BACKGROUNDER

HRAI Survey Findings

In an effort to gauge the impacts of COVID-19 on the HVACR sector, HRAI issued a survey to its members late last week over the period April 9-24, 2020. The survey gauged the immediate and short-term impacts of the pandemic on business operations, as well as member perspectives on future impacts. It also asked members about actions taken in response to the immediate crisis, directly and via government programs. In all, 185 members responded to the survey, representing just over 15% of the HRAI membership.

Key Findings

<u>Financial and Employee Impacts</u>

Asked about how much their business revenue has declined year-over-year as a result of the COVID-19 pandemic, two-thirds (67%) of respondents reported a greater than 30% decline, and 27% reported a more than 60% decline (Figure 1). Only 6.2 percent of respondents reported no decline in revenue at all but at the opposite extreme, 8.6% of members have seen over 90% declines.

FIGURE 1

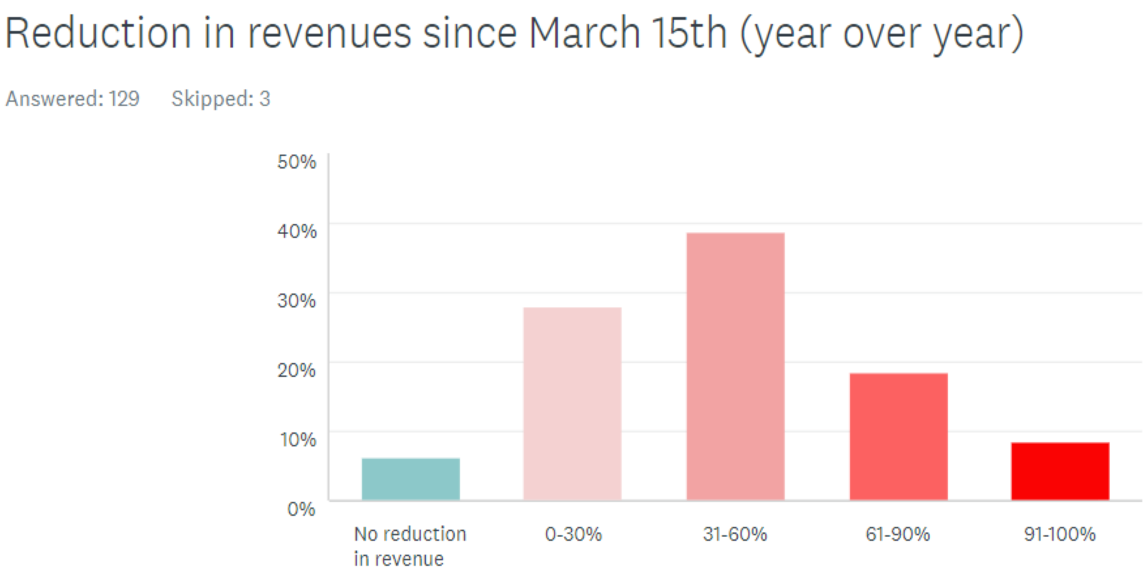
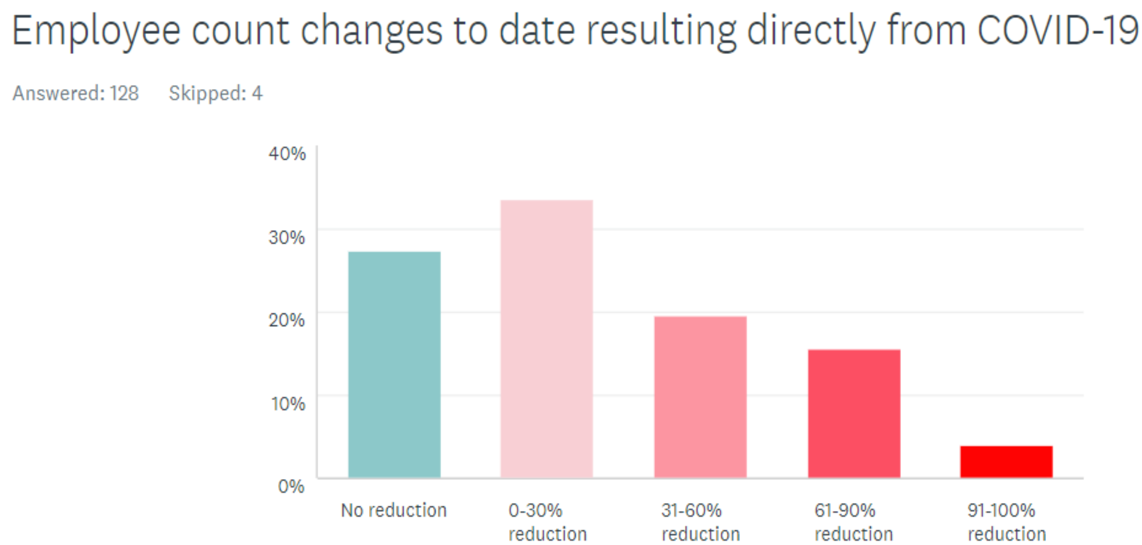


Figure 2 shows that company layoffs have not matched the decline in business revenue, which would indicate that there is a considerable pool of under-utilized labour at present. More than 60% reported laying off fewer than 30% of their employees, and almost half of this group have not laid anyone off. At the same time, 20% of members report having laid of more than 60% of employees and about 4% have reduced headcount by more than 90%.

