



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

Submitted By: The Automotive Industries Association of Canada

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Recommendations

[Recommendation #1](#): That the government support Canada's automotive aftermarket post-pandemic by working with the provinces and territories to establish harmonized protocols on how the industry will function during future crises.

[Recommendation #2](#): That the government consider the detrimental impact a national "scrappage" program may have on Canada's automotive aftermarket, and evaluate its efficacy in supporting the entire automotive sector.

[Recommendation #3](#): That the government level the playing field for consumers and small businesses by legislating "right to repair", so vehicle owners can decide where they wish to have their car serviced or maintained.

[Recommendation #4](#): That the government fund and/or subsidize additional training opportunities for the servicing of electric, connected, and autonomous vehicles.





About AIA Canada

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

Recommendation #1: That the government support Canada's automotive aftermarket post-pandemic by working with the provinces and territories to establish harmonized protocols on how the industry will function during future crises.

During the COVID-19 pandemic, the automotive aftermarket industry was deemed essential by both the federal government and provinces including Ontario, Quebec and British Columbia. There are two main reasons for this designation:

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

Despite being deemed essential, many businesses industry stakeholders have been hit hard by the pandemic. An April 2020 survey of our members revealed that 60% have had to lay off employees due to business disruption. Additionally, 10% of respondents said that they were unsure if they would be able to resume operations over the next 30 days. More than 30% believed that things would get worse for their business during that same period. Many respondents indicated interest in the Canada Emergency Wage Subsidy (CEWS), while another 30% sought credit from financial institutions to cover operating costs resulting from revenue shortfalls.

Furthermore, the automotive aftermarket suffered from the ad-hoc nature in which different industries were being deemed essential by provincial governments during the early days of the

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>.





pandemic. Although the federal government worked to set a national standard using their own guidelines, the provinces' initial patchwork approach resulted in confusion, lost revenue, and customer dissatisfaction within the industry. Like other industries, we had to quickly adapt and implement new health and safety precautions which came at an increased cost to our establishments. For example, more than 85% of our members introduced new safety and sanitization processes.

More broadly, the COVID-19 pandemic has disrupted Chinese parts exports (more than 80% of the world's auto supply chain is connected to China)², resulted in 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 revenues of 80% of automotive and related companies in 2020.³

Even in the face of such unprecedented challenges, our members have remained focused on providing services to Canadians who need them most — including essential workers and those transporting essential goods. But the industry needs more of the government's support, and Canada's economy cannot make a full, speedy recovery without a strong automotive aftermarket.

The government can accomplish this by working with industry and provincial governments to establish more consistent protocols on how the aftermarket will function in times of crisis like the COVID-19 pandemic. These protocols could include a cross-Canada designation of essential services and/or business and other measures that would hasten the government's response to a future crisis and mitigate its negative economic impacts.

Recommendation #2: That the government consider the detrimental impact a national “scrappage” program may have on Canada’s automotive aftermarket, and evaluate its efficacy in supporting the entire automotive sector.

Recently, Canada's automakers and car dealerships have proposed government-funded cash incentives to purchase a new vehicle, otherwise known as a vehicle scrappage program. According to automakers, a scrappage program can help sustain the sector's recovery while also getting older vehicles off the road by encouraging the purchase of low-emission or electric vehicles.

Although a scrappage program may help a handful of automakers manufacturing these vehicles as well as financially-secure Canadians who can afford to spend tens of thousands of dollars on a new vehicle, this approach is plagued by several major issues. First, a scrappage program will

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

³ Becker, D.





not benefit local businesses or Canada's middle-class. In countries where scrappage programs have been introduced, the results have been mixed — often with unintended negative consequences for the industry, policymakers and consumers.

Second, there is no evidence that a scrappage program will incentivize consumers to purchase vehicles that are manufactured or assembled in Canada. While strings could be attached to a program offering the incentive exclusively for vehicles made here, automakers have acknowledged that this approach is problematic since it would result in only a handful of new vehicles being eligible for the program.

Third, scrappage programs' ability to reduce greenhouse gas (GHG) emissions and support a sustainable recovery is also debatable. A 2016 European Commission report found that the effectiveness of scrappage programs in reducing GHG emissions "were rarely positive" and that "their economic and industrial benefits appear to be contested."⁴ In Canada, a federal government evaluation of Canada's National Vehicle Scrappage Program (Retire Your Ride) found that program users often purchased larger, less efficient vehicles that consume less gas. The same evaluation found that consumers who used the scrappage program often retired their vehicles prematurely and opted to scrap their cars rather than service them, meaning less interactions with our businesses.

