



Canadian Vehicle Manufacturers' Association

Submission to the 2004

Pre-Budget Consultation Process

February 2004

CONTENTS

SUMMARY	3
THE AUTOMOTIVE INDUSTRY IN CANADA	3
RECOMMENDATIONS:	
HEALTH CARE COSTS	4
FISCAL AND INVESTMENT POLICY	5
• CAPITAL TAXATION	6
• CORPORATE TAXATION	6
• INVESTMENT TAX CREDITS	7
PERSONAL INCOME TAXES	7
TRADE AND INFRASTRUCTURE POLICY	7
ALTERNATIVE FUEL VEHICLE REBATE	8
TAX FOR FUEL CONSERVATION	10
LIST OF RECOMMENDATIONS	11

SUMMARY

With increased international competition and overcapacity in automotive manufacturing globally Ontario's vehicle manufacturers are at a critical juncture. A strategic and comprehensive policy that supports investment and innovation in the automotive sector is vital to the sustainability and growth of the automotive industry in Ontario. The CVMA and our members believe that creating a climate for economic growth must be the central priority for the 2004 budget. Priority issues, such as health care, capital, corporate and personal taxes, and infrastructure investment are central to investment decisions and the ongoing success of the automotive industry in Ontario. Implementing the recommendations included in this submission, and supported in other forums, such as the Canadian Automotive Partnership Council, in which the Ontario government participates, would send a signal that the government is serious about fostering an environment which promotes investment in the province and growth in the automotive industry.

INTRODUCTION AND BACKGROUND

Canadian Vehicle Manufacturers' Association (CVMA) is the national association for Canada's leading manufacturers of light and heavy duty vehicles. Our membership includes DaimlerChrysler Canada Inc., Ford Motor Company of Canada, Limited, General Motors of Canada Limited, International Truck & Engine Corporation, and Volvo Cars of Canada Ltd. Our member companies are the leaders in an industry that employs over 330,000 Ontarians and accounts for nearly 20% of Ontario's manufacturing GDP. In 2003, these companies produced roughly 1.9 million of the over 2.5 million (76%) light duty vehicles built in Ontario and sold 925,639 of the 1,585,589 (58%) of the light duty vehicles sold in Canada. Over the past decade, our members have invested over \$20 billion in new technology and facilities into Ontario.

Strategic public policies, such as the Autopact and free trade, have played a crucial role both in developing this large and productive automotive industry and in terms of creating assembly and auto parts jobs in Canada. This is especially true in Ontario where much of the automotive sector is based. These policies, along with economic and business realities, have resulted in an automotive sector that has become highly competitive and truly global in nature. However, significant changes to domestic and international policy throughout the 1990s have undermined the effectiveness of these policies' ability to draw new investment into Ontario. The result is that our automotive industry is at a critical juncture. With unprecedented competition, excess capacity and the elimination of most of the key policy tools to encourage automotive manufacturing investment, the future of much of Ontario's automotive manufacturing industry is at risk. To ensure that Canada remains a competitive location for

automotive production and investment we have been working with the Government of Ontario, the federal government, the Government of Quebec, as well as labour, academia, and other automotive industry stakeholders through the Canadian Automotive Partnership Council (CAPC), to create and implement a strategic automotive policy.

CAPC's mandate is to develop a policy framework that will create an environment to help facilitate the strengthening and growth of this critical industry in Canada. To date this has included recommendations for fiscal and investment policy, human resources development, regulatory harmonization, innovation, and trade and infrastructure. This captures much of the policy framework that would help strengthen existing manufacturing, attract new investment, and create a competitive and fair marketplace for consumers to purchase new vehicles. If CAPC's recommendations are implemented by government and industry they will help sustain the hundreds of thousands of jobs and billions of dollars of government revenue which are tied to a vibrant and competitive auto industry.

While some of CAPC's recommendations have begun to be implemented, such as the announced elimination of the Large Corporations Tax (LCT) announced in the 2003 Canadian federal budget and increased spending on border infrastructure, we must ensure that a complete package of economic and social policies are fully and expeditiously implemented by government. This submission highlights many policy options that we feel would help strengthen the automotive industry in Ontario.

