CANADIAN MANUFACTURERS & EXPORTERS

MANUFACTURIERS & EXPORTATEURS DU CANADA

January 15, 2025

The Right Honourable Justin Trudeau
Prime Minister of Canada

The Honourable Pierre Poilievre
Leader of the Official Opposition

Mr. Jagmeet Singh, M.P.
Leader of the New Democratic Party of Canada

Mr. Yves-François Blanchet, M.P.
Leader of the Bloc Québécois

Re: Urgent Action Required to Protect Canadian Manufacturers and Workers from U.S. Tariff Threat

Dear Prime Minister Trudeau, Mr. Poilievre, Mr. Singh, and Mr. Blanchet,

Canada's manufacturing sector is a pillar of our economy, contributing $213 billion to GDP, employing 1.81 million Canadians, and accounting for 60.7 per cent of merchandise exports. When factoring in the broader economic impacts, manufacturing supports 5.29 million jobs – more than one in four in Canada.

However, the imminent threat of sweeping U.S. tariffs poses a significant and immediate risk to this critical sector, jeopardizing thousands of businesses and jobs. This threat is on top of long-standing challenges facing our economy - chronic productivity issues, skills shortages, and an uncompetitive tax and regulatory environment - that have already weakened investment and growth.

The Impact of U.S. Tariffs

The U.S. is undeniably vital to the Canadian economy, with exports to the U.S. accounting for approximately 20 per cent of Canada's GDP. The manufacturing sector, including oil and gas with its manufacturing value added, will be the hardest hit by U.S. tariffs, as nearly two-thirds of Canada's exports to the U.S. are manufactured goods. This trade has benefited both countries through interconnected supply chains that have been developed over decades. With 45 per cent of total manufacturing sales tied to the U.S. market, tariffs will cripple Canada's industrial base, threatening its competitiveness, investment, and long-term viability.

This seriousness of this threat is reflected in a recent Canadian Manufacturers & Exporters (CME) survey which found that:

- 90 per cent of manufacturers expect significant or severe impacts if tariffs are imposed.
- 30 per cent have already postponed planned investments, and 22 per cent have implemented hiring freezes due to heightened uncertainty.

- If tariffs proceed, 48 per cent of manufacturers anticipate layoffs or hiring freezes, 49 per cent plan to shift some production to the U.S., and 45 per cent expect to cancel or delay planned capital investments.

If Canada retaliates, the economic fallout will be even worse, driving up costs for businesses and consumers on both sides of the border.

Immediate Action Required to Address National Economic Threat

We recognize that retaliatory tariffs will be necessary to exert pressure on the incoming U.S. administration. However, a full-scale trade war is not an option – Canadian manufacturers, workers, and consumers cannot afford broad-based retaliation that further destabilizes the economy. Retaliatory measures must be strategic, targeted, and enacted in close consultation with industry to minimize collateral damage.

The imposition of U.S. tariffs will trigger a significant economic shock. Revenues lost while tariffs are applied are not recovered, so the duration of the disruption is critical. Canada must act decisively to stabilize businesses, protect jobs, and preserve our manufacturing footprint. To mitigate the immediate shock and support manufacturers, the following relief measures may be necessary:

- **Short-Term Tariff Relief** – Implement a short-term federal cost-coverage mechanism (of at least three months) to offset the immediate impact of tariffs on Canadian exporters, preventing rapid relocations and allowing negotiations to proceed without causing major job losses and supply chain disruptions. Funding could be supported by revenues from counter-tariffs or export taxes.

- **Investment Incentives & Reshoring Support** – Take a proactive approach by introducing incentives to encourage manufacturers to proceed with planned investments and reshore production to Canada. This could include matching the Ontario Made Manufacturing Investment Tax Credit (OMMITC) with higher limits and providing low-cost loans to stimulate investments that strengthen domestic supply chains and long-term competitiveness.

- **Leverage Existing Federal Programs** – Accelerate or unlock additional funding within existing programs to support productivity enhancing investments, ensuring manufacturers remain globally competitive amid heightened trade uncertainty.

- **Tax Relief Measures** – Introduce corporate deferrals to improve short-term cash flow, freeing up funds for operations, wages, and supply chain adjustments.

- **Work-Sharing Program** - Implement special measures under the Employment Insurance Work-Sharing Program to help employers and employees avoid layoffs.

- **Supply Chain Support** - Assist businesses in identifying alternative suppliers and markets, while expanding trade facilitation services to support rapid export diversification efforts.

If legislation is required to implement any short-term measures, then we believe that it is in the interest of Canadians that Parliament is recalled without delay. Prorogation must not obstruct urgent policies essential to safeguarding Canadian businesses, workers, and families at this critical time.

Long-Term Structural Reforms

Beyond immediate relief, this crisis underscores the urgent need for structural reforms to address deep-rooted weaknesses in Canada's economy. These reforms must not be viewed solely as a response to tariffs, but as a strategic imperative to unlock Canada's full productive potential and strengthen our economic resilience in an increasingly volatile global landscape. Key priorities include:

- **Comprehensive Tax Reform -** Undertake a broad-based review of Canada's tax system, including the following improvements:
    - Reduce corporate and personal income tax rates to bolster Canada's investment competitiveness and attract and retain talent.
    - Expand the Atlantic Investment Tax Credit to apply nationwide.
    - Make the Accelerated Capital Cost Allowance (ACCA) permanent and expand its scope to include all manufacturing activities, such as critical minerals processing.
    - Review specific tax measures that undermine domestic manufacturing, such as the luxury tax on aircraft, which has effectively eliminated the Canadian market for new business aircraft.

- **Regulatory Reform -** Launch an ambitious regulatory competitiveness agenda to eliminate investment-stifling red tape. Canada's ever-expanding web of complex regulations is hindering investment, output, and job creation – this must be addressed with urgency.

- **Internal Trade Liberalization -** Leverage federal and provincial collaboration on tariffs to push for real progress in eliminating internal trade barriers that restrict the movement of goods, services, labour, and capital within Canada. The goal should be to secure firm provincial support for establishing a mutual recognition framework for standards and regulations that would unlock significant economic growth.

- **Buy-Canadian Procurement Strategy** - Use the federal government's purchasing power to prioritize Canadian-made goods in public sector contracts, supporting domestic manufacturers and stimulating industrial growth. This should include:
    - Developing a robust defense industrial policy that leverages Canadian manufacturing and innovation capabilities.
    - Preparing a reciprocal procurement strategy to secure equal market access for Canadian businesses in the U.S., matching the opportunities available to American companies in Canada.

In the face of this unprecedented economic threat, preserving Canada's industrial capacity is critical to securing long-term growth and job creation. Canadian manufacturers stand ready to work with policymakers and Parliamentarians to develop and implement targeted, effective measures that will protect livelihoods, reinforce supply chains and foster an environment where manufacturers can continue to innovate, invest and expand.

Sincerely,

Dennis Darby
President & CEO
Canadian Manufacturers & Exporters