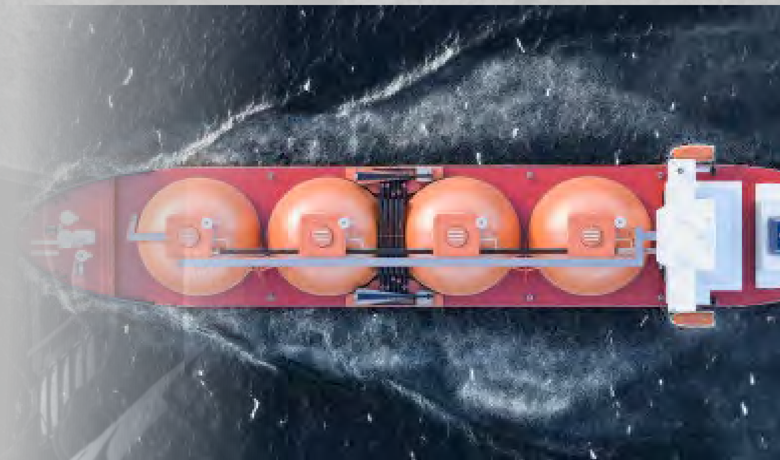
MERIT CANADA

Building Significant, Sustainable and Shared Prosperity



1 Tackling Housing Affordability

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The Canada Housing and Mortgage Commission (CMHC) recently issued a report stating that 2003 was the last time housing was affordable in Canada – two decades ago. What has happened since then? Mounting red tape and more stifling government regulations that delay project approvals and permitting; excessive fees and levies that are driving up costs; and a lack of any coordinated approach to what has become a national crisis by all three levels of government. Canadians pay a heavy price for this inefficiency and bureaucracy in the form of a lack of affordable housing, to say nothing of lost jobs and opportunities and a declining quality of life.

The inability to quickly approve and permit projects is most evident in the housing affordability crisis that has gripped many cities in Canada. Families and first-time home buyers continue to be squeezed out of markets and struggle to meet the high and rising cost of rent. The first plank of a comprehensive approach to tackling housing affordability must be to increase supply, and the federal government needs to play a stronger leadership role in this effort.

In report after report by major financial institutions and think tanks, the conclusions are clear –housing supply is not keeping up with the demand for places to live.

Consider that in 1972, with a population of about 22 million people, 230,000 new homes were built in Canada. Fifty years later in 2022, fewer homes were built – just 220,000, even as Canada's population reached 40 million. In a recent analysis, the CMHC estimated that to meet future housing demand, 830,000 new homes would have to be built every year between now and 2030. Given current regulatory and policy frameworks, it is impossible for Canada to achieve such a goal.

Through both inaction and the layering of rules and regulations that have distorted housing markets by impeding new supply, governments – primarily at the local level, but also at the provincial and federal levels – bear significant responsibility for the current full-blown housing affordability crisis in many parts of the country.

In a recent examination of the global problem of housing affordability, The Economist notes that a common mistake of governments is making it "too difficult to build housing that populations require." This, at least in part, is a response to owner-occupiers who may have an incentive to resist further development in their areas.

Politicians have generally yielded to this resistance, rather than addressing the need for more densification and new development to increase supply to improve affordability. In many major Canadian cities, it takes as long to approve and permit a project as it does to actually build it.

Not only is coordination of the policies and related initiatives of the three levels of government lacking, but it is also the case that ministries and agencies of the same government often act at cross purposes. The Federal Minister of Housing recently announced a policy of removing the GST on new purpose-built rental housing projects; in isolation, this is a positive step and something builders have been seeking for a long time. However, in March 2022, the Federal Minister of the Environment and Climate Change rolled out a new greenhouse gas emissions reduction plan as part of Ottawa's climate strategy, calling for new homes built in 2025 to be 61% more energy efficient compared to homes built in 2019. The Canadian Home Builders Association estimates that this new regulatory measure alone will add approximately 8% to the cost of new homes, at a time when housing has never been less affordable in Canada.

