The Standing Committee on Finance
Pre-Budget Consultations in Advance of the 2019 Budget

Presentation by:
Association of Equipment Manufacturers
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Thank you Mr. Chair, honourable members of the Committee and staff for providing the Association of Equipment Manufacturers with the opportunity to address you this afternoon.

The Association of Equipment Manufacturers (AEM) represents companies that manufacture and provide services for the agricultural, forestry, construction and mining industries. Members include larger equipment manufacturers – such as Case IH and John Deere – as well as very successful Canadian manufacturers like MacDon and Buhler of Manitoba, Skyjack and Tigercat of Ontario, Honey Bee and Seed Hawk of Saskatchewan, Agri-Trend and Groundworks Safety Systems in Alberta, just to name a few. Collectively, AEM member companies support 149,000 jobs in Canada and contribute $44 billion annually to the Canadian economy.

This morning I would like to touch upon three subjects:

- The importance of international trade and access to international markets for AEM members
- Taxation affecting AEM members such as Capital Cost Allowance and Depreciation Rates;
- And, challenges facing equipment manufacturers today, such as
  - Access to Rural Broadband; and
  - Labour Shortages

**International Trade and Canadian Exports**

AEM member companies operate and export globally. Therefore, international trade and continued regulatory alignment between Canada and the United States continues to be a priority for AEM members. AEM continues to be a strong supporter of NAFTA, and is advocating for a modernized agreement in both the United States and Canada. AEM continues to spearhead industry efforts to discourage tariffs which will harm not only manufacturers, but our customers. It is of vital importance to our industry that farm equipment works seamlessly across the Canadian-American border, and manufacturers are able to freely export products to other markets.

In 2016, the Advisory Council on Economic Growth led by Dominic Barton identified agriculture and agri-food as a sector of great economic growth potential.
Technology and equipment play an important role in increasing sustainable measures in agriculture and environmental protection. AEM is supportive of the government’s goals, announced in Budget 2017, to reach $75 billion in agri-food exports annually by 2025.

At a Canada 2020 event on June 1st, 2018, Dominic Barton shared McKinsey Analytics research identifying a number of growth opportunities where agri-business investment is likely to focus. The four areas of greatest growth opportunity include: protein in Asia, functional foods, aquaculture and Agriculture Equipment.

Given these global growth opportunities, Agriculture Equipment and the agriculture sector as a whole will continue to be key for future Canadian economic growth.

The Council recommendations also advised the government to begin developing strategies to clear a path for growth of high-potential sectors like agriculture. In order to achieve these goals, the government must be committed to setting strategic goals for the Ministers of Agriculture and Agri-Food, Health, International Trade, and Environment and Climate Change in Budget 2019. Measured, performance targets – such as employment and exports – across departments will be necessary for these goals to become a reality. Indeed, performance measurement is one of the principles of the Canadian government’s “Policy on Results” directive.

Secondly, I wish to speak about pressing tax issues affecting equipment manufacturers in Canada.

**Update Canada’s Capital Cost Allowance**

Canada’s Capital Cost Allowance (CCA) schedule should be updated as it pertains to heavy equipment, such that it is better aligned with U.S. tax depreciation rates. Recent changes to U.S. tax treatment of depreciation on capital investment in construction, mining, forestry and agriculture equipment places Canadian businesses at a competitive disadvantage.

Increasing CCA rates from 30 percent to 40 percent (which would cover most self-propelled equipment) would have a positive economic affect, enabling faster replacement of older equipment, therefore increasing productivity and promoting real environmental savings. Improvements to the CCA rates would also bring Canada in line with its major competitor and customer, the United States.
[AEM is aligned with others in the agriculture sectors like the Canadian Federation of Agriculture, calling for the Canadian government to introduce 100% first-year deductibility for farm equipment.]

We urge the federal government to increase CCA rates to allow equipment buyers to more rapidly depreciate their investments in new capital equipment. Faster replacement of older equipment increases productivity and improves operator safety while at the same time provides significant environmental benefits with cleaner, more fuel-efficient engine technologies.

Another challenge facing equipment manufacturers is access and use of the Scientific Research and Experimental Development tax incentive program. This federal tax incentive is designed to encourage Canadian business to conduct research and development in Canada.

While AEM is supportive of these goals, few AEM members use the program, because the submission process is overly difficult and cumbersome. The cost effectiveness of the program has been diminished because of administrative burden placed on the applicants. The Canada Revenue Agency should be encouraged to root out the problems that discourage companies from using this program.

Finally, I wish to discuss two major challenges facing AEM members and our customers today: access to rural broadband and access to labour.

**Investing in Rural Broadband**

In order for Canadian innovation in equipment manufacturing to continue to grow, Canadians need access to broadband in rural and remote parts of the country. Today, rural broadband deployment across the country does not meet the high data transmission requirements of precision agriculture and other data rich services deployed by farmers. Just this month, CBC News reported on Ontario farmers facing steep economic and financial difficulty because of poor access to broadband services.

Canada’s agricultural competitiveness depends on the increased and enhanced broadband services to rural communities.
In April 2018, the Standing Committee on Industry, Science and Technology published a report on this subject, and called for Innovation, Science and Economic Development to develop a comprehensive rural broadband strategy in collaboration with key stakeholders. AEM supports these recommendations and joins other agricultural associations, like the Ontario Federation of Agriculture (OFA), in calling for increased funding for Broadband Internet expansion in rural and remote areas.

[Moreover, the technology needs and requirements of AEM customers will only increase. Earlier this year, AEM commissioned a study to look into the future trends that will be impacting equipment manufacturers, dealers and farmers. Most notably, precision farming, big data and artificial intelligence will be important and revolutionary development over the next [20 years].

The government needs to support continued technological development and innovation, and rural broadband is key for Canadian farmers and ranchers to be globally competitive and is necessary to level the playing field with other farmers and ranchers in other countries.

**Labour Shortages**

Equipment manufacturers throughout North America are intently focused on the skills gap confronting the agriculture, construction, and utility sectors, both in filling the pipeline for positions on the shop floors of their companies, but also on the end user side for equipment service technician and operator careers.

AEM supports policies that incentivize equipment manufacturers to engage in workforce development activities at the local level in order to highlight for students, teachers and parents the dynamic and well-paying jobs and careers that exist within the manufacturing sector as well as in those sectors our members support, such as agriculture.

**Conclusion**

Thank you for considering AEM’s submission. We look forward to your questions.

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1 Source: Global agriculture’s many opportunities. McKinsey on Investing Number 2, Summer 2015 (page 63).