Among all respondents, the average number of employees laid off was 14, but there is considerable variation around that mean. Fully 50% of companies laid off fewer than three people, whereas a small number of companies have seen drops of several hundred employees. Based on the numbers reported by this representative sample of the HRAI membership, we estimate that, over the entire membership, employee reductions number between 12,000 and 15,000 personnel.

FIGURE 2

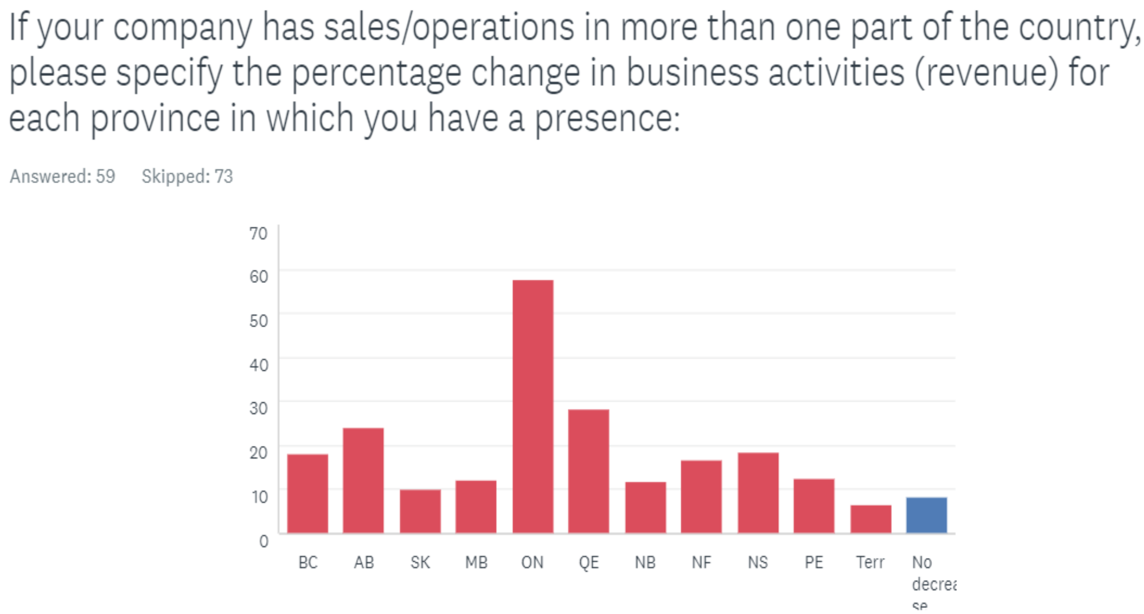


Larger member companies with operations in more than one province (about a third of respondents) also reported on the differential impacts on their businesses in different parts of the country (Figure 3). These companies reported by far greater revenue reductions in Ontario as compared with other provinces. In Ontario revenue declines approach 60% while averaging around 20% and ranging from 10% to 30% in all other provinces.

<u>Member Perceptions about Longer Term Effects of the Pandemic</u>

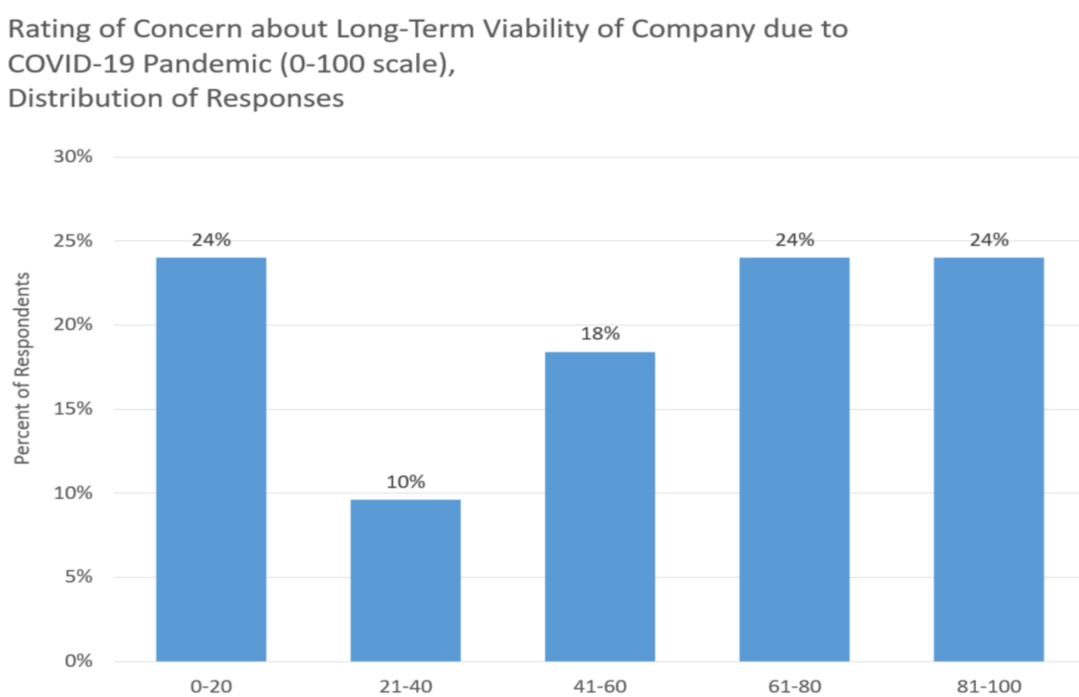
Members were asked to rate on a scale from zero to 100 their level of concern about the long-term viability of their companies in light of COVID-19. The average response to this question was 54, indicating a “moderate” level of concern, but the distribution of responses shows quite a wide variation in attitudes (Figure 4). About a quarter (24%) of members rated their level of concern below 20 on the scale, but almost half scored their level of concern over 60.