Finally, a scrappage program is not guaranteed to help those Canadians hit hardest by the pandemic. Many Canadians are facing difficult financial realities as a result of the COVID-19 pandemic; the prospect of offering an incentive for new cars over other services may not align with what middle-class Canadians view as the government's recovery priorities. Even with an incentive, the cost associated with vehicle maintenance is significantly smaller than what a consumer would spend on a new vehicle (particularly given that new vehicles lose 30% of their value in the first year). Countries like Germany, which have implemented scrappage programs, have also acknowledged that the incentive benefits a relatively small number of affluent individuals, limiting the impact of such a program on stimulus efforts.

As the government weighs different stimulus options and sectoral supports, serious consideration should be given to whether or not a national scrappage program would benefit middle-class Canadians, and small businesses.

⁴ 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>





Recommendation #3: That the government level the playing field for consumers and small businesses by legislating “right to repair”, so vehicle owners can decide where they wish to have their car serviced or maintained.

Since 2011, AIA has been part of the voluntary Canada Automotive Service Information Standard (CASIS) agreement. The agreement’s overall objective is to maintain a fair and competitive automotive industry by ensuring that the aftermarket has access to vehicle manufacturers’ information regarding emissions, diagnostic tools, and training. However, there are a number of shortcomings with this agreement.

For one, CASIS threatens the ability of the aftermarket to compete with automakers’ authorized dealers in the automotive digital economy by restricting their access to vehicle data and in-vehicle resources. By limiting access to their car’s data, the agreement effectively strips consumers of their right to decide where to fix and maintain their vehicles.

AIA also has reservations about the voluntary and outdated aspects of the CASIS agreement. Today, more and more vehicles are being equipped with telematics systems that give automakers the ability to connect wirelessly to vehicles to send and receive maintenance information. The problem is that connected vehicles communicate only with the automakers’ backend servers, which drives business away from independent shops and the suppliers that serve the aftermarket.

While CASIS gives the aftermarket access to vehicle service information, it does not give it access to a vehicle’s wireless data OR vehicle functions that include onboard applications and the vehicle dashboard. This has the potential to drive business away from independent shops and the suppliers that serve the aftermarket, leaving Canadian consumers with fewer options of where they can take their car to be serviced. Given that 70-95% of new cars in Canada will be equipped with wireless technology by 2022⁵, it is imperative that automakers not be the sole gatekeepers of this data.

The aftermarket therefore needs secured and equal access to wireless vehicle data if the industry is to compete with automakers that do not provide this data to our businesses. In our view, legislation that mandates the provision of vehicle data to either service repair shops or directly to consumers would eliminate the challenges that arise from keeping this data exclusively with automakers. By giving aftermarket businesses the “right to repair”, Canadian consumers will have more choice and local auto shops will be able to thrive.

⁵ Deloitte. (April, 2018). Connected and autonomous vehicles in Ontario: Implications for data access, ownership, privacy and security. Retrieved from: <https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/consulting/ca-EN-CVAV-Research-Final-Data-Privacy-Security-Report-20180425-AODA.PDF>





Recommendation #4: That the government fund and/or subsidize additional training opportunities for the servicing of electric, connected, and autonomous vehicles.

The automotive aftermarket, just as with auto manufacturing, is evolving. The technological revolution is transforming the cars we drive; as vehicle technology advances, so too must the skills of those who repair and service them. This means that the aftermarket's workforce must adapt to several trends.

For example, the aftermarket is transitioning from being predominantly mechanical to requiring more technical knowledge and skills. The industry, as a whole, is also upskilling. While this transition is challenging, it is an opportunity to attract new individuals to the trade including under-represented groups such as women, persons with disabilities, and immigrants. AIA Canada is at the forefront of this positive change, with members - NAPA, Fix Auto, and UniSelect providing in-house upskilling training initiatives to their employees in order to keep them up-to-date in a rapidly changing industry.

AIA Canada advocates for industry workforce development through its seat at the Employers' Forum which is composed of employer associations from across Canada. AIA advocated for industry workforce development needs through the association's participation in the Vehicle of the Future Advisory Group. The group was convened to support a coordinated national approach to the deployment of connected and autonomous vehicles.

AIA therefore wants to work with the government to expand the scale and scope of industry upskilling initiatives. This would not only help the aftermarket keep pace with rapidly advancing vehicle technology, but also ensure that groups vulnerable to the realities of tomorrow's workplace can find their place within it.

