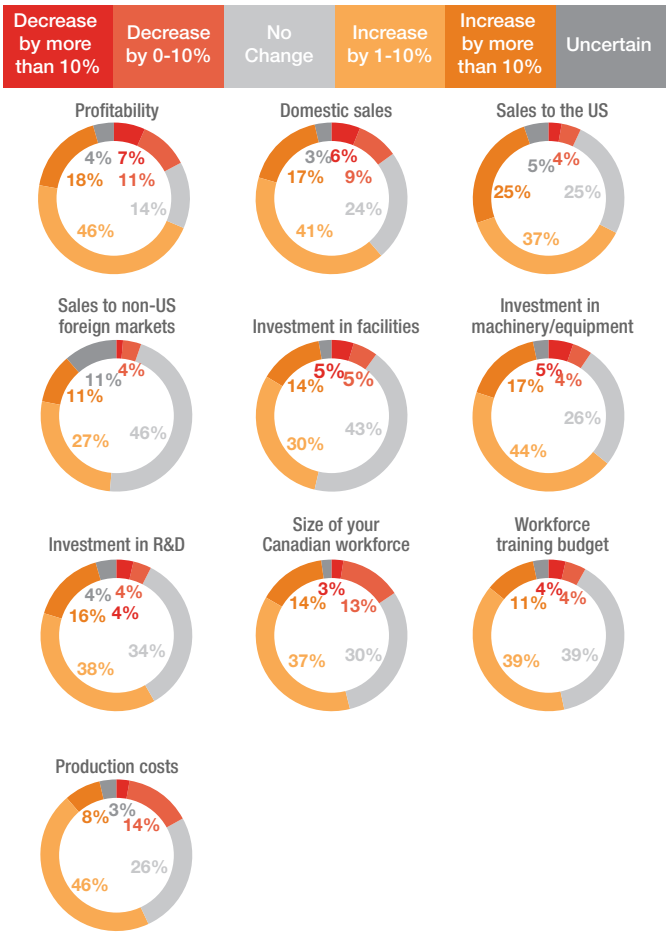
Businesses are also looking for crude oil prices to rise over the next three years, but they are less sure about the value of the loonie. A large share (40 per cent) of respondents believes the Canadian dollar will remain at about present levels, while a nearly identical share expect it to increase modestly.



What is the outlook for your business over the next three years?

A more optimistic view of prevailing economic conditions is translating to optimism about future business prospects. In general, manufacturers are bullish about their future – especially about their growth prospects in the United States. Close to 60 per cent expect domestic sales to increase over the next three years, while 62 per cent expect higher sales to the US. Remarkably, nearly a quarter of respondents expect at least 10 per cent growth in US sales.

While businesses believe higher sales will translate into more profits, they also expect profits to rise faster than sales revenue. The reason for this is that manufacturers are clearly focusing on improving their productivity and efficiency in the coming years – good news for the long-term competitiveness of manufacturing in Canada. More than 60 per cent of respondents plan to increase investments in machinery and equipment, and more than half expect their R&D budgets to grow. About half plan to increase their workforce training budgets as well.



What are the most pressing challenges facing your company today?

Although businesses pointed to a long and varied list of challenges, two clearly stood above the rest.

As in previous years' surveys, labour shortages once again topped the list, as a full 35 per cent of respondents cited attracting or retaining skilled labour as one of their three biggest challenges. Following close behind was the challenge of finding new clients or business partners at just below 32 per cent.

Beyond those two primary challenges, there were a number of others which were shared by many companies. Exchange rate volatility is of growing concern to many businesses as rapid changes in the value of the Canadian dollar make it difficult for businesses to plan ahead and negotiate prices. Many respondents also pointed to an increasing regulatory burden and higher costs stemming from government policy changes as important challenges.

At the other end of the spectrum, it appears as if interprovincial trade barriers and access to global suppliers are not significant concerns for many businesses today.

What do you believe are your company's greatest strengths?

The Management Issues Survey tends to focus on challenges and obstacles to growth. This year, however, we wanted to learn from businesses what they thought they did particularly well. The responses clearly show that manufacturers and other businesses are heavily focused on customer service and customer satisfaction.

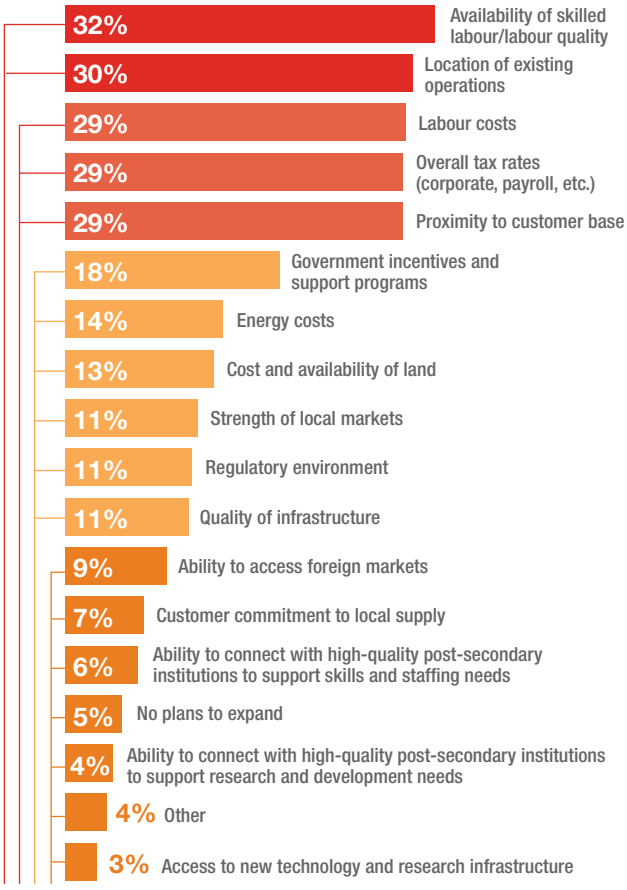
Customer satisfaction topped the list by a considerable margin with a response rate of 57 per cent. The next two most popular responses were also focused on customers. More than 37 per cent of respondents believed that their ability to offer differentiated products and services was a source of business strength. Similarly, 36 per cent of respondents prided themselves on their ability to adapt to changing customer demands.

