House of Commons Standing Committee on Finance

2014 Pre-Budget Consultations

Summer-Fall 2014

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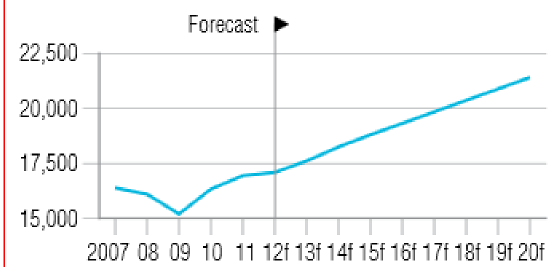
Our File: 140710-2014-Federal Pre-Budget Consultations

Introduction

- The Canadian Trucking Alliance (CTA) is a federation of the provincial trucking associations, representing over 4,500 trucking companies who in turn employ over 150,000 Canadians.
- Trucking is the dominant mode of freight transportation in Canada.
- Trucks move 90% of all consumer products & foodstuffs.
- The transportation services sector represents 4.2% of Canada's GDP, or $53 billion. For-hire trucking accounts for 31% of the sector's share of GDP; the air and rail segments represent 12% and 11%, respectively, while water transportation represented about 2%.
- Between 2011 and 2020, the for-hire trucking industry is expected to experience an output increase of 26% or from $17 billion annually to $21.4 billion in constant dollars.
- Trucks move 57% (by value) of Canada's trade with the United States, while 17% is by rail, 16% by pipeline, 6% by marine and 5% by air.
- As a whole, the trucking industry (including for-hire carriers, private carriers, owner-operators and courier firms) generates over $65 billion in revenues per year, with the for-hire sector accounting for over $40 billion alone.
- There are over 300,000 truck drivers in Canada today, which includes both drivers in the for-hire trucking industry and private trucking activity.
- Approximately 180,000 (60%) are employed in the for-hire sector of the trucking industry.
- Nearly 1% of the Canadian population and over 1.5% of the labour force are truck drivers; it is the second largest occupation for males in the country.
- For-hire trucking accounts for 278,000 direct jobs and overall provides for almost 480,000 jobs, resulting in $24 billion in personal income, generating $4.2 billion in personal income taxes and $4.1 billion in indirect taxes.
- The total economic footprint of the for-hire trucking industry was almost $37 billion in 2011.
- The economic multiplier effect the trucking industry is also much larger than many other industries.

For-Hire Trucking Industry GDP Forecast
(constant 2002 $ millions)



f = forecast
Source: The Conference Board of Canada.

Key Economic Indicators—For-Hire Trucking Economic Footprint

	2007	2008	2009	2010	2011
GDP at market prices ($ millions)	37,121	38,837	37,131	39,860	42,352
Real GDP at market prices (2002 $ millions)	35,570	35,317	33,882	35,654	36,717
Average weekly wages industrial composite (percentage difference)	0.2	0.2	0.2	0.2	0.2
Employment (000s)	462	474	448	457	478
Personal income ($ millions)	20,609	21,555	21,112	22,178	23,579
Pre-tax corporate profits ($ millions)	4,163	4,656	4,477	4,837	5,109
Personal income tax ($ millions)	3,441	3,843	3,815	4,004	4,237
Corporate income tax ($ millions)	801	819	732	769	815
Indirect taxes ($ millions)	3,121	3,554	3,636	3,875	4,125
Federal government balance ($ millions)	8,164	8,393	8,042	8,415	9,008
Regional goverment balance ($ millions)	4,781	6,225	5,496	6,035	6,490

Note: Level-difference shock minus control, except where otherwise indicated
Source: The Conference Board of Canada.

2014 Pre-Budget Consultations

- The Minister of Finance has stated that the federal government will balance its books in 2015. That is a major achievement and one which the Canadian Trucking Alliance (CTA) applauds.
- With the restoration of fiscal balance in Canada, the federal government will no doubt continue its prudent management of government spending, but it will no longer be in a fiscal straitjacket and should therefore seek to introduce certain long-standing strategic measures that are consistent with the themes established for the pre-budget consultations.

