Written Submission for the Pre-Budget Consultations in Advance of the 2019 Budget

Submitted by:

Canadian Vehicle Manufacturers' Association (CVMA)

Members:
FCA Canada Inc.
Ford Motor Company of Canada, Limited
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Recommendation 1:	**NAFTA Modernization**
Recommendation 2:	**Enhance the Strategic Investment Fund (SIF) with an Automotive Manufacturing-Specific Component**
Recommendation 3:	**Include the Auto Sector as a Class within the Federal Carbon Pricing System and Recycle Funds Raised Back to the Individual Companies**
Recommendation 4:	**Reform Canada's Tax Policy**

Details:

The members of the Canadian Vehicle Manufacturers' Association (CVMA), FCA Canada Inc., Ford Motor Company of Canada, Limited, and General Motors of Canada Company, are responsible for 60% of Canada's vehicle production, operate 5 vehicle assembly plants as well as engine and components plants, and have over 1,300 dealerships.

Auto manufacturing means jobs up and down the value chain, advancements in innovation, research and development in new products and manufacturing processes, tax revenues and economic prosperity to communities across Canada. New automotive manufacturing investment decisions have never been more globally competitive or complex. Federal and provincial policies must provide the certainty and predictability industry needs to make new investment decisions, with meaningful, tangible, and effective support measures. It requires a collaborative and easy to understand partnership with governments.

Canada's auto manufacturing sector is a leader in the advancement of innovative technologies in both manufacturing and product development that support the public policy objectives of government. Auto manufacturing regularly contributes over $20 billion to GDP, directly employs 130,000 people (500,000 direct/indirect) and drives Canada's productivity growth. Canadian assembled vehicles are the number one manufactured export and second export overall.

Canada's auto sector is a key anchor for economic spinoff due to its 7-9:1 job multiplier – the highest of any manufacturing sector. Canada's auto assembly is also high-tech advanced manufacturing and drives research and innovation in Canada by connecting Canadian universities with global hubs for automotive research and investment.

Despite a Canadian sales record in 2017 and robust production numbers which primarily service the U.S. market, companies continue to face cost competitiveness headwinds. These competitive issues impact automotive manufacturers' ability to compete successfully with other jurisdictions for global investment decisions.

The Finance Committee's budget theme *"Ensuring Canada's Competitiveness"* is pertinent and the CVMA recommends four key areas of focus to enhance the value proposition for future automotive investment in this highly competitive global environment. The CVMA would also be pleased to provide testimony and answer any questions to further support the committee's consultation process.

The CVMA respectfully tables the following:

1. NAFTA Modernization

Canada's auto industry was built on free trade commencing with the 1965 Auto Pact, the principles of which were entrenched in the Canada-U.S. Free Trade Agreement and thereafter the North American Free Trade Agreement (NAFTA).

Given this history, the economic relationship between the Canadian auto industry and its NAFTA partners is one of interdependence resulting in one of the most highly integrated supply chains in North America. The relationship has also led to the North American industry, including Canada, in becoming globally competitive. A glance at trade data quickly indicates the economic contribution of automotive manufacturing for Canada: it is the top export sector worth billions of dollars to GDP.

As such, Canada's trade agenda must remain focused on a modernized NAFTA that supports, and does not harm, Canada's automotive manufacturing industry that is competitive as part of the highly integrated North American trade bloc.

Given the ongoing uncertainty regarding NAFTA negotiations, the highest priority of the trade agenda must remain focused on North American trade. To that end, we recommend that ratification of the CPTPP be delayed and MERCOSUR and Pacific Alliance trade negotiations be paused until the outcomes of NAFTA are known.

Prolonged uncertainty regarding NAFTA in addition to unpredictable tariff actions may have an impact on Canada's competitiveness for global investment decisions. Now that the Mexican elections have concluded, we are encouraged to see that all three parties are re-engaging in discussions in an endeavour to move NAFTA negotiations forward. We appreciate Canada's ongoing consultation with the industry and we are committed to assisting the government's efforts towards the achievement of auto terms that support the integrated value chain.

It is essential that a modernized NAFTA be concluded to set the basis for trade terms that support Canada's automotive manufacturing competitiveness in any future additional trade agreements.

CVMA members support fair and balanced trade opportunities that provide reciprocal market access to expand exports of Canadian-assembled vehicles. Trade policies must ensure that domestic companies receive, on an equivalent basis, the same opportunities to compete fairly in foreign markets as non-Canadian companies have coming into our domestic market. Moving forward with the CPTPP, or other trade agreements, that unilaterally reduce or eliminate remaining auto tariffs, will essentially provide savings worth hundreds of millions of dollars annually to automobile importers who do not produce here, do not use Canadian auto suppliers and do not generate Canadian jobs.

