



Pre-Budget Submission

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75 Albert Street, Suite 400 Ottawa, Ontario K1P 5E7
Tel: (613) 236-9455 Fax: (613) 236-9526

EXECUTIVE SUMMARY

In advance of the tabling of the upcoming federal Budget on January 27, 2009, the Department of Finance launched consultations seeking the views of Canadians regarding the most appropriate means of stimulating economic activity in light of the current global economic crisis. As part of these consultations, the Department asked participants to identify the most effective means of stimulus and suggest steps the government should take to ensure the Canadian economy remains internationally competitive and continues to attract investment and create jobs.

The Canadian Construction Association is pleased to submit to the Department for its consideration the industry's views on these important issues. Our submission is organized around four key themes the industry believes will best support government efforts to stimulate the economy and generate longer-term benefits, including productivity improvements and changes in government policy that will make the Canadian economy more internationally competitive.

1. Expediting Infrastructure Spending

The CCA is pleased governments across Canada have recognized accelerated spending on infrastructure renewal as a key component of any economic stimulus package. Slowdowns in residential and non-residential construction have created sufficient capacity within the sector to adequately manage the anticipated demands for additional infrastructure construction. CCA strongly recommends:

- Accelerated infrastructure spending as the preferred means of stimulating the economy;
- The development of a national core infrastructure priority list to assist governments at all levels with project identification, selection and tracking throughout the approvals process;
- The federal government identify all new and existing federal national construction priorities, and increase departmental budgets to fast-track the development of these projects across the country; and
- That consideration be given to a further doubling of the funding available to local and municipal governments under the 2009-2010 Gas Tax Fund program for ready-to-go tendered repair, maintenance and replacement construction projects such as roads, bridges, tunnels, sewers and water mains.

2. Building Strong and Sustainable Labour Markets and Providing Training Incentives

Ensuring Canada has a well-trained and available skilled workforce will be paramount to maintaining Canada's future global competitiveness. Meeting these human resources challenges (i.e. aging workforce; re-training of displaced workers; training and integration of immigrants; and integration of traditionally under-represented groups such as Aboriginal Canadians) will be imperative to avoid chronic skilled labour shortages that can impede the country's ability to effectively compete in North America and around the globe. In light of this important challenge, CCA strongly recommends:

- a. The creation of a college and polytechnic infrastructure renewal program that would permit eligible institutions to rent new facilities and equipment, and invest in “ready-to-go” projects and upgrades to keep up with existing demands for educational services and apprenticeship training; and
- In order to maximize the uptake of the Apprenticeship Job Creation Tax Credit, the government amend the current Canada Revenue Agency’s ruling to ensure that the incentive is available tax free for eligible businesses.

3. Improving Access to Credit

Another immediate and important stimulus lever available to the federal government is taxation. While the reductions in corporate taxes of the past several years have been important and stimulative, many businesses in Canada, particularly manufacturing in Central Canada, continue to struggle as they adjust to the impact of the current economic downturn. One measure that would help ease this transition, particularly in the auto, truck and heavy mobile-equipment manufacturing sectors, would be an incentive to encourage businesses to engage in fleet and equipment renewal, which would also stimulate retail businesses across Canada and inject credit back into the economy. CCA members recommend:

- A time limited (over the life of the Building Canada plan) increase in the capital cost allowance rate for equipment purchases covered by Classes 10, 16 and 38 to 50 percent and depreciable on a straight-line basis.

4. Making the Canadian Economy more Globally Competitive

Access to Foreign Direct Investment (FDI) has become integral to the economic success of any industrialized nation. Canada’s domestic rules and trade agreements have made it an inviting place for FDI, with the possible exception of the lack of meaningful support for the growth of Free Trade Zones. In recent years, Free Trade Zones have grown in importance and have become invaluable incentives for the attraction of FDI. Canada has no Free Trade Zone legislation, and the few benefits that are presently offered are uncompetitive as measured against those available in other jurisdictions such as the United States. CCA members recommend:

- In partnership with provincial governments, the federal government undertake a study of Free Trade Zone regimes in other industrialized nations and introduce legislation in Canada to establish a pro-competitive Free Trade Zone regime that offers similar or superior benefits to investors looking to establish in Canada.

