Canadian Trucking Alliance CTA

2018 Pre-Budget Consultations

Canadian Trucking Alliance
Alliance Canadienne du Camionnage

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Background: The Canadian Trucking Industry

The Canadian Trucking Alliance (CTA) is a federation of provincial trucking associations. With over 4,500 member carriers, CTA represents a broad cross-section of the industry – all sizes, regions, commodity-based service and specialty. Our members employ approximately 150,000 Canadians and are responsible for providing about 70% of the country's road freight needs.

About the Industry

"Trucking is the dominant mode of freight transportation in Canada, moving approximately 90% of all consumer products & foodstuffs and almost two-thirds (by value) of Canada's trade with the United States. Nearly 1% of the Canadian population and over 1.5% of the labour force are truck drivers by profession."

The industry generates over $65 billion in revenues per year, with the for-hire sector accounting for over $40 billion of that total. In terms of GDP, the transportation services sector represents 4.2% of total economic output, or $53 billion. The for-hire trucking sector accounts for 31% of the total share – more than air (12%), rail (11%) and marine (2%), combined. The trucking industry is responsible for creating over 400,000 direct jobs in Canada – 300,000 of which are truck drivers. The for-hire segment of the industry produces roughly $24 billion in personal income on an annual basis, which in turn generates $4.2 billion in personal income taxes and $4.1 billion in indirect taxes for government.

Dominance Based on Service

The simple reason trucking is the dominant mode of freight transportation is the flexible, timely, door-to-door service that only trucks can provide. Trucking works with all the other modes, but its major market is the time-sensitive delivery of small shipments of lighter-weight, high value-added products over relatively short distances. The just-in-time inventory system, which remains a key to Canada's international competitiveness, is built around the truck. Other modes – like rail and marine – dominate in the movement of heavier, bulkier commodities that are generally less time-sensitive over longer distances. Overall, the three modes would overlap or compete on a very small proportion of the freight market – certainly less than 5 per cent.

A Leading Indicator of Economic Activity

Trucking is a derived demand industry. As the economy goes, so goes trucking. As such, trucking is a good leading indicator of economic activity. Trucking is usually six months ahead in terms of any downturn or recovery in economic activity. Not surprisingly, current economic conditions, while not entirely negative (depending on the region and the commodity), are very sluggish, reflecting some recent deceleration in activity and uncertainty. Nevertheless, the longer-term outlook for the trucking industry is for continued growth and an even larger share of total transportation sector output.

This Submission

This submission makes recommendations in four key areas: (1) Environment and Climate Change (2) Tax Planning (3) Supports for Canadian Trade and (4) Infrastructure - with a focus on Minister Garneau's Trade and Transportation Corridors Initiative (TTCI).

Background: Trucking and the Environment

At no point in time have the trucking industry's economic goals been more aligned with society's goals in terms of greenhouse gas (GHG) reduction as they are today. By improving fuel economy, the industry not only shields itself (at least in part) from increasing fuel costs, but it also contributes to lower GHG emissions producing societal benefits. The Canadian trucking industry is a world leader when it comes to developing and embracing innovative solutions to reduce its carbon footprint. It is through this innovative spirit that when potential payload is taken into account.

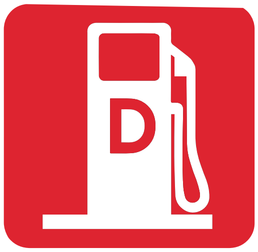
> *"The average Canadian tractor-trailer has been able to realize a 22 per cent advantage over the average US tractor-trailer in both the amount of fuel consumed and GHG emitted."*

Phase I of the green-house gas (GHG) regulations for the heavy-truck engine and tractor manufacturers took effect in 2014 in Canada and the United States. The first Phase targeted a 20-per cent reduction in GHG emissions from heavy trucks. Phase II of the GHG regulation, which were finalized in the US in April 2016, proposes to further regulate GHG emissions created from truck engines, tractors, vocational vehicles, and trailers. Environment and Climate Change Canada has since also introduced its proposed Phase II regulation. Both the Canadian and the United States' regulations are slated to begin in 2018 for standard trailers and between 2021 and 2027 for tractors and heavy truck engines. As the industry moves towards the implementation of Phase II GHG regulations, it is incumbent upon the government to support the industry in reaching its targets. There is a clear role for government when it comes to reinvesting revenue raised and providing incentives for fleets to invest in greener technologies.

