Canadian Vehicle Manufacturers' Association
Association canadienne des constructeurs de véhicules

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August 12, 2011

Guyanne L. Desforges
Clerk of the Standing Committee on Finance
6-14 131 Queen Street
House of Commons
Ottawa, ON K1A 0A6

Via email: **FINA@parl.gc.ca**

Re: Auto Manufacturers' 2012 Federal Pre-Budget Priorities

Dear Ms. Desforges:

The CVMA is pleased to be providing, on behalf of our member companies, Chrysler Canada, Ford Motor Company of Canada, General Motors of Canada, and Navistar Inc., its comments, recommendations, and priorities respecting the 2012 Federal Pre-Budget consultation process.

Canada's automotive manufacturing and retail industry plays a critical role in the economic health of Canada representing over 11% of total manufacturing gross domestic product and greater than 21% of all retail sales across the country. Throughout their Canadian operations, the auto industry directly employs about half a million Canadians and annually contributes billions of dollars to government revenues which support a wide variety of government priorities. CVMA member companies have distinguished themselves in Canada by conducting significant research and development, independently as well as with university and government partners, on a wide variety of subjects aimed at addressing today's significant challenges including advanced fuel efficient engines, alternative transportation energy sources, and power trains, light weight materials, cold weather vehicle operations, vehicle aerodynamics and manufacturing processes.

Over the past several years there have been dramatic changes in the global auto industry brought about by the global recession and the financial crisis of 2008/2009. With the assistance of the Governments of the U.S., Canada and Ontario, the industry was sustained through these unprecedented economic conditions. Despite the recession and financial crisis' impact on overall sales volumes for vehicles across all manufacturers, as well as significant impacts related to global manufacturing over capacity, internal corporate restructuring, and changes in government policies and regulations, more recent news regarding sales and production is more positive. In fact, in order to meet increasing sales demand, total Canadian vehicle production surpassed 2 million units in 2010 and CVMA member companies increased their production by 47.5% compared to 2009. Even more encouraging news is reflected in the increase in vehicle sales for year to date 2011, with the seasonally adjusted annual rate estimated to be almost 1.6 million units.

In spite of these positive signals in vehicle sales and production, the industry's path forward includes many significant challenges that must be addressed: the need for new technology and appealing high quality product introductions, improved productivity, along with more competitive labour and other cost structures. The economic instability in Europe associated with sovereign debt and now the credit rating downgrade of the U.S., combined with the existing competitive challenges facing Canadian manufacturers related to a high Canadian dollar, high commodity prices and higher fuel costs, will all affect the auto industry's ability to maintain or increase economic momentum. This reality takes on even greater meaning as the cadence for new automotive investment decisions has accelerated. Company decisions are now being made every three years or less, and the next horizon for new investments is already upon us.

The CVMA commends the Government of Canada and the Prime Minister for recognizing the importance of vehicle regulatory alignment with the United States (U.S.) which affects the industry's overall competitiveness. The publication of the new vehicle greenhouse gas (GHG)/fuel consumption regulation for the 2011 to 2016 model years which becomes effective in September 2011, and is aligned with the single national standards in the U.S. over the same period, creates one continental standard for GHG emissions. As these new standards are implemented, fuel economy is targeted to improve by 35% by 2016. Sustaining and encouraging regulatory alignment ensures that Canadian consumers continue to receive the benefits of North American economies of scale, access to a broad range of vehicles including advanced vehicle technologies that meet rigorous environmental standards at more affordable prices for consumers.

We anticipate that the outcomes of the Canada-U.S. joint Declaration on a Shared Vision for Perimeter Security and Competitiveness through the Regulatory Cooperation Council and the Beyond the Borders Working Group will play an important role in further addressing existing disharmonized regulations related to processes and product and will streamline the flow of goods and materials between Canada and the U.S. through improved border efficiencies. As such, continued efforts to improving regulatory alignment will play an important role in Canada's competitiveness.

