

Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget



Canadian Vehicle Manufacturers' Association

Mr. Brian Kingston, President & Chief Executive Officer
170 Attwell Drive, Suite 400
Toronto, ON M9W 5Z5
416-364-9333
bkingston@cvma.ca

Restarting the Canadian economy – Enabling an auto-driven recovery

Recommendations

- 1) Introduce stimulus programs to boost new vehicle consumption, reduce emissions, enhance safety and support Canada's auto supply chain.**
- 2) Ensure OEMs, suppliers and dealers have adequate liquidity to navigate the economic downturn.**
- 3) Recycle Output Based Pricing Systems (OBPS) revenues back to originating companies for reinvestment in innovative emission reduction and energy conservation projects.**
- 4) Improve Canada's policy framework to attract investments in automotive manufacturing and research and development.**

The COVID-19 pandemic and associated lockdowns has had a devastating impact on Canadians and the economy. The Bank of Canada expects the domestic economy will shrink by 7.8 per cent in 2020, the worst annual contraction on record. Unemployment has soared with an estimated 3 million Canadians losing their jobs.

The Canadian automotive sector has been particularly hard-hit by the pandemic. Automotive assembly plants were shut down for weeks, dealerships closed and international trade ground to a halt. Second quarter auto sales are down 45 per cent year-over year with nearly two-thirds of consumers pessimistic about making a major purchase right now. Meanwhile, global auto sales are forecast to end the year down by 20 per cent¹.

While a recovery is likely in the second half of the year, spending is not expected to return to its pre-pandemic level until the second half of 2021.² Complicating the outlook is the potential for a second wave of the pandemic, significantly worsening the outlook for growth, consumption and auto sales.

Despite the unprecedented economic situation facing automakers, FCA, Ford, and GM, responded to the health crisis by manufacturing face shields, masks and other personal protective equipment. This underlined the critical importance of Canada maintaining a strong auto manufacturing base at a time when global supply chains were fragmenting.

Given the importance of the auto sector to the Canadian economy, we recommend that Budget 2021 includes measures to enable an auto-driven economic recovery. CVMA members employ (directly and indirectly) over 500,000 Canadians in communities across the country. These jobs support a strong and sustainable middle class. Over 90 per cent of automotive manufacturing jobs are full-time, with hourly wages that exceed provincial and national averages.

Supporting an auto-driven recovery from the pandemic will attract investment, create jobs, help Canada achieve its climate goals and position the sector for the future. We recommend action in the following areas:

Recommendation 1: Introduce stimulus programs to boost new vehicle consumption, reduce emissions, enhance safety and support Canada's auto supply chain.

The COVID-19 pandemic triggered dramatic changes to consumer behaviour with consumers shopping less often, cancelling or postponing major purchases and lowering spending compared with before the pandemic.³ To boost consumption, reduce emissions and enhance safety, CVMA recommends the federal government introduce an Older Vehicle Scrappage Program.

¹ "Global Auto Sales On The Rebound in June", Scotiabank, July 23, 2020
<https://www.scotiabank.com/ca/en/about/economics/economics-publications/post.other-publications.autos.global-auto-report.july-23-2020.html>

² "Canadian Outlook Summary: Summer 2020", Conference Board of Canada, June 22, 2020
<https://www.conferenceboard.ca/e-library/abstract.aspx?did=10737>

³ "Canadian Survey of Consumer Expectations – Second Quarter of 2020", Bank of Canada, July 6, 2020
<https://www.bankofcanada.ca/2020/07/canadian-survey-of-consumer-expectations-second-quarter-of-2020/#box1>

A scrappage program should support consumers with vehicle choices that meets their needs, including internal combustion engine vehicles and zero emission vehicles. Particular attention should be given to supporting Canada's domestic automotive manufacturing sector and its value chain.