- **Excise Tax Rebate**

The Canadian trucking industry remains firmly committed to reducing its carbon footprint; but there's more the federal government can do to help carriers reach their goals. This should start by removing barriers that discourage the trucking industry from investing in greener technology.

In the 2016 federal budget, the government introduced a measure that removes the ability of trucking companies to apply for federal excise tax refunds on diesel fuel used for anti-idling devices such as auxiliary power units (APUs) that heat/cool truck cabs, refrigerated unites and fuel used in other GHG reducing technology. Not only do these technologies



greatly assist our industry in meeting the emission reduction targets we are responsible for, but they are also vital to the operation of our businesses and the customers we serve, particularly in the agriculture, food and pharmaceutical sectors. This change is also inconsistent with the government's historic policy of not taxing home heating fuel. CTA is seeking a reversal of this policy change to support the Canadian trucking industry as it prepares for Phase II GHG regulations.

- **Carbon Tax**

In addition to implementing the Phase II GHG-reduction standards for heavy trucks in 2018, the Government of Canada has announced its intention to introduce a minimum price on carbon nationally. As outlined in the Technical Paper on the Federal Carbon Pricing Backstop, the federal government is looking to establish a minimum price of $10 per tonne in 2018, rising by $10 per tonne per year to $50 per tonne by 2022. The technical paper calls for all provincial carbon prices to increase 400% over a four-year period. This works out to a 20% increase over the current wholesale price of diesel in 2017. Fuel is among a trucking's company's leading operating cost (along with labour). With fickle GDP growth the norm these last five years in Canada and the U.S., how can we as a nation commit to such aggressive carbon price increases without a mechanism built in to ensure that the economic analyses along the way support the price trajectory? At operating ratios of 0.95 or higher, our sector has serious concerns over our ability to absorb these costs.

> *“Our sector competes with US trucking companies that will not face similar carbon pricing pressures during the 2018 to 2022 period, CTA has concerns about the Canadian trucking industry's ability to stay competitive in the North American context.”*

The proposed floor, beginning in 2018 with $10/tonne, could be manageable for the supply chain in today's economic environment. However, the impact of $50/tonne in 2022 is much more difficult to assess. Based on the current situation, the impact of carbon pricing at this level could very well be detrimental to the Canadian trucking industry. Furthermore, with such an aggressive timeline, this policy has the potential to send a chill through the economy well in advance of 2022. Thus, CTA recommends the federal government not set any price on carbon above $10 tonne for the near-term.

Background: Tax Planning

The Canadian Trucking Alliance (CTA) supports a fair tax system designed to allow businesses the ability to invest, grow, and prosper. This is especially true for small businesses that form the backbone of the Canadian economy. While CTA represents some of the largest trucking entities in North America, the bulk of our members are best categorized as small to medium-sized businesses, many of which are family-owned and operated. Moving forward, CTA urges the Department of Finance to fully con-sider the impact these collective changes could have on small business owners in the trucking sector, which, we assume, are not the primary target for these changes. At a time when companies are struggling to compete internationally and to keep pace with regulatory changes across virtually all federal departments, we urge the Department of Finance not to introduce any measure that adds unnecessary complexity to the Canadian tax system. While not exhaustive, below are some of CTA's chief concerns with the changes proposed in the government consultation paper on Tax Planning Using Private Corporations.

- **Tax Planning Using Private Corporations**

Accumulation of Capital: Among the many challenges trucking companies face, two key factors tend to have a strong influence on carrier behaviour. (1) The industry is very cyclical – it is immediately and significantly affected by downturns and upturns in the economy; and (2) it is very capital intensive. For those rea-sons, prudent operators may try to accumulate capital in their corporations, or in holding companies. This maximizes their ability to withstand external shocks, and to finance capital acquisitions as the need arises. Of key concern is the potential restriction of the amount of after-tax earnings that small business corporations can accumulate. The government believes that too many companies are taking advantage of the relatively low tax rates that apply to private corporations to hoard cash. If the government sees a need to move in this area, it is vital that it does so in a way that takes into account the need for trucking companies to have a stable capital base that does not penalize them for acting prudently.

