HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

**House of Commons Standing Committee on Finance – Pre-budget Consultations 2013**

**This brief is submitted by:**

◉ **an organization** **Organization name:** Canadian Vehicle Manufacturers Association

**or**

○ **an individual** **Name:** _____

**Topic:** Trade and investment

## *Recommendation 1: Please provide a short summary of your recommendation.

A national auto strategy must be developed and continuously supported in order to sustain competition and become a key producer in global manufacturing. Th Automotive Incentive Funding (AIF) will improve Canada's position within international investment competitiveness between jurisdictions and provide flexibility which will prove to be economically beneficial in securing manufacturing activity. Canada's approach to manufacturing investment must be transparent to company decision-makers providing the clarity and certainty that stakeholders require to move forward with investment decisions.

**Expected cost or savings:** From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

Please select from the drop down menu

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**Federal funding:** Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

Canada will be required to use every tool and mechanism at its disposal to compete for new investments. The incentive strategy will need to be compelling to attract new investment away from other vigorously competing jurisdictions.

It is recommended that the government of Canada provide for the tax-free status of the repayable loans received under the Automotive Innovation Funds to provide greater actual financial benefit to the recipient company making the prospective investment in Canada; or raise the threshold contribution amount to offset the applicable tax.

**Intended beneficiaries:** Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

Providing tax free status of AIF funding will provide support to all 5 Canadian vehicle manufacturers and the Canadian supplier community, which together accounts for over 120,000 direct jobs in the industry; as such, the economy at large will benefit from the significant spin-off benefits in Ontario and Quebec where the industry supply chain primarily resides.

The footprint of automotive in Canada is substantial and aggressive investment strategies are needed to retain this footprint amid global competition.

**General impacts:** Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

The pure size of the sector impacts the standard of living for Canadian through employment at assembly operations, the supplier community, dealerships, and indirectly to those in the aftermarket and retail sector in virtually every major community across the country. The auto industry provides high value – high skill - high paying jobs for its workers which helps sustain a healthier middle class of contributors to economy.

**Topic:** Business taxation and regulatory issues

## Recommendation 2: Please provide a short summary of your recommendation.

The Regulatory Cooperation Council (RCC) created under the Canada-U.S. joint declaration on Perimeter Security and Competitiveness, jointly signed by Prime Minister Harper and President, February 2011, has been an important step towards improved coordination to align and harmonize Canada and U.S. regulatory approaches.

Government's increased support for the action plans already underway would advance the objectives of the RCC and is necessary to ensure that the next phase of the actions plans proceed, enhancing even more the competitiveness of Canadian manufacturers.

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Canada needs to pursue with its U.S. counterparts phase 2 of the RCC. One specific subject for inclusion is Environment Canada's Chemical Management Plan, Risk Management methods selected to address CEPA toxic substances. The types of "regulatory tools" employed, i.e. specific regulations, pollution prevention plans or significant “new activity notices” which all have the potential to disrupt the global automotive supply chain and both Canadian and U.S. auto assembly plant operations (but without any equivalent encumbrance on finished vehicles being imported) should be aligned.

**Intended beneficiaries:** Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

Due to the highly integrated nature of automotive manufacturing, alignment of the regulatory framework will reduce the costs of vehicle design and development, testing and certification, and in terms of the manufacturing minimize the potential for plant production interruption. This provides for greater efficiencies for both industry and government regulators; ultimately consumers benefit from receiving the most advanced technologies vehicles, greater choice at more affordable prices.

**General impacts:** Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

Regulatory alignment provides economies of scale which ultimately impacts the vehicle cost to the consumer. For example; Transport Canada aligned motor vehicle safety standard CMVSS 208 – frontal occupant protection, with the corresponding FMVSS 208 standard in the U.S. and avoided a unique Canadian requirements. By avoiding a further unique Canadian standard, industry was able to avoid costs in excess of $300 Million and consumers will have access to vehicles that meet a higher level of safety performance.

