



CENTRE FOR
TRADE &
INVESTMENT
POLICY

At the Intersection:

.....

The Case for Sustained and Strategic Public Infrastructure Investment



Building on advantage:

.....

Improving Canada's trade infrastructure



INFRASTRUCTURE AND PROSPERITY

Over the past two years, one of Canada's leading think tanks; the Canada West Foundation, has published two reports that have made significant contributions to our understanding of the important relationship between infrastructure and global trade.

The first report, ***At the Intersection: The Case for Sustained and Strategic Public Infrastructure Investment***, released in January 2013, examines the link between infrastructure and economic growth.

The Second report released in November 2014; ***Building on advantage: Improving Canada's trade infrastructure*** examines the role of trade infrastructure on our ability to compete in the rapidly evolving global markets.

Although most of us readily accept that infrastructure investments provide short term benefits by creating jobs and spurring demand for building materials and equipment, the Canada West Foundation reports show that the benefits of these investments actually extend further and are necessary if Canada is to continue to compete internationally, increase our trade and maintain our standard of living.

While Canada has many areas of strength in infrastructure, there are important gaps that must be addressed. The federal government has been the catalyst for national infrastructure renewal efforts. Federal government funding remains vital as it helps offset the growing financial burden our aging infrastructure is placing on other levels of government.

The Government of Canada made an important contribution to address Canada's infrastructure challenge in Budget 2013 with the creation of the New Building Canada Plan (NCBP). This program addresses many of the policy recommendations made in the *At the Intersection* report- with a strong focus on municipal infrastructure.

However, the ***Building on advantage*** report shows that Canada's large strategic infrastructure needs are still

fundamentally unaddressed. It is necessary to develop and strengthen trade infrastructure that link us to emerging and potentially very lucrative global markets.

This document provides an overview of the Canada West Foundation's policy contributions to our understanding of the role infrastructure must play in order to seize our opportunities and realize Canada's full potential.

Building on the Canada West Foundation's research, the Canadian Construction Association believes the following six Organizing Principles are critical to the long-term development of Canada's national infrastructure strategy:

- **A permanent** infrastructure investment plan not unlike our permanent investment in healthcare, education, and public safety.
- **A focus on economic growth** investments as a matter of first priority, without ignoring key assets that already enable or support economic activity but require upgrading.
- **Embracing innovation** in design, construction, maintenance and rehabilitation so it becomes part of the design challenge (and opportunity), to stretch the service life and reduce life cycle maintenance costs of our infrastructure investments. Innovation includes capital program management.
- **Harnessing partnerships** with the private sector, which is the engine of innovation, growth, jobs, prosperity and taxes to government, to benefit from its product development and service delivery skills.
- **Transparently dedicating revenue streams** preferably growth taxes for these purposes. Existing municipal revenues streams, even coupled with efficiency gains, are inadequate to the tasks at hand.
- **Mandatory periodic transparent public reviews**, to account for expenditures, enabling experience based adjustment for the future, providing the public security and ensuring public sector investment purpose, discipline, transparency and accountability.

At the Intersection: The Case for Sustained and Strategic Public Infrastructure Investment.

The Canada West Foundation's report entitled ***At the Intersection: The Case for Sustained and Strategic Public Infrastructure Investment*** makes the case that sustained, predictable public and private sector investment in infrastructure fuels economic growth generating revenues necessary to fund social programs.

The Canada West Foundation reviewed more than 200 academic papers and government reports on the link between infrastructure and economic growth to develop ***At the Intersection***.

Most of Canada's infrastructure was built in the 1950s and 1960s. Since then, health, education and social services have dominated government budgets to the point where we began postponing essential maintenance of our infrastructure and deferring new investments. This has led to an infrastructure deficit—a gap between the infrastructure Canadians need and the funding that is available. In the 1960s, governments in Canada combined were investing about 5% of GDP into infrastructure. By 2000, investment had fallen to 2%. While investment has recently grown, there is still much backfilling to do.

This first of its kind report in Canada provides recommendations to help governments harness infrastructure investment as a key element of their long-term economic plans to enhance productivity and fuel economic growth. Sustained and predictable infrastructure investment is essential to maintaining Canada's long-term economic growth and is critical to the quality of life enjoyed by Canadians.

At the Intersection includes four key findings:

1. Sustained infrastructure investment is essential to maintaining Canada's future prosperity and quality of life.
2. Investments in infrastructure increase productivity.
3. Economic and productivity gains related to infrastructure are not automatic. The highest economic and social returns on infrastructure investment only occur with strategic investment.
4. Now is the right time to make economic-enhancing investments in Canada's public infrastructure.