There were, however, some concerning findings as they relate to workforce training and engagement. Only one per cent of businesses thought they were good at identifying workforce skills needs and solutions. Barely 3 per cent felt that succession planning was a source of strength.

What are the most important factors your business considers when deciding where in Canada to invest?

Deciding on where to build a new plant or choosing which existing operations to expand is one of the most important decisions a business can make. While many factors influence such a decision, respondents were clear that some matter more than others. Among the most important is access to a skilled workforce at competitive wages. Nearly 32 per cent of respondents cited access to skilled workers as an important factor, while just over 29 per cent highlighted labour costs.

A competitive tax environment is also a critical factor for many businesses, as is proximity to their customer base and their existing facilities.

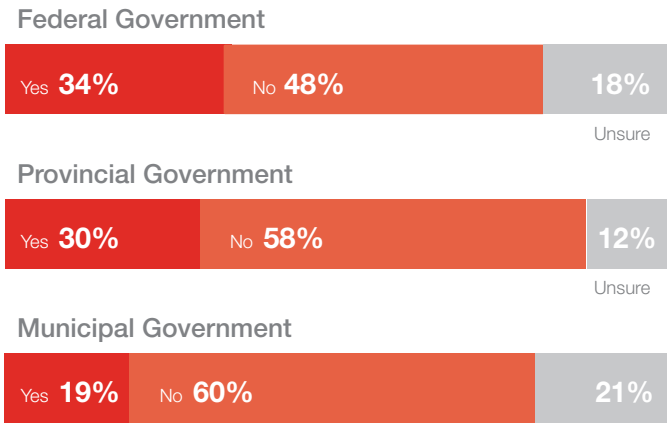


Taxation and Regulatory Policy

Do you believe that governments are supporting investments in, and growth of, your company?

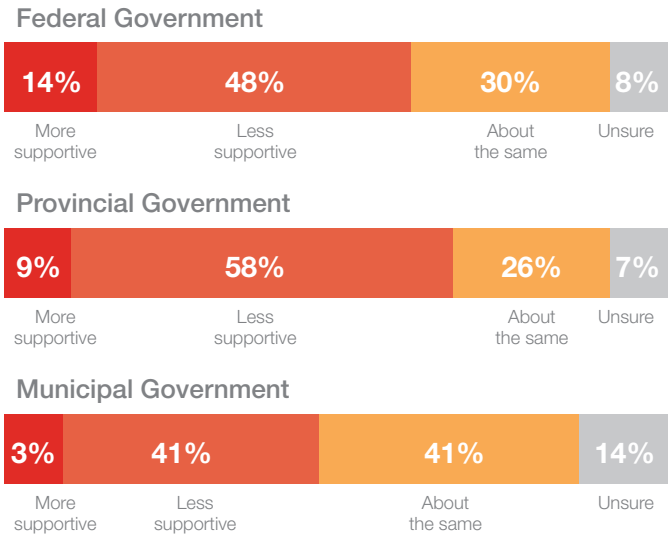
Governments play a critical role in establishing the economic environment in which businesses operate. However, once again, our survey results show that more work is needed. For all three levels of government, businesses tended to believe that they were not receiving adequate support for their investment and growth efforts. Half of all respondents felt that the federal government was not supportive and the share of dissatisfied businesses rises as the size of government jurisdiction decreases.

Moreover, at the federal and provincial levels, these results are worse than they were in our 2014 survey. At that time, 46 per cent of businesses were dissatisfied with federal policy, compared to 48 per cent in 2016. For provincial governments, the share rose from 55 per cent to 58 per cent. The good news is that business' views of municipal governments have improved. In the 2016 survey, 60 per cent were dissatisfied, compared to 72 per cent two year ago.



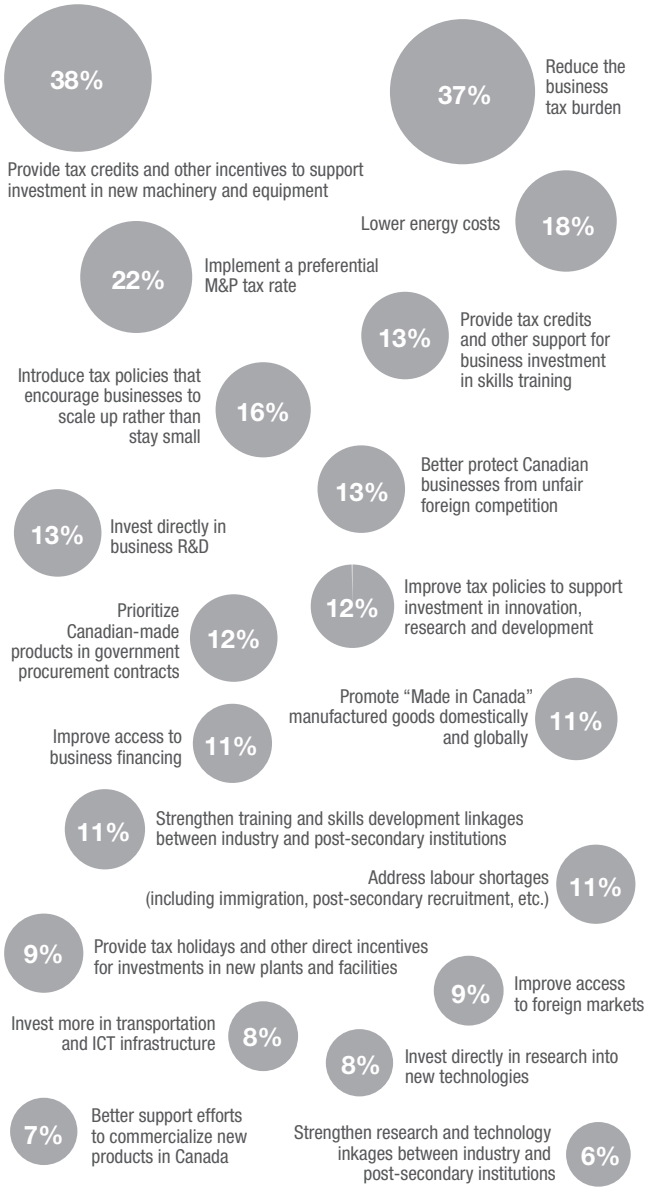
Have government tax and regulatory policies become more supportive over the past three years?

