

**Pre-Budget Submission  
to the  
House of Commons Standing Committee on  
Finance  
August 12th, 2011**



**Association of International  
Automobile Manufacturers of Canada**

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## **Executive Summary**

The automotive industry in Canada recovered in 2010 from the global financial crisis which resulted in the lowest level of vehicle sales in Canada since 1998 in 2009, and the bankruptcy of both Chrysler and General Motors in the United States, necessitating the investment of \$12.5 B in federal and provincial funds to preserve the footprint of both companies in Canada. While sales increased 6.6% last year, so far through July vehicle sales are up only marginally at 1.5% over last year. Despite many other fundamental factors which should have the industry trending well above 1.6 million unit sales the current debt levels of Canadians combined with flagging consumer confidence levels amid global economic uncertainty has sales stagnating at 1.6 million for 2011. Against this backdrop of an automotive sales market that is continuing to struggle, we would make the following recommendations.

## **Recommendations**

1. Reduce the finished vehicle tariff on imported passenger vehicles from 6.1% to 2.5% on an applied basis (consistent with tariffs on imported passenger vehicles applied by the United States).
  - Tariff reduction would provide the opportunity for manufacturers to pass on savings of \$900.00 to the consumer (assuming \$25,000.00 value for duty) which would assist in boosting vehicle sales in Canada
  - Tariff reduction to the U.S. level supports the government's free trade agenda in that a 2.5% tariff will substantially ameliorate competitive disadvantages amongst vehicle manufacturers and distributors arising from the negotiation of bi-lateral trade agreements, such as that with the European Union or potentially with South Korea
  - Tariff reduction as proposed is also fully consistent with the Shared Vision for Perimeter Security and Economic Competitiveness announced in February of this year by Prime Minister Harper and President Obama and is also supported by the Canadian Council of Chief Executives
  - Tariff reduction supports the purchase of vehicles through Canadian dealers in every community across the country which employ some 132,000 Canadians
  - Tariff reduction eases the market adjustment towards smaller more fuel efficient vehicle production for Canadian manufacturers
2. Eliminate the existing \$100 excise tax that has been in place on air conditioning in motor vehicles since the 1970's or, alternatively, utilize the revenue generated by the excise tax to address environmental concerns about ozone depleting substances (ODS) in on-road vehicles
  - The excise tax on air conditioning in motor vehicles was implemented at a time when very few vehicles had air conditioners and essentially represented a luxury tax

- Currently the vast majority of vehicles sold in Canada are equipped with air conditioning. Air conditioners are essentially a necessity in modern vehicles and the excise tax now represents a significant tax grab
  - If the excise tax elimination is not possible given the government's current fiscal situation, we recommend utilization of a portion of the excise tax revenue to address environmental concerns with respect to ozone depleting substances in vehicle air conditioning systems, which would avoid unnecessary regulatory burden being imposed upon vehicle manufacturers and distributors
3. Formally entrench the Canadian Automotive Repair and Service (CARS) sectoral council in light of the significant changes which will be impacting the automotive repair and service industry in the next few years as alternative propulsion technologies, light weight materials, and an even higher level of computerized electronics are being incorporated into the vehicle to address GHG and fuel economy mandates.
- The CARS Council has been an exemplary sectoral council, supported by the entire automotive industry since its establishment in 1988
  - While it is good and appropriate for the government to undertake a strategic review of its programs and expenditures given the current fiscal environment, an excellent sectoral council that is providing key labour market information, ongoing dialogue with respect to the industry's skills development needs and tools to assist in training repair and service technicians for the vehicles of tomorrow has benefitted, and would continue to benefit with a significant multiplier effect from ongoing government investment

## **Introduction**

We would like to thank the government for the opportunity to present the views of the Association of International Automobile Manufacturers of Canada (AIAMC).

The AIAMC represents the interests of sixteen member companies engaged in manufacturing, importation, distribution, and servicing of light duty vehicles in Canada, and whose head offices are outside North America. AIAMC membership includes, BMW Canada Inc., Honda Canada Inc., Hyundai Auto Canada Corp., IFS Vehicle Distributors ULC, Kia Canada Inc., Jaguar Land Rover Canada ULC, Mazda Canada Inc., Mercedes-Benz Canada Inc., Mitsubishi Motor Sales of Canada Inc., Nissan Canada Inc., Porsche Cars Canada Ltd., Subaru Canada Inc., Suzuki Canada Inc., Toyota Canada Inc., Volkswagen Group Canada Inc., and Volvo Cars of Canada Corp.

AIAMC members accounted for almost 54% of all new vehicles sold in the Canadian market and Honda and Toyota were responsible for 35% of the light duty vehicle production in Canada. Our members directly and indirectly employ some 77,000 Canadians, and over 50% of the vehicles sold by AIAMC member companies in Canada were built in North America.