RECOMMENDATIONS

HEALTH CARE COSTS

Health care in the province has been touted as a significant competitive advantage for companies both to sustain current investment and to attract new facilities into the province. This is especially true in sectors, such as automotive manufacturing, which have a large labour force. CVMA members have over 300 years of collective history contributing to Ontario. This long history has created many costs associated with doing business today, not the least of which is health care and pension costs. Currently our members have an employee/retiree ratio of roughly one to one. Which means that for every current employee in Canada; of which the vast majority of the over 50,000 are based in Ontario, there is one retired employee to be supported. Over time, changes to government policy affecting health care have resulted in the delisting of many medical services. In most cases, the costs for these delisted services are being picked up by private insurance, which is provided by employers. The impact is far more significant for those companies who have a long history

and a large unionized workforce. As a result, health care costs have become one of the largest annual cost increases our members now face, averaging annual growth between 7 – 10%. These costs, it should be noted are in addition to the significant general corporate and payroll taxes paid by our members. The direct costs and contributions by the private sector for health care in the province must be seriously examined by the government. We must ensure that health care in the province remains a competitive advantage for business and not a disadvantage for those companies who have a long history in the province.

- **The CVMA recommends the government establish a review committee to study health care costs and impacts for the private sector of potential further cost shifting.**

FISCAL AND INVESTMENT POLICY

Multiple factors drive investment decisions by corporations including market access, labour and other costs of production, political stability, and after-tax return on investment (corporate tax policy). Within NAFTA, the United States has the advantage of market size to encourage investment while Mexico has labour cost advantages. One clear area for Canada to become a more attractive location for investment is by creating a hemispheric competitive tax policy that improves after-tax return on investment.

By leveraging the corporate tax system to encourage capital investment, Ontario can maintain and create a large volume of high skilled, high wage, high tax stream jobs. Canada as a whole has made significant progress to date on various fiscal issues including eliminating deficits, improving the debt-to-GDP ratios and beginning to reduce corporate taxes. While a good beginning, the focus should now move to policies to further stimulate domestic and foreign investment in order to generate growth and jobs. Such policies will cultivate a corporate tax base that will assist in providing revenues for other priority areas such as health care, education, infrastructure and the environment. We believe that the areas of focus for an automotive investment tax policy must include the following:

Capital Taxation:

- It is well known that capital taxes are anathema to securing increased investment, especially investment in the automotive industry, which employs more fixed capital in production than the aerospace, computer, electrical and pharmaceutical manufacturing industries combined, leaving the automotive industry bearing a disproportionate share of these job killing taxes. We understand that given the current fiscal position the government may not feel that elimination of capital taxes

is currently affordable. However, the current policy penalizes companies for their investment in machinery and equipment in the province. Investing in the latest technology is the key to improving productivity and improving the global competitiveness of companies. If the province is serious about attracting new investment the government at must become less reliant on such taxes and support growth in the capital intensive industries. **The CVMA recommends that the Ontario Government announce and legislate a firm scheduled phase out of all capital taxes to begin in the next fiscal year.** This measure would match commitments already made federally in Canada and remove a significant barrier to investment as well as strengthening the competitive position of the automotive industry in the province.

Corporate Taxation:

- The CVMA, as well as the government of Ontario in other forums, specifically CAPC, has been encouraging the overall reduction in corporate tax rates to create a competitive tax advantage for manufacturing within NAFTA. We were disappointed that the reductions to corporate tax rates were cancelled at the end of last year. **The CVMA strongly encourages the province to reconsider corporate tax rates with a view to reducing them in future years.** As well, the government must examine the impact on overall business competitiveness of increased and accelerated reductions in overall corporate tax rates. These reductions, combined with the repeal of the capital tax would greatly increase Ontario's competitiveness as a location for ongoing and future investment.

