Canadian Vehicle
Manufacturers' Association
Association canadienne
des constructeurs de véhicules

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Honourable Bill Morneau, P.C., M.P.
Minister of Finance
Finance Canada
90 Elgin Street
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Re: Budget 2016 Consultation
Canadian Vehicle Manufacturers' Association (CVMA) Recommendations

Dear Minister:

Canada's auto manufacturing sector is a leader in the advancement of innovative technologies that result in exciting new products for consumers and that support the public policy objectives of government. Auto manufacturing contributes approximately $18 billion to GDP (2014), directly employs 115,000 people and drives Canada's productivity growth. Canadian assembled vehicles are the number one manufactured export and second export overall.

The CVMA which represents Fiat Chrysler Automobiles (FCA), Ford Motor Company of Canada Limited and General Motors of Canada Company, applauds the governments' priorities regarding supporting a stronger middle class and its innovation agenda. The auto manufacturing sector is well positioned to work with and assist government towards its policy mandates.

Clearly, this is an exciting industry that is a key contributor to the economy. It is also an industry that is highly integrated on a North American basis.

Canada and the United States have worked very effectively to maximize the economic opportunity of our shared border for decades. Over the past 80 years, industry on both sides of the border have established auto sectors that make up a cluster and a supply chain that is seamless and provides the foundation for vehicle assembly on both sides of the border.

The Auto Pact, and later NAFTA, provided the fundamental doctrine for a continental approach to North American auto manufacturing. Canada remains a net exporter of finished vehicles to the United States and a net importer of auto parts. The sheer intensity of auto manufacturing integration means that components for vehicle assembly may cross the Canada – U.S. border as many as 6 times[1] throughout the manufacturing process. There are hundreds of auto parts and component suppliers within 30 minutes of the Canada-U.S. border which allows for 'just-in-time' delivery of

[1] Canadian Manufacturers and Exporters (CME) http://www.cme-mec.ca/english/advocacy/your-issues/us-business.html

components as part of the production process. This underlines the importance of the continued work on the new Windsor-Detroit International Crossing, i.e. the *Gordie Howe International Bridge*, to support the efficient flow of goods and people as part of the production process.

Vehicles and parts are designed, tested and produced seamlessly on both sides of the border for use in either market. Both markets have largely shared driving conditions, infrastructures, environment, and public policy objectives.

As such, it is important that the government continue with a harmonized continental approach regarding its regulatory framework and border efficiency for both goods and expertise. The CVMA remains a strong supporter of the Beyond the Border and the Regulatory Cooperation Council and would like to see this work continue to move forward. Consistency and harmonization across provincial public policy strategies will also continue to be important.

As the government considers policies to stimulate the economy and support long term growth, the CVMA would appreciate consideration of the following recommendations that would support auto manufacturing competitiveness and its contribution to Canada's economic objectives.

Develop a national automotive manufacturing strategy that includes the following components to improve Canada's competitive position for global investment decisions.

a) ***Adjust the parameters of the Automotive Innovation Fund (AIF) to support competitiveness***
All elements of the AIF should be closing the gap against competing jurisdictions to ensure that Canada has the most competitive tools available including: the magnitude and form of AIF, its tax treatment, required conditions, and speed of approval for eligible proposals.

i) Allow for Grants and Non-Repayable Contributions
Today, most competing jurisdictions offer non-repayable contributions in many different forms, including cash grants, refundable tax credits, and infrastructure and training credits and grants, with contribution levels that can exceed 50% of the total investment spending. No additional taxes are incurred as a result of the incentives, the conditions are flexible and performance-based, and project evaluation and approval is relatively fast. Furthermore lowering the threshold investment to 25 million from 75 million would help to increase innovation.

The current requirement to repay the AIF contribution and recent rulings by CRA to tax the repayable contribution in the year the loan is received, results in a federal incentive in Canada that is uncompetitive when compared with other jurisdictions in North America and globally.

ii) AIF Permanency Would Add Certainty for Global Decision-makers
Making an enhanced and globally competitive AIF permanent would improve Canada's ability to compete for future investment decisions by providing greater certainty and predictability for Global decision-makers when examining where to place new product mandates.

