Standing Committee on Finance (FINA)

Pre-budget consultations 2012

Canadian Vehicle Manufacturers' Association

Responses

1. Economic Recovery and Growth

Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

Canada's automotive manufacturing and retail industry plays a critical role in Canada's economic health, representing over 11% of total manufacturing GDP and greater than 21% of all retail sales. Throughout their Canadian operations, the auto industry directly employs about 500,000 Canadians and annually contributes billions of dollars to government revenues. CVMA member companies have distinguished themselves in Canada by conducting significant research and development, independently and 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, lightweight materials, cold weather vehicle operations, vehicle aerodynamics and manufacturing processes. The automotive industry's economic benefits are well known and highly sought after. Establishing flexible investment support programs targeted at securing automotive product reinvestments and mandates is essential to counter aggressive supports from other countries. These supports are aimed at attracting the economic benefits of automotive investments, which are substantial. Maintaining a competitive corporate tax structure is important, but jurisdictions around the world are aggressively pursuing automotive investments, and Canada will be required to use every tool at its disposal to compete for new investments. The government must continue to improve manufacturing competitiveness to ensure Canada is well-positioned to attract new investment. One such way is encouraging greater regulatory harmony between Canada and the United States. CVMA is pleased with the creation of the Canada-US Regulatory Cooperation Council, tasked with better aligning the two countries regulatory approaches. This echoes previous efforts by the government to match US fuel economy regulations. Canada and the United States are a common vehicle market, and it makes business and public policy sense to work towards a common product and environmental standards that reduces product and manufacturing costs and makes advanced technologies more affordable to consumers.

2. Job Creation

As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?

Canada needs a flexible manufacturing incentive program like the successful Automotive Innovation Fund (AIF). Created in 2008, the AIF was successful in securing automotive investments of nearly $7 Billion in Canada between 2002 and 2007, but will sunset shortly. Budget 2013 offers an opportunity to create a new investment incentive fund to signal Canada's continued interest in securing future investments. Government return on such programs is quick: according to a study completed by the Canadian Automotive Partnership Council, costs from such incentive programs would be recouped within 6 years. Changing technologies, driven by consumer demand and by government regulations, require auto assembly to have continuous, high-capital investment to remain globally competitive and attract new production mandates. Without ongoing investments, assembly plants lose their competitive position and face closure. With a truly globally business environment, manufacturers are able to move production mandates to other assembly locations around the world and ship the final products to the desired markets. The pace of technological change has actually accelerated this investment process, with decisions now happening as often as every three years. Automotive investments in Canada are no different. There are 18 quantifiable vehicle production mandates in Canada up for renewal in the next 6 years, including nine decisions in the next three years. Securing these mandates has become a globally competitive process, for Canada to secure a portion of this ongoing investment in manufacturing and R&D activities, it needs a competitive national fund to provide incentives to continue to attract automotive investments. Vehicle manufacturing is highly sought after as a lucrative source of high value-added skilled jobs that have benefits throughout the economy. It is estimated that nine jobs are created for every direct assembly line position. Other jurisdictions are offering ever-more aggressive incentives packages to attract investment. As an example, Tennessee supported a recent billion-dollar investment by Volkswagen with an investment support worth about $577 million. Mexico's "Pro-Mexico" program is similarly lucrative. Automotive investment decisions are imminent, and Canada faces stiff competition for the jobs they bring. Canada has a strong tradition in auto manufacturing and these investments are Canada's to lose. We cannot remain idle.

3. Demographic Change

What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?

As Canada's population ages, it will be important to make sure that our workforce retains and acquires the skills that it needs to be globally competitive. While this certainly means focusing on the development of skills for emerging industries, it is also vital that Canada maintains and improves the skills and abilities of workers in existing industries. Technology is constantly evolving, and technicians must keep their skills current. It is also important that, as workers retire, programs are in place to ensure that their skills and abilities are replaced. The government's Sectoral Council Program provides a mechanism for such skills training. However, in the last budget, funding for existing industries was cut from this program, which has raised serious questions about how many will continue in the future. Productivity and competitiveness are built in part on keeping workforce skills current in all parts of the economy. Government must work with industry to encourage this sort of training. CVMA recommends restoring funding to the Sectoral Council Program or offer a similar incentive for private sector training. As an example, the Canadian Manufacturers and Exporters recent Management Issues Survey indicated that 63% of respondents would increase employee training given the availability of a training tax credit. Given the demographic changes that many industrialized nations are facing, there will also be an increased need for the immigration of highly skilled people, as well as training programs to support upgrading their employment skills, especially in technical areas. Programs' supporting the immigration of individuals with select skill sets and programs to support the upgrading workforce skills will become increasingly important to support industries that required skilled employees.

4. Productivity

With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?

CVMA is highly supportive of the government's action plan under the critically important Canada-US agreement on Perimeter Security and Economic Competitiveness. It sets forward a plan to make it easier for trusted traders, like automotive manufacturers, to move their goods across the border, while at the same time ensuring that appropriate border security precautions are observed. It is very important that the government continue with the implementation of this agreement, including improvements to infrastructure and processes at border crossings. Automotive manufacturing in North America is a highly-integrated industry, with the assembly process seeing vehicles travel back and forth across the Canada-US border. Automotive trade between Canada and the United States is worth roughly $100 billion annually, almost 20% of trade between the two countries. If any of the more than 8,000 parts in a car are delayed in reaching the plant, production stops, resulting in lost revenues of about $1.5 million an hour. Obviously, increasing the speed and ease by which goods are able to be moved across the border is a major factor in improving the productivity and competitiveness of Canada's vehicle manufacturing industry. The recent announcement of a new deal to build a new international crossing between Windsor and Detroit is also a major step forward in this regard. When completed, the new bridge will mean less congestion at border crossings and provide for an uninterrupted connection between Ontario's 400 series of highways and Michigan's interstates. Continuous innovation is a critical element to enhancing Canada's manufacturing productivity. Often, this requires specialized production facilities and equipment for R&D. In the 2012 budget, the government announced changes to the SR&ED Investment tax credit, reducing it from 20 to 15% and eliminating capital expenditures from eligible expenses. This discourages investment in capital-intensive industries, like the automotive industry. Reducing this credit risks seeing these investments, and the jobs and productivity benefits that come with them, migrate elsewhere. To encourage investment in Canadian manufacturing, the government should maintain the existing tax credit levels and the capital expenditure eligibility under the SR&ED Investment Tax Credit. It should also expand the eligibility of accelerated capital cost allowance deductions to include machinery and equipment used for R&D purposes.

5. Other Challenges

With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?

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. Unfortunately, the Green Levy on the purchase of some new vehicles undermines this by artificially inflating the price of new vehicles, delaying benefits to the environment. The Green Levy, which is applied to selected vehicles, was announced by the government in Budget 2007 as a temporary measure to achieve revenue neutrality for the ecoAuto Rebate program established in that same Budget. Two significant milestones have occurred since then. First, the government has finalized and published a new vehicle greenhouse gas (GHG)/fuel consumption regulation for the 2011 to 2016 model years, which took effect on 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 from the Green Levy. 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 NRTEE and other organizations have expressed significant concerns over the effectiveness of feebates. In particular they noted that feebate programs effectively keep older vehicles on the road and that they have little, if any, impact on reducing CO_2 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. To further accelerate the adoption of clean-technology vehicles, the government should also consider adopting programs that support the purchase of new advanced-technology vehicles. As an example, the U.S. offers a tax rebate of up to $7,500 for such purchases. This increases the affordability of new technologies and allows manufacturers to accelerate production and reduce costs through economies of scale.