



ASSOCIATION OF
EQUIPMENT MANUFACTURERS

AGRICULTURE
CONSTRUCTION
FORESTRY
MINING
UTILITY

House of Commons Standing Committee on Finance

Submission for the Pre-Budget Consultation in Advance of the 2019 Budget

by:

Association of Equipment Manufacturers

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AEM's Recommendations

The Association of Equipment Manufacturers (AEM) welcomes the opportunity to provide comments to the Standing Committee on Finance during the consultation period in advance of Budget 2019. AEM is a trade association representing manufacturers of agricultural, forestry, construction and mining equipment. AEM represents approximately 1,000 members in Canada and the United States. Our recommendations are the following:

- Recommendation 1: Remove barriers to international markets for equipment manufacturers.
- Recommendation 2: Maintain and develop strong international trade agreements, including modernizing NAFTA.
- Recommendation 3: Modernize the Science Research and Experimental Development Program (SHRED).
- Recommendation 4: Increase Canada's Capital Cost Allowance rates as it pertains to heavy equipment.

Recommendation 1:

Remove barriers to International Markets for Equipment Manufacturers

AEM member companies operate and export globally. Therefore, international trade and continued regulatory alignment between Canada and the United States continues to be a priority for AEM members and is key to ensuring Canada's competitiveness. It is of vital importance to our industry that manufacturers are able to freely export products to other markets.

On July 1st 2018, the Government of Canada began enforcing retaliatory measures on steel and aluminum products on finished products such as lawn mowers, to input materials used by AEM members in components, all which adversely affect AEM member companies, employees and customers. AEM respectfully requests that these tariff measures are removed. While punitive in nature, the increased costs have a direct negative effect on Canadians across the nation – whether they are workers at small manufacturing companies or farmers investing in new equipment.



Many of these specialty steel products are not available from Canadian steel mills and as such are predominantly sourced from the United States. Other, global sources require long shipping lead times and significant freight costs due to the size and weight of this raw material. Modern manufacturing requires a global supply chain and the ability for companies both big and small to source components and parts from all over the world. Equipment manufacturers need the ability to purchase parts and components from U.S. suppliers as well as from international sources at prices that are not artificially inflated.

As well, restrictive procurement practices and non-trade tariff barriers in the form of regulations and standards often hinder access beyond our traditional North American market. In order to ensure Canada's competitiveness, tariff and non-tariff trade barriers must be removed.

Recommendation 2: Maintain strong international trade agreements ensure Competitiveness for Canada's Equipment Manufacturers

We applaud the efforts of the Government of Canada in securing bilateral and multi-lateral trade agreements, and the continuing negotiations to modernize NAFTA.

AEM continues to be a strong supporter of NAFTA and is advocating for a modernized agreement in both the United States and Canada. Specifically, AEM supports digitizing customs and border documents, streamlining tariff codes, addressing restrictions on cross-border data flow, new rules of origin to reflect the realities of manufacturers' modern supply chains, and allowing companies who remanufacture depreciated products in the NAFTA region to qualify for the NAFTA agreement.

In the United States, AEM continues to spearhead industry efforts to discourage the administration from imposing tariffs on steel and aluminum, which will harm the equipment manufacturing industry and disrupt the entire global trading system.

It is of vital importance to our industry that construction and farm equipment works seamlessly across the Canadian-American border, and manufacturers are able to freely export products to other markets.

Recommendation 3: Modernize the Science Research and Experimental Development Program

Another challenge facing equipment manufacturers is access and use of the Scientific Research and Experimental Development tax incentive program. This federal tax incentive is designed to encourage Canadian business to conduct research and development in Canada.



While AEM is supportive of these goals, few AEM members use the program, because the submission process is overly difficult and cumbersome. The cost effectiveness of the program has been diminished because of administrative burden placed on the applicants. The Canada Revenue Agency should be encouraged to root out the problems that discourage companies from using this program.

Recommendation 4: Update Canada's Capital Cost Allowance

Changes to U.S. tax treatment of depreciation on capital investment in construction, mining, forestry and agriculture equipment places Canadian businesses at a competitive disadvantage. Canada's Capital Cost Allowance (CCA) schedule should be updated as it pertains to heavy equipment, such that it is better aligned with U.S. tax depreciation rates.

Increasing CCA rates from 30 percent to 40 percent (which would cover most self-propelled equipment) would have a positive economic affect, enabling faster replacement of older equipment, therefore increasing productivity and promoting real environmental savings. Improvements to the CCA rates would also bring Canada in line with its major competitor and customer, the United States.

We urge the federal government to increase CCA rates to allow equipment buyers to more rapidly depreciate their investments in new capital equipment. Faster replacement of older equipment increases productivity and improves operator safety while at the same time provides significant environmental benefits with cleaner, more fuel-efficient engine technologies.

Conclusion

Thank you for undertaking this study and consideration of AEM's submission. We would welcome the opportunity to appear before the Committee to address the above recommendations.