Investment Tax Credits:

- The CVMA recommends that the provincial government implement an Investment Tax Credit or provide a tax incentive in the form of incremental deductions (superdeductions) **to make it more attractive for auto manufacturers to invest in new machinery and equipment in their Ontario facilities.**

PERSONAL INCOME TAXES:

Despite record sales in recent years, Canadian vehicle affordability remains a concern of CVMA member companies. In Canada, the average vehicle transaction price remains at about 140% of personal disposable income (PDI) as opposed to 101% of PDI in the United States. Recent reductions in personal income tax levels have helped boost consumer spending and vehicle affordability, however more needs to be done to bring PDI inline with consumers in the U.S. While we recognize that planned reductions were not implemented at the beginning of

2004 **we recommend the government revisit the possibility of personal income tax reductions in the near future.**

TRADE AND INFRASTRUCTURE

As a highly-integrated industry across North America, the automotive industry relies on seamless transportation between Canada and the U.S. to ensure that our facilities efficiently operate. As a result of our production and level of industry integration, our sector accounts for roughly 25% of the two-way trade between Canada and the U.S. The majority of these shipments are production parts that feed assembly facilities on both sides of the border which require streamlined and efficient border crossings to accommodate the just-in-time delivery systems. Much of this cross border trade either originates or terminates in Ontario and crosses one of three (3) bridges in Windsor, Sarnia, or Fort Erie.

As a result of this high level of integration we have been actively engaging the governments of both Canada and the U.S. to implement changes in customs regulations to streamline the processing of shipments crossing the border. We have worked with both governments to implement the 30-point action plan and our members have been the first to implement new programs such as Free And Secure Trade (FAST) into their operations. However, the programs aimed at expediting border crossings do very little if the physical infrastructure that carries goods and people to the border is outdated and inadequate to handle current volumes.

Ontario's auto industry has long advocated for strategic infrastructure investments to effectively process existing trade volumes between Canada and the United States and also future trade growth as our economies become further intertwined. Joint investments with the federal government announced early in 2003, especially for the Windsor region, was a good start, however, it is insufficient to meet current or future demands. **The CVMA recommends that the province, partnering with the federal government, increase funding for physical transportation infrastructure that will sustain current and future trading demands.** These efforts should be aimed at:

- Exeditiously implementing previously announced investments, such as the \$300 Million for border infrastructure, which were designed to support the 30-point action plan. This must include taking leadership in implementing the Windsor Gateway action plan developed jointly with the Government of Canada for the critical Windsor gateway.
- Partnering with the federal government on the creation of a new border crossing into the U.S. in through the critical southern Ontario region.

- Creating an uninterrupted access from highway 401 through to the U.S. interstate system.
- Working with the federal government to improve critical trade corridors leading up to border crossings.

ALTERNATIVE FUEL VEHICLE REBATE

Traditional gasoline internal combustion engine vehicles (ICEs) have evolved significantly over the last number of decades and have made significant advances in both fuel economy improvement and emissions reductions. Improvements of this nature are expected to continue and therefore, ICEs are expected to dominate the Canadian fleet for the foreseeable future. Concurrently, vehicle manufacturers have spent billions of dollars developing and bringing to market traditional alternative fuel vehicles (AFVs) and advanced technology vehicles (ATVs), such as hybrid electric and fuel cell vehicles. Although they have been available for many years, alternative fuel vehicles, and more recently advanced technology vehicles, have not been significantly adopted by the Canadian marketplace. This is primarily because consumers are very familiar with gasoline ICEs, which are efficient, reliable, durable and relatively low cost compared with AFV and ATV vehicles that have a significant cost premium and limited refueling infrastructure.

Cleaner, more fuel efficient advance technology vehicles have a role to play in achieving Canada's air quality goals and will contribute to reducing vehicle-related green-house gas emissions. The magnitude and speed of the contribution is largely related to how quickly these technologies are adopted by consumers. Due to the associated advanced vehicle technologies involved, the costs to manufacture these vehicles is many thousands of dollars higher than a comparable ICE vehicle. This premium is significant because for every \$100 increase in the cost of a new vehicle there is a corresponding .8% reduction in demand. Surveys show that consumers indeed want 'greener-cleaner' products including cars, but their enthusiasm quickly dissipates when it is evident they might have to pay more to obtain those products.