MERIT CANADA RECOMMENDATIONS

MERIT Canada offers the following recommendations to Canadian policy makers:

- The federal government should set a national target for new homes built annually. Expecting that the nation can increase new homes built by nearly four times to the more than 800,000 new homes needed annually is unrealistic. MERIT Canada believes that an annual target of 400,000 new homes – nearly double that of current levels – by 2028, is achievable if government commits to cutting red tape and accelerating permitting.
- The federal government must ensure the regulations enacted across different ministries do not work at cross purposes. The removal of GST on purpose-built rental announced by the Ministry of Housing is at least partly off-set by the stringent energy efficiency mandates imposed by the Ministry of the Environment and Climate Change: every department of government should be focused on affordability.
- Incentivize rental construction. The federal government should examine ways to incentivize the development community to build more rental stock through the tax system in more aggressive ways – for example, by providing tax incentives for people to invest in rental housing.
- The federal government should make federal lands available for development in major urban centres in Canada.
- The federal government should make its financial contribution to new rapid transit infrastructure tightly conditional on local authorities agreeing to higher densities and housing targets.
- Accelerated efforts are needed to expedite building rapid transit infrastructure. This is a joint federal-provincial issue that requires focused, multi-year planning, with new infrastructure sequenced to where population growth is highest and overall transportation demand is most prevalent. That said, planning for future rapid transit infrastructure is the most opportune time to shape and expand growth areas and optimize social, environmental, and economic considerations.

2 Investment, Infrastructure, Trade and Growth

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While government infrastructure spending has supported the post-pandemic economic recovery, private sector investment is the key to sustained economic growth and long-term prosperity. A growing economy provides people with jobs and governments with the tax revenues needed to pay for health, education, and social programs.

In the World Bank's most recent comparative review of global economies, Canada ranked a dismal 64th in the length of time it takes to approve a simple construction project – it's imperative that we do better. Many investors have a negative view of the regulatory and tax framework in Canada compared to other jurisdictions, which partially explains why – according to Statistics Canada – Canadian outbound foreign investment flows have outpaced inbound flows since 2014. There must be a concerted effort to improve Canada's competitiveness. Doing so is essential to advancing our long-term economic prosperity.

The headwinds facing Canada's economy are numerous – elevated levels of government spending to help stabilize businesses and households in the face of the COVID-19 global pandemic, leading to higher net government debt-to-GDP ratios federally and in most of the provinces; the difficulty of matching the skills gaps in our economy with those seeking to call Canada home; unprecedented measures introduced in the United States to encourage investment in clean energy, "green" technologies and products, and semi-conductors, which give preference to American firms and will tend to draw capital investment to the U.S.; fragile global supply chains and the changing geo-political landscape. All of this is working to create uncertainty for many sectors of our economy and significant risks for Canada's long-term competitiveness and prosperity.

While the challenges facing Canada's economy are formidable, when they are combined with a largely ineffective government policy framework to attract investment and increase Canada's productivity and competitiveness, the overall effects are dire.

In 2021, the Organization of Economic Cooperation and Development (OECD), reviewed 38 of the most advanced economies in the world and ranked Canada's dead last in forecasted per capita economic growth between to 2030. If nothing changes, this last-place trend will continue from 2030 to 2060.

According to a recent report from the Fraser Institute, Canada's competitiveness and productivity are in decline relative to peer jurisdictions and – in some cases – compared to our country's own past performance:

- Growth in Canada's per-capita income has stagnated and is starting to decline – Canada remains the only G7 country whose per-capita income has not recovered to pre-COVID-19 levels.
- Canada's 10-year real GDP per-capita growth is at its lowest level since the Great Depression.
- From 2014 – 2021, business investment per worker in Canada declined 20%, while in the USA it increased by 15%.
- In 2022, the average Canadian family spent 45% of their family income on taxes, more than the 36% they spent on housing, food and clothing.

Government policies aimed at creating a national industrial strategy have a very mixed record in Canada and elsewhere. In 2015, the federal government established the Canada Infrastructure Bank (CIB) for the purpose of leveraging $35 billion in government dollars to secure large volumes of private capital and jointly fund ambitious infrastructure projects,

However, in 2021, the Parliamentary Budget Office reported that out of 420 applications for funding, the CIB had only finalized investments in two projects. Combined with a lack of transparency, this led to the House of Commons Transport Committee recommending that the CIB be abolished in 2022.