AIAMC members have been on the cutting edge of implementing advanced vehicle technologies in Canada with the announcement from Mercedes-Benz in March of this year that it would

establish an international fuel cell research and development operation leading to the full scale production of fuel cells in 2013, along with Toyota's announcement earlier this month that it would be investing up to \$500 million in Woodstock to become the first automaker to produce electric vehicles in Canada.

Additionally, as result of restructuring within Ford and General Motors, the AIAMC's membership was augmented by the addition of IFS Vehicle Distributors, which is marketing SAAB vehicles in Canada, and Volvo Cars of Canada Corp. last year. Given the growing influence among AIAMC member companies in the marketplace, we would encourage the government to ensure that policy initiatives look at the automotive sector more holistically, beyond simply vehicle production. An approach that ensures that all companies selling in the Canadian marketplace are provided with an attractive and supportive environment in which to do business bodes well for Canada's consideration as a location for future investment by these same companies.

The three key recommendations the AIAMC wishes to provide to the Finance Committee are as follows: the reduction of the tariff on imported finished vehicles from 6.1% to 2.5%, the elimination of the \$100 air conditioning excise tax, and the formal entrenchment of the Canadian Automotive Repair and Service (CARS) Council as a vital an necessary structure to ensure quality, sustainable jobs in the automotive service and repair industry going forward.

#### Finished Vehicle Tariff Reduction

The 3.6% tariff differential between Canada and the U.S. has contributed, in part to the higher cost for the same vehicle sold in Canada as compared to the U.S. There is no reasonable justification for Canada's continued insistence on maintaining a finished vehicle tariff that is 2.4 times greater than the U.S. tariff especially in light of the Shared Vision for Perimeter Security and Economic Competitiveness outlined by both Prime Minister Harper and President Obama earlier this year. We would also note that in the context of the Shared Vision accord, the Canadian Council of Chief Executives has also called for external tariffs to be bilaterally harmonized at the lowest prevailing rate, consistent with Canada's multilateral obligations.

Lowering Canada's 6.1% finished vehicle tariff to 2.5% consistent with that of the United States would also greatly ameliorate the competitive disparities that will arise between vehicle manufacturers and distributors should Canada boldly pursue a broad, bilateral free trade agenda with the European Union, and potentially Korea and Japan – amongst others.

A tariff reduction on finished vehicles will also translate into lower consumer prices for vehicles imported into Canada. It should be understood that AIAMC members are not the only companies importing vehicles from other parts of the world into Canada.

#### Elimination the Air Conditioning Excise Tax or Reallocation of its revenue

The \$100 air conditioning excise tax is an anachronistic carry over tax from over thirty years ago when air conditioning was considered a luxury option on motor vehicles. Air conditioning today is standard equipment on virtually all vehicles and as such the \$100 tax represents an arbitrary tax grab on essentially every vehicle sold for no clear public policy rationale.

On this basis, it is recommended that the \$100 excise tax on air conditioning be eliminated. If the fiscal constraints are such that full elimination of the tax is not possible then we would recommend that a portion of the excise tax revenue be used to address environmental concerns related to ozone depleting substances (ODS) within the air conditioning systems of on road vehicles in order to avoid additional, costly and unnecessary regulatory burden being imposed on vehicle manufacturers and importers.

Formalization of Government Support for the Canadian Automotive Repair and Service (CARS) Council

It is understood that the federal government is undertaking a strategic review and operating review of numerous departments and programs in order to determine where the federal government continues to obtain value for funds invested. The AIAMC and its members support this initiative however we wish to commend to the government the work of the CARS Council not only for the council's exemplary status amongst sectoral councils since its inception in 1988, but also for the fact that the council enjoys full support from the entire automotive industry and has been an excellent steward of the funds invested by the federal government to leverage multiples of industry investment and in-kind contributions for the skills development and assessment tools enabled by government funding.

Importantly however, the council will be essential in ensuring quality, sustainable jobs in the automotive service and repair industry of the future as the automotive industry undergoes a sea change in the application of new, advanced propulsion technologies, light weight vehicle components and much higher levels of computerized electronics in response to new fuel economy mandates. The skill set of an automotive service technician today will not be the skill set of the automotive service technician of tomorrow and ongoing federal support for the CARS council will ensure that Canada has fully qualified and skilled service and repair technicians to meet the future needs of the industry.

**Conclusion**

We thank you for the opportunity to present our input for the Federal Budget. We feel these recommendations mesh with current government priorities and should be pursued. Should you have any specific questions with respect to our submission, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Adams', written in a cursive style.

David C. Adams  
President