Association du Camionnage du Québec

PRE-BUDGET CONSULTATIONS SUBMISSION TO THE STANDING COMMITTEE ON FINANCE

BUDGET 2019

SUBMITTED BY MARC CADIEUX

PRESIDENT AND CEO

August 2, 2018

■ **Recommendation 1:** The freight transportation industry recommends that the capital cost allowance for Class 16 property (trucks and tractors) be adjusted to **60%**.

■ **Our arguments**

Purpose of this recommendation:

1. As of the next federal budget, to bring the rate into line with Quebec's amendment in its provincial budget of March 30, 2010, in order bring ***tax fairness*** to all carriers in other Canadian provinces for the sake of competitiveness across Canada.

Following the representations made by the Association du camionnage du Québec during Minister Bachand's pre-budget consultations, the Government of Quebec increased the capital cost allowance rate from 40% to 60% for trucks and tractors designed for freight transportation in order to better support the trucking industry with the higher costs of new generation engines, to ensure the industry's active participation in reducing greenhouse gas emissions, and to help green in its fleet.

2. To maintain ***competitiveness*** among the various modes of ground freight transportation

The profitability gap between competing modes (trucking and rail) is growing year after year. The profit margin for rail transportation averaged **22.82%** from 2003 to 2007, while for trucking it was **6.67%**. However, rail was granted an increase in the capital cost allowance for its locomotives from 10% to 15% in 2000 and from 15% to 30% in 2008. Rail now has accelerated depreciation of its motorized rolling stock, helping it become an even stronger competitor to trucking, with profit margins that provide some pricing flexibility.

3. To eliminate the ***disparity in international trucking tax rules*** so as to ensure healthy competition with U.S. trucking companies

In the U.S., the capital cost allowance rule is based on the "three-year asset." After four years, tractor trailers are fully depreciated with a remaining balance of

zero. In Canada, after four years, there is a remaining balance of **17.28%** on Class 16 machinery.

This places Canadian trucking companies at a disadvantage with their U.S. competitors. The U.S. tax system allows for faster asset renewal, meaning that more modern and greener trucks can be put into service, thereby reducing freight costs and air pollutants.

4. To consider the true ***economic*** life of machinery instead of its useful life

In 2007, new Environmental Protection Agency (EPA) mandated that new, greener engines be produced. These new engines have increased the cost of a new truck by more than $8,000. In 2010, under the new rules, a new generation of engines has been introduced to reduce the particulate matter and nitrogen oxides responsible for urban smog and the main cause of ground-level ozone. The 90% and 95% reductions in these emissions have an environmental impact. This new generation of engines has inflated the cost for new trucks by more than $10,000.

If the government underestimates the importance of its responsibilities during this transition period as markets adjust to tougher environmental rules, it will jeopardize the greening of the trucking industry. At the rate at which new environmental legislation and targets are being imposed by 2020, the capital cost allowance no longer reflects the true economic life of the asset.

■ **Recommendation 2:** The trucking freight industry recommends funding for widening Highway 185 to a four-lane highway.

■ **Our arguments**

The Association du camionnage du Québec, along with its counterparts in Ontario and the Atlantic provinces, believe that Highway 185 should be turned into a four-lane highway for economic and safety reasons.

In July 2015, the federal government and the Province of Quebec announced partial funding for this project. The reason given for the investment was to improve public safety and efficiency while facilitating the transportation of goods between Quebec and the Maritimes. As a group of three associations, we can add that widening Highway 185 from two to four lanes would improve the movement of goods throughout Eastern Canada, including Ontario. The three associations also believe that we need to speed up the process to ensure that the entire Highway 185 is widened to four lanes.

Once Highway 185 is fully widened to four lanes, it will form a continuous section of the Trans-Canada Highway between Arnprior, Ontario, and Sutherlands River, Nova Scotia, and an even longer interprovincial highway between Windsor and Halifax -- playing much the same role as the old Highway 2 in Quebec -- before it was renumbered as several highways in the early 1970s.