Family Business Succession: Many CTA members are family owned enterprises. Many family businesses are passed from one generation of operators to the next. The proposed new rules could be problematic in the following ways:

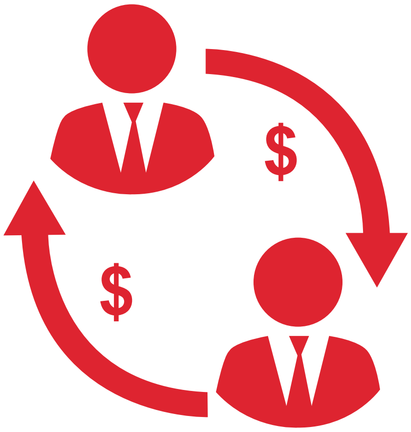
- After-tax profits that accumulate in a business can be a source of capital for buying out the generation that retires. If business owners are going to be penalized for allowing capital to accumulate, there will be a greater need for successors to borrow money to provide retirement income for the retiring generation, possibly putting strain on the cash flow of the business.

- Under the proposed rules, if a shareholder of a small business dies, and leaves the shares of the business to the next generation, the deceased shareholder will be taxed on the value of the shares, and the successors taxed again on the same value when they take money out of the company. The current rules have provisions that allow small business owners to avoid that double taxation, but the proposed new rules will eliminate those provisions.

- Frequently, it is not clear which particular member of the next generation will make the best successor. Family trusts are very useful in such a situation, because they allow a business owner to freeze the value of his or her shares with-out putting actual ownership of the company in the hands of a child, who, although he or she may be of the age of majority, may still be very young and inexperienced. Under the new rules, families who use trusts for that purpose would lose one of the key benefits of the income tax system as it relates to small business, namely, the enhanced capital gains exemption on the sale of shares of a small business corporation. That benefit would be available only to the actual owner of shares, so family businesses will have to decide who is going to be the actual successor much earlier than currently.

“Many trucking companies derive a considerable amount of their revenue from cross-border freight, which is an area where they face significant competition from U.S. operators.”

Competition with U.S. Operators: The government is fond of pointing out that corporate tax rates in Canada are lower than in the U.S., and that is true. However, many U.S. competitors are also owner-managed businesses, and in the U.S., the corporate tax rate doesn’t apply to them, even if they are incorporated. Under the U.S. tax system, more than 90% of owner-managed corporations are LLC’s or S corporations, which, although they are legally corporations, are ignored for tax purposes. Instead, their income is taxed in the hands of their shareholders, at personal tax rates. Those personal tax rates are much lower than the corresponding tax rates in Canada. Furthermore, American taxpayers have an unlimited ability to split income with spouses, and significant flexibility in splitting income with other family members. While the government may find it problematic for Canadian business owners to split income with family members, there still needs to be a recognition that, in combination with recent increases in personal tax rates in Canada (in Ontario, for example, the top marginal tax rate has increased from 46% to 54% in recent years), changes in this area could compound completive issues between Canadian and US carriers.



Background: Trucking and Canadian Trade

Trucking moves approximately 90% of all consumer products & foodstuffs and almost two-thirds (by value) of Canada's trade with the United States. In 2016, about 10.9 million two-way trucking movements were recorded at Canada/U.S. border points, up 3.2% from 2015. This was the highest number of trucks crossing the border since 2008. The value of trucking traffic between Canada and the U.S. totaled $418 billion in 2016 ($218 billion for exports and $200 billion for imports), up 16.3% from 2015. The same commodities dominated both exports and imports: automotive products, machinery and electrical equipment, other manufactured products, and agricultural products. Over 40% of Canada's GDP is dependent upon trade with the United States. Over 70% of what Canada produces is destined to the United States, reflecting the integrated nature of our economies. Anything that negatively impacts or restricts access to the US market for Canadian fleets will in turn have a negative impact on the overall Canadian economy.

