



**Written Submission for the Pre-Budget Consultations in  
Advance of the Upcoming Federal Budget**

**August 2020**

## **Recommendations**

### **Recommendation 1**

AED recommends that the Government of Canada increase the Accelerated Investment Incentive for new and used equipment purchases from the current 45 percent to 100 percent to spur economic activity.

### **Recommendation 2**

AED recommends that the Government of Canada create a system that ensures consistent infrastructure spending to allow for long-term certainty for the construction sector.

### **Recommendation 3**

AED recommends that the Government of Canada earmark more dollars of its Investing in Canada plan in the near-term to support Canada's economic recovery, and commit new funds for later years of the plan.

### **Recommendation 4**

AED recommends that the Government of Canada encourage the Canada Infrastructure Bank collaborate with the private sector to make immediate investments in infrastructure projects to support economic growth and job creation.

### **Recommendation 5**

AED recommends that the federal government continue to focus on promoting apprenticeships and public awareness campaigns to encourage Canadians to seek careers in the skilled trades, including as dealer service technicians.

### **Recommendation 6**

AED recommends that the Government of Canada pursue policies to stimulate Canada's energy development sector and establish a predictable project approval process.

## Introduction

Similar to most economic sectors, the Canadian equipment industry has been detrimentally impacted by the COVID-19 pandemic. Equipment dealers have had to downsize operations, terminating employees as revenue has declined sharply. The 2020 construction season saw nearly 3,000 projects delayed across Canada, forcing construction contractors to refrain from purchasing and renting equipment due to uncertainty.<sup>1</sup> Other sectors AED members service, such as mining, agriculture, forestry and energy, have also been impacted by the pandemic, making a bad economic situation even worse.

To spur economic growth and job creation, the Government of Canada must continue to invest in infrastructure and explore policies to promote capital investment and stimulate the economy. The latest Parliamentary Budget Officer (PBO) report found that “federal infrastructure spending continues to be delayed”<sup>2</sup>, with an estimated total of \$2 billion from 2016-2017 to 2019-2020. Infrastructure funding bottlenecks hindered construction industry growth prior to COVID-19 and the situation has only worsened during the pandemic.

The following recommendations will promote growth in the construction and natural resources sectors, as well as the broader economy.

## Incentivizing Capital Investments

In the 2018 Fall Economic Statement, the government acknowledged the Canadian business community’s concerns regarding the United States’ 100 percent bonus depreciation policy, which was enacted in the Tax Cuts & Jobs Act. Canadian companies were apprehensive that the 100 percent depreciation, compared to Canada’s 15 percent, would make the U.S. “significantly more attractive than before for businesses considering making new capital investments.”<sup>3</sup> The Fall Economic Statement responded to these concerns by implementing the Accelerated Investment Incentive, allowing businesses to depreciate capital equipment purchases at 45 percent in the year of purchase rather than 15 percent until 2024.

Bonus depreciation allows companies to retain liquidity and incentivizes purchases of construction, mining, forestry and agriculture machinery, and many other types of equipment. This provides a significant enticement for companies to update their equipment fleet with the newest, most efficient and environmentally-friendly models.

With major losses caused by the COVID-19 pandemic, greater depreciation rates are required to allow companies to continue to make investments in capital assets. Many companies have seen a drop in year-over-year revenue and are not in the same financial position they were just 6 months ago. Further, studies have shown that 100 percent depreciation will not only increase investments in Canada but will also increase our gross domestic product and be responsible for the creation of thousands of jobs.<sup>4</sup> With the Canada-United States-Mexico Agreement (CUSMA), it is even more important that Canada enact policies to encourage more investment by private firms, that increases productivity and competitiveness in the near-term. By increasing the Accelerated Investment Incentive from 45 percent to 100 percent for select assets, such as earth-moving equipment, Canadian firms will have an incentive to invest and the economy will more quickly recover from the COVID-19 pandemic.

**Recommendation 1: AED recommends that the Government of Canada increase the Accelerated Investment Incentive for new and used equipment purchases from the current 45 percent to 100 percent to spur economic activity.**

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<sup>1</sup> <https://www.constructconnect.com/delayed-projects-report>

<sup>2</sup> [https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/RP-2021-008-S/RP-2021-008-S\\_en.pdf](https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/RP-2021-008-S/RP-2021-008-S_en.pdf)

<sup>3</sup> <https://www.budget.gc.ca/fes-eea/2018/docs/statement-enonce/fes-eea-2018-eng.pdf>

<sup>4</sup> <https://www.treasury.gov/resource-center/tax-policy/Documents/Report-Temporary-100percent-Expensing-2010.pdf>

## **Stimulating Growth Through Infrastructure Investments**

Investing in infrastructure is the best way for the government to stimulate the economy while benefitting all Canadians and rebuilding the country's crumbling infrastructure. The public and nearly every economic sector benefits from upgrading and constructing roads, bridges, broadband, water systems and other projects. From retailers and farmers to restaurants and medical workers, infrastructure is a smart investment now and well into the future. The needs for infrastructure improvements are immense. According to the 2019 Canada Infrastructure Report Card, nearly 150,000 kilometres of roads are in poor or very poor condition and more than 30 percent of public transit tracks require investment in the next decade.<sup>5</sup>

The construction equipment industry is particularly vulnerable to economic uncertainty. If AED member customers, such as construction contractors, don't have a clear outlook about projects in the future, they're not going to invest in expensive machinery. Inconsistent infrastructure spending makes it difficult for companies to adequately plan for the months and years ahead. The latest PBO report on the Investing in Canada plan found that there is \$2 billion in delayed funding. While this is an improvement from prior reports, it continues to be a major concern for the construction sector.

