Canadian Construction Association

Pre-Budget Submission

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Background on Canadian Construction Association

The Canadian Construction Association (CCA) is the national association representing Canada's non-residential construction industry. With more than 17,000 member companies, CCA is the voice of the sector on matters of federal public policy.

CCA represents non-residential construction member companies ranging in size from small businesses of just a few employees to Canada's largest construction firms. In addition, CCA's members include many of the allied services firms that work alongside construction companies, including manufacturers of construction products, the legal community, as well as the insurance and surety companies.

As a whole, construction is one of Canada's largest industries. It employs more than 1.26 million Canadians and, based on direct spending, accounts for more than seven per cent of the national GDP. As such, the industry is a cornerstone of the Canadian economy and a leading indicator of economic growth.

Executive Summary

With Canada now on the path to economic recovery, the focus of elected officials must turn to the management of the anticipated dramatic economic growth predicted to occur this decade. With growing demand for Canadian raw materials and products around the world, the importance of maintaining our infrastructure, both human and physical, will determine how well our economy performs in the years to come.

In this regard, the Canadian Construction Association is pleased to submit to the House of Commons Standing Committee on Finance the following recommendations.

1. **Modernization of Canada's Aging Infrastructure**
   Notwithstanding the considerable investments in infrastructure of the past five years, Canada maintains a significant national infrastructure deficit in part, because, many of today's critical infrastructure assets are approaching the end of their useful service life. The Champlain Bridge in Montreal is one such example where despite the best efforts of engineers to extend the life of the bridge, a replacement is urgently required to avoid the asset's failure. Furthermore, population and economic growth over the past 60 years has reduced the capacity of many of these assets to meet modern-day demands. Unless significant new investments are made in the coming decade to increase the pace of infrastructure modernization, many of the economic opportunities presented by the current insatiable global demand for Canadian raw materials may flow to competitor nations.

   CCA strongly supports the government's recent commitment in Budget 2011 to establish a broad consultative mechanism with provinces, municipalities and industry stakeholders in the development of a successor program to the Building Canada Plan. As well, the industry applauds the government for its commitment to introduce legislation formalizing the existing direct transfer of $2 billion annually under the Gas Tax Program to municipalities in support of their infrastructure needs. **In this regard, CCA believes it is important to index the existing $2 billion transfer to ensure the program continues to meet existing municipal needs.**

2. **Addressing Skilled Labour Shortages**
   While the opportunities presented by strong global demand for Canadian products are impressive, they are stressing already tight domestic construction sector labour markets. The challenge to find adequate labour resources has again surfaced in many parts of Canada as the pace of economic recovery has accelerated. The construction industry now anticipates a skilled labour shortage of 335,000 workers by 2019, or roughly a quarter of its existing workforce. Traditional domestic sources are only expected to fill approximately 50 per cent of this demand. Consequently, the industry will

remain dependent upon foreign skilled workers to overcome anticipated workforce shortfalls for years to come.

Current immigration policy fails to meet the needs of the construction industry. Policy reforms are required in order to increase the domestic pool of skilled labour. Tied to these reforms is a pressing need to increase the speed at which Citizenship and Immigration Canada processes skilled worker applications. **In this context, CCA believes the department's current budget must be significantly increased in order to eliminate application backlogs and fast-track the entry of skilled workers into Canada.**

3. **Support Productivity and Investment through Tax Incentives**
   Canada remains a productivity laggard when measured against many of its G-8 competitors. Government measures, such as the use of accelerated capital cost allowance deductions for machinery and equipment purchases, are helping accelerate the modernization of Canadian industry and boosting overall domestic productivity. Unlike broad-based tax cuts that can be taken offshore without any direct benefit to Canadians, the use of capital cost allowance incentives encourages investment in Canadian facilities, thereby providing taxpayers with a more direct benefit.