The CVMA recognizes that the Province of Ontario has been a leader in introducing sales tax rebates for AFV's to assist consumers with these price premiums. We encourage the government to proceed with the measure which was announced in the 2003 Ontario budget by the former government, to double the retail sales tax rebate up to \$2,000 for qualifying alternative fuel vehicles purchased after that date. Additionally the province should partner with the federal government to ensure that both levels of government are providing creative options to boost consumer purchases of these vehicles. This could include direct consumer

rebates, additional sales tax rebates, or perhaps income tax credits that would allow consumers to effectively offset the higher costs associated with these vehicles. The level of incentive should reflect the cost premium and level of benefit offered by the vehicle. As a result, the CVMA recommends that:

- **The provincial government should fully implement consumer incentives announced by former government for the purchase of AFVs and ATVs.**
- **The provincial government should partner with the federal government on a complete consumer strategy to create market pull and assist early consumer adoption of these vehicle technologies.**
- **The provincial government should encourage the development of refueling infrastructure for ATVs and AFVs.**

TAX FOR FUEL CONSERVATION

The CVMA has been a long time proponent for the repeal of the Tax For Fuel Conservation (TFFC) which was introduced in 1989 as a tax on large vehicles. In 1991, the TFFC was modified to include a broader spectrum of cars and sport utility vehicles (SUVs). The fundamental problem with the TFFC is that it taxes the wrong segment of the on-road vehicle fleet. New vehicles represent only about 8% of the vehicles on the road. However these new vehicles are also the cleanest and safest vehicles on the road equipped with the most technologically-advanced safety and emissions control systems. By comparison, the oldest 20% of the vehicles on the road are responsible for more than 80% of vehicular pollution.

The TFFC essentially provides consumers with less incentive to replace their older, less fuel efficient, higher polluting vehicles by increasing the cost of new vehicles. As a result, the TFFC is essentially a tax that delays air quality improvements by slowing the replacement of older and less environmentally friendly vehicles. A more significant air quality benefit could be achieved by encouraging consumers to replace their old vehicles with new (or newer) vehicles as opposed to adding to the already significant tax burden associated with the purchase of a new vehicle.

The TFFC is effectively a tax of at least \$75 on nearly all new vehicles sold in Ontario. The CVMA continues to affirm that the tax is an inappropriate policy measure and should be eliminated. As a result, the CVMA recommends that:

- **The Government of Ontario should acknowledge that the Tax For Fuel Conservation is not supporting environmental policies and will be eliminated as soon as the fiscal position of the province improves.**

Contact:

Mr. Mark Nantais
President
Canadian Vehicle Manufacturers' Association
170 Attwell Drive, Suite 400
Toronto, Ontario
M9W 5Z5
Phone: (416) 364-9333

SUMMARY OF CVMA RECOMMENDATIONS:

Health Care Costs:

- Establish a review committee to study the impact on the cost of health care for the private sector.

Fiscal and Investment Policy:

- Introduce scheduled phase out of all capital taxes.
- Re-evaluate corporate taxes
- Implement an Investment Tax Credit or Superdeduction on new investment in machinery and equipment.

Personal Income Taxes:

- Revisit the possibility of personal income tax reductions in the near future.

Trade and Infrastructure Policy:

- Partner with the federal government to increase funding for physical transportation infrastructure that will sustain current and future trading demands.

Alternative Fuel Vehicle Rebate:

- Fully implement announced consumer incentives for the purchase of AFVs and ATVs.
- Partner with the federal government on a complete consumer strategy to create market pull and assist early consumer adoption of these vehicle technologies.
- Encourage the development of refueling infrastructure for ATVs and AFVs.

Repeal of the Tax for Fuel Conservation:

- Announce intention to eliminate the Tax For Fuel Conservation (TFFC).