

SUBMISSION TO THE HOUSE OF COMMONS STANDING COMMITTEE ON INDUSTRY, SCIENCE AND TECHNOLOGY

RE: Study on the Canadian Response to the COVID-19 Pandemic

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Canada's Automotive Aftermarket

Canada's automotive aftermarket industry is responsible for the provision of replacement vehicle parts and supplies, along with vehicle repair and maintenance services. Represented by the Automotive Industries Association of Canada (AIA Canada), the country's automotive aftermarket is worth an estimated \$26 billion (2018). The industry supply chain and our members include parts manufacturers, wholesalers and distributors, retailers including Canadian Tire and auto service shops like Midas and Mr. Transmission. We are present in each and every riding in Canada and employ 389,000 individuals. When including secondary industries like those responsible for car financing, insurance, dealers, and maintenance, an even larger number of people are employed in the automotive value chain.¹

The small and medium sized enterprises making up Canada's auto aftermarket operate alongside car manufacturers, who provide parts and repair services through their dealership networks. As Canadians are increasingly driving their vehicles longer, our independent businesses work hard to provide competitive rates for customers, often at a 20%-30% price reduction compared to a dealership service bay.

Impact of COVID-19 on Canada's Auto Aftermarket

Many large provinces including Ontario, Quebec and BC, as well as the federal government, deemed businesses in the automotive aftermarket industry as essential during the COVID-19 crisis. There were two main reasons for the designation:

- The necessity for the industry to ensure the safety of Canada's 26 million plus personal use vehicles, including those of frontline workers;
- The role of the industry in maintaining vehicles for other essential services, including commercial and industrial use vehicles, energy and utility vehicle fleets, transport trucks used in the distribution of goods and emergency vehicles.

¹ OECD. (June, 2009). Policy responses to the economic crisis: Investing in innovation for long-term growth. Retrieved from <https://www.oecd.org/sti/42983414.pdf>.

While businesses have been deemed essential, industry stakeholders have felt the impacts of the pandemic. A survey of our members conducted in April 2020 revealed that 60 percent have had to lay off employees due to business disruption. Additionally, 10 percent of respondents said they were unsure if they would be able to continue operations over the next 30 days, while over 30 percent believed that things would get worse for their business over the next 30 days. Many respondents indicated a high degree of interest in the Canada Emergency Wage Subsidy, while another 30 percent sought credit from financial institutions to cover operating costs to make up for revenue shortfalls.

A challenge encountered by industry during the early days of the pandemic was the ad-hoc nature of industry being designated as essential by provincial governments. While the federal government worked to set a national standard through their own guidelines, the initial patchwork approach from provinces resulted in confusion within the industry, lost revenues, customer confusion about whether or not we were open and business decisions being made without full information. As with other industries, we had to quickly adapt and implement new health and safety precautions which came at an increased cost to our establishments; over 85 percent of our members introduced new safety and sanitization practices.

More broadly for the automotive industry, the COVID-19 pandemic has disrupted Chinese parts exports (more than 80 percent of the world's auto supply chain is connected to China)², caused the closure of assembly plants and led to a loss in vehicle sales and the provision of vehicle services (and related vehicle replacement parts and supplies). A survey by KPMG found that COVID-19 will have a direct impact on the 2020 revenues for 80 percent of automotive and related companies.”³

Even when faced with these challenges, our members have been focused on providing services to the customers who need it most, including essential workers and those transporting essential goods.

A Post-COVID Outlook: Lessons from 2008-2009 Economic Downturn

Canada's auto aftermarket faces a number of challenges. On the one hand, many Canadians may feel less comfortable using public transit, trains, or airplanes than they did pre-COVID-19, which

² Becker, D. (March 20, 2020). COVI-19 impact on the automotive sector. *KPMG*. Retrieved from <https://home.kpmg/xx/en/blogs/home/posts/2020/03/covid-19-impact-on-the-automotive-sector.html>.

³ Becker, D.

may drive demand for automotive industry products and services.⁴ On the other, the desire and ability to work remotely will also change behaviour, potentially leading to less commuting and thus, fewer miles travelled on vehicles.

This dynamic is similar to the 2008-09 recession that saw fewer consumers purchasing new vehicles. In order to support auto manufacturers, governments in Canada and the United States offered various rebates to encourage consumers to purchase new vehicles, typically tied to fuel efficiency.

While these rebate programs (often referred to as “scrappage” programs) were successful in stimulating car sales, studies have identified limits to the benefits of this type of program:

- An evaluation of Canada’s National Vehicle Scrappage Program (Retire Your Ride) found that some users of scrappage programs would have retired their vehicle in absence of the program.⁵ Additionally, regions across Canada faced challenges reaching their Retire Your Ride program targets due to the lack of recycling infrastructure and other logistical issues.⁶ Program users often opted for vehicles larger than the ones they retired; “...the program had limited ability to influence the transportation choices of program users after the incentive was provided, an outcome that was not expected.”⁷
- The European Commission’s ‘Consideration of the Impacts of Light-Duty Vehicles Scrappage Schemes’ reports that the effectiveness of scrappage programs in reducing GHC emissions “were rarely positive.”⁸
- Despite newer vehicles being (generally) cleaner vehicles, the increase in the number of vehicles on Canada’s roads and the type of vehicles being driven has resulted in total vehicle emissions increasing by approximately 33 percent since 1990⁹, thus limiting the impact of scrappage programs in reducing vehicle emissions. A total of 1,984,992 new

⁴ Murphy, P. (April 28, 2020). Automakers brace for new post-pandemic retail landscape. *S&P Global Market Intelligence*. Retrieved from <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/automakers-brace-for-new-post-pandemic-retail-landscape-58188584>.