   Canada's construction industry operates large fleets of commercial vehicles. Most firms operate these vehicles on a 10-20 year turnover rate. Beginning in 2012, governments in both Canada and the United States have mandated the introduction of new Tier 4 diesel engines on commercial heavy duty vehicles and diesel-powered equipment. While these new engines will dramatically reduce smog forming mono-nitrogen oxides (NOx) and tailpipe particulate emissions, they will be more expensive, forcing many firms to defer the purchase of new equipment for as long as possible. The introduction of new diesel-powered equipment to the construction industry is critical to not only reducing pollution, but also to supporting productivity improvements within the sector. **As such, CCA recommends the government extend the application of the current accelerated capital cost allowance for machinery and equipment to diesel-powered mobile equipment and machinery, as well as heavy-duty off-road vehicle purchases.**

Modernization of Canada's Aging Infrastructure

The construction of core infrastructure assets in Canada – water systems, sewers, roads, railways and electrical grids – took place during three significant periods of Canadian history: the implementation of the National Policy from 1878 to 1900; the boom and depression period between the two world wars; and the post-World War II boom between 1950 and 1975. During all three of these periods, infrastructure construction increased dramatically to accommodate a growing domestic population and to keep up with global demand for Canadian natural resources.

Since the middle of the 1970s, governments at all levels have been living on the infrastructure investments of past generations. Today, much of Canada's underground infrastructure, bridges, electrical grids, roads and highways are stretched beyond their design limits and rapidly approaching the end of their useful service lives. While the federal and provincial investments of the past five years have moderated the pace of deterioration, a far more concerted effort on the part of governments across Canada will be required to ensure our core infrastructure assets continue to adequately serve the economy and Canadians alike.

Over the past twenty years, most economic studies have concluded that a direct link exists between the adequacy of a nation's infrastructure and its ability to compete economically. Investments made in infrastructure not only improve the quality of life for Canadians, but they help support our economy by improving the means by which we transport and distribute goods and services produced in Canada. As an export-driven economy, the maintenance of a modern and adequate system of infrastructure is imperative to our future economic success.

Over the next decade, the pace and scope of Canada's efforts to modernize our aging infrastructure will have a direct impact on the overall global competitiveness of the Canadian economy. While current demand remains high for Canadian raw materials, exploration efforts in Africa, South America, Russia and elsewhere around the globe will increase the supply of many of these commodities and drive prices downward. In order to maintain Canada's current market position, Canadian industry will need to ensure the costs of exploration, extraction and transportation remain on par with other global suppliers. Since wages in Canada are higher than those paid by countries in these regions, Canada will need to rely on the efficiency of its infrastructure to maintain its competitive advantage. To that end, a substantial investment in infrastructure will be necessary.

While the need for governments to return to fiscal balance is important, these efforts must not be implemented in such a way as to neglect the critical enabling infrastructure investments required to maintain the competitiveness of our economy. Delays today will place a huge financial burden on present and future generations, and will certainly lower our standard of living and quality of life.

Over the past five years, the federal government has been a catalyst for the renewal of Canada's aging infrastructure. Both the Building Canada Plan and the more recent Economic Action Plan have been instrumental in reversing the overall trend of infrastructure deterioration that characterized the 1990s and early 2000s. However, with so much of Canada's infrastructure approaching the end of its useful service life within the next 15 years, further significant investments will be required to prevent infrastructure failures and ensure the ongoing competitiveness of the Canadian economy.

Of particular concern remains the infrastructure under the stewardship of Canada's municipal governments. Municipalities now hold custodianship over more than 55 per cent of Canada's total infrastructure. Unfortunately, they are also the level of government with the least amount of fiscal flexibility to raise the revenues required to pay for the construction and maintenance of these critical assets. For this reason, CCA members have been active for more than 20 years in promoting the adoption of a new and coordinated approach to the renewal of Canada's core infrastructure. CCA has called upon all three orders of government to come together and develop a long-term national infrastructure plan. The plan must quantify existing and future needs, assign investment priorities and develops new funding mechanisms to ensure that all levels of government have the resources they require to fund the infrastructure under their respective management.