At the Intersection makes five key recommendations:

1. Sustained and strategic investment in Canada's public infrastructure should be continued.
2. Priority should be given to public infrastructure that enhances economic performance.
3. Governments should encourage innovative approaches to the design of public infrastructure.
4. Governments should not focus exclusively on new infrastructure and should give due consideration to renewing existing public infrastructure.
5. Ongoing analysis and evaluation of recent public infrastructure investments should be conducted and lessons applied to future investments.

In ***Building on advantage: Improving Canada's trade infrastructure*** the Canada West Foundation examined the current state of Canada's trade infrastructure and what Canada must do to ensure a trade advantage in the global economy.

Thirty cents of every dollar in our economy comes from exports and one in five jobs is tied to exports.

CANADA NEEDS TO BUILD ON ITS INFRASTRUCTURAL ADVANTAGES TO COMPETE IN THE RAPIDLY EVOLVING GLOBAL MARKET

Trade is essential to Canada. It generates revenue to pay for that which is crucial to our well-being. That money comes from moving products, services and commodities to and from markets. Well-developed, reliable and efficient infrastructure allows Canadian businesses to succeed in a hyper competitive global trade environment.

Good trade infrastructure can reduce transportation costs, create global supply chain advantages and demonstrate Canada's reliability as a supplier. On the other hand, bottlenecks can lead to lower profits, lost market opportunities and fewer jobs.

To capture economic benefits from trade, Canada needs the airports, roads, ports, railroads and other infrastructure that move products and people. These items are what are generally thought of as "trade-related infrastructure."

Emerging markets offer significant potential for Canadian firms. The rise of the global middle-class, the customers of tomorrow, is projected to grow from today's 1.8 billion people to five billion by 2030.

CANADA'S TRADE-RELATED INFRASTRUCTURE HAS A STRONG FOUNDATION

Canadians rely on past infrastructure investments in the national railway system, the lower Fraser River, the St. Lawrence Seaway, and the Trans-Canada Highway. Canada does not face the "build everything from scratch" challenge that many of its competitors face.

Canadians have benefitted from the Federal Government's progress in breaking down global trade barriers, as well as from trade agreements like the North American Free Trade Agreement (NAFTA). The government is still expanding and deepening Canada's access to markets, most recently with agreements like the Canada-EU and Canada-Korea trade agreements.

Recent developments build on those investments. The Asia-Pacific Gateway and Corridor Initiative (APGCI), and inland ports such as Winnipeg's CentrePort Canada and Regina's Global Transportation Hub help move products to market more efficiently. This helps us keep pace with rising international demand and remain competitive in North America.



NEW BUILDING CANADA PLAN

The 10-year, \$53 billion New Building Canada Plan (NBCP) announced in the 2013 federal budget represents the most significant infrastructure investment in Canada to date and an opportunity from which to build.

The NBCP is intended to finance projects that promote economic growth, job creation and productivity but the overwhelming majority of its funds are earmarked for municipal investment. Just \$3.85 billion of the National Infrastructure Component (NIC) is allocated to large strategic infrastructure projects of national significance.

This figure of \$3.85 billion may be insufficient for the size of the country, the range of projects to be supported or what other countries are allocating to their infrastructure development. The project selection process could be enhanced with more infrastructure demand analysis by the provincial and federal governments, more focused strategic objectives and priority setting.

THE PRIVATE SECTOR IS THE MAJOR FORCE IN TRADE RELATED INFRASTRUCTURE

Increasingly, trade-related infrastructure is being undertaken either wholly, or largely, by the private sector. It also plays an important role in fostering innovation in the design, building and operation of infrastructure. The value of the private sector's ability to bring innovation to infrastructure design and building is reflected in the adoption of public-private partnership programs (PPPs) by the Canadian federal, provincial and municipal governments.

Allowance for private sector participation, partnership and innovation is one of the positive features that have been retained in key trade infrastructure-eligible programs within the suite of Building Canada Fund programming.