Additionally, the original Investing in Canada plan backloaded investments in its final years. With over three million jobs lost and the unemployment rate spiking to nearly 14 percent, the Government of Canada should consider fast-tracking funding that was targeted toward later years in order to stimulate the economic recovery. Spending on infrastructure is truly an investment. Research has shown that the return on investment of every dollar spent on public infrastructure is between \$2.46 and \$3.83.<sup>6</sup> Accelerating funding through the Investing in Canada plan now will put the country back on track for growth and job creation.

Finally, the Canada Infrastructure Bank, continues to fall short of expectations. The Bank should work toward identifying projects and attracting private capital to leverage investments in larger projects.

**Recommendation 2: AED recommends that the Government of Canada create a system that ensures consistent infrastructure spending to allow for long-term certainty for the construction sector.**

**Recommendation 3: AED recommends that the Government of Canada earmark more dollars of its Investing in Canada plan in the near-term to support Canada's economic recovery, and commit new funds for later years of the plan.**

**Recommendation 4: AED recommends that the Government of Canada encourage the Canada Infrastructure Bank collaborate with the private sector to make immediate investments in infrastructure projects to support economic growth and job creation.**

## **Addressing the Skilled Labour Shortage**

As Canada's economic recovery takes hold, recruitment and training of a skilled workforce will be necessary. BuildForce Canada's 2020-2029 national report, *Construction and Maintenance Looking Forward*,<sup>7</sup> found that skilled labour demand continues to intensify in the construction sector. With growing employment needs and thousands of pending retirees, the industry will need to recruit more than 307,000 workers over the next decade to keep pace with demand. The construction equipment industry is no exception, as AED members continued to be plagued by a dearth of skilled diesel service technicians.

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<sup>5</sup> <http://canadianinfrastructure.ca/downloads/canadian-infrastructure-report-card-2019.pdf>

<sup>6</sup> [http://www.mhca.mb.ca/wp-content/uploads/2010/11/The\\_Economic\\_Benefits\\_of\\_Public\\_Infrastructure\\_Spending\\_in\\_Canada.pdf](http://www.mhca.mb.ca/wp-content/uploads/2010/11/The_Economic_Benefits_of_Public_Infrastructure_Spending_in_Canada.pdf)

<sup>7</sup> <https://www.buildforce.ca/en/lmi/forecast-summary-reports>

The Government of Canada has an opportunity to work with businesses to encourage all Canadians to consider a career in the construction equipment industry, including historically underrepresented groups, such as women, indigenous peoples and new immigrants. Through a mix of investments in training and recruitment initiatives, the government can help to fill vacancies that already exist, increasing employment and economic growth.

**Recommendation 5: AED recommends that the federal government continue to focus on promoting apprenticeships and public awareness campaigns to encourage all Canadians to seek careers in the skilled trades, including as dealer service technicians.**

### **Supporting Canada's Energy Recovery**

As with most sectors, the energy industry is struggling due to the economic fallout from the COVID-19 pandemic. However, energy development, which includes the oil and gas sector and non-fossil fuel resources, is vitally important to Canada's economic and national security. It's also critical to the near-term economic recovery of the equipment industry.

In Western Canada, it is especially clear that support for companies developing oil and gas will be needed to help the region get back on its feet. The entire supply chain is negatively impacted by this downturn, including those, like equipment distributors and manufacturers, that provide equipment and supplies to support the energy sector.

The government must recognize the urgency of nurturing Canada's energy sector to ensure the viability of ancillary industries that supply it. Additionally, it's critical the federal government to work with the provinces, especially Alberta and Saskatchewan, to support businesses and workers that depend on oil and gas production for their livelihoods.

Stimulus measures targeted at the energy industry will benefit the entire Canadian economy. AED also requests that your government reiterate its long-term commitment to the TransCanada Pipeline Expansion Project and the Kitimat LNG terminal. Finally, the Government of Canada must establish a predictable and comprehensive approval process for energy projects to provide certainty to private investors and companies.

**Recommendation 6: AED recommends that the Government of Canada pursue policies to stimulate Canada's energy development sector and establish a predictable project approval process.**

### **About Associated Equipment Distributors (AED)**

Associated Equipment Distributors (AED) is the international trade association representing companies that sell, rent, service and manufacture construction, mining, farm, energy, forestry and industrial equipment and related supplies. AED's Canadian members account for more than \$8.7 billion in annual sales and services and employ over 27,000 workers at 400 locations across the country.