In Budget 2011, the federal government committed to "work with provinces, territories, the Federation of Canadian Municipalities and other stakeholders to develop a long-term plan for public infrastructure that extends beyond the expiry of the Building Canada plan." Furthermore, the federal government committed to the introduction of legislation that would make permanent the current annual transfer of $2 billion under the current Gas Tax Fund for long-term municipal infrastructure development. CCA strongly endorses these two important federal commitments and recommends that in the interim, while the longer-term plan is under negotiation, the federal government index existing transfers under the Gas Tax Fund.

Recommendation:

To ensure the $2 billion annual transfer to municipalities for infrastructure maintenance and construction is not reduced by inflation, CCA recommends that the Parliament of Canada, in passing the enabling legislation formalizing this transfer, index the total amount to the cost of inflation.

Addressing Skilled Labour Shortages

Another significant challenge facing the Canadian economy is that of skilled labour shortages that, if permitted to continue, will increase the cost of Canadian labour as businesses across the economy enter into greater competition to acquire and retain scarce skilled labour.

Today, the construction industry employs more than 1.26 million Canadians, and accounts for approximately seven per cent of Canada's GDP. According to most economic forecasts, employment and the industry's contribution to GDP are expected to grow dramatically in the decade ahead due to higher global demand for Canadian raw materials. In a recent report on global construction trends, PricewaterhouseCoopers estimated Canada will surpass France and Germany over the course of this decade and become the world's fifth largest construction market. Driven by the need to build new and replace existing infrastructure to satisfy international demand for natural resources, only China, the United States, India and Japan will outspend Canada. However, in order to achieve this potential, the construction industry must have an adequate supply of skilled and unskilled workers.

Canada's construction industry is particularly concerned as it has very recent experience with labour scarcity and the impact this challenge can have on overall productivity. Prior to the economic downturn of 2008, the industry experienced labour scarcity in a number of regions, most notably Alberta due in part to strong global demand for energy exports. Labour scarcity not only made keeping pace with construction demand challenging, it also helped drive wage inflation making the cost of overall construction more expensive than anywhere else in the country. Should these challenges emerge elsewhere across Canada, the impact on the economy could be considerable and could undermine the Bank of Canada's efforts to control inflation.

While such scenarios may seem implausible today, according to the most recent Construction Sector Council (CSC) forecast, demand growth for construction services in Canada will outpace the sector's growth capacity due to chronic shortages of skilled and unskilled workers. If immediate action is not taken, the industry is estimated to face a workforce shortage of more than 335,000 employees by 2019. Over this period, domestic workforce recruitment from traditional training sources – colleges and private sector training institutions - will only account for 170,000 new workers, or just over 50 per cent of the overall industry demand. Therefore, even with aggressive domestic recruitment and training programs, the industry will continue to rely on Canada's immigration system to supply the remainder of its workforce.

From the perspective of the construction industry, the solution is clear: Canada must increase the number of foreign skilled workers entering the country under the Federal Skilled Worker Program (FSWP), the Temporary Foreign Worker Program (TFWP) and the Provincial Nominee Program (PNP). Furthermore, entrants under the TFWP should be given longer-stay visas, be provided with additional flexibility to change employers within the industry, and fast-tracked for permanent residency after working in Canada for an acceptable period of time.

Based on the analysis of the CSC, Canada's construction industry will need to add approximately 42,000 new workers each year to keep up with growing demand for construction services and replace retiring workers. Since domestic recruitment efforts can only supply approximately 50 per cent of the overall demand, the industry must add approximately 21,000 new workers each year through immigration to avoid skilled labour shortages. While Statistics Canada's *Occupation and Skill Level Labour Market Intention* data does not specifically identify construction professions, the industry estimates that fewer than 2,500 immigrants to Canada presently take up professions within the construction sector.

Current processing backlogs within Citizenship and Immigration Canada are also barriers to the entry of the skilled workers. According to the department, there was a 500,000 skilled immigrant applicant backlog as of December 2010. Clearly, not all of these applicants will qualify to immigrate, but with such growing labour challenges across the economy, more must be done to reduce skilled immigrant backlogs. From a CCA perspective, this remains an area of considerable concern. Other countries with similar immigration programs seem to have faster processing times for economic class immigrants, which places Canada at a competitive disadvantage. If not addressed, Canada may lose some of the best and brightest available immigrants to other nations due to application processing delays.