> *"Over 68% of these movements were related to Canadian registered trucks."*

• Border Staff

Staffing levels at major ports of entry between Canada and the U.S. is a historical issue for the trucking industry. CBSA has seen its resources decrease significantly over the last several years, leading them to search for efficiencies through automation, the use of advanced technology and biometrics. This shift, although it's the way of the future, must be reconciled with the need for frontline officers to process trade in the present day. With the boom of e-commerce, the number of goods crossing the border continues to grow exponentially. There is now, more than ever, a pressing need to invest in border officers to facilitate the efficient movement of goods at the border. Specifically, staffing at major ports of entry between Canada and the U.S. such as Pacific Highway, BC, Emerson, MB, Niagara/Fort Erie, and Windsor in Ontario, -- the major hubs for trade and the movement of north-south commercial traffic – needs to be addressed immediately. The movement of goods across the border is a 24-hour business.

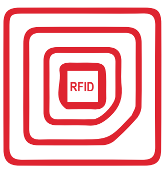
Recently, some members faced the reality of how staffing levels can impact goods. In Portal, ND, U.S. inspectors and the port authority proposed rejecting LTL (LTL combines shipments from multiple customers into a single load) loads entering the U.S. during overnight shifts because of the lack of time and manpower required to inspect full LTL loads. Many LTL loads are shipped late in the evening for delivery early the next morning. Through further discussion with port authorities, it was discovered the port simply didn't have the staff or resources needed to inspect LTL loads due to difficulty in attracting officers to work at smaller ports of entry, particularly for late hour or evening shifts. In this instance, US CBP was responsive to the needs of industry and worked with carriers in the area to find solutions. Scenarios such as this highlight the need to address the level of staffing available at the busiest ports of entry as well as smaller ports where it may be difficult to retain or attract workers. The needs of the 24-hour, just-in-time supply chain environment dictate when and where the goods must move, and carriers rarely have a voice in influencing these requirements. Although technology could one day prevent these issues from occurring, sufficient staffing at all ports of entry as a commitment to NAFTA should continue to be a priority.

• Border IT Infrastructure

The lack of staffing at major border crossings is exacerbated when IT system failures occur. Systems issues and malfunctions have been occurring quite frequently over the last several months, specifically with CBSA IT systems. When technological issues occur, the flow of trade slows to a trickle and trucks are forced to wait at the border to have their paperwork processed manually by an officer. Delays in trade processing costs the supply chain millions of dollars in lost productivity, added costs for small and medium sized businesses, and stress on truck drivers through added wait times and strain on mandatory hours of service rules.

“ Both CBSA and US CBP require the electronic submission of pre-arrival and security related data, prior to the truck’s arrival at the border. ”

• A More Efficient Border Through RFID Technology



Radio Frequency Identification (RFID) enables the wireless transmission of information from tags that are attached or embedded in objects to RFID readers. Carriers have the option as part of US Customs’ ACE program of equipping their trucks with RFID tags, also known as transponders, that emit RFID signals to CBP. CBP booths are equipped with RFID readers that pick up the signals emitted by the truck, enabling the officer to access the information submitted by the carrier prior to the truck’s full stop at the booth. While CTA has encouraged CBSA to consider transponders, there are obstacles (i.e., procurement policy and procedures) that make it problematic to adopt the U.S. transponder as the sole technology. Still, CTA strongly believes RFID is the way to go and supports the implementation of RFID-compatible technology by both CBP and CBSA to expedite cross-border commercial traffic. CTA encourages discussions on the use of RFID technology or another mandatory border crossing card that would not only satisfy RFID but could also be leveraged to serve other needs of CBSA.

“ This technology could significantly improve the time it takes to process trucks at the border and reduce the amount of paperwork that carriers must prepare and drivers have to carry. ”

Background: Infrastructure

Canada's economic prosperity is in large part dependent upon the ability of its industry to compete for market share in the North American supply chain. As the preferred mode for getting finished goods and business inputs to market efficiently and reliably, trucking plays a vital economic role. For example, 90% of all consumer products and foodstuffs are delivered by truck as is the lion's share of trade with the U.S. The GDP generated by the for-hire trucking industry alone is more than that of rail, marine and air modes combined. Simply put, without trucks the economy stops. In turn, as a major user of Canada's infrastructure, well maintained bridge, highways and interchanges, border crossing, and adequate access to major freight centres are of the utmost importance to the industry. For the government's part, it is critical that the key role trucking plays is recognized in setting infrastructure spending priorities.