Canadian vehicle manufacturers need to have clarity on the conditions and applicability of the investment tools and mechanisms available at any moment. Consistency in approach is recommended. Investment incentives that take the form of grants enhance the flexibility required for manufacturers.

iii) Change Income Tax Act to Provide Tax-Free Status for Repayable Contributions from AIF and Similar Programs

It is recommended that the Government of Canada change the Income Tax Act to provide for the tax-free status of the repayable amounts received under the AIF programs to provide greater financial benefit to the recipient company making the prospective investment in Canada.

The requirement to repay AIF contributions and recent rulings by CRA to tax the repayable contribution in the year the loan is received, results in a federal incentive in Canada that is uncompetitive when compared with other jurisdictions in North America and globally.

From an accounting perspective, a repayable contribution or loan is a balance sheet transaction. As such, these incentives do not reduce the cost of an auto investment in Canada as the funds are repayable. Depending on the company's borrowing cost, taxing these repayable funds in the year received may actually completely eliminate any potential benefit of this type of funding.

Taxing the fully repayable contribution in the year that the funds are received significantly reduces the value of the incentive, and also reduces the value of any potential SR&ED credits, thereby reducing the value of the AIF, and similar funds. Under the current tax treatment of the repayable loans incentive, only half of the benefit of such a loan is realized by a recipient.

b) Support Technology Innovation for Vehicles and Infrastructure

The Canadian auto industry is a major investor in the research and development of technologies that spur advanced production process and vehicles that meet both the fuel efficiency, emission and safety objectives of government as well as the driving experience demanded by consumers. The success of Canada's auto sector to compete for global product mandate decisions will be strongly influenced by its ability to demonstrate its innovation potential.

There is a significant opportunity to position Canada as a leader in auto innovation through improvements to the existing Scientific Research and Experimental Development (SR & ED) program and through targeted investments in infrastructure.

The CVMA recommends that large companies should be able to exchange unused SR&ED tax credits in exchange for direct funding when used for new R&D projects. The SR&ED program offers large manufacturing firms non-refundable tax credits that can be carried forward until profitable years when their use would reduce a company's overall tax burden.

The CVMA is in agreement with the Canadian Manufacturers and Exporters (CME) in recommending that SR&ED tax credits should be exchanged for direct funding at a percentage of their value, and then put to work on R&D projects. It is also recommended that the eligibility of capital expenditures for SR&ED tax credits be reinstated. Providing the ability for companies to repurpose unused tax credits to invest in research and development would enhance industry innovation and competitiveness.

In addition, to support the adoption of advanced vehicle technologies, investments in infrastructure across Canada to increase availability/visibility of Electric Vehicle (EV) charging stations and to support integration of autonomous vehicles to the vehicle fleet are needed. The members of the CVMA would welcome opportunities to work closely with government to ensure these kinds of investments support advanced vehicle technologies.

c) ***Ensure that there is harmonization of climate change initiatives among the provinces and federally***

Securing future auto manufacturing investment will depend on a competitive environment in which to invest – investments that are lost erode economic growth and simply shift production (and GHG emissions) elsewhere. Initiatives such as cap-and-trade by itself, are unlikely to generate sufficient revenues or incentives for the capital investment that will be required.

Vehicles are produced in Canada for an integrated North American marketplace. Maintaining alignment with the provincial governments and competitive U.S. jurisdictions is essential to the industry's ability to compete. It is important to note that policies that educate consumers and that increase consumer demand and use of new vehicle technologies will be critical to increasing consumer adoption of alternative energy vehicle choices. That is, consumer demand needs to drive vehicle choice versus mandating vehicle purchase options. Forcing an electric vehicle purchase ratio that is higher than current demand will limit the availability of vehicles need and want for both their commercial and personal daily lives.

The CVMA members are committed to environmental sustainability from the products they offer, how the product is built in their manufacturing operations, the resulting waste as well as emissions from their product and operations and when the vehicle has reached the end of its useful life.

Minister, the CVMA will look forward to working with your department and appreciates your attention and consideration of the recommendations presented. If you have any questions or would like to discuss anything further, please do not hesitate to contact me at 416-364-9333. I will look forward to your reply.

Yours sincerely,

Mark A. Nantais
President

c.c. Hersi Hujaleh, Finance Canada
John Oliver, MP, Liberal Auto Caucus Chair