According to survey respondents, Canada's taxation and regulatory burden is becoming more onerous and less supportive. Concerns were greatest at the provincial level, where nearly three fifths of respondents felt that the government policies were less supportive than they were three years ago. That share fell to 48 per cent for the federal government and 41 per cent for municipalities.



What more should governments do to support manufacturing in Canada and attract manufacturing investment to the country?

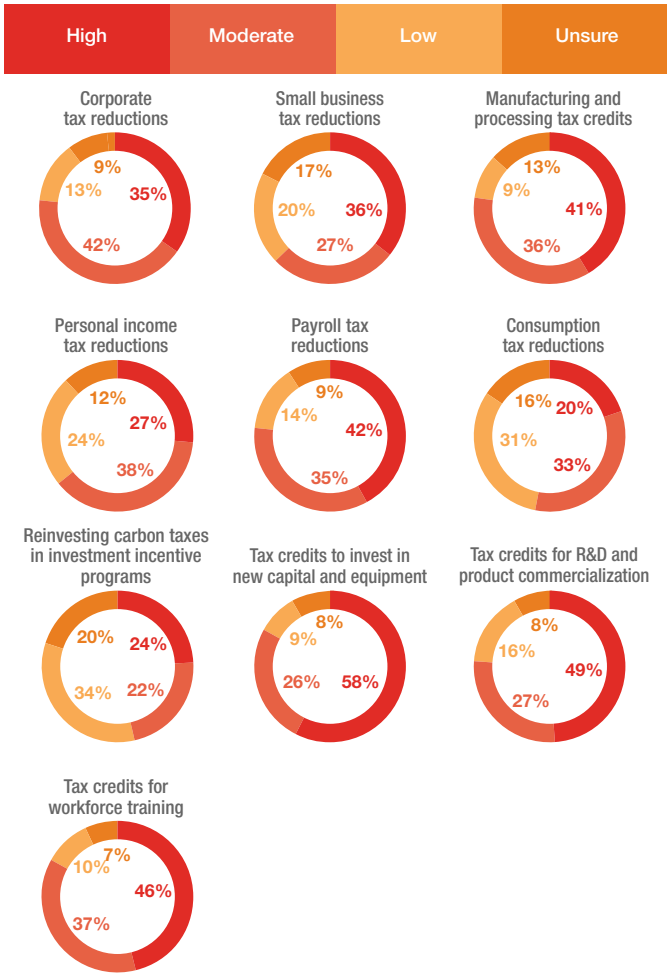
Survey respondents were clear in stating what government policy actions would have the greatest impact on supporting growth in manufacturing: provide assistance with the costs of investing in new machinery and equipment; and reduce the overall tax burden. Thirty-eight per cent called on governments to provide tax credits and other incentives for the purchase of machinery and equipment, while 37 per cent felt a less onerous tax burden would make a difference. Other suggestions include a preferential manufacturing and processing tax rate (22 per cent) and lower energy costs (18 per cent).



What level of importance does your company place on the following tax policy measures?

Survey results show clearly that businesses are not interested in tax cuts simply for the sake of padding their bottom line. They want tax revenues to be used to help them invest in improving their productivity and competitiveness. More than fifty-eight per cent believed that tax credits for investment in new capital, machinery and equipment should be a high priority. No other tax policy option received a higher share of responses.

Other tax priorities reinforced the need for governments to prioritize business competitiveness. Almost half of respondents felt that tax credits for R&D, and product development and commercialization should be a high priority, while about 46 per cent chose tax credits to assist with workforce training.



Innovation, Commercialization and Technological Adoption

What are the most significant challenges your company faces when bringing new products or services to market?

Respondents identified the cost of building/development prototypes as the top innovation challenge they face in the Canadian market. This result is significantly different from our last survey where manufacturing costs was the biggest challenge and prototype development was well down the list. However, as the fourth most frequent response, manufacturing costs clearly remain an issue.