In addition to providing economic stimulus, a 3-year scrappage program replacing 0.5 to 2 million vehicles that are 12 years or older from the on-road fleet would achieve a potential benefit of between 1.7 and 7 Mt GHG. There is a significant GHG opportunity as 35% of LDVs are 12+ years old, contributing many times more GHGs than new vehicles. A scrappage program that is supportive of Canada's domestic industry, provides consumer choice and builds consumer confidence would provide an effective measure to drive economic recovery.

In addition to a scrappage program, we urge the federal government to introduce a time-limited sales tax holiday on new vehicle purchases. Such a program would boost consumer confidence at a time when nearly two-thirds of Canadians are concerned about making major purchases. A sales tax holiday would benefit consumers, independent dealers and the Canadian automotive supply chain.

Recommendation 2: Ensure OEMs, suppliers and dealers have adequate liquidity to navigate the economic downturn.

Additional capital should be made available to OEMs, suppliers and dealers. The funds could be made available on an interest free or low interest rate with a 3 to 5-year payback timeline. A liquidity program that is a whole market approach, is easy to access and flexible to reflect the varied needs of companies across the sector will be needed. This could be supported in part by, but not limited to, the reinstatement of the Canadian Secured Credit Facility (CSCF) Program.

At the same time, every effort should be made to limit costs borne by OEMs, suppliers and dealers. Cost pressures facing companies have been exacerbated by the pandemic with implications for liquidity and ultimately global investment decisions. We urge the government to commit to a moratorium on new taxes or tax increases and unnecessary regulations throughout the economic recovery. Equally important is federal collaboration with provincial partners to ensure a more attractive economic environment that is not undermined by uncompetitive costs such as electricity.

Recommendation 3: Recycle Output Based Pricing Systems (OBPS) revenues back to originating companies for reinvestment in innovative emission reduction and energy conservation projects.

OBPS revenues continue to be collected by government despite an extended automotive production shutdown due to COVID19. The pandemic has presented a unique and complicated situation and as such, an OBPS 'holiday' should be provided to offset costs incurred during the period of zero to limited production.

Under the Federal Carbon Pricing System, the revenue generated under the Output Based Pricing System must be appropriately "recycled" back to the company from which it was collected. This can be achieved by ensuring that every dollar paid under the federal carbon pricing regime is recycled back to the originating company (or source facilities) to reinvest in innovative emission reduction and energy conservation projects. If costs paid do not equal revenues returned, the difference is simply a tax – a tax which our competing plants in other jurisdictions do not have to pay.

The revenues collected under the OBPS need to foster investment in innovation and energy efficiency improvement that supports competitiveness and should not be used to cross-subsidize GHG reduction projects in other sectors.

Recommendation 4: Improve Canada's policy framework to attract investments in automotive manufacturing and research and development.

The COVID-19 pandemic has underlined the critical importance of a strong manufacturing base to a resilient and sustainable Canadian economy. Auto assemblers responded to the health crisis by quickly pivoting to produce life-saving PPE as supply chains fragmented and export restrictions proliferated.

To support and grow Canada's domestic automotive manufacturing industry we urge the government to improve the policy framework. Programs and policies must remain responsive and sensitive to the competitive needs of the industry to attract new investment and build on the tremendous efforts put towards the CUSMA.

Industry is undergoing incredible technological shifts. Transparent and defined government support is required to protect and strengthen Canadian innovation and production. An automotive-specific component to the Strategic Innovation Fund (SIF) would bolster the program to support the industry's competitiveness by lowering the cost on new investments.

In addition, expanding the definition of R&D to provide credit for auto sector capital R&D expenditures in the Scientific Research and Experimental Development (SR&ED) program would make Canada a more attractive destination for automotive R&D. 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.

A robust R&D environment should also provide funding or incentives for training personnel in key areas of technical need either through undergraduate co-op placements or internships after graduation in industry (similar to the discontinued NSERC Experience award). Given the current work arrangements due to the impact of COVID-19, revisions are also required to the eligibility requirements, to support "remote" placements.

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.

Investment and R&D supports should be stream-lined, tested to international best practices and be timely for decision-making. We stand ready to work with the government to position Canada as one of the best places in the world to manufacture vehicles.