Canadian Vehicle
Manufacturers' Association
Association canadienne
des constructeurs de véhicules

170 Attwell Drive
Suite 400
Toronto, Ontario
M9W 5Z5
Tel: 416-364-9333
1-800-758-7122
Fax: 416-367-3221
info@cvma.ca
www.cvma.ca

August 5, 2016

Suzie Cadieux, Clerk of the Committee
Standing Committee on Finance
Sixth Floor, 131 Queen Street
House of Commons
Ottawa ON K1A 0A6

Re: CVMA 2017 Federal Pre-Budget Recommendations

Dear Ms. Cadieux:

Embracing new technologies for better performance and productivity has been a constant in the auto manufacturing industry and Canada has an immense opportunity to position itself at the forefront of new technology research, development and adoption if a strong auto manufacturing base is maintained. Proper planning today that provides the policy and infrastructure framework to support Canada's auto manufacturing has the potential to position the Canadian industry to more successfully compete globally for investment and continue to provide:

- ✓ Quality employment opportunities for over 115,000 Canadians;
- ✓ Innovative new technologies that will improve production processes;
- ✓ Exciting products that meet consumers' safety, performance and fuel efficiency needs;
- ✓ New export opportunities for our products globally; and,
- ✓ Fulfill the commitments of government to Canadians.

The members of the Canadian Vehicle Manufacturers' Association (CVMA) which includes FCA Canada Inc., Ford Motor Company of Canada, Limited and General Motors of Canada Company are committed to continue working collaboratively with the government to ensure industry's existing footprint is maintained which will in turn support the realization of the government's economic objectives.

There are several areas of focus where government attention would support auto manufacturing and would contribute to the Innovation agenda; support quality employment opportunities to Canadians; and, maintain Canada's auto manufacturing footprint. The CVMA respectfully submits the following recommendations to Budget 2017 to support the actualization of government priorities:

1. **Productivity – Allow for Grants and Non-Repayable Contributions**
2. **Innovation – Expand Opportunities for Research and Development**
3. **Employment – Recognition of Employer Pension Plans as Part of CPP Enhancement**
4. **Border Efficiency - Commercial Goods and Temporary International Workers**

In recent years (2010 – 2015), Canada has received only 7% of North American investment compared to 29% in Mexico and 64% to the United States. Protecting the existing auto manufacturing capacity in Canada is the foremost challenge. It is critical that these recommendations are addressed in the 2017 budget to address competitiveness challenges.

Details of Recommendations:

1. **Productivity – Allow for Grants and Non-Repayable Contributions**

CVMA members were very pleased that the government acknowledged the importance of the continuation of the Auto Investment Fund (AIF) in Budget 2016 and has committed to a Canadian innovation agenda. The next step forward will be to evolve the terms of the program to close the gap against competing jurisdictions and ensure that Canada has the most competitive tools available including the magnitude and form of the AIF, its tax treatment, flexibility, required conditions, and speed of approval for eligible proposals.

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.

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.

Further to the AIF, a national incentive program for PHEV/EV vehicles to complement provincial programs, e.g. those in Ontario, British Columbia and Quebec, would support consumer choice and adoption of zero emissions vehicles. As the government moves forward with both its innovation and climate change agenda, a national incentive program would be an important component to achieving objectives.

2. **Innovation – Expand Opportunities for Automotive Research and Development**

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 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.

Funding support for auto manufacturing research and development will further Canada's Innovation Agenda and the sector's competitiveness. R&D programs that are flexible, responsive to the needs of industry and administratively efficient will help to support the innovation agenda by promoting auto research excellence and the opportunity to build on the existing research capacity. A research tax credit that is truly supportive of innovation must be robust and reflect the true cost of advanced auto manufacturing research and development inclusive of the capital equipment and be based on a broader definition of 'innovation' versus the current definition of 'science'.

The announced changes to the Scientific Research and Experimental Development (SR&ED) program do not address the narrowly defined scope for eligibility which is an issue for advanced auto manufacturing. The program needs to revert to the original form wherein capital costs are recognized to offer benefit to auto manufacturing.

A regulatory environment that does not create barriers to innovation will also be necessary. North American harmonized regulations through the efforts of the Regulatory Cooperation Council (RCC) enable auto to continue to design and build once for the North American marketplace, cost efficiently.

3. Employment - Recognition of Employer Pension Plans as Part of CPP Enhancement

Increases in the costs of doing business in Canada, including the proposed increases in CPP employer contributions (payroll taxes), will negatively impact Canadian automotive competitiveness with other jurisdictions where costs are lower. Certainty and predictability are key factors when global investment decisions are made.

As part of the announced Canada Pension Plan (CPP) enhancement, it is important that the government recognize the fact that auto manufacturing companies already provide high quality private pension plans to their workers. If CPP premiums are increased as proposed, this will result in significant increases to auto industry payroll expenses at a time when there are already competitiveness challenges for the industry in Canada versus other competing jurisdictions. As had been considered in other proposed public pension plan enhancements, the government should provide exemptions to the proposed CPP enhancements or provide CPP cost offsets to companies that already provide comprehensive private pension plans to their employees.

4. Border Efficiency - Commercial Goods and Temporary International Workers

The CVMA is a strong supporter of continued commitment to the Beyond the Border initiative and encourages the government to address the action plans expediently.