FIGURE 3



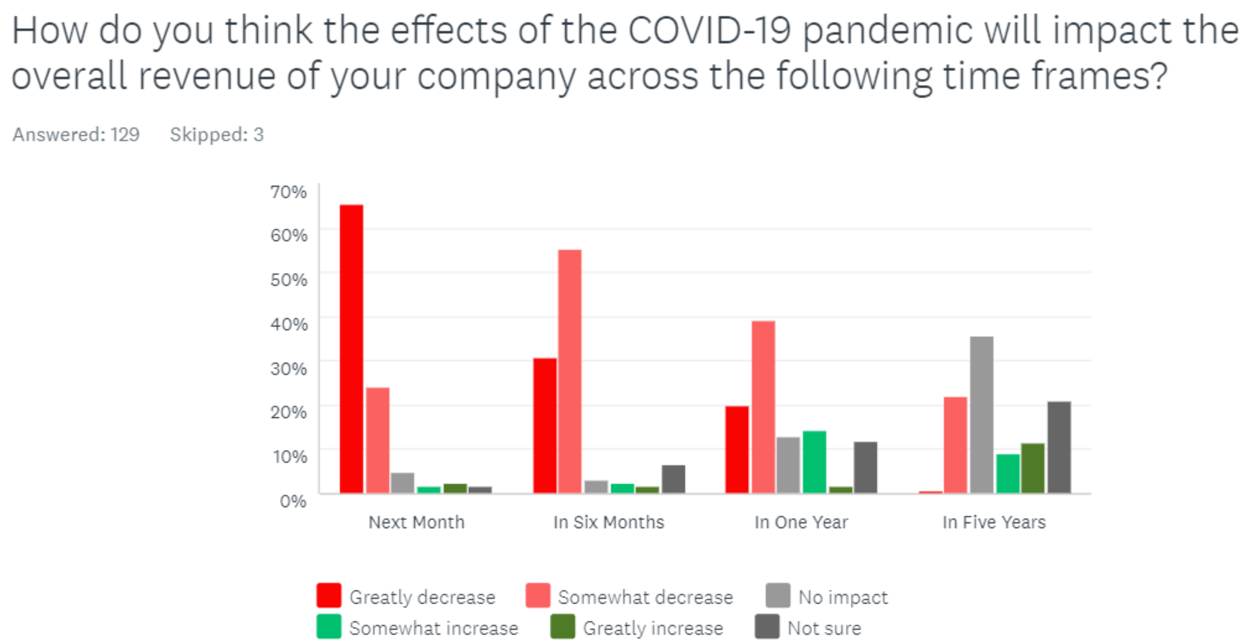
Members were also asked to forecast their expectations concerning short term vs longer term impacts (Figure 5). Over the next month, 89% of members reported that they expect the pandemic will greatly (65%) or somewhat (24%) decrease company revenues. Over the next six months, 31% of members expect significant revenue losses while 55% predict more moderate declines. Only 3-4% of members expect any kind of growth in either of these two time periods.

FIGURE 4



Projecting forward over the next year, members expressed only a little more optimism. About 16% of members foresee some increase in revenue, while 39% predict moderate decreases and 20% still see major decreases. Looking further ahead to five years from now, about 20% of members predict increases, while 23% still anticipate negative impacts and 36% foresee no impacts. Not surprisingly, about 21% felt there was too much uncertainty to make any prediction for five years ahead.

FIGURE 5



Responding to COVID-19 Relief Options

Finally, HRAI also asked members about how they expect to deal with the COVID-19 pandemic. In terms of federal relief programs, about 39% of respondents said they would take advantage of the Canada Emergency Wage Subsidy (CEWS) program, and almost 43% will be taking advantage of the Canada Emergency Response Benefit (CERB) for employees. Only about 22% reported that they expect to benefit from federal emergency business loan programs.

About a third of members expressed an interest in taking advantage of federal or provincial subsidies aimed at encouraging online upgrade training during this time of reduced business activity. When informed that HRAI will be exploring an increase offering of online training, almost 90% of respondents expressed an interest in participating, with a large majority of them (75%) expressing an interest in technical design training and another 45% wanting to see sales training.