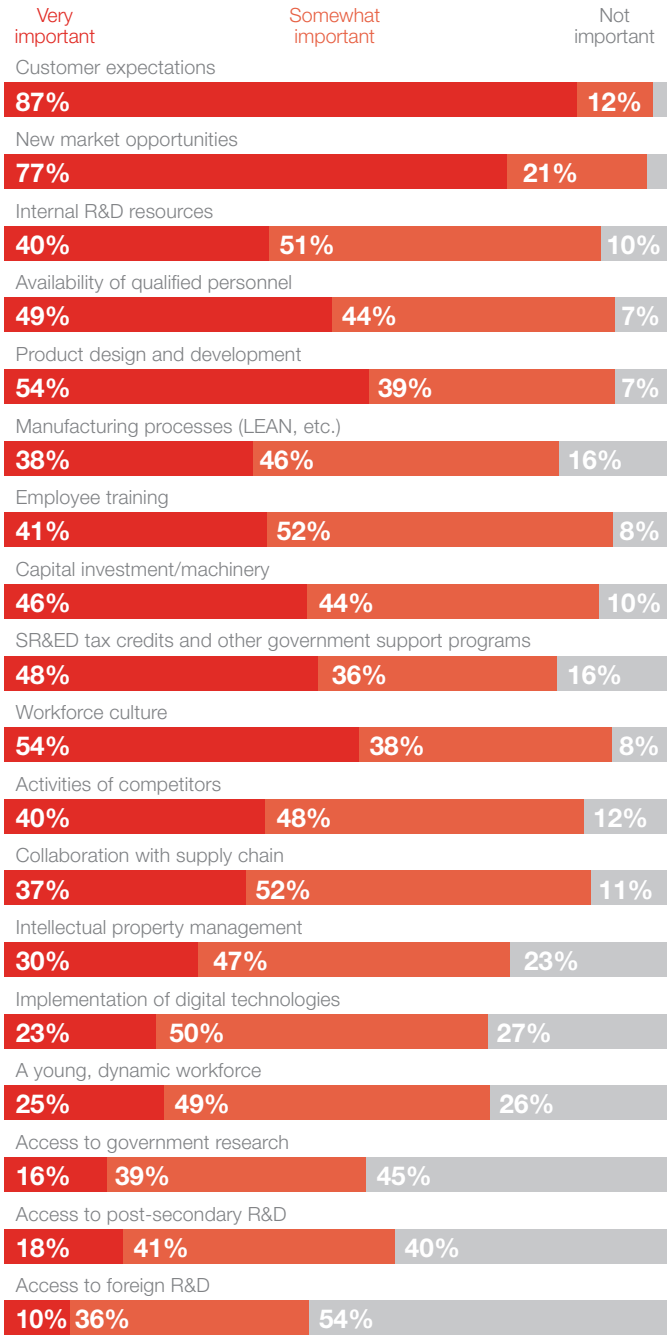
Survey results point to two other critically important challenges: a lack of incentives and other programs to offset investment in new technologies; and having the right people in place. Those issues were highlighted by about 30 per cent of respondents.

Cost of building/ developing prototypes	36%
Availability of skilled personnel	30%
Lack of incentives/ programs to invest in new technologies	29%
Cost of manufacturing the final product	29%
Lack of internal funding/resources	23%
Lack of customer demand	22%
External competition makes new product development risky	19%
Lack of necessary machinery, equipment or plant capacity	18%
Process engineering/ production scale-up	18%
Regulatory impediments	15%
Product design	14%

How important are each of the following in terms of their impact on your company's innovation performance?

Improving the innovation performance of Canadian companies is an ongoing priority. However, when it comes to triggering innovative activity, there is no greater motivator than customer satisfaction. Nearly 87 per cent of respondents indicated that customer expectations were very important, and 77 per cent felt the same about new market opportunities.

Research and development is also important to business innovation in Canada, but only from in-house sources. Respondents placed far less value on access to external R&D, whether from foreign sources, post-secondary institutions or government. This finding is consistent with previous MIS results.



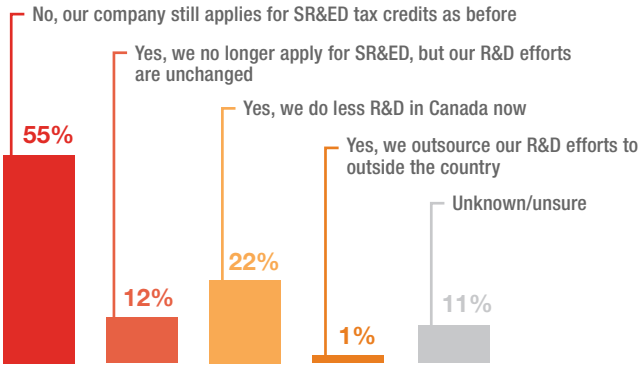
Does your company use Canada's Scientific Research and Experimental Development (SR&ED) tax credit program?

Fifty-six per cent of respondents currently use the SR&ED tax credit program while 38 per cent do not. This represents a slight increase in the share of companies using the program from 2014 (53 per cent), but remains below the 60 per cent level of use in our 2012 survey.

Programs like SR&ED are critical to maintaining Canada's international competitiveness. An earlier survey question highlighted that Canadian companies rely on internal R&D to drive innovation. At the same time, Canada is recognized as having one of the least attractive R&D tax credit regimes for large corporations within the OECD.

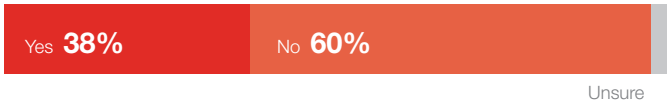
Have the recent cuts to SR&ED affected your use of the program?

The SR&ED program has been subject to a number of cuts in recent years that have reduced the scope of the program and the activities that qualify for tax credits. Of those who use SR&ED, 55 per cent reported that these cuts have not affected their uptake of the program, but nearly 35 per cent reported that they have changed their behavior as a result. Most concerning is the fact that nearly 22 per cent reported that they now perform less R&D in Canada. A the same time, close to 12 per cent still perform just as much R&D in Canada as before, but no longer find it worth their time to apply for the tax credit.



Does your company presently use advanced manufacturing technologies (3-D printers, intelligent production systems, high-performance computing, etc.)?

The adoption and integration of new advanced technologies is critical to the long-term competitiveness of manufacturing in Canada. However, according to the MIS results, three fifths of respondents do not use these technologies in their operations. This finding is a concern. The share of businesses adopting such technologies needs to increase for manufacturing to grow in Canada.



What are the main obstacles your company faces in adopting new technologies in your operations?

Based on our survey results, the clearest obstacles to adopting new technologies are linked to cost and uncertainty. Forty-six per cent of businesses stated the cost of purchasing new equipment was a major obstacle – a figure likely exacerbated by the low Canadian dollar which is raising the cost of importing new capital.

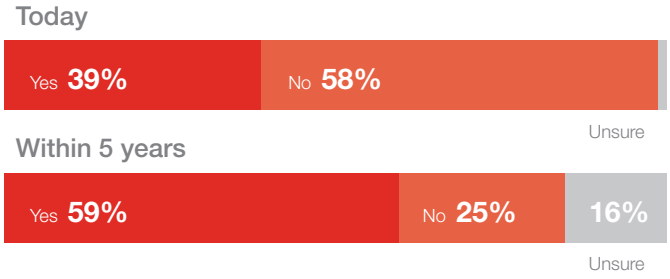
Businesses also clearly see risk in adopting new technologies. Nearly 40 per cent are uncertain if the benefits will sufficiently exceed the costs, while close to one third see risk in the general uncertainty surrounding the technology itself. Finally, 31 per cent are unclear how such technologies will fit into their existing operations.