INTRODUCTION

The Canadian Construction Association (CCA) was founded in 1918 and established in Ottawa to work on behalf of the industry with the federal government to help shape public policy, maintain industry vitality, improve industry standards and safety, and provide critical information to decision makers about the construction sector in Canada. Today, the CCA is truly a pan-Canadian association that represents a membership of 20,000 spread across the country.

The construction industry is one of the largest industrial sectors in the country, and while often taken for granted by Canadians, the sector makes possible our way of life and maintains our standard of living. According to Statistics Canada, the sector is broad and profound, with nearly one in every 16 Canadian workers earning a living from the industry. It consists of some 260,000 businesses (most with fewer than 5 employees), employs over 1 million Canadian men and women¹ and accounts for more than 12 percent of the national gross domestic product (GDP)². As such, the construction sector represents a sizable cross-section of Canadian industry and is an ideal vehicle for the delivery of economic stimulus.

THE BUDGETARY OBJECTIVES

In the documents released by the Department of Finance at the start of the pre-budget consultation process, the Government stated that it was interested in the views of Canadians regarding new and innovative measures that can be introduced in Budget 2009 to help stimulate the economy and shape a longer-term vision for the Canadian economy. In response, the Canadian Construction Association is pleased to submit to the Department for its consideration the industry's views on these important issues. This submission will focus on four areas the industry believes are most critical to stimulating the economy and improving Canadian global competitiveness. These are:

- Expediting Infrastructure Spending
- Building Strong and Sustainable Labour Markets and Providing Training Incentives
- Improving Access to Credit
- Making the Canadian Economy more Globally Competitive

EXPEDITING INFRASTRUCTURE SPENDING

With the Canadian economy now slowing and labour shortages easing across the country, CCA believes the conditions are opportune for additional investments in public infrastructure renewal. Given the size, makeup and national scope of the construction industry, investing in an aggressive infrastructure renewal plan will generate considerable stimulus throughout the economy and sustain employment in every region of the country.

Addressing the Need

The large majority of Canada's critical infrastructure (roadways, bridges, sewers and water mains, power plants and power lines), was built in the 1960s and is rapidly approaching the end of its useful service life. The Federation of Canadian Municipalities has commissioned

¹ Employment by industry: <http://www40.statcan.ca/l01/cst01/econ40.htm>, June 19, 2006

² GDP: <http://www40.statcan.ca/l01/cst01/econ41.htm>, June 19, 2006

studies that estimate the costs of replacing, upgrading and expanding Canada's infrastructure to meet existing needs at more than \$123 billion.³ Other more recent studies, such as the University of Waterloo study of August 2008,⁴ estimate this figure is closer to \$200 billion. Regardless of which study or figures are used, the underlying message to governments is clear: invest now before the deficit grows beyond the capacity of governments to manage.

The Productivity Gap

In addition to the obvious safety and congestion implications inherent with a declining state of public infrastructure, there are also significant manufacturing productivity implications. The University of Waterloo study also highlighted a strong correlation between infrastructure decay and lagging productivity in the manufacturing sector. By looking at infrastructure investments made by Canadian and US governments since the mid-1990s when productivity levels were comparable, the study determined that the US has increased its productivity edge over Canada by 20 percent on the strength of a more aggressive infrastructure renewal plan.

The productivity gap between Canada and the United States is poised to grow even further if President-elect Obama is able to pass his anticipated \$700 billion infrastructure package following his inauguration in late January. Without aggressive action on the part of Canadian governments at all levels to reverse this trend, Canada's manufacturing productivity rate will continue to steadily decline making our manufacturing sector less globally competitive and produce further contractions in the sector in years to come.

Why Investing in Infrastructure Makes Sense

In addition to the longer-term economic benefits derived from a more modern national infrastructure, government spending on infrastructure is also an effective means of generating rapid economic activity. In a recent study conducted by Infometrica for the Federation of Canadian Municipalities⁵, infrastructure spending outperformed tax cuts by a factor of almost two-to-one as a source of short-term economic stimulus. Therefore, CCA members strongly urge governments across Canada to accelerate spending on infrastructure renewal and work to minimize inter-jurisdictional impediments in the project approvals process.