FIGURE 6

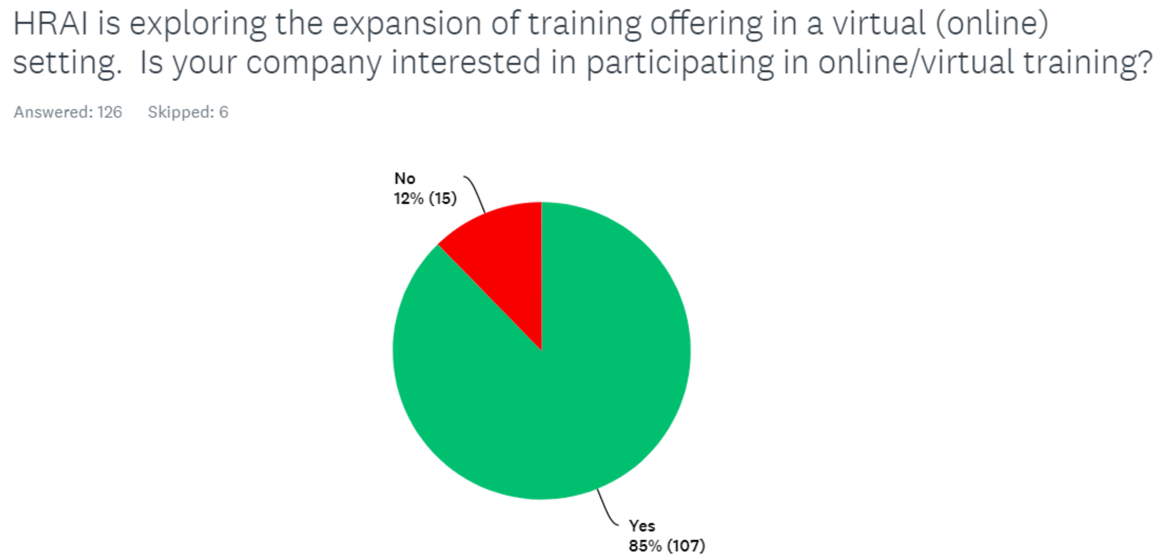
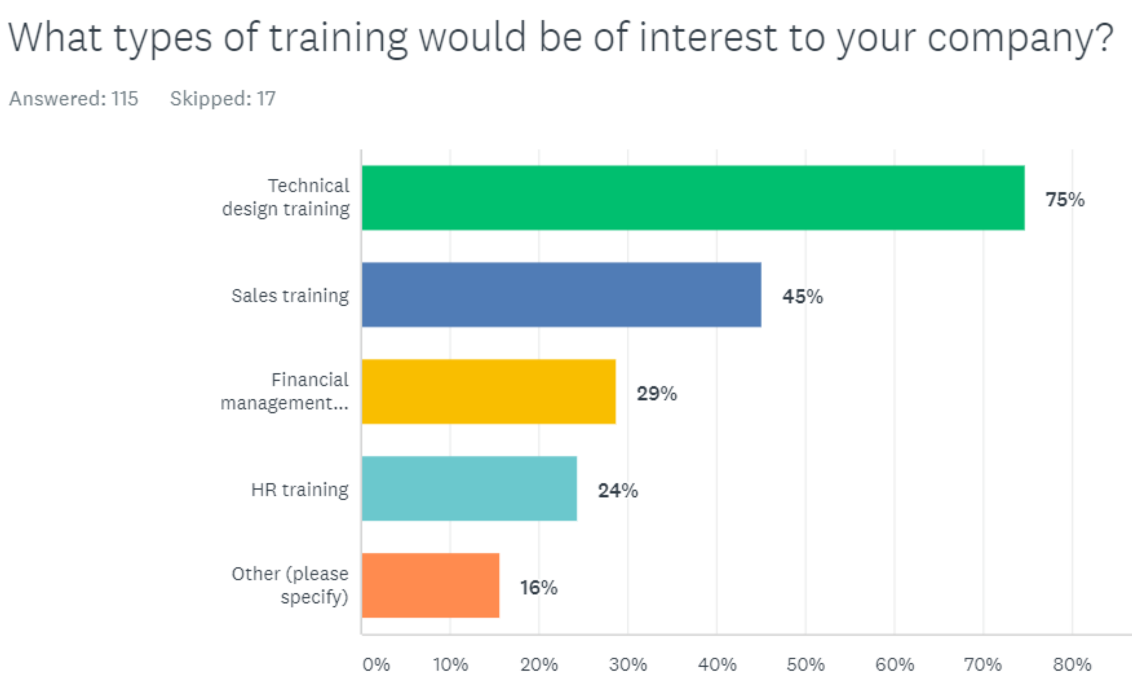


FIGURE 7



About the Survey

One hundred and eight-five HRAI members responded to the survey, representing about 15% of members. Almost six out of ten of these (59%) were contractors, 14% were manufacturers and 21% were manufacturers (Figure 8). Pretty much all types of products and markets are represented, and the size distribution of responding companies ranged fairly evenly from the smallest companies (1-5 employees) to the largest (over 500) (Figure 9) and across different markets (Figure 10). We can say with confidence, therefore, that the results are representative of the HRAI membership, and more broadly, the HVACR industry in Canada.