Labour, Skills and Workforce Training

Does your company face immediate labour and/or skills shortages today? Do you anticipate such shortages to arise within the next five years?

Close to 40 per cent of all companies responding to the Management Issues Survey say they are already dealing with labour and skills shortages. While concerning, this total actually represents a significant improvement over the 2014 survey results, when 56 per cent said the same.

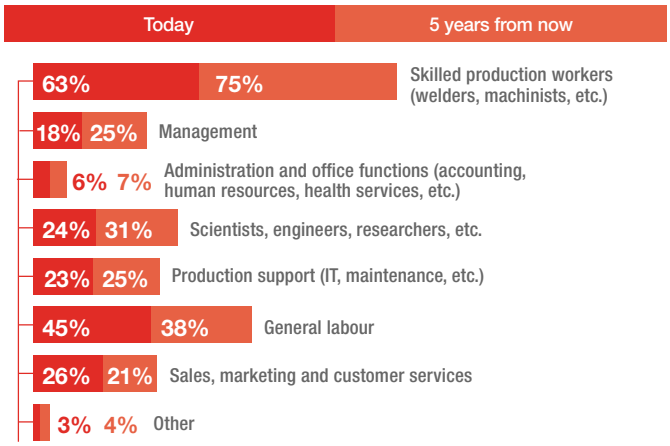
However, businesses expect their workforce challenges to deteriorate in the coming years. About 60 per cent of respondents believe that labour and/or skills shortages will be worse five years from now than they are today.



In what occupations does your company face the most urgent labour/skills shortages today? Five years from now?

For those businesses that do face labour or skills shortages today, by far the most common are for production workers – welders, machine operators and those in other skilled trades. Sixty-three percent of respondents that need workers need them in those fields. There was also a significant need for general labourers; about 45 per cent of businesses reported shortages in that area.

Five years from now, MIS respondents expect shortages to get worse in skilled production fields. They also expect shortages to become more common for scientists, engineers and researchers, as well as for management positions. Meanwhile, fewer businesses expect to see future labour shortages for sales, marketing and customer service positions, as well as general labourers.



How has your business responded to existing labour/skills shortages? How will you respond five years from now?

Businesses are using a range of strategies to address existing and anticipated labour and skills shortages. In the immediate term, they are recognizing that they will have to pay more to attract and retain the workers they need. They also recognize the need to invest in their own workforce to ensure the right skills are being developed. To offset those added costs, businesses are placing a high priority on improving operational efficiency.

The concern is what will happen five years from now if these skills shortages go unaddressed. While there are positive signs – businesses plan to invest more in automation and skills training – the survey points to troubling findings as well. Seventeen per cent of respondents believe they will close their Canadian operations and move to another country where labour and skills are more cost-effective and readily available. Nearly a quarter plan to step up their recruitment from other companies, suggesting that a bidding war will arise for available talent. That will only serve to further drive up the cost of manufacturing in Canada.

What role should governments play in helping manufacturers address labour and skills shortages?

Manufacturers had mixed views on what they thought was the most effective role for governments to play in helping address labour and skills shortages. However, the most common response was that governments should provide more direct funding to support employer-driven training, both of new hires and the existing workforce. This finding suggests that businesses prioritize workforce training activities that meets their individual needs. It also implies that programs like the Canada Jobs Grant are providing the right kind of support, but that more is needed.

Another clear result from this question is that manufacturers believe the current education system, including its linkages into industry, need to be improved. Businesses clearly saw the need for a stronger system of work-integrated learning, developing training programs that better meet business' needs, and more active promotion of the skilled trades as an attractive career option for Canadian youth.

What are the main issues preventing your company from investing more in workforce training?

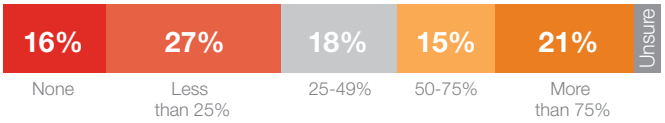
CME also asked businesses why, if labour and skills shortages were such a pressing issue, they were not investing more in training their own workers. While responses were mixed, two stand out. About 35 per cent stated that there were no existing training programs available that met their specific needs. This suggests a mismatch between the services being offered by education and training providers, and the needs of businesses.

A second issue is poaching. Three in ten respondents were concerned that when training was completed, they could potentially lose the worker to a more attractive job offer. In such a case, they would bear the cost of training and creating a more productive and valuable worker, but lose any return on that investment.

Trade and Global Business Development

Approximately what share of your total Canadian production is exported?

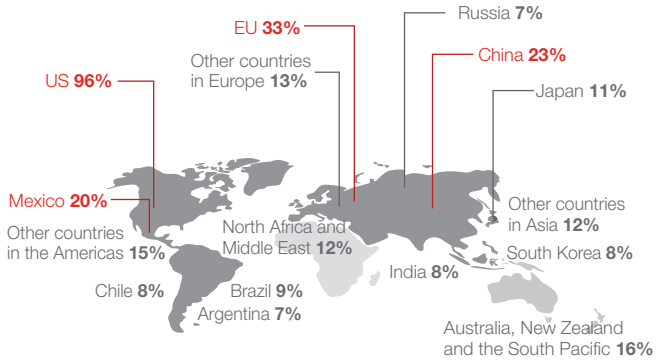
Survey respondents are very familiar with competing in international markets. About 81 per cent already export at least a share of their total Canadian production and more than one fifth export more than 75 per cent of what they make here at home.



What are the primary markets to which your company exports?

Unsurprisingly, the United States is by far the most common export destination for Canadian manufactured goods. More than 96 per cent of respondents that export sell into the US. However, a significant share – about one third – also exports into the European Union. China and Mexico were also important markets for survey respondents.