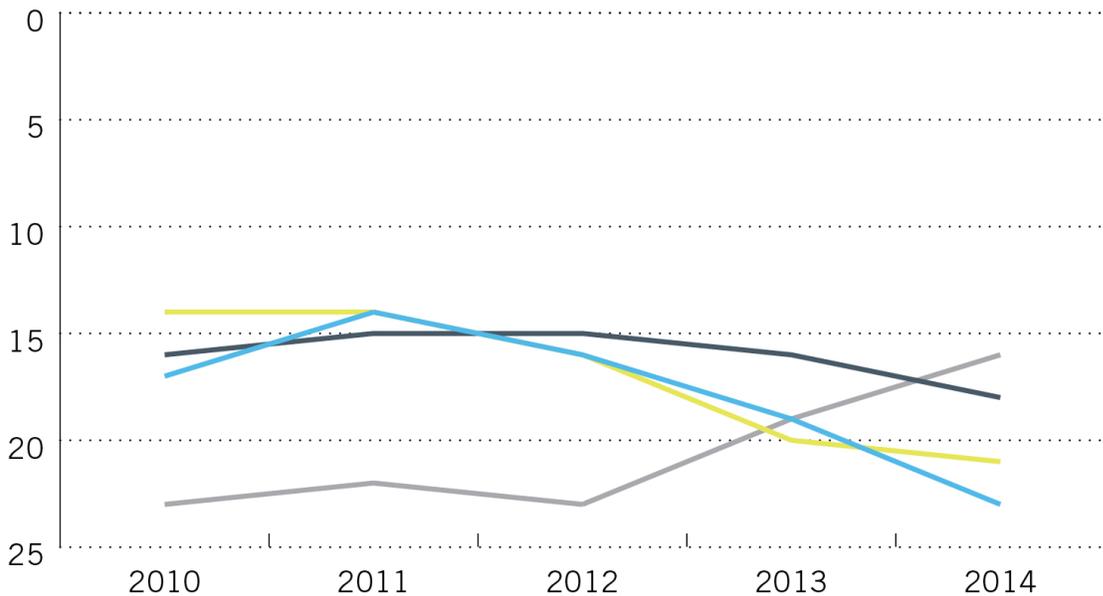
73% of total infrastructure spending in and outside of the Vancouver Port expansion is coming from the private sector.

CANADA IS SLIPPING

There are signs that Canada's infrastructure advantage is slipping. According to the survey-based World Economic Forum's Competitiveness Index Canada has fallen into steady decline in the past few years. In 2010, Canada ranked 9th on quality of overall infrastructure. By 2012, we had dropped to 15th but remained ahead of the U.S. In the most recent 2014 ranking, however, Canada dropped to 19th and fell behind the U.S.

On-going examples of the need to modernize trade related infrastructure include the challenge of transporting grain to international markets and oil pipeline capacity shortfalls. Bottle-necks at the Detroit-Windsor border are estimated to cost the Canadian economy 17.8 billion dollars per year in lost trade.

CANADA INFRASTRUCTURE COMPETITIVENESS RANKINGS



- Quality of roads
- Quality of rail infrastructure
- Quality of port infrastructure
- Quality of air transport infrastructure



CANADA'S TRADE INFRASTRUCTURE CHALLENGE

In the near future, merely adequate infrastructure will not enable us to compete. Canada must be known as being amongst the best in the world for the speed, cost and reliability of our trade-related infrastructure.

We now have the opportunity to build on our advantage to be among the best in the world. Strategic and adequate investments in trade infrastructure will provide the competitive edge Canadian firms need to access new global opportunities.

Canada can act now to build on advantage, seize opportunity, create jobs and lay the basis for long term prosperity. Or, we can wait until a crisis of lost opportunities, jobs and markets compels us to act and leaves us with only more difficult choices. If we do not act now these choices will be more expensive.

CANADA WEST PUBLIC POLICY RECOMMENDATIONS

A national dialogue is needed to forge consensus and initiate action on trade-related infrastructure. Canada West Foundation recommends the following seven actions:

1. Set as an aspirational goal the moving of Canada into the top 10 in the World Economic Forum and World Bank rankings on trade infrastructure and logistics.
2. Establish a permanent national public-private body that would, among other duties, develop an on-going, long-term but flexible infrastructure plan and pipeline of projects linked to the country's trade agenda.
3. Introduce more substantive private sector participation into trade infrastructure planning and management through the use of this new permanent national public-private body.
4. Introduce a focus on innovation as a key criterion in the design and selection of trade infrastructure projects.
5. Develop a coordinated federal-provincial-private sector campaign to market Canada's infrastructure advantage abroad.
6. Carve out an explicit portion of existing federal infrastructure funds for trade-related infrastructure.
7. Use federal infrastructure spending to help offset the costs that municipalities incur from the development of trade-related infrastructure to help build public support for these projects.