FIGURE 8

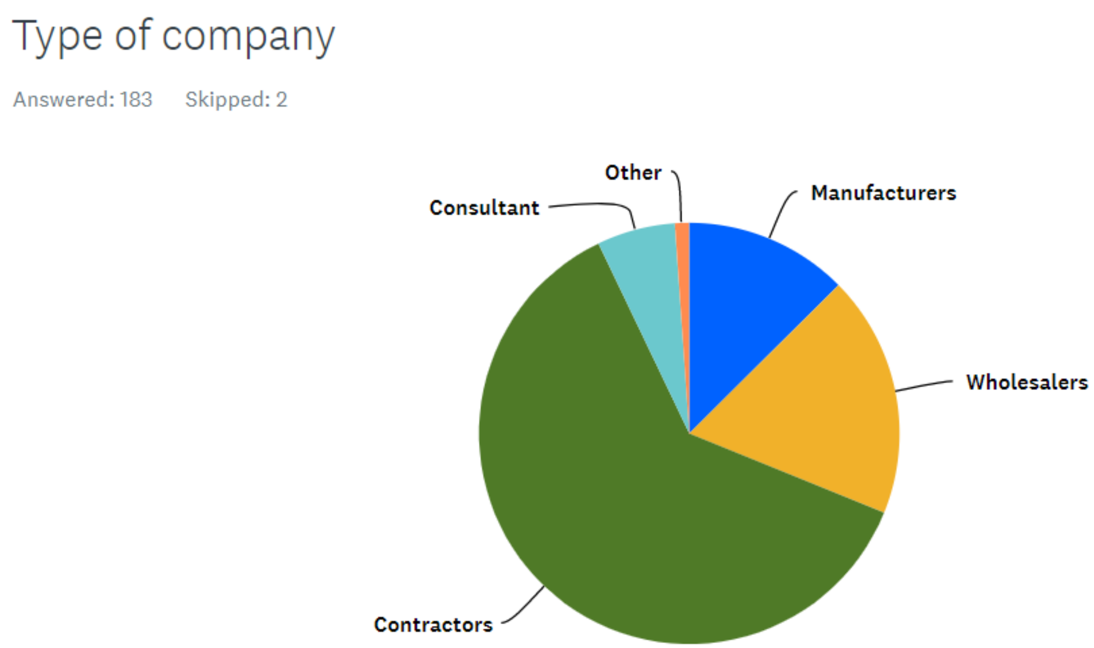


FIGURE 9

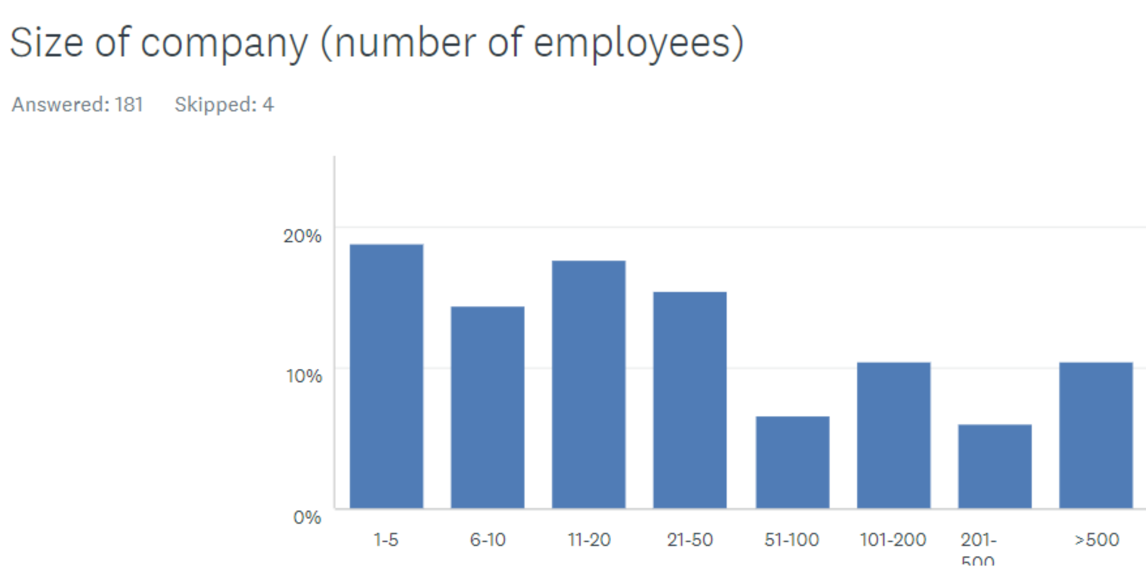
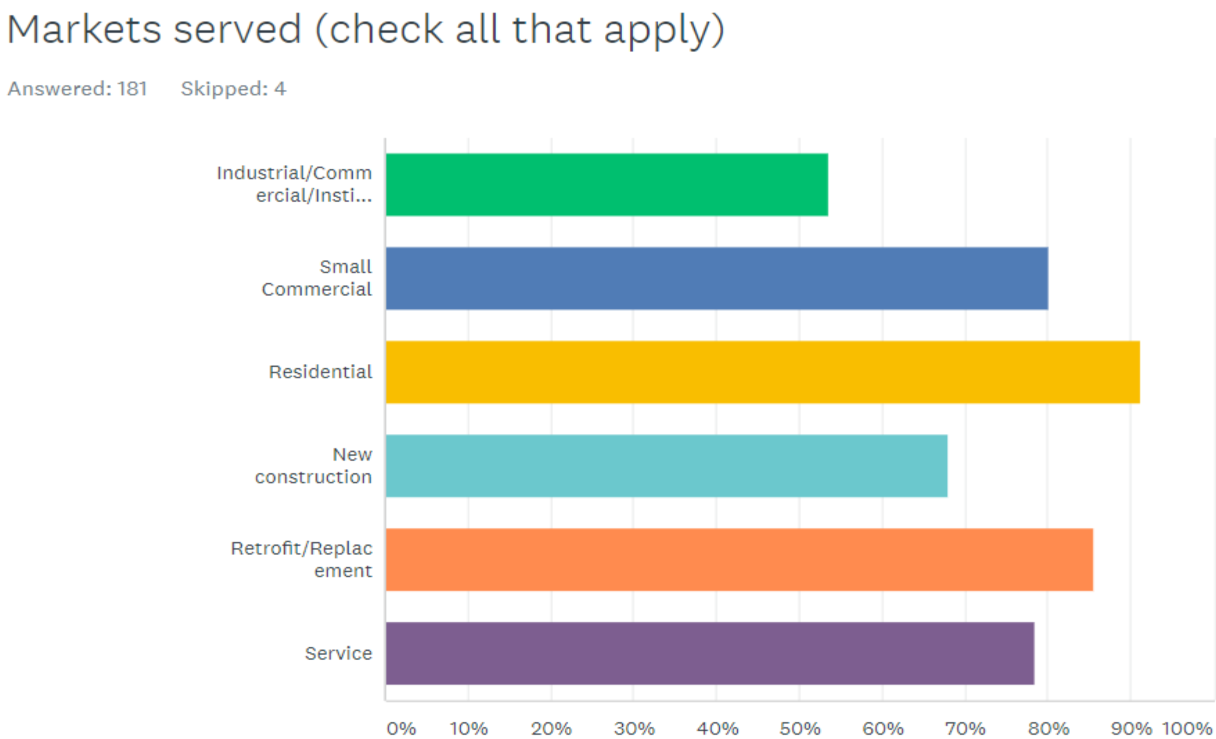