Domestic Capacity to Manage Additional Infrastructure Spending

As with other sectors of the economy, the construction industry has not been immune to the impact of the global economic downturn of the past several months. All facets of the construction business - residential, industrial, commercial, and institutional - have felt the impact of the downturn, and with an increasing number of contracts capped, deferred or cancelled all together, many firms have been forced to undertake workforce reductions. These workforce reductions have helped alleviate many of the construction capacity issues that have plagued the industry for the past several years. With minimal training, many of these displaced workers can join those firms involved in the development, maintenance and construction of public infrastructure.

³ Infrastructure Deficit: <http://www.fcm.ca/english/View.asp?mp=560&x=565>, December 17, 2008

⁴ Infrastructure Deficit: <http://www.irpp.org/newsroom/index.htm>; Canada's crumbling public infrastructure hurting productivity, August 21, 2008

⁵ Economic Stimulus: <http://www.fcm.ca//CMFiles/Background-Infometrica%20report-%20summary-FINAL-Nov%202008-EN1JGO-1162008-2367.pdf>, December 17, 2008

In short, governments should have no concerns about the ability of the industry to manage additional infrastructure work as the present labour force can seamlessly manage any increase brought on by an acceleration of infrastructure spending.

Recommendation 1

CCA member recommend the government adopt accelerated infrastructure renewal funding as its preferred means of stimulating the economy.

Barriers to Implementing Infrastructure Projects

CCA members have been pleased with the extraordinary efforts the federal government has taken to accelerate funding for infrastructure renewal projects under the Building Canada plan. At the First Ministers level, as well as that of Ministers responsible for infrastructure funding, a broad consensus has emerged that governments must work together to overcome the obstacles to infrastructure funding acceleration.

While some of these obstacles are design or regulatory in nature and cannot be immediately addressed, others are organizational and can be ameliorated through better inter-jurisdictional cooperation and a reduction in decision-making overlap. CCA members believe governments at all levels should invest in the development of a core national public infrastructure registry that will identify needs, assign priorities and delineate responsibilities so as to maximize the use of government resources in the project development and approvals process.

Recommendation 2

CCA members recommend the creation of a national core infrastructure priority list to assist governments at all levels with project identification, selection and tracking throughout the approvals process.

Accelerate Federal Construction

While the focus of governments across Canada have been on accelerating infrastructure spending, there are a number of additional projects within the ambit of ongoing government operations that should also receive consideration for acceleration. Many federal departments, Crown agencies, and provincial ministries have new construction projects slated for the next few years that can be accelerated to increase the stimulus impact on the economy. Some examples of these types of projects are:

- At the federal level, the construction of the new RCMP headquarters in Surrey, British Columbia;
- Upgrades to water treatment facilities on First Nations reserves;
- Upgrades across the country to Canadian Forces Bases through Defence Construction Canada;
- In Ontario, the acceleration of the development and construction of the replacement power plants for Ontario's aging coal-fired power plants that are slated to close by 2014; and
- In British Columbia, the acceleration of the Evergreen Line rapid transit project in Greater Vancouver.

CCA members believe a concerted national effort on the part of governments across Canada could provide another valuable source of stimulus. In this context, we strongly encourage the federal government to consider increasing departmental construction funding in the upcoming federal budget.

Recommendation 3

CCA members recommend the government identify all national new and existing federal construction priorities, and increase departmental budgets to fast-track the construction of new federal facilities across the country.

Projects Ready for Immediate Implementation

There are a number of projects at both the municipal and provincial levels that require no additional engineering and could be implemented quickly with additional funding. At the municipal level in particular, there are a considerable number of backlogged projects (i.e. sidewalk replacements, roadway resurfacing, sewer and water main replacements) due to limitations on municipal capital budgets. With increased funds, many more of the urgently needed maintenance, repair and replacement projects could be fast-tracked for the coming construction season.

The federal government funds many of these types of projects through the Gas Tax Fund (GTF). Funding under the GTF is slated to double in 2009-2010 from \$1 to \$2 billion. A further doubling of this funding would increase the number of projects municipalities could tender for the upcoming construction season.

As a condition, however, CCA members strongly believe the federal government must insist that any increased federal funding be utilized for publicly tendered projects only, and not simply absorbed by municipal governments to fund their own public works departments. Allowing municipalities to concentrate these benefits solely within the public realm would undermine the overall objective of the federal stimulus which is to ensure its benefits are widespread and felt throughout the economy.