Themes

- The themes established for the pre-budget consultations are:

  ❶ Balancing the federal budget to ensure fiscal sustainability and economic growth;

❷ Supporting families and helping vulnerable Canadians by focusing on health, education and training;

❸ Increasing the competitiveness of Canadian businesses through research, development, innovation and commercialization;

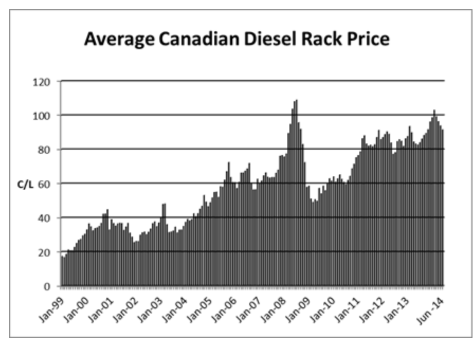
❹ Ensuring prosperous and secure communities, including through support for infrastructure;

❺ Improving Canada's taxation and regulatory regimes; and

❻ Maximizing the number and types of jobs for Canadians.

Federal Excise Tax on Diesel Fuel

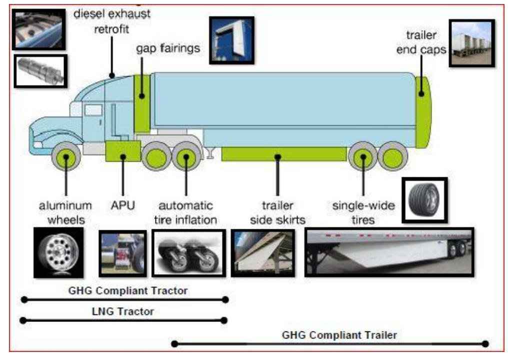
- In 1985, the Mulroney government introduced the federal excise tax on diesel fuel for the expressed purpose of raising revenue to help pay down the government deficit. It was supposed to be a temporary measure until fiscal balance was restored. Indeed, during the Standing Committee on Finance's deliberations on the development of the Goods and Services Tax (GST) it was acknowledged that the excise tax on diesel fuel is inconsistent with value-added taxation and were it not for the fiscal imbalance, the excise tax should be absorbed within the GST and eliminated.
- Unfortunately, when fiscal balance was restored and for several years the government posted balanced budgets or indeed surpluses, the excise tax remained and served no policy purpose whatsoever – a fact acknowledged by a technical committee on business taxation chaired by Prof. Jack Mintz, now with the University of Calgary. The tax was not dedicated to infrastructure investment, or environmental purposes or anything else. The revenues it generated continued to flow into general revenues.
- During the 2008 federal election campaign, diesel prices were at record levels. In September, Prime Minister Stephen Harper announced his commitment to reduce the excise tax on diesel fuel by 50% from four cents per litre to two cents per litre. That has not occurred and shortly thereafter the country introduced an aggressive fiscal stimulus plan which was successful but which returned the government's finances to a deficit situation.
- Today, the tax generates about $1 billion per year in revenue, with the trucking industry paying the lion's share.



- The Minister of Finance is forecasting a return to fiscal balance next year. At the same time diesel fuel prices have been running close to record highs.

CTA Recommendations

- While CTA would never say "no" to a tax reduction, and while there is ample good reason to eliminate the excise tax on diesel fuel – which is a regressive and archaic form of taxation -- and harmonize it with the GST/HST, CTA recommends that so long as it continues to exist the excise tax should have a specific policy purpose and that its revenues be ear-marked for one or a combination of the following policy purposes. We denote the theme for the pre-budget consultations that would be consistent with each of the proposed options by number:
    - **Accelerate the Penetration of More Fuel Efficient Trucks Into the Marketplace** – By improving its fuel economy the industry not only shields itself at least in part from increasing fuel costs, but it also contributes to lower GHG emissions as prescribed by recently introduced federal GHG reduction regulations for heavy trucks and would assist the industry in retrofitting existing vehicles and/or installing on new vehicles currently available and proven add-on technologies and devices (e.g., aerodynamic fairings, auxiliary power units, wide-base less rolling resistant tires, etc.) that would not only help improve fuel economy today but would also