FIGURE 10



A Final Note

This backgrounder only touches on some of the key findings from the recent survey. There is considerably more information that is being compiled and processed that will help HRAI to understand the impacts of the virus on this sector.

About HRAI

HRAI Canada is a non-profit national trade association representing over 1,300 member companies in the heating, ventilation, air conditioning and refrigeration (HVACR) industry. Our members include manufacturers, wholesalers and contractors, with approximately 900 members in Ontario. Our members employ over 50,000 people in Canada and deliver more than $7 Billion annually to the Canadian economy.

For more information, contact:

Martin Luymes
Vice President, Government and Stakeholder Relations
Heating, Refrigeration and Air Conditioning Institute of Canada (HRAI)
Telephone: 416-453-5899
Email: mluymes@hrai.ca

FOR IMMEDIATE RELEASE

Survey Exposes Unprecedented Impacts of COVID-19 on an Important and Essential Service for Canadians

May 1st, 2020, Ottawa (Ontario) – The Heating, Refrigeration and Air Conditioning Institute of Canada (HRAI) released today the results of an industry survey which found drastic impacts on the heating, refrigeration, air conditioning and refrigeration (HVACR) industry in Canada due to the COVID-19 pandemic.

"The HVACR industry has been deemed an essential service by both the federal government and provincial governments across the country" said Sandy MacLeod, President and CEO of HRAI, "and the sector has been responding as needed to the COVID-19 pandemic by continuing to service important equipment in both residential and commercial buildings."

Despite their status as an essential service, the HRAI survey found that over 67% of HVACR companies in Canada have seen a reduction of more than 30% in year-over-year revenues since March 15th and about 27% have experienced a greater than 60% decline. Most contractors, however, have not substantially reduced their workforce. More than 60% of businesses have seen layoffs of less than 30% and almost 30% of them have done no layoffs at all.

"The majority of companies in the sector have kept their employees on board, despite losing a significant portion of their revenues. This is due in part to the need for companies to continue servicing Canadians and businesses and also due to the availability of federal government programs that have helped companies make ends meet, for which the sector is grateful" continued MacLeod.

The industry has begun discussions with different levels of government regarding the rollout of targeted programs that would stimulate economic growth and job creation by supporting energy efficiency and low-carbon upgrades to homes and buildings. Strategic programs of this type will not only provide assistance to small businesses and homeowners across the country, but will also help Canada to meet its ambitious carbon reduction goals.

As much as possible, HVACR industry members are using the down time created by the pandemic to train workers and to prepare their businesses to be part of the economic recovery that will come, ensuring that Canadians comes out of this crisis stronger than ever.

“Programs that incentivize Canadians and businesses to acquire more energy efficient equipment will help to lower costs for energy consumers and help to reduce greenhouse gas emissions. Skilled trades development will be more important than ever once we begin recovering from the pandemic. While the industry has been dramatically affected in the short term, we are ready to rebuild Canada’s economy, create employment opportunities and support climate change goals” concluded MacLeod.

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About HRAI

Founded in 1968, the Heating, Refrigeration and Air Conditioning Institute of Canada (HRAI) is a non-profit national trade association that represents more than 1,150 member companies in the heating, ventilation, air conditioning and refrigeration (HVACR) industry. Our members include manufacturers, wholesalers and contractors who employ more than 50,000 people in Canada and represent an industry that delivers more than $7B annually to the Canadian economy.

Media Contact:
Kyle Larkin, HRAI Liaison
Telephone: 905-449-9077
Email: kyle@impactcanada.com

HRAI Contact:
Martin Luymes, Vice President, Government and Stakeholder Relations
Telephone: 416-453-5899
Email: mluymes@hrai.ca

June 4, 2020

The Hon. Rod Phillips
Chair, Jobs and Recovery Committee, Minister of Finance
Members of the Jobs and Recovery Committee
Queen's Park, ON M7A 1Y7

Dear Minister Phillips,

Re: Recommendations for Economic Recovery

Thank you for your leadership and decisive action as we continue to address the COVID-19 pandemic affecting the Province of Ontario and beyond. The Heating, Refrigeration and Air Conditioning Institute of Canada (HRAI) applauds your government's efforts and appreciates that your top priority – and ours – remains the health and well-being of Ontarians.

HRAI-Canada is the national trade association for the heating, ventilation, air conditioning and refrigeration (HVACR) industry, representing over 1,250 member companies across the country and about approximately 900 businesses in Ontario. Our members include manufacturers, wholesalers and contractors who collectively employ tens of thousands of skilled trade professionals across the country and contribute more than $12B annually to the Canadian economy. HRAI also provides technical certification training that is recognized throughout Canada.