Recommendation 4

CCA members recommend the government double the funding available for municipalities under the 2009-2010 Gas Tax Fund.

BUILDING STRONG AND SUSTAINABLE LABOUR MARKETS AND PROVIDING TRAINING INCENTIVE

Investing in Canada's Community Colleges and Polytechnics

In order for Canada as a Nation to meet its current and future human resource challenges (i.e. aging workforce; re-training of displaced workers; training and integration of immigrants; and integration of traditionally under-represented groups such as Aboriginal Canadians), far more enhanced strategic investments will be required to improve our aging community college and polytechnic institutions.

As the leading provider of employment-ready skilled graduates, Canada's community colleges and polytechnics are poorly resourced to handle any dramatic increase in enrolment. Prior to the current economic downturn, most community colleges were struggling to keep up with demand, with many programs oversubscribed and waiting lists in some cases of more than

three years. Moreover, for those fortunate enough to access these programs, many find that the equipment used for instruction is woefully out of date, in some cases more than 20-30 years out of date.

CCA members are very concerned about the declining state of Canadian community colleges and polytechnics. The industry relies heavily on these institutions to provide the workforce the skills it requires to remain competitive and keep pace with the ever increasing demand for construction services within the Canadian economy. With an anticipated industry shortfall of more than 250,000 workers by 2016,⁶ pressure on these institutions will only continue to grow in the years to come. Without a substantial reinvestment on the part of governments in Canada's aging college infrastructure, labour shortages will become routine making our economy less globally competitive and Canadian industry less capable of seizing new opportunities for growth in the global marketplace.

Recommendation 5

CCA members recommend the creation of a college and polytechnic infrastructure renewal program that would permit eligible institutions to rent new facilities and equipment, and invest in "ready-to-go" projects and upgrades to keep up with existing demands for educational services and apprenticeship training.

Apprenticeship Job Creation Tax Credit

Apprenticeship training is essential to the education of most skilled labourers working in the construction industry. It provides students with invaluable mentoring, direction and practical experience, which simply cannot be simulated in a general classroom environment.

Government incentives to encourage apprenticeship training have been welcomed by the construction industry. However, in a recent ruling, the Canada Revenue Agency declared that the Apprenticeship Job Creation Tax Credit (AJCTC) could be regarded as government assistance or an inducement to hire apprentices, and therefore, must be reported as income in the year following its use. As a result, any benefit provided by the incentive is immediately discouraged as it increases the tax liability for businesses. In the case of smaller businesses, this is a significant disincentive as many feel they do not have the stability of income required to take on this type of obligation, and therefore forgo apprenticeship training opportunities. Given that most businesses within the construction sector consist of 5 or fewer employees, without a change in policy to truly make the AJCTC a meaningful incentive, the uptake from the construction sector will remain limited.

Recommendation 6

In order to maximize the uptake of the Apprenticeship Job Creation Tax Credit, CCA members recommend the government amend the current Canada Revenue Agency's ruling to ensure that the incentive is available tax free for eligible businesses.

⁶ National Summary: http://www.csc-ca.org/pdf/CSC-National_Summary08-en.pdf, December 17, 2008

IMPROVING ACCESS TO CREDIT

Accelerated Capital Cost Allowance

The fallout of the global financial crisis of the past several months has had wide ranging and catastrophic consequences for Canadian manufacturing. Particularly hard hit has been auto, truck, and heavy-equipment manufacturing, which remains an integral part of the economy of Ontario. With economic uncertainly growing, many retailers across the country of these products have seen their sales decline rapidly as businesses reduce their spending on new equipment. And with credit becoming more expensive, the prospect of a short-term turnaround in new vehicles and heavy equipment sales remains elusive.

CCA members strongly believe what is required at this time is a federal incentive to help encourage businesses to reinvest in the purchase of new equipment. Accelerating the depreciation rates on trucks, tractors, trailers, and power-operated moveable equipment used for moving, excavating, placing or compacting earth, rock, concrete or asphalt would provide additional valuable stimulus to retailers and the manufacturing sector alike. Specifically, CCA members believe increasing the depreciation rate for this type of equipment from 30 percent on a declining basis to 50 percent on a straight line basis would provide the incentive necessary to encourage many of the more than 250,000 construction businesses across Canada to invest in the purchase of new equipment, particularly if it is made available throughout the duration of the Building Canada plan.