REGAINING INVESTOR CONFIDENCE

In the construction sector, demand for institutional, commercial, industrial, and residential construction services is derived from other segments of the economy, including manufacturing, forestry, mining, energy, and others. Demand for construction services also comes directly from government's role in funding national, regional and community infrastructure such as highways, ports, airports, hospitals, and educational institutions.

MERIT Canada believes that public policy choices profoundly affect private sector investment and growth by fostering confidence and shaping choices about whether (and where) to expand businesses. Investor confidence is strongly influenced by taxation levels, the burden of red tape and regulation across all levels of government, policies affecting labour market flexibility and payroll costs, and openness to international trade to source critical business inputs and export Canadian-produced goods and services.

Much of Canada's physical infrastructure was built in the 1950s and 1960s and is now in need of renewal or repair. However, both provincial and municipal governments are overburdened by infrastructure deficits that have built up over time – that is, large volumes of infrastructure built in the post-war period that are now at, or near, the end of their life cycle. The Federation of Canadian Municipalities estimates that 40% of Canada's roads and bridges – vital nation-building transportation networks – are in fair, poor, or very poor condition.

In 2021, the Port of Vancouver, Canada's largest, was cut off from the rest of the country due to historic flooding. Further, in the fall of 2022, the final report of The National Supply Chain Task Force warned that Canada's reputation as a reliable trading partner and supplier was at risk because of the fragility of our supply chain infrastructure. Finally, earlier this year, the World Bank Container Port Performance Index was released, and no port in Canada fared well. Saint John, the top port in the country, placed #233 out of #348. Halifax ranked #278, Montreal #292 and Vancouver was second last, at #347.

2 Investment, Infrastructure, Trade and Growth

MERIT CANADA RECOMMENDATIONS

MERIT Canada recommends that federal policy makers:

- Undertake a long-overdue review of Canada's complex tax system, with the overarching goal of simplifying its application and administration and reducing tax compliance costs for families and businesses.
- Commit to a long-term plan to reduce the tax burden on Canadian business to promote Canada's competitiveness and create conditions that will lead to higher levels of productive business investment.
- Review the Canada Labour Code to ensure that it provides for labour market flexibility and balanced labour relations and employment standards suitable to the contemporary world of work and technology. This should begin with the restoration of a worker's right to a secret ballot vote during union certification processes in federally regulated workplaces – there is no more fundamental democratic value than the right to a secret ballot, and Canadian workers should have that right when they are deciding on union membership.
- Ensure that Canada maintains open access to steel products from international markets. Central Canada can source much of its supply domestically, but Western Canada is heavily dependent on steel imports from international markets.
- Put forward a practical plan to manage the rising federal debt and reduce the debt-to-GDP ratio over time. This step is necessary to achieve long-term public sector fiscal sustainability, as recently noted by former Bank of Governor David Dodge in testimony before the House of Commons Finance Committee.
- Support provincial infrastructure initiatives to better connect communities in order to improve goods and people movement, and to de-congest provincial and national highway networks.
- Support major port infrastructure development, on Canada's west and east coasts and at the Saint Lawrence River and Great Lakes Gateways, tied to road and rail networks to improve supply chain efficiency and bolster Canada's capacity to get exports to global markets.
- Invest in targeted airport infrastructure in partnership with local airport authorities, provincial governments, and municipalities to improve passenger movement and experiences, and to expand air cargo capabilities where there is a clear business case to do so.
- Invest heavily in urban transit infrastructure in recognition that much of Canada's population growth is occurring in major cities and that affordable, livable and environmentally sustainable housing options go hand-in-hand with expanded transportation access.

3 Open and Fair Government Procurement

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3 Open and Fair Government Procurement

Fairness and transparency in government procurement policy is a key touchstone in the construction sector generally. For MERIT Canada, it is critical.

Governments – federal and provincial – must adopt procurement models that are open to all contractors, regardless of whether companies and their workers are non-union (open shop), non-affiliated (wall-to-wall, progressive unions), members of traditional (craft) building trades unions, or organized through an employee association.