HRAI stands at the ready to engage with government to determine pathways that will ensure that small business owners – the bulk of our members -- recover and are once again able to create jobs and quality economic development opportunities across Ontario.

The HVACR sector was part of the network of essential services in Ontario. Our members install and service the mechanical systems that keep healthcare facilities, grocery stores and other essential services operating, and there service are essential to keeping people comfortable and safe in their homes.

Despite being an essential service, the HVACR sector has been hit harder in Ontario than in any other province/territory in Canada (**see Attachment 1**). They are keen to explore opportunities for economic renewal.

Below, we have outlined 4 specific requests which would aid in that effort. In addition, we have noted 5 outstanding issues that require addressing and which would be welcomed by the HVACR sector (**See Attachment 2**).

PROVINCIAL ISSUES TO ADDRESS FOR THE HVACR SECTOR IN RESPONSE TO COVID-19:

1) **INDUSTRY REGULATION (MEDJCT, MGCS, MLTSD):**
Regulations are most effective when correctly targeted and not overly burdensome. Our priority is achieving a balance that works for all – business owners, tradespeople and consumers. In the view of our members, current regulatory systems are performing their primary functions reasonably well to:
    a. Ensure consumer and public safety, product quality and product energy efficiency,
    b. Encourage business growth and innovation, and
    c. Ensure that only properly trained, certified and qualified technicians and tradespeople are performing the highly technical work of our sector.

    Our sector is encouraged by the progress being made on a number of files but there is always room for improvement. In the second attachment to this letter, we outline some of the ongoing regulatory concerns of our sector and the status of ongoing discussions.

2) **CONSUMER CONFIDENCE (MGCS, MLTSD):**
More important than regulatory tweaks, a key step the provincial government could take in the short term that would aid the HVACR sector's recovery is for the provincial government to send a strong signal to consumers about the readiness of the industry to serve their needs. This would increase consumer confidence.

    It is critical that homeowners and building owners/operators are confident in the HVACR sector's ability to operate safely inside residences and buildings while performing their work. Without that confidence, HVACR businesses will be slow to return to full capacity and will struggle to continue to be job creators and entrepreneurs. Throughout the pandemic, HRAI worked with members to provide information and advice to support their ability to work safely, respecting public health protocols and Ministry of Labour guidelines. But many members, and even more of their customers or potential customers, remain uncertain about what types of work are permitted, and under what conditions industry personnel should be permitted to operate.

    Request: HRAI requests that the provincial government, through the Premier and/or members of the Jobs and Recovery Committee, send a clear signal to the marketplace (homeowners, building owners and operators) that the HVACR sector is operating - and will continue to operate - safely, complying with public health protocols, Ministry of Labour guidelines and industry best practices.

3) **INDOOR AIR QUALITY AND VENTILATION (MLTSD, MOH, MLTC)**
The indoor air quality of commercial, industrial buildings and residences has been never more important than in these times of physical distancing, working at home and restricted activities in workplaces. Homeowners, residents and building operators remain understandably very concerned about COVID-19 and the potential transmission of airborne viruses.

Recognizing this, HRAI is working with industry experts, such as the IEQ Global Alliance and the American Society of Heating, Refrigerating and Air Conditioning Engineers, (ASHRAE) to develop a new COVID-19 training program to provide guidance on technical questions regarding ventilation, air circulation and humidification and the role of HVACR technologies in mitigating the spread of COVID-19.

HRAI and its members are prepared to engage with relevant provincial ministries on technical matters relating to the indoor environment of homes and buildings in the province. There have been passing references to the importance of ventilation in buildings but we are not aware of any discussions with our sector about what guidelines or standards should be implemented as office buildings, retail operations, dental offices and other employment spaces are re-opened for occupancy. HRAI and its members are prepared to advise on appropriate guidelines and procedures that they will be expected to implement in the field.

Request: HRAI asks that the Ministries of Labour, Training and Skills Development, Health and Long Term Care officials utilize the subject matter expertise of the HVACR sector to develop appropriate industry standards to ensure safe, secure indoor air and ventilation, measures are in place, particularly for Long Term Care homes, retirement homes and healthcare facilities.

4) **JOB CREATION: BUILDING RETROFITS & ENERGY COST SAVINGS (MECP, MEDJCT)**:
HRAI members are also interested in potential programs of support to encourage citizens and business owners to start investing in their homes and buildings again. Building retrofits programs, as are being contemplated in various jurisdictions, can deliver a number of benefits. For example, they can:

- Create meaningful employment in all parts of the province;
- Significantly reduce energy costs for businesses and homeowners;
- Improve energy efficiency in the building sector; and
- Reduce carbon emissions, as 17% of Canada's total GHG emissions are caused by the heating and cooling of buildings.

Request: HRAI urges the Government of Ontario to work with the federal government on programs that will stimulate market activity, specifically programs that will encourage investment in buildings, as such investment not only drives job creation and economic growth, but also creates numerous spin-off benefits.

HRAI remains committed to working with your government to help bring this province's economy back to full health, in a safe and responsible fashion. We look forward to further engagement with your committee as needed.