**Topic:** Innovation and commercialization

## Recommendation 3: Please provide a short summary of your recommendation.

Policy initiatives that encourage investment in Canadian automotive production to enhance its ability to develop innovative products and technologies and to commercialize these in a time efficient manner are critical. The CVMA member companies are on the record endorsing the proposal to establish a Canadian Automotive Research Institute (CARI).

Canada already provides similar support to the aerospace sector through various mechanisms and the auto industry believes that its size and importance warrants a similar approach.

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**Federal funding:** Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

The Government is urged to provide substantial support for the CARI program in the upcoming budget. The importance of new product development in Canada will be pivotal in ensuring a level playing field for Canadian manufacturers going forward into the next product cycles as we compete with other countries which have comparable direct support mechanisms for its critical industry sector. The CARI program would also support an overall manufacturing industrial strategy better fulfilling the government's economic agenda to support jobs, growth and long term prosperity.

**Intended beneficiaries:** Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

The CARI program would support a greater Canadian industry capacity to develop new innovative products, leading to improved productivity and profitability for the auto manufacturing sector as well as the supplier community. It would also lead to more employment opportunities for Canada's engineering, science and business university graduates and strong motivation to retain this talent with Canadian companies.

**General impacts:** Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

The research and innovation employment opportunities would support the economy and would also provide an employment multiplier effect.

Advanced technologies brought successfully to market provide improved safety and lower emissions to the Canadian motorist. Further, the industry will be ready to meet safety and emission related regulations successfully and the end product will offer greater benefit in performance and cost to the vehicle consumer.

Please use this page if you wish to provide more explanation about your recommendation(s).

Recommendation 1: The federal Automotive Innovation Fund (AIF) will assist in the automotive industry's ongoing competition to remain a viable contender in securing future investment.

1. Tax treatment of repayable incentives - it is recommended that the government of Canada provide for the tax-free status of the repayable loans received under the Automotive Innovation Funds to provide greater actual financial benefit to the recipient company making the prospective investment in Canada; or raise the threshold contribution amount to offset the applicable tax. Taxing the incentives reduces the value significantly. There has been an internal company analysis that estimates only 43 cents of every incentive dollar is realized on an after tax basis. Further tax initiatives that support investment need to be continued and enhanced.

2. Certainty – Automotive manufacturers require certainty around the type and applicable conditions attached to the incentives available at any point in time as part of their global investment decision cycles.

3. Greater flexibility – Investment incentives must have flexibility which recognizes the speed at which company investment decisions are being made and that those decisions are being made with regard to those incentive programs that are available in competing jurisdictions.

4. Prompt response time – Government must be in a position to respond quickly with investment strategies to demonstrate to company global investment decision-makers that they are willing and able to work with the company to place a new investment in Canada.

5. More effective and efficient coordination – It is recommended that the Government institute a single window of entry approach, similar to that successfully employed by ProMexico.

6. Better communication mechanisms – A Government investment strategy must also support an effective and consistent communications mechanism to pitch strategies to company decision-makers to ensure they are aware of current tools and strategies available to them in Canada in an ongoing, time sensitive manner.

Recommendation 2: Canada's automotive manufacturing industry is fully integrated into the larger North American market. The types of "regulatory tools" employed, i.e. specific regulations, pollution prevention plans or significant "new activity notices" which all have the potential to disrupt the global automotive supply chain and both Canadian and U.S. auto assembly plant operations (but without any equivalent encumbrance on finished vehicles being imported) should be aligned. This modification will ensure that synergistic benefits are sought out in the broader North American context and also ensure coordinated and consistent regulatory action fundamental to automakers.

Recommendation 3: All five vehicle manufacturers in Canada and the supplier community are highly supportive of the Canadian Automotive Research Institute (CARI) proposal that has been submitted and discussed with the Gov't.

*Please note that at least one recommendation must be provided