Canada's trade policy must ensure Canadian production has fair access to other world markets without the impact of non-tariff barriers, regulations or standards that prevent access to other markets or currency manipulation that gives unfair advantage to those exporting vehicles into the rich NAFTA market. Access for North American built vehicles include the acceptance and/or recognition of technical and safety standards, pursuant to the Canadian Motor Vehicle Safety Standards and the Federal Motor Vehicle Safety Standards (US) ("CMVSS/FMVSS"). Current and future non-tariff barriers (NTBs), which can include complex federal and state tax regimes, import licensing requirements, complex legal and customs procedures need to be addressed to ensure reciprocal market access for Canadian vehicle exports.

2. Enhance the Strategic Investment Fund (SIF) with an Automotive Manufacturing-Specific Component

Canada's innovation policy framework must remain responsive and sensitive to the competitive needs of the automotive manufacturing industry to support the attraction of investments. An automotive-specific component to the SIF would bolster the program to support the industry's competitiveness by lowering the cost on new investments.

The Canadian automotive industry is a major investor in the research and development of technologies that spur advanced production processes and vehicles that meet both the objectives of government as well as the driving experience demanded by consumers. The automobile is the most technologically complex item a consumer will purchase and the consumer is the ultimate benefactor of advanced vehicle technology in safety, fuel efficiency and comfort.

Investments in continuous improvements to the manufacturing process are needed to support the production of new products and to remain competitive for future investment mandates. As noted in the *Drive to Win* report, *"…plants in Canada must be a benchmark for innovation, productivity and quality."* [1] Enhancing the SIF to respond to the research, development and technology needs of automotive manufacturing will further demonstrate a commitment to increase our competitiveness for global investment decisions.

3. Include the Auto Sector as a Class within the Federal Carbon Pricing System and Recycle Funds Raised Back to the Individual Companies

The CVMA supports the transition to a low carbon economy through effective and efficient policies and encourages the government to remain engaged with industry to work collaboratively on this common interest.

Vehicle manufacturers are reducing greenhouse gas (GHG) emissions from virtually every aspect of their manufacturing operations and by taking a multi-technology pathway across all new vehicle product offerings, including electric vehicles. Advancements and introduction of vehicle technologies will deliver these reductions in an efficient and cost effective manner over time.

The proposed federal carbon pricing system provides for the development of an output-based pricing system (OBPS), designed for industries with high emissions and trade exposure. The objective of the OBPS is to reduce risks to competitiveness and carbon leakage. We appreciate the government's recognition of the impact such a system may have on competitiveness.

As part of the system, an OBPS for the auto sector must be developed and put in place so that CVMA members are covered by the spring 2019 implementation timeline (with registration in the fall of 2018) to prevent wide ranging economic impacts. Previous analyses have concluded that the auto sector is at a high risk of trade exposure.

In addition, the program must ensure that funds raised are appropriately "recycled" back to the individual company to support innovation, operating efficiency, and competitiveness in a highly competitive global auto manufacturing environment.

Recycling funds back to the contributing automotive manufacturer will help limit the impact of these additional costs. Canada must continually assess its value proposition for automotive manufacturing investment and minimize cost considerations that would sway investment decisions elsewhere.

Policies to support the competitiveness of vehicle manufacturing plants and its economic benefits are critical for the development/production of advanced technology vehicles in Canada, contributing to a more sustainable approach to a low carbon economy.

4. Reform Canada's Tax Policy

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[1] *"Drive to Win"*, page 21.

Canada must restore its corporate tax advantage over the United States to attract investment, innovation and spur growth as well as lower the personal tax rate to encourage the attraction and retention of a highly skilled labour force. Efforts to make the tax system less complicated/less burdensome would improve the ease of doing business in Canada, making it a more attractive location of choice to investors.

The Automotive Advisor Report, *"A Drive to Win"* noted the imperative *"that we maintain our corporate tax lower than that of the U.S."*[2] as a key component to Canada's value proposition for investment. The Canadian Manufacturers and Exporters (CME) have also noted the importance of a tax advantage for Canada to support competitiveness[3] given that the non-tax cost of doing business here is higher than in other competing jurisdictions.

Certainly, automotive manufacturing in Canada is experiencing operating cost challenges related, but not limited to electricity rates, climate policy, increases in minimum wage, increased CPP rates, trade policy, labour law changes and environmental costs. We strongly recommend that Canada close the tax advantage gap with the U.S., and take steps to identify efficiencies and improvements to make the tax system less complicated/less burdensome and lower the personal tax rate to encourage the attraction and retention of a highly skilled workforce. This will, in turn, increase Canada's value proposition as a location of choice to investors.

The government's thoughtful consideration of these recommendations would be greatly appreciated and the CVMA would welcome an opportunity to discuss further with the Finance Committee and/or Finance Canada officials as the budget is developed.

To request any additional information that would be helpful or to discuss this submission further, please do not hesitate to contact Mark Nantais, President, CVMA, directly at 416-364-9333.

[2] "Drive to Win – Automotive Advisor Report", January 2018.
[3] "Restoring Canada's Advantage – The Need for Tax Reform", CME & BDO, 2018.