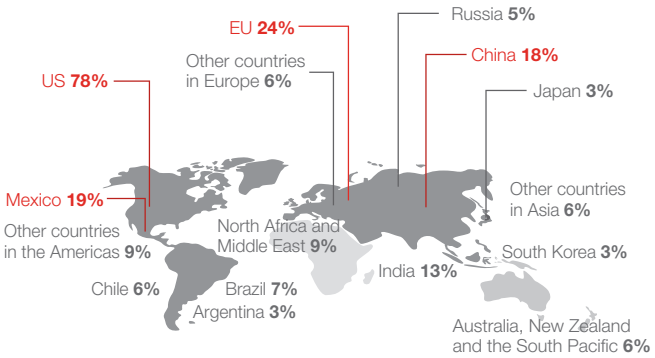
It is worth noting that although the US is their dominant market, Canadian manufacturers export all over the world. Whether it is India, Chile, the Middle East or elsewhere, Canadian businesses are exploring the globe to find markets for their goods.



Which international markets do you believe offer the greatest opportunities for growth in the next five years?

As noted in the 2014 MIS results, it is something of a truism that China and other developing markets in Asia hold the greatest trade and investment opportunities. Once again, however, survey respondents did not agree. Respondents felt strongly that the greatest opportunities for increased trade in the next five years are in the United States. Nearly 80% stated as such in the 2016 survey, identical to the response rate from two year ago.

A possible reflection of the opportunities expected from an implemented Canada-EU Comprehensive Economic Partnership Agreement (CETA), the EU was the next most common response at 24 per cent. Businesses also see opportunities for growth in China and Mexico.

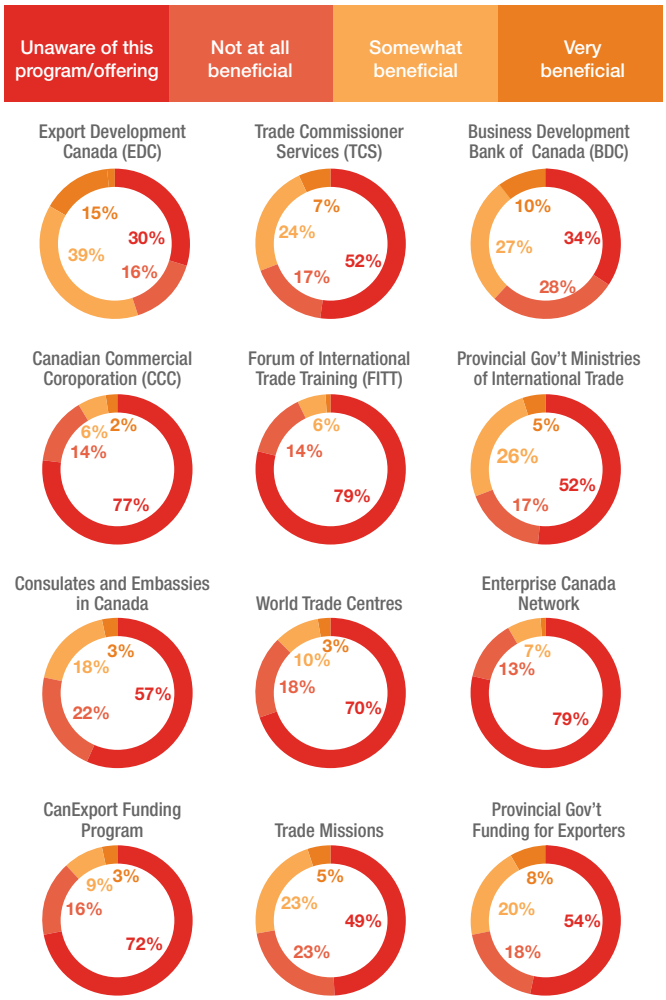


What has been your experience with the following trade assistance programs, tools or agencies?

Canadian manufacturers have a wide array of programs and tools available to help them become export-ready and to have success in international markets. For the first time, the MIS asked businesses about their experience with these offerings and how effective they believed them to be.

The clear message is that most businesses are not using the suite of programs available to assist them. In most cases, more than half of respondents were either unaware of the specific assistance mechanism, or were not using it.

The most positive response was for the services offered by Export Development Canada. Not only was uptake/awareness of EDC services far higher than other offerings, but the level of satisfaction was high as well. Of those who were aware of or had used EDC services, close to 80 per cent felt them to be somewhat or extremely beneficial.

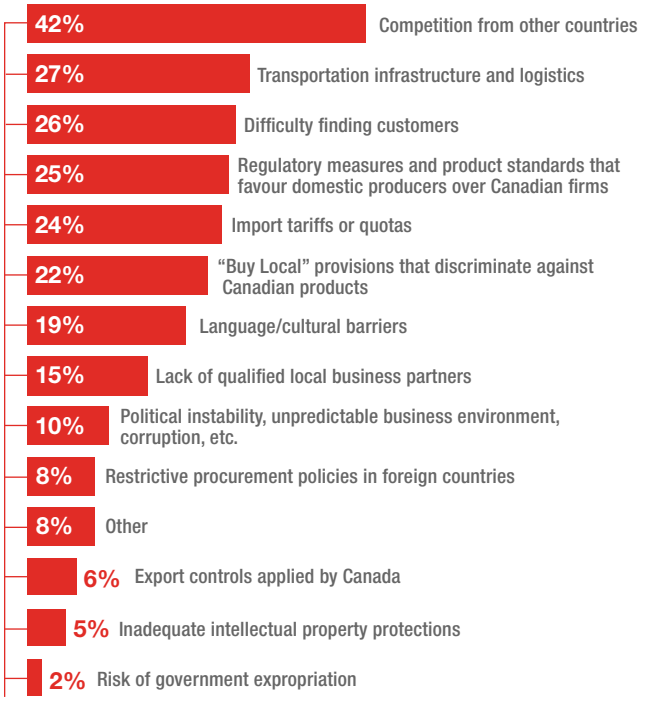


When doing business in foreign markets, what are the most significant external challenges your company faces?