Adjusting the capital cost allowance rates on the purchase of utility vehicles (light-duty trucks) and heavy equipment would fully support the government's stated objectives for the economy, as well as the broader economic vision as articulated in the *Advantage Canada* policy framework. Moreover, it would be consistent with similar actions taken by the government in Budget 2007 that incented business investments in manufacturing and processing equipment and helped Canada's manufacturing sector become more globally competitive.

Furthermore, this measure would stimulate sales activity and encourage the turnover of equipment inventories, as well as complement government efforts to accelerate infrastructure renewal spending and permit major contractors to engage in new equipment purchases required to meet the anticipated additional demands of the 2009 construction season.

In terms of economic impact, apart from stimulating sales activity, the adoption of our proposed measures will help increase the flow of credit. Increased purchasing activity requires credit, which in turn leads to increased lending activity. This will help bolster the natural churn and flow of credit and re-establish the key qualitative element of the credit flow, namely trust. A trust that is built on credit leveraged against tangible assets.

As for long-term fiscal impacts, the cost to the federal treasury is minimal given that the depreciation on equipment purchases under the present schedule are already factored into Finance models and the marginal impact is the net present value of this same depreciation over a shortened time period.

Finally, this measure would also produce significant environmental benefits as it would encourage businesses to replace older more polluting equipment with new more productive assets. As a case in point, heavy-duty diesel engine manufacturers have made great strides increasing fuel efficiency and reducing emissions. The latest technology brings a typical 50%

improvement in horsepower-hour/gallon (the standard measure for this benchmark) over 1981 engines while at the same time meeting today's more rigorous emissions regulations. Therefore, accelerating the turnover of older equipment - a direct effect of our proposal - clearly supports and advances your government's environmental initiatives.

Recommendation 7

CCA members recommend the federal government increase on a time limited basis (over the life of the Building Canada plan) the capital cost allowance rate for equipment purchases covered by Classes 10, 16 and 38 to 50 percent and depreciable on a straight-line basis.

MAKING THE CANADIAN ECONOMY MORE GLOBALLY COMPETITIVE

Creation of Free Trade Zones

Foreign-direct investment (FDI) has become increasingly important to the vitality of any major industrialized economy. Canadians rely on its benefits and thrive off the important economic and intellectual stimulus that often accompanies FDI. In a world of ever increasing competition for FDI, Canada must ensure that our legislation and hosting conditions are optimal to ensure our economic success in the future.

CCA members believe there are a number of additional actions the federal government can take to increase FDI in Canada. For example, one such measure might be the introduction of pro-competitive Free Trade Zone legislation that provides the same benefits available in other competing jurisdictions such as the United States. The adoption of such a regime will incent foreign investment and support the government's goal to make Canada a gateway destination into the North America market.

Recommendation 8

CCA members recommend the federal government undertake in partnership with provincial governments a study of Free Trade Zone regimes in other industrialized nations and introduce legislation in Canada to establish a pro-competitive Free Trade Zone regime that offers similar or superior benefits to investors looking to establish in Canada.

CONCLUSION

The Canadian Construction Association has appreciated this opportunity to present the views of its members on the forthcoming federal budget.

SUMMARY OF RECOMMENDATIONS

Recommendation 1

CCA members recommend the government adopt accelerated infrastructure renewal funding as its preferred means of stimulating the economy.

Recommendation 2

CCA members recommend the creation of a national core infrastructure priority list be developed to assist governments at all levels with project identification, selection and tracking throughout the approvals process.

Recommendation 3

CCA members recommends the government identify all national new and existing federal construction priorities, and increase departmental budgets to fast-track the construction of new federal facilities across the country.

Recommendation 4

CCA members recommend the government double the funding available for municipalities under the 2009-2010 Gas Tax Fund.

Recommendation 5

CCA members recommend the creation of a college and polytechnic infrastructure renewal program that would permit eligible institutions to rent new facilities and equipment, and invest in “ready-to-go” projects and upgrades to keep up with existing demands for educational services and apprenticeship training.

Recommendation 6

In order to maximize the uptake of the Apprenticeship Job Creation Tax Credit, CCA members recommend the government amend the current Canada Revenue Agency’s ruling to ensure that the incentive is available tax free for eligible businesses.

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