

## House of Commons Standing Committee on Finance

### Submission for the Pre-Budget Consultation in Advance of the 2021 Budget

by:

Association of Equipment Manufacturers

[www.aem.org](http://www.aem.org)

August 7<sup>th</sup>, 2020

## **AEM's Recommendations**

- Recommendation 1: Offer an Incentive-based program to replace older equipment with new equipment using Tier 4 engines
- Recommendation 2: Accelerate the Improvement of Rural Broadband Internet to Increase Productivity
- Recommendation 3: Modernize the Science Research and Experimental Development Program
- Recommendation 4: New Infrastructure Investments
- Recommendation 5: Adopt the North America Rebound Campaign

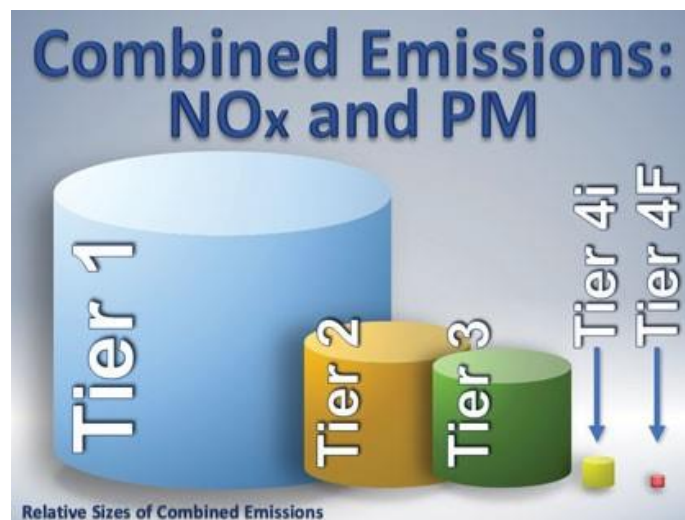
## Introduction

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 2021, in particular with regard to measures to restart the Canadian economy as it recovers from the COVID-19 pandemic. AEM is a trade association representing manufacturers of agricultural, forestry, construction, and mining equipment. AEM represents approximately 1,000 members throughout Canada and the United States.

In particular, AEM members want the government to recognize the critical importance of Canadian manufacturing capacity, and implement the recommendations highlighted in this submission, which will increase the competitiveness of the sectors served by AEM member companies and to reward innovative Canadian manufacturers.

### **Recommendation 1: Offer an Incentive-based program to replace older equipment with new equipment using Tier 4 engines**

Tier 4 emission standards are mandated by Environment and Climate Change Canada for the reduction of emissions from diesel engines. As per Figure 1 below, equipment that is powered by newer Tier 4 engines produce a fraction of particulate matter and nitrogen oxides compared to older engines.



*Figure 1 – Tier 4 engines drastically reduce emissions of particulate matter and nitrogen oxide compared to earlier engine types. In the United States, the EPA estimates that by 2030, controlling emissions would annually prevent 12,000 premature deaths, 8,900 hospitalizations, and one million work days lost. (Image source: <https://mcsmag.com/tier-4-directive/>)*

In the past, the Government of Canada has offered programs to provide an incentive for new technology that reduces emissions; for example, hybrid and electric vehicles. We encourage the Government of Canada to implement an incentive-based program (through an existing investment tax credit, grant, or Accelerated Capital Cost Allowance) to encourage the replacement of older off-road diesel-powered equipment used in the agriculture, construction, forestry, and mining sectors, as well as stationary equipment (such as diesel-powered generators used in remote communities) using older Tier 1, Tier 2, and Tier 3 engines, with new equipment powered by Tier 4 engines.

## **Recommendation 2: Accelerate the Improvement of Rural Broadband Internet to Increase Productivity**

The COVID pandemic has highlighted to a greater degree than ever before the necessity for universal access to broadband internet across rural communities. This is not news for those living in these communities.