set the industry up to be able to comply with the anticipated second round of GHG reduction regulations expected in 2018. Revenues generated from the excise tax on diesel fuel could also be used to assist in the creation of the distribution network and capital costs associated with using LNG engines (which can be up to 75% more expensive than conventional diesel trucks). It is also important to note that in general the capital cost allowance (CCA) rate a truck tractors in Canada is far less generous than in the United States. And, as it pertains to LNG tractors in particular, the Quebec CCA rate allows for an 80% first year write-off. While Canada has essentially lost its heavy truck manufacturing sector and much of its truck-trailer manufacturing, such a measure could also help to provide a foundation for development of a domestic manufacturing sector concentrating on the add-on fuel efficiency technologies and devices. ❶❷❺❻

- **Create a National Highway Trust Fund –** Canada is perhaps the only major industrialized country on the planet NOT to have a national highway policy. The federal government has a long history of providing assistance for highway construction in Canada, but this has been “ad hoc,” “project by project,” and “unpredictable.” In 1987, a process started to develop an integrated national highway policy, involving the federal, provincial and territorial governments, and to establish clear expectations and goals. The policy was developed by the Council of Ministers Responsible for Transportation and Highway Safety between 1988 and 1992. Federal negotiations with the provinces on a funding mechanism were not successful, and the federal government conceded in 1994 that consensus was unattainable at that time. In 1997, the Standing Committee on Transport concluded the status quo was unacceptable and made recommendations regarding the future support of the national highway system. However, it felt the national deficit situation at the time made a dedicated tax unattractive. In 2005, the Council of the Federation issued a report calling for more predictable federal investment. It regarded federal fuel tax revenues as the appropriate funding source for a permanent transportation investment program to allow for long-term planning. CTA agrees that revenue generated from the federal excise tax on diesel fuel could be dedicated to a National Highway Trust Fund to address that need. Moreover, access to this fund could be used to leverage provincial cooperation and compliance with national safety, weights and dimensions, environmental and other standards where currently the trucking industry is subject to a hodge-podge of provincial standards reflecting the fact that the federal government has delegated the administration of extra-provincial trucking regulations to the provinces. ❶❹❺

Driver Supply and Demand Gap, 2020
(000s)

	Supply	Demand	Gap
Canada	175.8	208.9	33.1
Atlantic provinces	8.4	10.9	2.4
Quebec	36.8	43.7	6.9
Ontario	70.5	79.7	9.1
Manitoba	6.9	7.9	0.9
Saskatchewan	6.1	7.9	1.8
Alberta	23.0	30.3	7.4
British Columbia	24.0	28.5	4.5

Source: The Conference Board of Canada.

- **Training to Fill a Chronic Shortage of Truck Drivers –** According to the Conference Board of Canada, the for-hire trucking industry is facing a long-term, chronic shortage of qualified drivers. It forecasts the gap between the supply and demand for drivers will reach up to 33,000 by 2020. Unfortunately, because the truck driving occupation is currently classified as unskilled (something we are currently seeking to change in cooperation with the Department of Employment and Social Development Canada) prospective new drivers (other than those collecting EI payments) are unable to access funding available for other “trades” to help defray the costs of the training they need before a company will consider hiring them. For example, funding for truck driver training is not available under the Canada Jobs Grant, which is a disincentive for young, under-employed or displaced workers who might otherwise consider getting trained for a job in trucking. Unfortunately, truck driving (long distance tractor-trailer operators typically earn $55,000 to $75,000 and considerably more in Alberta for example) is currently lumped in with low-skill/low wage occupations like burger flippers. Perhaps revenue from the federal excise tax on diesel fuel could be allocated to supporting training in the sector. ❶❷❸❻

CTA is pleased to have this opportunity to make this submission to the House of Commons Standing Committee on Finance and stands ready to provide additional information and answer any questions members of the committee may have.