Canadian Construction Association
Pre-budget Submission 2017

Executive Summary

The Canadian Construction Association (CCA) represents 20,000 member companies engaged in civil and non-residential construction across Canada. Through our network of more than 65 local and regional partner associations, CCA brings a pan-Canadian approach to the development of standard industry practices and documents, as well as national public policy issues of importance to the sectors.

As part of the House of Commons Standing Committee's 2017 pre-budget consultations with Canadians, CCA is pleased to provide the following submission for the committee's consideration. This year's submission focuses on three areas:

1. Supporting apprenticeship training and increasing labour mobility;
2. Ensuring Canada's trade-enabling infrastructure can support the expected increased export growth flowing from the new opportunities created by landmark trade agreements; and
3. Increasing industry productivity through the use of tax incentives.

The decade ahead will present Canada with many new competitive challenges: labour shortages due to our aging population; increased competition from developing countries to supply natural resources; and, capacity constraints on our trade-enabling infrastructure. The recommendations advanced by CCA will help address these challenges and create a healthier and more dynamic Canadian economy.

1. Labour Force Development

Canada's construction workforce, like that of many other industrial sectors, is facing a significant future labour challenge brought on by increased retirements and continued high demand for construction services across the country. According to the latest 2016 - 2025 BuildForce Canada labour market information survey, an estimated 132,000 workers will be lost to retirement over the survey period and only 127,000 new entrants - drawn mostly from traditional domestic training sources - will join the industry. When anticipated demand is factored in to the analysis, BuildForce estimates the construction industry will need to recruit another 35,000 workers from other industries or from outside Canada to remain competitive. Since skilled workers in apprenticeable professions are in high demand in many industrial sectors, the likelihood that the construction sector will be able to overcome skilled worker shortages through domestic recruitment alone is unlikely, leaving much of the sector to rely on immigration or the use of the Temporary Foreign Worker program to address skilled worker shortages.

Federal Apprenticeship Promotion Measures

To help increase the supply of skilled trade workers in Canada, a number of federal initiatives either exist or have been proposed to help promote apprenticeship training across Canada, including the use of federal contracting policy to ensure apprentices are utilized on federal construction projects. While these measures are well intentioned, there is little evidence from provinces that have similar policies currently in place that these measures substantially increase apprenticeship training or completion rates.

The challenge for the construction industry is size. While the industry employs nearly 1.4 million Canadians, 60 per cent of all construction firms are micro-businesses with fewer than 4 employees. Simply put, these firms do not typically have the financial or administrative resources to take on an apprentice. Therefore, federal government apprenticeship training promotion measures must take this reality into account to ensure maximum employer participation.

A December 2013 report by the Canadian Federation of Independent Business recommended the following to help improve apprenticeship training:

> *To offset some of the costs associated with apprenticeship training, small businesses need accessible financial assistance. Providing a more general financial incentive, for instance in the form of a tax credit that would be open to a wider group of participants, would help alleviate cost struggles.*

Rather than mandating the use of apprentices on federal construction projects, a more viable alternative would be to use existing federal programs, such as those funded by Employment Insurance (EI), to better cost-share with employers' apprenticeship training. In so doing, the employer costs would be lowered thereby providing smaller employers with limited financial resources the incentive they require to become more engaged in apprenticeship development. Furthermore, if available throughout the life of an apprenticeship program, this would incentivize employers to participate through to completion, rather than to take on an apprentice as a condition of contract only to release them once the federal project is completed.

Instead of simply encouraging greater employer engagement in apprenticeship training, the federal government's aim should be to increase apprenticeship completion rates. The use of mandatory hiring measures will not achieve this goal. Only incentives directed at employers and made available throughout the life of the apprenticeship program will yield the desired outcome, namely, an increase in the annual number of journeypersons graduated in Canada.

Apprenticeship Job Creation Tax Credit

One measure the federal government currently has in place that is widely used by employers to fund apprenticeship training is the Apprenticeship Job Creation Tax Credit (AJCTC). Unfortunately, as the program is limited to the first and second years of Red Seal training, it has done little to promote apprenticeship completion across Canada. These shortcomings could be addressed by:

- Increasing the annual value of the credit from 10 per cent of eligible wages, up to an annual maximum of $2,000, to 25 per cent of eligible wages, up to an annual maximum of $5,000; and
- Expanding the eligibility criteria to include each year of any provincially recognized apprenticeship program.

Apprenticeship Harmonization

The federal government has also through financial incentives been active in promoting the harmonization of provincial/territorial apprenticeship training programs. Harmonizing these standards are critical to the movement of skilled labour between provinces and consistent with the fundamental principles underlying the Agreement on Internal Trade. To ensure the successful completion of these ongoing provincial/territorial harmonization discussions, the federal government should continue to play a strong leadership role.