As noted in the Agri-Food report for Canada's Economic Strategy Tables, 2018:

*“rural areas in Canada are disproportionately affected by a lack of access to reliable broadband service. The lack of broadband service in rural areas is a key bottleneck to why precision agriculture technologies and other digital tools have not been adopted as widely or extensively as they could—and should—be. While these precision agriculture technologies offer significant productivity gains for primary agriculture, universal broadband service in fact offers opportunities for all business that operate throughout the sector, including logistics, advisory services, food and beverage processing, and aquaculture. Potential benefits of expanding broadband service to underserved areas includes enabling greater automation with Industry 4.0 technologies (e.g., robotics, Internet of Things [IoT], machine learning, etc.), optimizing supply chains through big data analytics, achieving higher yields through more precise application of farm inputs, and expanding e-commerce opportunities for all businesses.”*

AEM applauds the Government of Canada for launching infrastructure programs to expand broadband internet service in rural Canada. As a result, the sectors served by AEM members – agriculture, construction, forestry and mining – are able to achieve productivity gains.

### **Recommendation 3: Modernize the Science Research and Experimental Development Program**

The Scientific Research and Experimental Development (SR&ED) Tax Credit program remains a pillar of the suite of programs available to encourage innovation. However, disappointingly it has been made out-of-reach for most AEM members, despite their development of innovative products which compete in the international market.

This development is the result of a combination of factors over the past several decades, which have included court decisions, the program's evolution, the program's implementation and diminished sector understanding at the Canada Revenue Agency (CRA). Given these developments, the current reality is that few AEM members access the SR&ED program, because the submission process is overly difficult, cumbersome and expensive.

The most significant factor negatively impacting access to the SR&ED program by equipment manufacturers is that the CRA lacks sufficient knowledge about the sector. Unlike SR&ED in other sectors that may begin with a hypothesis, SR&ED in agricultural, construction and forestry equipment is much more likely to evolve from intuition, environmental factors, market demand, labour supply, or field necessity. Previously this approach to SR&ED was recognized by the CRA, as was noted in the Income Tax Information Circular, Machinery and Equipment Industry Application Paper (94-2). Unfortunately, this document was withdrawn in 2010, the practical result of which was that both applicants and CRA staff are poorly informed about how to apply for, and consider the merits of, the SR&ED application when it comes to innovation in agriculture equipment manufacturing.

A major step towards encouraging innovation in the Canadian equipment manufacturing industry would be to ensure the CRA updates and re-issues Machinery and Equipment Industry Application Paper (94-2).

## **Recommendation 4: New Infrastructure Investments**

Including major new infrastructure investments should be a key component of a successful recovery package. Significant investment in Canada's transportation networks, public transit, bridges, broadband networks (see recommendation 2, above), waterways, airports, and utilities will help support job growth and retention at a time of great economic uncertainty. These key investments will increase demand for equipment, and bolster the economy.

As part of the budgetary planning process, we urge the consideration of the following:

- Invest in the infrastructure required to increase Canada's export capacity;
- Work with the provinces to expedite the permitting process for infrastructure projects;
- Increase the share of federal funding for infrastructure projects.

## **Recommendation 5: Adopt the North America Rebound Campaign**

The COVID pandemic has taught an important lesson for an economy as integrated as North America: a shutdown anywhere in the supply chain has instant, unintended consequences in the other two countries. And, because the authority of state and provincial governments is often constitutionally guaranteed, it's not an issue that can be solved by tweaking a treaty like the new Canada-U.S.-Mexico (CUSMA) deal. Businesses facing possibly mortal threats to their operations should not be forced to shop from one level of government to another, hoping someone will listen.

More than any two countries in the world, the U.S. and Canada make things together as integrated economic partners. The U.S. sells more goods to Canada than to any country - more than it sells to China, Japan and the UK combined. Canada and the US must stand strong for a common cross-border manufacturing response as we tackle the COVID-19 public health crisis and help our shared economies rebuild and recover.

Specifically, as per the North America Rebound Campaign, we believe that our two countries must continue to work together on a collaborative manufacturing response to COVID-19, to achieve the following objectives:

- Securing the availability of personal protection equipment (PPE) in both countries;
- Designing Canada-US manufacturing solutions to replenish and maintain strategic stockpiles of medical equipment;
- Continuing to ensure people and goods cross the border efficiently without interrupting our critical supply chains;
- Expanding market opportunities between our two countries in order to spur recovery and compete globally.

## **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.