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Flying without a net:

Fall Economic Statement removes deficit cushion in response to slow growth, but makes historic leap on infrastructure to boost future economic growth

Despite the Fall Economic Statement coming the day after Halloween, the Liberal government is keen to assure the Canadian public (and its international partners) that Canada's economic growth, while slow, isn't as 'scary' as it seems.

The government is betting that the worst of the oil price decline is behind it, but in so doing used all of the $6 billion in annual budget contingency. This was originally set up to cushion a deficit that has grown by a further $31.8 billion over five years. This fiscal magic trick allows the government to keep the deficit targets set in the 2016 budget largely intact – but with no additional room to maneuver.

OVERVIEW:

Focusing on the four key 'i's: immigration, investment, innovation, and infrastructure, Finance Minister Bill Morneau used the Fall Economic Statement to deliver on key Liberal platform commitments and to incorporate several of the recommendations made by the Advisory Council on Economic Growth last week – in particular, by emphasizing the need to add to Canada's diverse, highly-skilled talent, and to attract more foreign investment. Most notably, this includes:

1. Delivery on the Liberal platform's promised **long-term infrastructure investments** and the second phase of infrastructure funding promised in Budget 2016, **totaling $81 billion** in new funding over 11 years, above what had been originally committed by the previous Conservative government (Details in Industry Highlights section below).

2. The creation of a **Canada Infrastructure Bank** (CIB), originally promised in the Liberal election platform, to bring together public and private capital to fuel investment in infrastructure and provide major economic, social and environmental returns.
    - Seeded with at least $35 billion in federal funding, including $15 billion earmarked for public transit, green infrastructure, social infrastructure, trade and transportation, and rural and northern communities and a further $20-billion in equity or debt tied to specific projects built with public and private partners.
    - The Bank will draw $4 to $5 of investment from private sector for every $1 the government invests – or a total of nearly $200 billion for new infrastructure projects.

It should be noted that the CIB originated in the Liberal platform as a way to give other orders of government – provinces and municipalities – the ability to borrow at the federal government's preferential rates of interest.

The CIB has since morphed into a vehicle to leverage private investment from institutional investors who are faced with negative bond yields. Under this model, the Infrastructure Bank would need to invest in projects with the potential to yield reasonable rates of return, including transit, high speed rail, broadband internet, port and airport expansions, clean energy, smart grids, affordable housing, energy efficiency, highways and bridges. This would in turn free up public funds to invest in areas without direct financial returns, like social housing or First Nations infrastructure.

3. A new **Global Skills Strategy** that will set a two-week standard for processing visas and work permits for global talent, targeted at high-growth Canadian companies that need to access global talent in order to facilitate and accelerate investments that create Canadian jobs, and for global companies that are making large investments, relocating to Canada, and expanding production.
    - In addition to the Global Skills Strategy, the government will introduce a new work permit exemption for short-duration work terms of fewer than 30 days in a year—or for brief academic stays—and will be used to facilitate short-term, inter-company work exchanges, study exchanges, or the entrance of temporary expertise.

INDUSTRY HIGHLIGHTS:

Building on the Trudeau government's first budget in March 2016, the second phase of infrastructure funds previously discussed will now be put into motion to help kick-start the sluggish economy:

1. **Public Transit:** Faster Commutes and Innovative Communities—$25.3 Billion Over 11 Years
    - Focussed on new, transformative construction and expansion projects to build the transit systems of the 21st century.

2. **Green infrastructure:** Clean Air, Clean Water—$21.9 Billion Over 11 Years
    - This will include targeted investments, including through the new Canada Infrastructure Bank, that support greenhouse gas emission reductions; enable greater climate change adaptation and resilience; and ensure that more communities can provide clean air and safe drinking water for their citizens.
    - The federal government will work with its government partners to evaluate, select and fund the green infrastructure projects, including, but not limited to:
        - inter-provincial transmission lines that reduce reliance on coal-fired power generation;
        - the development of new low-carbon/renewable power projects;

        - the expansion of smart grids to make more efficient use of existing power supplies;
        - water treatment projects on reserve; and
        - the construction of infrastructure to help manage the risk associated with floods and wildfires.

3. **Canadian Global Competitiveness:** Getting Canadian Products to Global Markets—$10.1 Billion Over 11 Years
    - The government will make strategic investments in trade and transportation projects that build stronger, more efficient transportation corridors to international markets and help Canadian businesses to compete, grow and create more jobs.
    - Marine safety will be a key area of focus, as the government is committed to the idea that a clean marine environment and a strong economy go hand in hand.
4. **Rural and Northern Communities**—$2 Billion Over 11 Years
    - A new area of focus, singled out in the Minister's speech, the government will provide up to $2 billion to support small, rural and northern communities, recognizing the wide-ranging nature of infrastructure needs, such as:
        - expanding road access and Internet connectivity;
        - upgrading existing heating systems; and
        - pursuing renewable sources of energy to reduce reliance on diesel.
    - The government will also support critical transportation needs in Canada's North to strengthen community connectivity to trade and investment opportunities.

LIKELY CRITICS:

Slower-than-expected growth in the United States, the UK Brexit vote, a rebalancing of the Chinese economy, recovery from the drop in the price of oil and the fallout of the Fort McMurray wildfires are some of the challenges that have affected the Canadian economy. Those who will be left wanting by the Fall Economic Statement includes:

1. **Deficits Hawks**: With no $6 billion budget contingency fund to provide an unexpected windfall, there's no return to balance in sight until 2021-22.

2. **Protectionists**: Emphasizing the importance of foreign investment and foreign talent as key to improving Canada's economic competitiveness on the global scale is unlikely to win over any stalwart trade protectionists, who may be seeking to emphasize sectors of the economy with more to lose from Canada's recently inked trade agreement with the EU.

3. **Canadian cities and provinces:** Municipalities and provinces may have a small bone to pick with the federal government over the creation of the Infrastructure Bank, as they may have preferred it to be capitalized with new money, not from already-promised programs for road, bridges, transit and other projects.

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For more information, contact:
Sheamus Murphy
Vice President, Federal Advocacy
Counsel Public Affairs
613-323-7607
smurphy@counselpa.com