Recommendation 1

- **Redesign existing federal programs (i.e. EI-funded training programs) to provide more robust financial support to employers engaged in apprenticeship training.**
- **Increase the annual value of the AJCTC and broaden its application to all years of study in all recognized provincial apprenticeship programs. Specifically:**
    - **Increase the value of the current credit from 10% of eligible wages (up to a maximum of $2,000) to 25% of eligible wages (up to a maximum of $5,000) annually.**
    - **Broaden the application of the current credit to include all years of a provincially recognized apprenticeship program and not just the first and second years of study.**
- **Continue to exercise federal leadership in driving the harmonization of provincial and territorial apprenticeship training standards.**

Labour Mobility

Current tax policy permits deductibility of most reasonable expenses associated with permanent relocation. Larger employers will often provide tradespersons with some assistance to help offset costs associated with temporary relocation and recruitment, however, the vast majority of construction employers, due to their size, cannot provide such support and continue to rely on more traditional types of employee recruitment techniques to staff projects.

Canada's Building Trades Unions (CBTU) estimate tradespersons can incur $3,500 annually in non-compensable mobility expenses, presenting a significant obstacle to the pursuit of employment for many outside their local labour market. Some form of deductibility of these expenses would go a long way to encourage construction workers to be more mobile.

One solution could be to amend current EI policy to permit unemployed construction workers to access an advance of up to $2,000 from their approved benefits to help offset mobility related costs. This could be done through the existing EI claim process without the federal government incurring any significant new additional administrative costs. Moreover, it would encourage unemployed construction workers to broaden their employment search outside their local market without incurring significant expenses at a time when they can least afford it.

Recommendation 2

- **Change EI policy to permit unemployed construction workers to obtain an advance from their approved benefits of up to $2,000 to support their employment searches outside their local area construction market.**

2. Infrastructure

Trade infrastructure is the lifeblood of the economy. Without an efficient and modern system of trade-enabling infrastructure (i.e. airports, ports, railways, pipelines, highways), Canada may lose out on significant new economic opportunities to lower-cost providers of many of the energy and natural resources we export today.

As the recent downturn in oil prices demonstrates, any decline in price or export volume can be devastating to government revenues. While price volatility will always be a challenge, inadequate pipeline capacity is a contributing factor to the 10-20 per cent price differential between Western Canadian Select and West Texas Intermediate. If Canadian oil exports continue to be discounted or worse, displaced due to infrastructure capacity constrains, the impact on governments will be long-term and potentially crippling. Without immediate attention to the modernization of our trade-enabling infrastructure, capacity constrains will undermine export growth, lower government revenues and eventually, reduce the affordability of many of the current social programs Canadians expect from their governments.

The Canadian Chamber of Commerce report entitled ***The Infrastructure That Matters Most: The Need for Investment in Canada's Trade Infrastructure***, makes the case that for Canada's export-based economy to prosper, trade-enabling infrastructure is the category of infrastructure that has the strongest connection to its long-term global competitiveness and economic well-being. To ensure that Canada's trade infrastructure continues to support strong economic growth, the report makes the following five recommendations to the federal government:

1. Make trade infrastructure an equal priority in the $120-billion federal infrastructure plan;
2. Make trade infrastructure investment decisions using merit-based criteria;
3. Renew the federal commitment to Canada's trade corridors;
4. Partner with industry to develop a national trade infrastructure committee; and

5. Consider the proposed federal infrastructure bank to enhance trade infrastructure investment.

Recommendation 3

- **Adopt the five recommendations included in the recent report by the Canadian Chamber of Commerce entitled *The Infrastructure That Matters Most: The Need for Investment in Canada's Trade Infrastructure.***

3. Tax Reform and Productivity

Despite numerous federal policy initiatives, Canada's productivity rate continues to lag that of the U.S. Leading Canadian economists, such as Don Drummond, attribute this to underinvestment by Canadian industry in machinery and equipment.

One reason for lower investment rates in Canada is the way governments permit businesses to depreciate their capital investments. In Canada, equipment and machinery purchases are depreciated using the capital cost allowance rates established to reflect the residual value of an asset as it depreciates over the period of ownership, whereas in the U.S., the depreciation period is more in line with the productive service life of the asset. Consequently, in Canada it takes 13 years to reach 99% depreciation, whereas in the U.S. it takes 6 years to achieve full depreciation.

Canada – United States Mobile Equipment and Machinery Depreciation Rates		
	Residual Asset Value after Applied Depreciation (Percentage)	
Year	Canada Class 38	United States Class 15
1	85%	80%
3	42%	28%
6	14%	0%
9	5%	- -
13	1%	- -

While US corporate tax rates are higher than those in Canada, the use of pro-investment depreciation policies in the U.S. have contributed to higher rates of corporate investment in productive equipment and machinery. Not only does this lead into a more productive industry, but given the tremendous environmental advancements in engine technology and pollution control equipment, a greener, more environmentally-friendly one as well.

According to research carried out by PricewaterhouseCoopers for CCA, the estimated impact of accelerating the depreciation of mobile construction assets would be less than $60 million over five years and could be offset by revenue gains elsewhere resulting from increased industry productivity and profitability.

As significant purchasers of construction services, Canada's governments could benefit greatly from enhanced industry productivity. Given the considerable resources committed to infrastructure redevelopment over the next 10 years and the potential for skilled labour shortages in the sector resulting from aging demographics, any change in policy encouraging greater industry investment in labour force productivity will have widespread and positive benefits for governments and the broader economy alike.

Recommendation 4

- **Increase the permissible depreciation rate for Class 38 assets from 30 to 50 per cent, which will better align depreciation policy with the productive life of these assets, improve overall construction sector productivity, and potentially lower infrastructure development costs for governments across Canada.**