Sincerely,

Dorothy McCabe
Government Relations Specialist - Ontario

cc Sandy MacLeod, President and CEO
Martin Luymes, VP, Government and Stakeholder Relations

ATTACHMENT 1: COVID-19 IMPACT ON THE HVACR SECTOR:

In late April, HRAI surveyed its members in order to assess the impact on the industry of the COVID-19 pandemic. Key highlights include:

- About 27% of HVACR companies experienced a greater than 60% decline in business activity
- Over 67% of HVACR companies have seen a reduction of more than 30% in year-over-year revenues since March 15th,
- In May, 89% of members reported that they expect the pandemic will greatly (65%) or somewhat (24%) decrease company revenues,
- Over the next six months (May to October), 31% of members expect significant revenue losses while 55% predict more moderate declines.

See attached news release and backgrounder for full details.

ATTACHMENT 2: ONGOING LEGISLATIVE AND REGULATORY ISSUES:

1) **ENERGY EFFICIENCY STANDARDS (MECP & MEDJT):**
The discrepancies between federal and provincial energy efficiency requirements for household appliances result in **unnecessary regulatory burden** on industry and consumers and increases costs. Currently, federal energy efficiency regulations are lower than some provinces and aligned with others. Natural Resources Canada is responsible for administering the Energy Efficiency Act and Regulations to set and enforce minimum energy performance standards for energy-using products such as labelling requirements. Household appliances are typically manufactured outside of Canada for the larger North American market and making it critical that national standards are in place.

   Request: Align Energy Efficiency requirements to reduce regulatory industry burden and consumer costs.

2) **BUILDING CODE ALIGNMENT (MMAH)**:
Building codes matter. Provinces and territories base their codes on national code content for building, fire, plumbing and energy efficiency. Jurisdictional variations to the Codes exist for scope of application and special requirements. Policy and historically driven variations to construction codes in each jurisdiction result in **lost productivity and increased costs** for business owners and consumers.

   Request: Align the Ontario Building Code with the National Building Code and align the Energy Efficiency Standards for residential and commercial products in 2020.

3) **CERTIFICATION FOR GAS TECHNICIANS (MGCS & MLTSD):**
Certification of Gas Technicians is the responsibility of the Technical Safety Standards Association (TSSA) rather than the Ministry of Labour, Training and Skills Development (MLTSD). However, oversight of other certified trades and apprenticeships is the responsibility of the Minister of Labour, Training and Skills Development.

   When attempting to hire new G2 technicians, one of the impacts of this anomaly are the significant delays in processing administrative paperwork at both agencies. Members report that delays in starting a new staff person can range from 2 weeks to 3 months. Aligning this certification under MLTSD would provide more seamless service and processing.

   In most provinces, the Gas Technician certification is a trade and creating an apprenticeship program for gas technicians or deeming it a trade would align Ontario with other provinces. However, TSSA and MLTSD are separate organizations with distinct revenue models and accountabilities to government. For years, the two agencies have not found a mutually agreeable solution that would address this industry anomaly.

   Further, the Canadian Free Trade Agreement's Regulatory Reconciliation and Cooperation Table's 2019/2020 work plan continues to work toward the **removal** and **harmonization** of numerous barriers to inter-provincial/territorial trade, investment, services and labour mobility. The opportunity to discuss the potential alignment of Gas Technicians' certification is important to the HVACR sector.

Request: That MGCS, MLTSD, HRAI, ORAC and TSSA work together to determine an effective way to resolve this issue in order to create alignment with other jurisdictions and to increase labour mobility. HRAI, ORAC and TSSA have good working relationships and would be pleased to assist with facilitating this discussion.

4) OPERATING ENGINEERS REGULATION: 219/01 (MGCS):

Established **over 90 years ago**, this regulation has not been updated to reflect modern technological safety advancements. Businesses are required to hire a 4th class/B Operating Engineer to observe the installation of refrigeration equipment with >75kW or 100BHP and <149kW or <200 BHP despite the fact that all the required safety fail safes are incorporated into the equipment at the time of manufacture. **The additional cost of Operating Engineers ranges from $160,000 to $700,000 annually.**

Modern pre-packaged refrigeration are built complete with electronic controllers, compressors with inherent motor protection, oil pressure and high pressure controls generally using A1 refrigerant. These safety measures mean that it is **no longer necessary** to have an Operating Engineer on site observing the installation by a licensed Refrigeration & Air Conditioning Mechanic professional.

In fact, this regulation results in businesses re-designing the equipment and modifying their machine room to avoid the requirement of having an Operating Engineer observe installation. This incurs additional equipment costs, decentralized systems or rooftop units which make the use of heat recovery and energy efficiency more difficult and nearly impossible thus also increasing the carbon footprint of the installation.

Request: That Regulation 219/01 be amended removing the requirement that an Operating Engineer be on site to observe the installation of refrigeration equipment with >75kW or 100BHP and <149kW or <200 BHP by a licensed Refrigeration & Air Conditioning Mechanic professional.

5) MUNICIPAL LICENSING (MMAH):

In many municipalities, HVACR business owners are required to purchase and renew (annually or biannually) a permit to operate within that specific municipality. However, these same HVACR businesses also purchase permits to operate their heating business from the Technical Standards and Safety Authority (TSSA). Having to purchase two sets of permits in order to operate the business is redundant and there is no observable purpose for the municipal permit beyond revenue collection.

HRAI Canada and its members value the oversight and safety standards which TSSA provides and upholds. However, the additional fee charged by municipality provides no oversight nor value and appears to be strictly for revenue generation purposes. The municipal fee ranges from $140 to close to $300.

Request: That the Minister of Municipal Affairs instruct municipalities to longer charge heating companies for business permits in order to operate within its municipality.