In addition to the broader policy initiatives undertaken by the Government of Canada noted above, there are a number of other policy actions that upon their inclusion in Budget 2012 would improve the auto industry's competitiveness and thereby strengthen and encourage the growth of Canada's auto industry and associated employment. The suggested actions are as follows:

- Given that Canada must compete globally for automotive production mandates, an automotive investment incentive program that is competitive with jurisdictions around the world remains a necessity. This automotive investment incentive program should have flexible rules that allow Canada to compete with the variety of investment incentives offered in competing jurisdictions.

- Support for Canadian consumers who purchase advanced technology vehicles and the elimination of the counterproductive federal taxes and fees, such as the automotive Green Levy, on the purchase of new vehicles, which deliver environmental benefits to Canada as a result of reduced smog-causing and GHG emissions when compared with keeping older vehicles on the road.

Investment Incentives:

The auto industry is global in nature and governments around the world recognize the important economic spinoff benefits that a strong automotive manufacturing sector provides to local and national economies. . Countries around the world continue to offer aggressive automotive investment incentives to secure ongoing investments in automotive manufacturing operations.

As a result of changing technologies, driven in part by consumer demand for new and improved vehicle models and by government regulations aimed at improved fuel economy and lowering GHG emissions, auto assembly plants require continuous, high capital investment to remain globally competitive and attract new model mandates for production. Without ongoing investments, assembly plants lose their competitive position, risk losing future product mandates, and face potential closure.

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In the reality of a truly globally business environment, manufacturers are able to move the production mandates to other assembly locations around the world and ship the final products to the desired markets.

The overall business environment, including efficient taxation and regulatory regimes, must be conducive to large scale investments. In recent years, changes to the taxation system, in particular the elimination and lowering of capital and large corporations taxes have been helpful in creating a competitive tax environment in Canada. However, in these ever challenging economic times, it is critical that Canada remains not just competitive, but gains a competitive edge over other major automotive producing jurisdictions for investment, particularly the United States (U.S.), in order to continue to attract its share of future automotive investment. The U.S. offers a range of assistance to companies making the massive investments required to develop new technologies and renew manufacturing facilities for new products. These include federal low-interest loans, as well as aggressive state and local investment incentives.

Despite the recent restructuring of the global auto industry, ongoing investment in new vehicle technologies and manufacturing facilities will continue as automakers improve their vehicles to meet increasingly stringent regulations and changing consumer demands. In order to ensure that Canada secures a portion of this ongoing investment in manufacturing and R&D activities, Canada needs a competitive national fund to provide incentives to continue to attract automotive investments. The Automotive Innovation Fund (AIF), created as part of Budget 2008, offered $250 million over five years. This type of industrial incentive program has been successful in securing automotive investments of nearly $7 Billion in Canada between 2002 and 2007. Since the AIF is scheduled to sunset in the near term, Budget 2012 offers an opportunity to create a new federal automotive investment incentive fund, with adequate budget that will signal Canada's continued interest in securing future automotive investments. According to a study completed by the Canadian Automotive Partnership Council (CAPC), it was determined that the program payback for these type of industrial incentive programs would be received federally and provincially on a combined basis within 6 years.

CVMA Recommendation:

- **The CVMA recommends that Budget 2012 re-introduce a competitive, flexible automotive investment fund to attract new automotive investments as well as investments that upgrade and retain the existing Canadian automotive footprint.**

Supporting Canadian Consumers:

While manufacturers are researching and introducing new vehicle technologies aimed at significantly reducing vehicle GHG emissions and improving fuel efficiency, it is critical to support consumer adoption of these new technologies and to remove the oldest vehicles from the Canadian roads. The existing Green Levy, or tax, on new vehicles actually undermines these efforts and delays benefits to the environment.

The Green Levy, which is applied to selected vehicles, was announced by the Government in its Budget as a <u>temporary</u> measure under the Vehicle Efficiency Incentive (VEI) to achieve revenue neutrality for the ecoAuto Rebate program established in that same Budget. The 2007 Budget clearly stated that:

> "the VEI which includes the Levy would only remain in place until new vehicle fuel efficiency regulations take effect in 2011".