⁵ Environment and Climate Change Canada. (July 12, 2011). Evaluation of the National Vehicle Scrappage program. Retrieved from <https://www.ec.gc.ca/ae-ve/default.asp?lang=En&n=CD4EC913-1&printfullpage=true>.

⁶ Environment and Climate Change Canada.

⁷ Environment and Climate Change Canada.

⁸ Mock, P., & Tietge, U., & Bieker, G. (April 22, 2020). Premiums for new car sales as a response to COVID-19 - The case of Germany. *The International Council on Clean Transportation*. Retrieved from <https://theicct.org/blog/staff/premiums-new-car-sales-response-covid-19-case-germany>.

⁹ Bubbers, M. (August 19, 2019). How Much do Cars Really Pollute? *Globe and Mail*. <https://www.theglobeandmail.com/drive/mobility/article-how-much-do-cars-really-pollute/>

vehicles were sold in Canada in 2018, making it the second highest new vehicle sales record, falling only behind 2017.¹⁰ Light trucks now account for nearly three of every

four new vehicles sold in Canada. As a rule, SUVs and pickups burn more gas than cars since they're typically heavier, less aerodynamic and usually have all-wheel drive.¹¹

→ The limited efficacy of scrappage programs has been studied extensively in Germany, particularly as they weigh similar programs for post-COVID recovery. An analysis

published in April 2020 of Germany's scrappage program introduced in 2007-2008 found that those most likely to benefit from the program were a small group of relatively affluent citizens "from subsidies financed by all taxpayers in return for a limited short-term stimulus for the auto industry."¹²

The Opportunity of Disruption: Supporting Canada's Auto Industry Post-Pandemic

COVID-19 has disrupted the economy and society. Certain consumer behaviour changes will be forever altered, with yet unknown impacts on our industry and others. Significant investment will be needed to stabilize, and then stimulate, Canada's economy. While the needs of the economy are immediate, the objective of stimulus should be with an eye to building an economy that is tomorrow-ready.

We believe this is equally true when considering how to best support Canada's automotive sector, including the aftermarket.

Supporting Canada's Automotive Aftermarket Industry

AIA Canada recommends the following measures to both stabilize and support the aftermarket industry:

→ **Consistency in Essential Service Designation:** Work with industry and provincial government to establish harmonized protocols on how the automotive industry will function in times of crisis similar to the COVID-19 pandemic, including a cross-Canada designation of essential services/ businesses during times of crisis. These protocols can be implemented during the next crisis to mitigate impact to the economy.¹³ If businesses

¹⁰ Desrosiers. (2019). 2019 Yearbook: Canadian collision repair industry. *AIA Canada*.

¹¹ Bubbers, M.

¹² Mock, P., & Tietge, U., & Bieker, G.

¹³ Hughes, E. (April 16, 2020). Recovery and stimulus? Think in terms of buckets. *Summa Strategies Canada*. Retrieved from <https://www.linkedin.com/pulse/recovery-stimulus-think-terms-buckets-elliott-hughes-mba>.

can be kept operating during the next crisis, it will likely be accompanied by a reduced need for government support.

→ **Training to Service Electric, Connected and Autonomous Vehicles:** The automotive industry is going through a technological revolution. An increasing number of electric,

connected and automated vehicles on Canada's roadways demand a skilled labour force able to service these vehicles.

→ **Level the Playing Field for Auto Repairs:** Currently, automakers and their dealership networks are privy to wireless vehicle data and resources, which ultimately puts our

businesses at a competitive disadvantage and creates less choice for consumers.

Critically, the aftermarket industry needs secured and equal access to wireless vehicle data and resources if the industry is to compete with automakers that do not provide this data to our businesses. By giving our businesses the "right to repair", consumers will have more choice when it comes to vehicle servicing and replacement parts and supplies, as more local auto shops will be able to service these newer vehicles.

Conclusion

Businesses throughout the automotive aftermarket industry supply chain were deemed essential during the COVID-19 health crisis due to the industry's role in ensuring the safety of not only personal use vehicles, but also the safety of emergency, utility and transport trucks across Canada. AIA Canada's key priority is to work with government to develop harmonized protocols on the essential nature of the automotive industry that can be implemented during a crisis.

Canada's automotive industry is more than auto manufacturing; it is comprised of the aftermarket and a dense industry supply chain. The entire automotive industry has been disrupted and hurt economically by the global health crisis. In this disruption, lies opportunity for investments to be made throughout the entire automotive supply chain that drive the industry into the future; a future of electric, connected and automated vehicles, all of which support cleaner transportation.

Lastly, any initiatives to support our industry should have consumers top of mind. Incentives that require Canadians to make a significant luxury expense on a new vehicle should be accompanied by similar programs that support extending the life of a current car, as this may be what Canadians are more comfortable in doing and can reasonably afford. Giving our local, independent businesses access to the same car data as large auto manufacturers is also a



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necessary step in ensuring we can continue to compete post-COVID and provide consumers with more choices to repair and service their vehicle economically.