> *"Our economy is multi-faceted, ranging from farming and natural resource based to manufacturing and knowledge-based businesses – all of which depend on the movement of freight in some way."*

Towards these ends, The Honourable Marc Garneau, Minister of Transport, in July 2017 announced $2.1 billion for the Trade and Transportation Corridors Initiative (TTCI) to build stronger, more efficient transportation corridors to international markets. As noted in the announcement, by transporting goods more efficiently to market, Canadian businesses will be able to better compete, grow and create even more jobs well into the future. The core element of the TTCI is the merit-based National Trade Corridors Fund (NTCF), which will provide $2 billion over 11 years to strengthen Canada's trade infrastructure, including ports, waterways, airports, roads, bridges, border crossings, rail networks and the interconnectivity between them. With the launch of this fund, CTA provides the following for consideration as potential projects to address urgent capacity constraints and keep goods moving efficiently along Canada's trade corridors

Alberta

- *Highway 40 Twinning and Wapiti Bridge Twinning in the Grande Prairie Area:* This request is based on the increasing concerns received by carriers and operators within this region who transport softwood lumber, and oil and gas products into the North South Trade Corridor. This project is critical due to urgent safety concerns. The collision rate for this length (10.00 km) of Highway was 206 collisions per hundred million vehicle kilometers traveled. This compares to the provincial average collision rate of 83 collisions per hundred million vehicle kilometers traveled for undivided highways. The current highway volume for this stretch at the Wapiti Bridge is 9,060 vehicles on average per day, with commercial traffic making up 50.6% of that total. Projected oil and gas investment and tree harvest plans will only increase traffic on this already over-stressed road corridor. Our combined forestry partners in the area have plans for 50,000 loads (100,000 if you include the unloaded travel) along this route alone. Out of all of the challenges facing the Grande Prairie area for infrastructure improvement, the investment in this project demands the most priority.

British Columbia

- *6-laning Trans-Canada (Highway #1) from Hope to 264 St. in Langley:* Highway 1 serves as the primary east-west corridor serving and connecting the Lower Mainland to the rest of BC, and Canada. Adding lanes will improve safety, access, and reduce congestion on this key corridor. The commercial traffic carrying goods and cargo in this area is vital to the provincial economy and Canada's Asia Pacific Gateway Strategy.

- *George Massey Tunnel replacement project:* Currently, the GMT is a significant bottleneck in Metro Vancouver and is operating at capacity with counter-flow measures in effect during peak travel times. The tunnel also has significant safety issues, as a 2016 report indicated it was prohibitively expensive to upgrade to today's seismic standards.

- *Pattullo Bridge replacement:* The Pattullo Bridge is another asset reaching the end of its life cycle that is also a significant bottleneck. Funding for a replacement needs to be secured as soon as possible to avoid spending additional funds on maintenance to extend the life of the current bridge.

Manitoba

- *PTH 100 (South Perimeter):* This highway handles up to 25,000 vehicles on average per day. This could benefit from closing at grade crossings in favour of grade seperated changes.

- *Kenaston Boulevard Widening:* This roadway has an average daily traffic count between 40,000 and 58,000 vehicles, serviced by only 4 traffic lanes. In the case of the Kenaston Boulevard Widening, most of the land needed to expand is owned by the federal government.

- *Chief Peguis Extension:* Connecting this to Route 90 would relieve such routes as; Portage ave which has up to 67,000 average daily vehicle count; Notre Dame which has up to 50,000; Narin which has up to 44,900; Main street which has 58,700 where it intersects currently.

Ontario

- *Northern Ontario Infrastructure expansion:* TransCanada Highway redundancy at key bridges and lane expansion along Highway 11 and 17 remains a top priority. As noted by the Northern Ontario Multi-Modal transportation Strategy, traffic forecasts have found that over the next 25 years commercial vehicle flows will drive the overall growth in traffic volumes on the highway network in Northern Ontario. This will be supported by growth in internal east-west trade along with mining and other resource-based activities are. For example, every day commercial vehicles carry $100 million in goods over the Nipigon Bridge alone. However, as the Bridge's unexpected closure in 2016 demonstrated, lack of redundancy and capacity along key trade routes in Northern Ontario can have serious impacts on domestic trade.