The four-lane configuration of Highway 185 will significantly improve trade between the Eastern provinces by introducing long-distance vehicles (LDVs) -- the most efficient and productive truck configuration -- into this trade corridor. Currently, in Eastern Canada, road trains can only be operated on primary four-lane highways.

How much of a benefit would introducing long-distance vehicles to Highway 185 bring to trade? According to one independent study, each 0.5% reduction in the cost of a good traded to and from the Maritimes increases the national GDP by $350 million, two-thirds of which is equally shared between New Brunswick and Nova Scotia. Ontario and Quebec would have about an equal share of an additional annual gain of $100 million. With this formula, the impact of twinning Highway 185 would reduce the cost of a traded good by 1.5% to 2.5%, representing an annual gain of $1 billion to $1.78 billion for Canada; $350 million to $600 million for New Brunswick and Nova Scotia; and $100 million to $160 million for Quebec.

Conversely, if Highway 185 is not twinned by 2018, the cost to the New Brunswick economy will be $3 billion over the next decade.

In 2017, Minister Garneau announced the Trade and Transportation Corridors Initiative, describing how the Government of Canada would select merit-based projects under the National Trade Corridors Fund. Whether in terms of this fund or other sources, our three trucking associations would be hard pressed to come up with a highway infrastructure project, other than the Gordie Howe Bridge, in Eastern Canada that would benefit the region as much as the reconfigured four-lane Highway 185. Given that threats continue to hamper our access to international markets, it is even more important to look for ways to improve intra-provincial trade.

By investing in and speeding up the Highway 185 project, we will stimulate the economies of all the Eastern provinces, and therefore of Canada.

■ **Recommendation 3:** The trucking industry recommends a review of the definition, conditions and eligibility criteria for meal allowance for truck drivers.

The new definition could be worded as follows:

An employee driving a long-haul truck:

- The principal activity of the business is the transport of goods
- The truck or tractor trailer is designed for hauling goods with a gross vehicle weight in excess of 11,788 kg
- Goods are transported for a distance longer than 50 km

■ Our arguments

The trucking industry is composed of drivers whose primary duties require them to constantly travel away from their workplace and/or home. The tax conditions to be met for the meal allowance do not correspond to the reality of their activities, as you will see:

- The first obstacle is the restrictive definition “outside the municipality or metropolitan area where your employer’s place of business (to which you ordinarily report for work) is located.” Usual entertainment expenses, like the meal expenses of employees on commission, are not subject to a minimum distance or geographical radius within which the allowance cannot be claimed. In the case of drivers, these expenses are directly incurred to earn employment income; those expenses are invariably incurred on the road, regardless of the distance, municipality or the metropolitan area involved.

- The second obstacle pertains to the requirements for long-haul truck driver status, that is to spend at least 24 consecutive hours away from the municipality or metropolitan area where the employer’s place of business is located **AND** to transport goods to or from a place that is beyond a radius of at least 160 kilometres from the employer’s place of business.

In more than 95% of cases, the job of truck driver requires drivers to take their meals on the road, as that is their workplace. Limiting the eligibility for the meal allowance by geography, such as municipalities, or by a radius of at least 160 km, has no basis in industry practices or a realistic radius for meals.

For long-haul truckers, the 160 km radius probably originates from the driving and working hours regulations applicable to heavy vehicles. The radius is used to account for the drivers’ hours on the road. The distance limit is supported by the maximum allowable hours, 13 hours of driving per day and 16 hours of driving and working. It seems clear, however, that drivers must take their meals on the road to do their job and,

given that a truck is no place for taking meals, drivers must pay a certain amount every time they have a meal.

The other eligibility criterion for long-haul truck drivers is a minimum 24-hour trip. Again, there does not seem to be any particular reason for this criterion, nor does it take industry practices into account. A system of driving and working hours is applicable to truck drivers. After a period of 16 hours, they must take eight consecutive hours of rest. However, almost 40% of trips under 160 km are made within 16 consecutive hours of work and involve the drivers returning to their terminal to take their eight hours of rest elsewhere than in their truck. The carriers' dispatch centres organize local truckers' working days according to driving hours regulations and do everything they can to allow drivers to take their eight hours off at home.