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

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List of the Recommendations of the Global Automakers of Canada to support economic recovery stemming from the pandemic

- **Recommendation 1:** That the government implement a vehicle scrappage program applicable to all 12 year-old and older vehicles.

- **Recommendation 2:** That the government provide funding in the amount of $200 million to ensure continuity of the iZEV incentive program.

- **Recommendation 3:** That the government continue to provide funding for the ongoing build-out of electric and hydrogen fueling infrastructure to support the uptake of ZEVs in the marketplace

- **Recommendation 4:** That the government amend the automobile deduction limits and prescribed rates for determining the taxable benefits on automobile operating expenses

- **Recommendation 5:** That the government amend the 15 year rule enabling importation of non-compliant vehicles and harmonize this threshold with those of the United States (i.e. 25 years)

- **Recommendation 6:** That the government not proceed with the introduction of a luxury tax on automobiles

Commented [RR1]: Why did this get mentioned first? Not a JAAG submission and this age threshold will only benefit select GAC members. Believe reco 2 is more "Green" and time-sensitive so should be listed first.

Submission Details

Global Automakers of Canada is the national industry association representing the Canadian interests of 15 leading international automakers including BMW Canada Inc., Honda Canada Inc., Hyundai Auto Canada Corp., Jaguar Land Rover Canada ULC., Kia Canada Inc., Maserati Canada Inc., Mazda Canada Inc., Mercedes-Benz Canada Inc., Mitsubishi Motor Sales of Canada Inc., Nissan Canada Inc., Porsche Cars Canada Ltd., Subaru Canada Inc., Toyota Canada Inc., Volkswagen Group Canada Inc., and Volvo Cars of Canada Corp. GAC advocates for sound public policy to support a competitive and sustainable Canadian automotive market. The members are committed to meeting the mobility needs of Canadians by providing greater consumer choice, offering leading-edge safety and environmental technologies, while eliminating unnecessary regulatory and trade barriers.

The 15 member companies and their affiliates directly or indirectly employ more than 77,000 Canadians in vehicle manufacturing, sales, distribution, parts, service, finance and head office operations from coast to coast. In 2019 the member companies of the GAC sold 1,146,587 vehicles representing 60% of the Canadian automotive market and supported over 60% of Canada's 3,300 new vehicle dealerships.

Our members are committed to the decarbonization of the products that they are producing specifically as well as the on-road fleet of vehicles as it is clear that the goal of decarbonizing light duty transportation will not be achieved by focusing only on new vehicle sales – which represent approximately 8% of all vehicles on the road.

COVID-19 has disrupted the automotive industry in a significant way with sales down in April by close to 80%. While sales have recovered somewhat, it is expected that full year sales volumes will be down 25-30% without the impact of a potential "second wave" of COVID cases predicted for this fall. Automotive production and automotive supply chains have also been adversely impacted by the both the lengthy production shutdowns of earlier this year associated with COVID, and the implementation of the Canada, United States, Mexico Agreement (CUSMA) the entered into force on July 1 of this year.

However, we do believe that there are measures that could be implemented by the federal government to mitigate the impact of COVID on the automotive industry for the benefit of consumers and the environment along with cultivating consistency with our major trading partner.

Recommendation 1:

That the government implement a vehicle scrappage program applicable to all 12 year-old and older vehicles.

Vehicles that are 12 years-old or older represent more than 35% of the vehicles on Canada's roads. It is well-known that these older vehicles are generally less fuel efficient and less well maintained resulting in both increased greenhouse gas (GHG) emissions as well as increased smog-causing emission (criteria air contaminants). Our recommendation presented to officials across departments, is that the federal government implement a scrappage program for such vehicles with the aim of taking 500,000 – 2 million older vehicles off of the road. Our analysis suggests that such a program could result in emissions reductions of between 1.7 Mt and 7 Mt. We believe that the incentive attached to such a program should be applicable to the purchase of <u>all</u> vehicles -

regardless of propulsion types, on the basis that any new vehicle is going to be that much more fuel efficient than any older vehicle. Moreover, the vehicle safety improvements that have been incorporated into modern vehicle – especially over the last 5 years – are dramatically advanced over those vehicles 12 years-old and older, and provide an additional benefit to consumers who scrap an older vehicle. In addition to benefiting consumers and delivering GHG emission reductions from the light-duty vehicle sector, the program would assist in ensuring consistency in industry production.