Two significant Government milestones have occurred since 2007. First, as noted earlier, the government has finalized and published a new vehicle greenhouse gas (GHG)/fuel consumption regulation for the 2011 to 2016 model years (effective September 23, 2011); CVMA member companies strongly supported this regulatory action. Second, the Government eliminated the ecoAuto rebate portion of the VEI program in 2009, removing the need for revenue support.

The urgency of eliminating the levy portion is further supported by the fact that new vehicle fuel consumption testing protocols and procedures, which determine the Green Levy amount, are under review and are expected to be changed by the Government of Canada. Natural Resources Canada (NRCan), in consultation with the Canadian automobile industry intends to align the Canadian fuel consumption label methods with those in the U.S. to facilitate the testing of advanced vehicle technologies and provide consumers with fuel consumption values that are more reflective of what Canadians achieve while driving their vehicles in the real world. Revision of these procedures will result in an increase in the published fuel consumption values and result in increases in the applied Green Levy even though the vehicle's performance may have improved or remain unchanged.

Canada's auto industry has consistently argued against the adoption of so-called "feebate" programs, such as the Green Levy, given their inability to meet their stated environmental objectives. The National Roundtable on the Environment and Economy, has also expressed significant concerns over the effectiveness of feebates. And NRCan in particular noted that feebate programs effectively keep older vehicles on the road, and that they have little, if any, impact on reducing CO2 and GHG emissions.

Given all these compelling reasons, we respectfully submit that the continuation of the Green Levy, a tax on vehicles, is no longer appropriate and should be eliminated immediately.

CVMA Recommendation:

- **Eliminate the Green Levy Excise Tax and focus on policies that deliver environmental benefits through measures aimed at getting the oldest and most polluting vehicles off the road and encouraging the use of clean and renewable fuels.**

A critical component of the U.S. strategy towards improving the fuel efficiency of the on-road fleet is to support consumers in their purchases of new advanced technology vehicles. As one example, the U.S. currently offers consumers a tax rebate of up to $7,500 for the purchase of advanced plug-in electric technology vehicles. Manufacturers will be introducing a range of new advanced technologies including natural gas, clean diesel, renewable fuel and electric technology vehicles. Incentives of this nature in Canada will help to facilitate early adoption of the technology by reducing the higher incremental vehicle costs for the consumer. This in turn helps manufacturers accelerate production and reduces vehicle production costs through greater economies of scale. Complementary incentives to establish and expand the refuelling/recharging infrastructure are also necessary to support the introduction of natural gas or renewable fuel vehicles or the greater electrification of the vehicle such as plug-in electric hybrid vehicles, battery electric vehicles and extended range electric vehicles.

CVMA Recommendation:

- **Introduce a competitive consumer incentive to encourage the purchase of advanced vehicle technologies with complementary incentives that promote the necessary refuelling/recharging infrastructure required to support the advanced vehicle technologies.**

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Thank you for the opportunity to make recommendations toward Budget 2012 for consideration by the Standing Committee on Finance. If the Committee has any questions, requires further detail on these recommendations, or would like the CVMA to appear as a witness during public consultations, please contact me at any time.

Yours sincerely,

Mark A. Nantais
President

CVMA: 11010MANHC_11
2012 Federal Budget Submission

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About the CVMA and our Members:

The Canadian Vehicle Manufacturers' Association (CVMA) is the national association representing Canada's leading manufacturers and retailers of light and heavy duty vehicles. Our membership includes Chrysler Canada Inc., Ford Motor Company of Canada, Limited, General Motors of Canada Limited and International Truck & Engine Corporation Canada.

In 2010, CVMA member companies have collectively produced 65% of all vehicles built in Canada and account for over 50% of all vehicles sold. CVMA member companies currently produce 22 different light duty vehicles at 7 high volume assembly plants along with a variety of major components, including engines and transmissions, at four additional assembly plants. Through their sales, manufacturing, research and development (R&D) and head office activities, our members directly employ roughly 35,000 Canadians and support an additional 50,000 retirees. For every one assembly job, 7 other jobs are created in the economy.