Recommendation:

CCA believes the solution rests with public policy makers who must increase skilled worker training capacity across the country, as well as reform Canada's immigration system to place a greater emphasis on arranged employment and acquired job skills, rather than on formal, post-secondary education. In addition to these important policy reforms, the Parliament of Canada must increase funding for Citizenship and Immigration Canada in order to decrease application processing times.

Support Productivity and Investment through Tax Incentives

Canada remains a productivity laggard when measured against many of its G-8 competitors. As the economy of Canada begins gaining momentum, there are a number of proactive measures the federal government can adopt to help promote greater industrial investment and higher levels of productivity.

A December 2010 "flow of funds" report by the United States Federal Reserve states that non-financial companies are holding on to a record near $2 trillion in cash. Analysts believe cash stockpiling is in part responsible for current anaemic economic growth levels in the United States. Encouraging companies to invest these large stockpiles of cash back into the economy will promote higher employment and competitiveness through the construction of new facilities and the purchase of more modern production equipment. While the situation in Canada is not entirely comparable, many Canadian companies have adopted similar strategies as a buffer against future economic shocks.

Government measures, such as the use of accelerated capital cost allowance deductions for machinery and equipment purchases, have helped maintain domestic corporate investment. These measures are helping accelerate the modernization of Canadian industry and boosting overall domestic productivity. Furthermore, unlike broad-based tax cuts that can be taken offshore without any direct benefit to Canadians, the use of capital cost allowance incentives encourage domestic investment thereby ensuring the Canadian economy remains the direct beneficiary of these incentives.

CCA members strongly supported the extension in Budget 2011 of the accelerated capital cost allowance rate for machinery and equipment purchases. These critical investments will contribute to improved productivity and increase the global competitiveness of the overall economy. As a further measure to boost productivity and corporate investment, CCA members support extending the current accelerated capital cost allowance (ACCA) for machinery and equipment to include mobile diesel-powered equipment and machinery, as well as heavy-duty commercial vehicles.

Canada's agricultural, oil and gas, forestry, mining, construction and transportation industries are significant consumers of diesel-powered mobile equipment and heavy-duty commercial vehicles. While figures vary, most of these industries operate equipment on 10-20 year turnover rates. Extending the time-limited accelerated capital cost allowance for machinery and equipment purchases to include heavy-duty vehicles and diesel-powered mobile equipment would extend the productivity benefits currently enjoyed by manufacturing, machinery, and equipment, to these other important sectors of our economy.

Furthermore, it would generate considerable economic spinoffs in the retail sector and result in higher overall tax revenues.

In addition to the numerous economic benefits, the extension of the accelerated capital costs allowance for machinery and equipment to diesel-powered equipment and heavy-equipment purchases would also deliver health and environmental benefits. Beginning in 2012, Tier 4 diesel engine technology will become mandatory. These new engines are a dramatic improvement over previous technology reducing fuel consumption by five per cent, lowering overall tailpipe emissions of particulate matter (PM) by as much as 90 per cent over current technology and cutting NOx emissions by 50 per cent.

Unfortunately, these benefits come at a considerable cost. Equipment purchases with these new engines are expected to increase by as much as 10 per cent. Furthermore, since these new engines are far more complex than their predecessors, the overall maintenance and maintenance training costs are also expected in increase. These increases will make replacement of existing equipment more expensive and may cause many companies to delay the retirement of older and more polluting equipment. Extending the current accelerated capital costs allowance for machinery and equipment to mobile and heavy-equipment purchases will help overcome challenges related to cost increases, encourage companies to become earlier adopters of Tier 4 engine technology, accelerate equipment turnover rates and contribute to overall environmental improvements.

Recommendation:

CCA recommends the government extend the application of the current accelerated capital cost allowance for machinery and equipment to diesel-powered mobile equipment and machinery, as well as to heavy-duty off-road vehicle purchases.