Fundamentally, all levels of government should seek the best value at the lowest reasonable cost for public sector infrastructure procurement. Experience from around the world confirms that competition and choice in markets for goods and services are beneficial to consumers. The same is true for taxpayers.

Federal policy makers should not follow the path, for example, of the building trades union-only requirements imposed in the Government of British Columbia's deeply flawed and discriminatory Community Benefit Agreement (CBA) framework. In 2018, the B.C. Government mandated that anyone working on a provincial government construction project built under a CBA is forced to join one of the government-approved building trades unions. This policy mistake has contributed to dramatic cost escalation affecting numerous capital projects in the provincial public sector, saddling B.C. taxpayers with billions of dollars of additional costs and, ultimately, debt.

OPPORTUNITY FOR ALL

Non-union contractors represent approximately 75 percent of Canada's construction workforce; freezing them out of taxpayer-funded infrastructure projects is a bad policy that imposes unnecessary costs on taxpayers. The results of adopting such a prejudicial procurement model include significant cost escalations, inefficient project delivery, increased timelines, and challenges finding skilled workers.

According to an analysis done by the Canadian Federation of Independent Business, with British Columbia planning to spend $25.6 billion on infrastructure over the next three years, the building trades union-only hiring model could cost taxpayers as much as $4.8 billion more, or nearly $4,000 for every family in the province.

MERIT Canada strongly believes that special arrangements with the building trades unions or any stakeholder organization – to create a preference, confer an unfair advantage or indeed institute a monopoly on government projects – hurt workers and construction contractors and needlessly cost taxpayers money.

More recently, in the 2023 federal budget, the Canadian Government proposed labour requirements relating to the programs for Clean Technology Investment Tax Credits, Clean Hydrogen Investment Tax Credits, and Clean Electricity Investment Tax Credits (referred to as ITC). A condition proposed relating to labour requirements is that to get the full tax credit, project owners will need to ensure that contractors on the project pay labour rates based on the prevailing wage in building trades union (BTU) collective agreements. For several reasons, this policy framework is flawed.

It involves substantial and unnecessary interference in the labour market. History has shown that such interference results in inefficiencies and a misallocation of resources.

1. It reduces competition and favours BTUs and contractors above all others. Competition drives accountability, innovation, new approaches, and new entrants to the market. Government policy should seek to encourage competition, not stifle it.

2. The proposed labour requirements will amount to a financial penalty for project owners choosing anyone other than BTUs, contractors, and workers. Alternative providers of labour will either be shut out of attractive projects or restricted from bidding for public sector project work. As the ITC program is intended to promote the public interest, the tax credits should not favour certain unions and workers over others. Open and Fair Government Procurement

3. The proposed labour requirements would impose added costs on projects for no reason and influence wage rates on other projects not subject to ITCs. When the Canadian economy is already suffering from excessive inflation, it makes no sense to obligate project owners to use the highest-cost form of labour in order to access ITCs.

4. The proposed labour rules would also make labour shortages worse. No single source of workers will be sufficient to meet the workforce requirements required to build the infrastructure contemplated by governments at all levels and by the private sector.

5. Finally, the BTU does not, and should not, have a monopoly on effective representation of construction workers.

MERIT CANADA RECOMMENDATIONS

MERIT Canada recommends that Canadian policy makers commit to:

- Maintain open, fair and transparent procurement processes based on achieving the best value for taxpayers, without preference or favour given to any defined group of contractors or labour groups.
- Amend the ITC program by deleting the prevailing wage requirement.

4 Responsible Resource Development

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MERIT Canada believes the wealth, jobs, and opportunities created by Canadian natural resource industries are not sufficiently appreciated or supported by many policymakers and media commentators. Indeed, the energy, mining, forestry and agri-food sectors together account for more than half of Canada's global exports. Moreover, the share of natural resources in Canada's export portfolio is likely to increase in the next few years as the LNG Canada project comes on stream and Canadian oil output grows following the completion of the TMX pipeline project.

Ground zero for the now endemic challenges within Canada's natural resource economy is the seeming ambivalence by federal policy makers about getting Canadian abundant energy resources to market. Given the uncertainties and risks associated with the global energy resource supply chain, Canada needs to continue to develop our own resources to address growing international demand. This is especially true given that energy – notably fossil fuels – accounts for more than one quarter of Canada's international exports.