Border crossing infrastructure needs to respond to the volume of commercial shipments and data continuously reviewed to ensure infrastructure is meeting the needs of Canadian business. Appropriate levels of staffing are needed to quickly respond to demand peaks in commercial traffic, keep wait times at a minimum, and ensure that Trusted Trader lanes are fully operational. Technology exists to provide real time data however the current app does not reflect actual delays. Any delay at the border that results in just in time parts and components failing to arrive at the production facility, resulting in an assembly line shut down, can cost an automotive company approximately $1-1.5 Million per hour in lost revenues.

Updates and communications on border delays need to be available in real time so a company can react quickly and reach out to its supply chain and carrier networks and make any changes necessary to minimize disruption. Harmonization with U.S. northern border policy and infrastructure would also be helpful to ensure there is consistency and efficiencies with commercial crossings while maintaining the integrity of the secure border. This would include the Trusted Trader and FAST programs and their administration.

An increase in the de minimis limit in Canada from $20 to $200 and an expansion of the Generic Harmonized System (GHS) Codes which exist for classification of low value personal import goods to include commercial goods would be helpful to manufacturing. These proposed changes would reduce the costs and red tape associated with the administration of low value commercial imports.

Temporary International Worker Mobility - The complexity to bring in temporary expertise for an urgent or specific need is negatively impacting auto manufacturing. Changes to the program in February 2015 have resulted in:

- A more complicated process
- Increased cost to employers (new $230 compliance fee/employee in addition to work permit fees and consulting fees)
- Longer lead times for applications (2 weeks)
- No process for time-sensitive requests
- An added challenge for doing business in Canada

Canada needs to work towards a target turn-around, 4 hours for example, to get specialized expertise across the border as needed as any shut down in production due to a delay can result in costs of over $1 Million per hour. Specialized expertise can be required for production equipment installation/repair, after sales service, and product launch and sometimes this can be on very short notice. CVMA members are global companies who have global teams that provide specific expertise and any delay to get this expertise to Canadian facilities has repercussions on productivity and on future investment decisions. As Trusted Traders, the industry would be interested to explore the potential of a *"Trusted Employer"* pilot that would expedite the permit process. Budget measures that support the development of a more efficient program including a pilot that our members could participate in would be a positive step forward.

As an extension to these Budget 2017 recommendations, there are additional factors that will need the government's attention as it moves forward with its economic priorities. The impact to the automotive industry and its ability to protect its existing footprint will need to be a filter to all discussions/planning.

Trade Growth

Future North American automotive sector investment hinges in large part on whether the industry is able to fully participate in, and benefit from trade agreements, including those with emerging markets such as China, as well as those that have not yet been ratified, specifically, the TPP.

Our members remain concerned that the tariff outcomes in the TPP are not aligned with those secured by the U.S. and this will seriously disadvantage Canada's competitiveness. Due to the high level of North American integration it is critical that Canada and the U.S. are aligned in trade outcomes from an auto perspective and we encourage the government to further examine what options are available to ensure there are equitable terms for Canada.

As Canada moves forward with key trade agreements it is also critical that the acceptance of consistent standards, including FMVSS/CMVSS and emissions, are included.

Climate Change

The CVMA supports efforts to address effects of climate change globally but measures will have to be collaborative and balanced to support competitiveness.

Public policies should not take for granted the significant light duty vehicle fleet (passenger cars and light trucks) and heavy duty vehicles and engines GHG reductions seen to date and expected by and post 2025 that have and will result from the coordinated regulatory efforts of Environment Canada and the US EPA. The industry is highly integrated with the United States and it is essential to maintain this coordinated Canadian and US regulatory and industry approach to the reduction of the on-road light duty vehicle fleet GHG emissions.

Harmonization also provides regulatory certainty in Canada and allows vehicle manufacturers to focus their efforts on meeting these progressively more stringent vehicle GHG emission regulations on a national and North American level. These actions are consistent with the activities and objectives of the RCC and the June 29, 2016 Leaders' Statement and Action Plan on the North American Climate, Clean Energy, and Environment Partnership.

Under the Pan-Canadian framework, the federal government and the provinces must coordinate their efforts on climate change and identify solutions that do not undermine the competitiveness of Canada's automotive manufacturing industry and the economy. Vehicle manufacturers have and will continue to work collaboratively with the government to support their objectives in the area of the Climate Action and vehicle GHG emissions reductions.

A joint Canadian and US government and industry approach is the most effective way to achieve the government's GHG reductions without compromising the strength of the Canadian economy or constraining Canadian consumer choice.

Vehicle manufacturers have and will continue to work collaboratively with the government to support their objectives in the area of the Climate Action and vehicle GHG emissions reductions.

The government's thoughtful consideration of these recommendations would be greatly appreciated and the CVMA would welcome an opportunity to discuss with appropriate officials as the budget is developed.

Yours sincerely,

Mark A. Nantais
President

cc: Hon. B. Morneau, P.C., M.P., Minister, Finance Canada
Hon. N. Bains, P.C., M.P., Minister, Innovation, Science & Economic Development
J. Oliver, M.P., Chair of Government Auto Caucus
C. Carrie, M.P., Chair of the Conservative Auto Caucus

File: 11010JSH5_16
Pre-Budget Submission