<u>**Recommendation 2:**</u>

That the government provide funding in the amount of $200 million for the augmentation of the iZEV incentive program of the program.

Government statistics indicate that as of June 30, 2020 mor than two-thirds of the $300 million allocated last year through to be available through 2022 for electric vehicle incentives had been exhausted. It is clear that without a new infusion the existing funds will be exhausted as early as the end of 2020.

While the federal government has aspirational goals to significantly increase the number of zero emission vehicles on the road, Quebec, and more recently B.C. have passed legislation mandating sales volumes of zero emission vehicles. These targets are unlikely to be met without demand-side incentives to ameliorate the price difference between zero emission vehicles and internal combustion engine vehicles, especially given current challenges surrounding COVID, in which traditional gasoline fuel prices have dropped considerably.

Therefore, the GAC recommends a “top up” of the iZEV program of $200 million to facilitate the purchase of ZEVs through 2022, in light of the current financial reality of the iZEV funding.

<u>**Recommendation 3:**</u>

That the government continue to provide funding for the ongoing build-out of electric and hydrogen fueling infrastructure to support the uptake of ZEVs in the marketplace

In order to continue to build consumer confidence in the ability to recharge and refuel their zero emission vehicles, it is contingent on the government to continue to continue to build out the alternative fuel infrastructure in British Columbia. Indeed, British Columbia has the opportunity to play a significant role in the resurgence of hydrogen as a viable, zero emissions, transportation fuel – especially for the medium and heavy duty truck sector.

<u>**Recommendation 4:**</u>

That the government amend the automobile deduction limits and prescribed rates for determining the taxable benefits on automobile operating expenses

The automobile deduction limit has not changed since 2001 when the limit was set at $800. In order to encourage capital investment and to simply adjust for inflation the GAC recommends that this amount be set at the inflation adjust amount of $1,115. While the automotive industry has done and admirable job at containing vehicle cost increases, new safety and emissions reduction technologies – both of which are beneficial to Canadian citizens – have added considerably to the price of a new vehicle. While lower interest rates have assisted, the overall renewal of the on-road

fleet will be advanced by the introduction of such a measure and fleet renewal is also a key mechanism to reduce greenhouse gas emissions from the light duty vehicle fleet.

Recommendation 5:

That the government amend the 15 year rule for the importation of non-compliant vehicles and harmonize these provisions with those of the United States (25 years)

The GAC recommends that the federal government align its policy regarding the importation of older, non-compliant vehicles with those of the United States. Canada currently allows used, non-compliant (from a vehicle safety and a vehicle emissions perspective) to enter the country after 15 years. In our view, this policy is inconsistent with other policies established by the Government of Canada with respect to on-road safety and the reduction of greenhouse gas emissions from light duty vehicles. Moreover, Canada's consistent position has been to harmonize regulations with those of the United States unless there was a valid reason not to do so.

This change would be a simple measure that would: improve road safety; reduce GHG emissions from the light-duty vehicle fleet ; and harmonize our regulatory regime with that of the United States.

Recommendation 6:

That the government not proceed with the introduction of a Luxury Tax on automobiles, that had been contemplated prior to the onset of COVID-19

The automotive sector is one of the key sectors of the economy that has been adversely impacted by COVID-19. While sales in the sector are headed in the right direction, automotive analysts expect that 2020 sales will remain down 25-30% from 2019. Given the disruption caused by COVID -19 we do not believe that now is the time to be implementing a luxury tax.

Furthermore, regardless of the impact on the industry arising from COVID-19, a luxury tax may be seen by Europeans as a significant non-tariff trade barrier and will likely create trade problems for Canadian goods. Canada has recently signed the Comprehensive Economic and Trade Agreement for free-trade between Canada, the European Union. A luxury tax on almost exclusively European cars is counter to this approach.

Moreover, with Canada being a member of the British Commonwealth, and with questions lingering around the future trading relationship between the UK and Canada post-Brexit, a luxury tax as proposed combined with an unknown duty rate for some members' vehicles from January 2021 onward could further stifle investment and irreparably harm the retail outlets of certain member companies.

Summary

In closing , the Global Automakers of Canada appreciates the opportunity to provide these recommendations to the House of Commons Standing Committee on Finance as it considers measures for the 2021 budget.