In the 1980s, 1990s and 2000s, governments of different political stripes made concerted efforts to develop Canada's resources and to use them to generate economic opportunity for our country.

The result is that the energy industry is the single largest private sector investor in Canada, and also pays an estimated $15 billion annually to government, creating benefits that all Canadians share.

UNLOCKING NATURAL RESOURCES

Over the past few years, however, this commitment has been weakened by public policy decisions which have complicated and slowed major project development and threaten to land-lock a large fraction of our energy and other natural resources.

The passage of Bill C-69, the Impact Assessment Act (IAA) in 2019, impaired Canada's ability to develop its resources by making major project permitting and approvals more costly and complex – and near impossible.

Forcing investors to run the gauntlet of two separate project approval processes has had a negative impacted on the confidence of investors. The Independent Contractors and Businesses Association – the B.C. and Alberta members of MERIT Canada – intervened in the Supreme Court of Canada to side with the Government of Alberta against the IAA. We were heartened that the Supreme Court confirmed that the IAA is a significant overreach by the federal government into an area of provincial responsibility, that it upheld the division of powers stipulated in the Canadian Constitution, and that it reinforced the jurisdiction of the provinces to manage the development of natural resources, forestry, and electrical energy.

There is an opportunity now for Ottawa to significantly course correct by making wholesale changes to the IAA to remove duplication, complexity and uncertainty.

In addition, Bill C-48 – the ban on oil tankers off the west coast of Canada, but not along the east coast – stymied the development of further pipeline infrastructure on the country's northwest coast, which is necessary to get Canada's oil to global markets. The cancellation of the Keystone XL Pipeline project by the Biden Administration in 2021 compounded the challenges facing Canada's energy sector. Instead of acting to responsibly develop our resources, these legislative measures have institutionalized obstruction, complacency, and the loss of investment in Canada's energy sector. In the end, all Canadians lose.

SETTING NATIONAL DIRECTION

In recent years, efforts to articulate a vision, coordinate with the provinces, Indigenous Nations and private sector proponents, and to make the case for the financial, social and moral imperative of advancing responsible natural resource and infrastructure development, have been weak and at times non-existent.

MERIT Canada fears that Canada has been labeled a jurisdiction where it is simply too difficult to get things done – or, worse, a place where regulatory approvals are not worth the paper they are printed on. The early results are in: many businesses and investors are already taking their ideas, their innovations, and their capital elsewhere.

Protecting the environment is an important policy objective, and MERIT Canada believes that environment sustainability and tackling climate change go together with attracting investment, creating jobs, and building infrastructure. However, federal policy makers' current vision is based on a misunderstanding of the nature and scope of Canada's influence on the wider global challenges of climate change.

For example, while most Canadians agree that climate change is a significant threat, our national response fails to recognize that Canada produces only about 1.5% of the world's greenhouse gas emissions (GHG) – a share that's expected to decline further over the rest of the decade. A key part of Canada's contribution to climate action should be to help the largest emitters of GHGs globally – China, the US, Europe, India, Russia, and Japan – transition away from coal to less carbon-intensive sources of energy, such as Canadian liquified natural gas (LNG).

Despite Canada's enormous energy reserves, there has been reluctance among policy makers at various levels of government to maximize this competitive advantage for the country. As investors made a strong case for projects like the Northern Gateway or Energy East, policies were enacted that led to the cancellation of these two nation-building energy projects, costing the country billions in lost investment and tens of thousands of high-paying jobs. The same can be said for Canada's LNG opportunity. As recently pointed out by the Macdonald Laurier Institute (MLI), in 2015 neither the United States nor Canada had any measurable LNG export capacity. Since that time, the United States has brought online over a dozen LNG export facilities and emerged as one of the world's leading LNG exporting countries. Meanwhile Canada has only one major LNG processing facility coming online in 2025.

According to the MLI study, the new federal GHG emissions cap, which seeks to reduce emissions from the oil and gas sector by 42 percent in 2030, poses an existential threat to Canada's oil and gas industry. This policy will prevent Canada from helping its allies wean themselves off of oil sources from Russia and the Middle East.