Foreign markets offer tremendous opportunities for Canadian businesses, but they can face a host of challenges and obstacles in those markets. Topping the list of challenges in the 2016 survey was the intense competition Canadians face from other countries.

As in our 2014 survey, another critical issue is the ability to find international customers. Companies may be aware of overseas export opportunities in an abstract sense, but there is a tremendous difference between that and identifying who specifically might want to buy your products. This challenge speaks to the need to leverage existing resources like Canada's Trade Commissioner Services to facilitate trade.

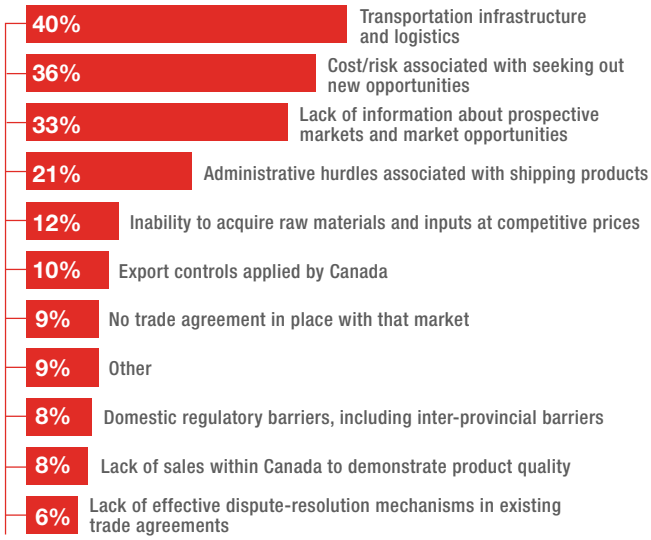
Respondents also highlighted a series of market access barriers that are preventing them from expanding sales abroad. These include both tariff- and non-tariff barriers alike.



What are the most significant internal or domestic challenges your company faces when exporting?

While businesses face challenges in foreign markets, there are also issues here at home that can be a handicap. The most oft-cited challenge is Canada's network of trade-related transportation infrastructure. Getting goods to market as quickly, efficiently and cost-effectively as possible can make the difference between making and losing a sale.

Another important issue is the cost/risk associated with seeking out new opportunities. Finding new international customers requires significant up-front market research and analysis with no guarantee of success. This can especially be an issue for small companies looking to export who may not have the time or financial resources needed to do this advance work.

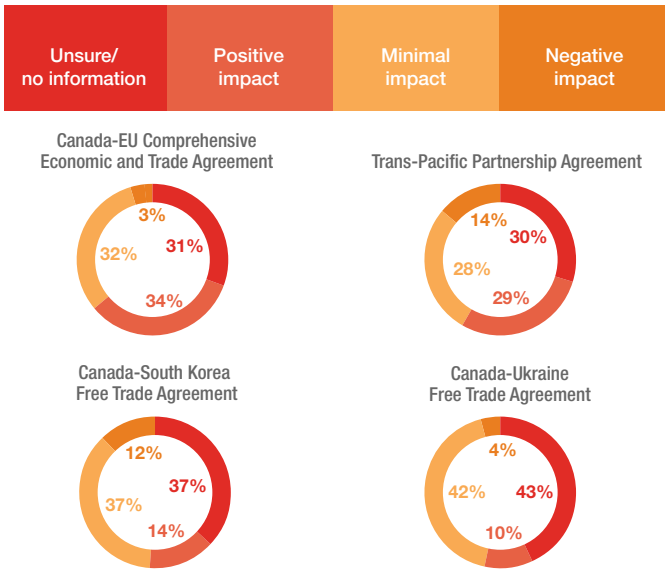


Canada has concluded or is negotiating a number of agreements to open new export markets for Canadian businesses. How do you believe each of these will impact your company?

Canada has negotiated a number of trade agreements in recent years aimed at removing the tariff- and non-tariff barriers facing businesses in international markets. While manufacturers are supportive of free trade agreements generally, they have mixed feelings about recently-concluded negotiations. Understandably, with not a lot of information available about some of these agreements, a large share is unsure of what the ultimate impact will be.

Businesses are most optimistic about the CETA agreement with the EU. While one third is unsure about the impact, a comparable share believes it will have a positive impact, and only 3 per cent thinks the impact will be negative.

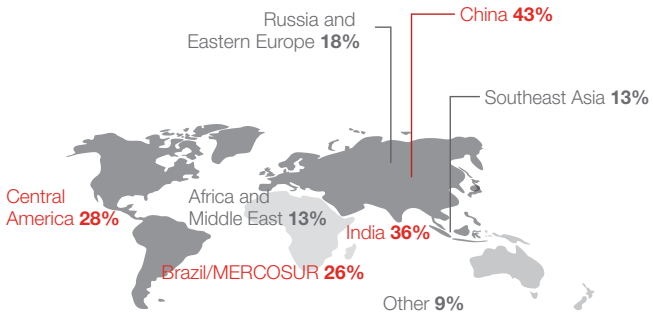
There is some clear concern, however, about the proposed Trans-Pacific Partnership agreement (TPP). A full 14 per cent of respondents believe that agreement will have a negative impact on their business.



Canada is exploring other trade-liberalization opportunities around the world. Where should these efforts be focused?

In spite of their concerns or lack of information about recently-concluded negotiations, Canadian businesses clearly want the federal government to continue pursuing free trade around the world. Only about 13 per cent felt that Canada should not be negotiating any new agreements.

The highest priority for respondents is China. Nearly 43 per cent of respondents want trade with China to be further opened up. India, Brazil and Central America are also priority markets.



Canada should not be pursuing additional free trade agreements 13%

Which of the following government supports would have the greatest positive impact on your export growth?