- *Highway Expansion in the Greater Toronto Area:* Highway 401 in the GTA is among the busiest highways in North America, and perhaps the busiest highway in North America for commercial vehicle activity. The GTA is also home to Canada's largest and busiest airport by freight and passenger volume, several intermodal yards (including Canada's busiest yard), and is within a one-day drive to more than 135 million Canadian and American consumers. As a major origin or destination, the GTA highway network is a key trade network. It is recommended that the federal government explore with the province and municipalities innovative strategies to reduce congestion, improved redundancy around Pearson Airport, and improved access to GTA intermodal yards.

Quebec and Atlantic Canada

- *Route 185 from Saint-Antonin to Saint-Louis-du-Ha! Ha!/ Highway 85/Road 185 between Rivière-du-Loup (in Québec) and Edmunston (in New-Brunswick):* These stretches of road way are in urgent need of upgrading. If completed, this would connect all of Eastern Canada with 4 lane highways from Halifax to Toronto. As Highway 85 is often cited as one of the most dangerous highways in Canada, upgrading this roadway to highway standards should markedly improve safety. From a trade perspective, this would also allow the commercial trucking industry to run Long combination vehicles (LCVs) from Halifax to Toronto, making the delivery of goods much more efficient. LCVs have also been shown to be a highly efficient means of transporting goods contributing to a reduction in emissions.

Saskatchewan

- *Creation of a Saskatoon Freeway:* Saskatoon is a trucking hub for central Saskatchewan with significant numbers of transportation companies located in the North Industrial and Hudson Bay industrial areas. Heavy traffic combined with low speed limits and a high number of intersections creates a bottleneck that limits traffic flow to two primary weight highways, airport traffic and freight yards. This increases the cost to businesses to move goods in the area. With constant traffic congestion, trucks moving north-south through Saskatchewan often take lower speed, single lane highways to avoid Saskatoon altogether. Most recent traffic counts put nearly 5,000 truck per day on highways surrounding Saskatoon.

- *Twinning of Highway 39 & 6 from Regina to Estevan:* The area is a primary route for commodities and heavy equipment moving to and from the Bakken oilfields that are the economic backbone of the region and the largest oil pool discovery in Western Canada in more than 50 years. Current plans are not adequate enough for the continuous and safe transportation of goods via truck. Highway 6 and Highway 39 are export routes for all of Saskatchewan, leading to border crossing at Regway and North Portal.

While not exhaustive, the above represents a list of specific projects and general project areas for consideration. In each case, funding for road based infrastructure would significantly improve the trucking industry's ability to carry the nation's domestic and international trade. As always, CTA along with the provincial associations stand ready to provide additional information should it be required.

Conclusion

By improving its fuel economy, the trucking industry can do its part to improve its environmental footprint and contribute to the targets the federal government has identified. To accelerate these improvements, revenues generated from the excise tax on diesel fuel and any potential funds generated from carbon pricing mechanisms, now more than ever, need to be re-invested in the industry. In assisting industry in investing in proven technologies such as aerodynamic fairings, auxiliary power units, wide-base less rolling resistant tires and alternative fuels such as natural gas, the trucking industry can better pull its weight on the transition to a low carbon economy. One sure way to spur investment in these technologies is to reinstate the excise tax incentive for carriers to invest in GHG reducing equipment.

As the renegotiation of the NAFTA continues, there remains a distinct opportunity to invest in the border. This can be done by investing in physical border infrastructure, embracing technologies such as RFID, and modernizing IT support systems. It will also be important to ensure that staffing levels at border crossing keep pace with and support the level of trade being conduct between Canada and the United States.

As a major user of Canada's road based infrastructure, adequate and well maintained roads and bridges are of the utmost importance. Given the levels of domestic and international trade being hauled by the Canadian trucking industry, the incentive for the government to invest in this area is strong. As always, CTA stands ready to assist in any way it can to ensure Canada's freight keeps moving.

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