4 Responsible Resource Development

MERIT CANADA RECOMMENDATIONS

MERIT Canada recommends that federal policy makers:

- Develop a national vision, strategy, and implementation plan for advancing responsible resource development, in cooperation with provincial governments, Indigenous Nations and the private sector.
- Act decisively to bring Indigenous leaders, other levels of government and the private sector together to develop a sensible framework and policies to ensure Indigenous communities are full partners in the opportunities, investment and jobs that flow from a strong and growing natural resource economy.
- Amend Bill C-69 and repeal Bill C-48 with a view to advancing responsible resource development, with appropriate regard for other legitimate societal interests, Indigenous participation and environmental protection.
- Focus on further pan-Canadian LNG development to unleash the full potential of Western and Eastern Canadian natural gas reserves and export opportunities.
- Develop a realistic climate plan which truly respects concurrent federal and provincial jurisdiction over the environment and that markets Canadian LNG as a transition fuel for China and India (the world's leading carbon emitters) and Europe.

5 Recruiting and Training Tomorrow’s Builders

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MERIT Canada believes skills, training and education are foundational for building a talented workforce to build our country. This is a shared responsibility of governments, business, and individuals.

Federal policy makers have an important role to help ensure Canada has a skilled, trained, and well-educated workforce nation-wide. Though training and skills development are mainly within provincial jurisdiction, the federal government can and should work with its provincial counterparts to provide funding and incentives to enhance skills, training, and education for all working-age Canadians.

Moreover, Canada has an aging population – a trend felt acutely in construction. CIBC Economics recently reported that the average age of retirement in construction is 60 years old and that 20% of Canada's construction workers are aged 55 or older. That same report also revealed that only 2% of all new immigrants to Canada pursue a career in the construction trades. With up to 1.5 million new permanent immigrants expected to enter Canada over the next three years, that means there won't be nearly enough new immigrant workers to fill the 60,000 – 80,000 construction job vacancies estimated by BuildForce across the country.

MERIT CANADA RECOMMENDATIONS

MERIT Canada recommends that federal policy makers:

- Ensure that federal apprenticeship funding is provided without preference or favour to union, non-affiliated union, or non-union workers. Fundamentally, if the federal government provides funding for skills development, training, and education, this should be provided to all segments of the construction industry workforce.
- Re-design the Union Training and Innovation Program to remove the requirement that only building trades unions are eligible to receive funding.
- Commit to do more to link immigrant selection and the provision of post-landing services to the job vacancies projected in the construction sector.
- Work with the provinces and occupational and professional regulatory and licensing bodies to improve and accelerate credentials recognition for new immigrants.
- Provide federal funds for training programs, in partnership with the provinces, through provincially accredited colleges, trades training, and technical institutions to increase the number of individuals trained in the skilled trades and reduce current wait lists.
- Encourage the equitable geographic distribution of training spaces by investing in trades training institutions in medium and smaller-sized cities and towns – and help with the technical transition to more online and remote learning options.
- Recognize and support entrepreneurship as a legitimate and vitally important component of apprenticeship training, and support succession planning in small, medium, and large construction firms across the country.

Conclusion

MERIT Canada's vision and blueprint for building significant, sustainable, and shared prosperity for all Canadians is informed by the tremendous importance of the daily work of construction contractors and the 1.5 million men and women who build projects of all sizes and types across our country every day.

Federal policy makers must think carefully about the challenges and opportunities Canada is facing and develop policy frameworks focused on creating and fostering the investment, jobs and opportunities required to support the health, education, and social programs which Canadians value – and which are required for a healthy and dynamic economy.

About Merit Canada

MERIT Canada is the national voice of Canada's provincial Open Shop construction associations. Open shop contractors employ approximately 75% of the 1.5 million men and women who work in construction in Canada.

MERIT Canada was created in 2008 to advocate for a strong construction sector, for fairness and transparency in government infrastructure procurement, and on behalf of construction contractors and workers. Through its provincial partnerships in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Nova Scotia, MERIT Canada helps Open Shop employers develop the next generation of construction trades workers. www.merit-canada.ca

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