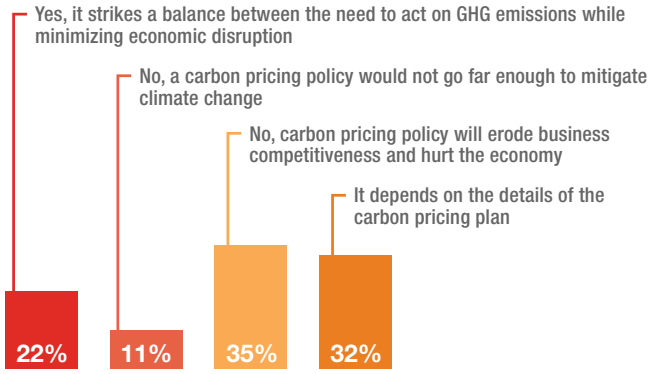
Governments have a range of policy tools at their disposal to help boost exports. The MIS asked businesses which of these they thought were the most beneficial. According to respondents, governments can make the greatest impact by helping offset the costs of business development and travel to foreign markets to generate sales. These up-front costs can be a major barrier to trade since businesses must spend significant time and resources without any guarantee of success.

The second priority is to deepen existing trade agreements, notably NAFTA. This finding is consistent with the results from other questions in this survey. Businesses see the US as their most important market and the one with the most untapped potential. Better access to the US market will mean more export opportunities for Canada.

Climate Change and Carbon Pricing

Do you support carbon pricing as a means to reduce emissions from the industrial sector?

Carbon pricing is a controversial issue. While most businesses agree that action needs to be taken on climate change, they are also understandably concerned about the potential impact of carbon pricing on their ability to compete – especially with countries that may not have as stringent environmental regulations or a carbon pricing mechanism of their own. A full 35 per cent of respondents voiced such concerns, while another 32 per cent believed that the impact will depend on the details of a national carbon pricing plan.

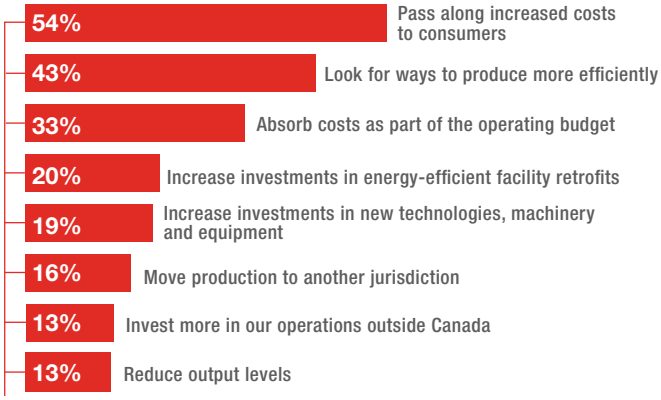


How would your company adapt to a new or additional price on carbon?

Businesses are adopting a range of strategies to cope with the increased costs associated with a price on carbon. Most plan to pass along at least some of their costs to consumers, which will translate into higher prices for most goods. This also comes back to lingering concerns about remaining competitive with other countries; Canadian businesses will have a hard time passing costs along to consumers if their foreign competitors are not operating with a comparable carbon pricing system.

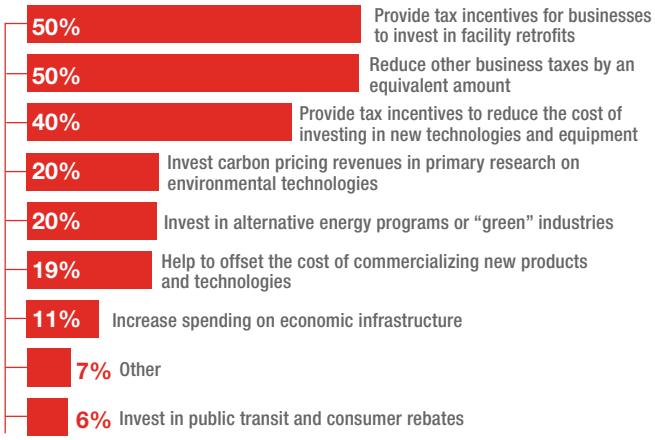
Businesses also hope to identify a range of efficiency gains to lower their carbon footprint, whether it be producing more efficiently or investing in new technologies or facility retrofits.

One concerning finding from this question is that unless well-designed, carbon pricing could lead to an exodus of business activity from Canada. Just below 16 per cent of respondents stated that they will move production to another jurisdiction, while 13 per cent plan to focus new investments in other jurisdictions.



How should governments help businesses adjust to new carbon pricing measures?

Governments can take steps to help Canadian businesses remain competitive at the same time as they impose new or additional prices on carbon. Asked to select three options, survey respondents were clear on which they preferred. Half stated that, to compensate, other business taxes should be reduced by an equivalent amount. About the same share believed that carbon tax revenue should be redirected to offsetting the costs of facility retrofits to reduce emissions, while slightly less (40 per cent) called for tax incentives to offset the costs of buying new technologies, machinery and equipment.



Who We Are

About Canadian Manufacturers & Exporters

Since 1871, we have made a difference for Canada's manufacturing and exporting communities. Fighting for their future. Saving them money. Helping them grow.

The association directly represents more than 2,500 leading companies nationwide. More than 85 per cent of CME's members are small and medium-sized enterprises. As Canada's leading business network, CME, through various initiatives including the establishment of the Canadian Manufacturing Coalition, touches more than 100,000 companies from coast to coast, engaged in manufacturing, global business and service-related industries.

CME's membership network accounts for an estimated 82 per cent of total manufacturing production and 90 per cent of Canada's exports.

cme-mec.ca

About the Canadian Manufacturing Coalition

The Canadian Manufacturing Coalition is comprised of more than 50 major industry groups, united by a common vision for a world-class manufacturing sector in Canada.

The Coalition speaks with one voice on priority issues affecting manufacturers, and what must be done to ensure all Canadians continue to enjoy economic growth, high-value outputs and high-paying jobs. The Canadian Manufacturing Coalition's member organizations represent roughly 100,000 companies through their collective networks.

manufacturingourfuture.ca

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