Canadian Vehicle
Manufacturers' Association
Association canadienne
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The Honourable Charles Sousa, M.P.P.
Minister of Finance
c/o Budget Secretariat
Frost Building North, 3rd Floor
95 Grosvenor Street
Toronto, ON M7A 1Z1

Re: 2017 Ontario Budget Consultation

Dear Minister:

Thank you for inviting the CVMA to participate in the public pre-budget consultation process.

The CVMA appreciates the government's ongoing dialogue with industry and was very pleased that the auto sector occupied a place of prominence in the 2016 Ontario Economic Outlook and Fiscal Review presented on November 14, 2016. As referenced it remains critical that industry and both the provincial and federal government continue to collaborate and coordinate policies and actions to build a long term competitive environment for investment. As your department stated in the Economic Update, the Jobs & Prosperities Fund will remain an important mechanism to leverage new investment and provide support for R&D and innovative production.

As you are also aware, our member companies concluded successful labour negotiations earlier in the fall without labour disruption which was a positive for the industry and the thousands employed by the industry in Ontario communities. While this is good news, strong competitiveness headwinds continue to prevail and they too will need to be addressed.

Another issue of importance is the new U.S. administration and how it moves forward with climate change, trade and regulatory issues, all of which individually and collectively has the potential to impact Canadian industry. Ontario will need to be vigilant and agile in their response to U.S. announcements that would impact our competitiveness.

With these considerations, the CVMA submits three key recommendations for the 2017 Ontario Budget:

1. Globally Competitive Investment Supports

Ontario needs to ensure that competitive, flexible and aggressive investment incentives are in place on an ongoing basis to attract new investment mandates. Long term certainty is as important as the supports themselves that must be meaningful, flexible and timely.

2. Energy Policies That Do Not Undermine Competitiveness

The Ontario auto manufacturing sector has become increasingly more energy efficient, while having among the most productive and award winning quality plants in North America. However, uncompetitive energy costs and the anticipated increases as a result of the Cap and Trade policies, are now a leading vulnerability for future Canadian auto investment and ranks among the top reasons not to invest here (in Ontario). Understanding the correct comparable electricity cost between Ontario and competing jurisdiction is essential to understanding the competitiveness implications. We are also concerned that the gap is growing, and carbon pricing will increase pressure on electricity rates, adding cost to run our paint shops and heat our buildings, further widening the competitive disadvantage.

Electricity:

Ontario's electricity rates are as much as 2 to 3 times greater than those of the best auto plants in the United States. While innovation and production improvements can offset some operational costs, the more competitive energy rates in other U.S. jurisdictions, can create a significant disincentive to invest in the province, particularly when considered in aggregate with cost competitive issues in the province.

Current programs (Industrial Electricity Incentive Program and the Industrial Conservation Initiative Program) do not work for large scale automotive assembly plants. Two and three shift operations that are necessary for maximum capacity utilization and productivity are unable to load shift.

CVMA members suggest the province explore an indirect offset or rebate program, as well as other direct measures such as co-generation supports and rate reductions to help mitigate the significant increase in operational cost.

The CVMA recommends the following to address these concerns:

1. A program of large industrials in Southern Ontario which is like the Northern Industrial Electricity Rate (NIER) type of program.
2. A new Industrial Electricity Initiative Program stream designed to support industrial retention (as the current programs are closed).
3. Industrial rate mitigation must be embedded in the Long Term Energy Plan (LTEP) currently being developed.

Cap & Trade:

The United States remains the main destination for Canadian-built vehicles, with the U.S. accounting for almost 80% of Canada's total automotive trade by volume; and, 97% of automotive exports.[1] As such, the Canadian industry is highly trade exposed and this needs to be reflected in Ontario policy decisions including Cap and Trade.

The CVMA recommends the following regarding Cap & Trade Program:

- No impact on energy cost both now and post-2020.
- 100% free emission allowances post-2020 recognizing Ontario auto's very high trade exposure (95% plus production is exported) and high risk of carbon leakage.
- A cap decline slope that is manageable post-2020.
- Reinvestment of Cap and Trade program revenues into energy efficiency projects to reduce greenhouse gases (GHGs) and offset additional costs is required.
- The ability to stack Cap and Trade utility incentive programs with recycled Cap and Trade revenue to support the hard-to-do energy conservation projects (electricity and natural gas) to improve industrial competitiveness; companies need to be able to apply these towards natural gas conservation and electricity efficiency projects in a flexible, simple to apply/qualify for format to improve industrial competitiveness.

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[1] *"Whatever Happened to Canada's Automotive Trade Surplus"* (Holmes), Automotive Policy Research Centre (APRC), March 2015.

Electric Vehicle Enhancement:

As announced, a partnership approach between the Ontario government and industry is the best and most effective way to reduce GHGs, preserve consumer choice and achieve the government's goal of reducing vehicle fleet GHG emissions.

We support the EHVAP (Electric and Hydrogen Vehicle Advancement Program) and the ongoing need to need for the EVIP (Electric Vehicle Incentive Program) to remain. Ontario's incentives are the highest which shows the Province's leadership and commitment towards creating demand for electric vehicles which encourage consumers to consider these vehicles seriously in any vehicle purchase decisions. Through the use of mutually supportive policies such as electric vehicle incentives for consumers, increased education and awareness and the collaborative partnership effort, these activities will support increased consumer demand without constraining consumer choice or negatively impacting Ontario's economy. To maximize GHG emission reduction from the transportation, the federal government, provinces and territories must continue to support nationally aligned vehicle GHG regulations as the most cost effective approach to achieve emissions reductions for government and consumers. Overlaying sub-national policies on these national regulations, or those which are not aligned across North America, will sub-optimize the industry's ability to effectively deploy these technologies, undermining the cost effectiveness and affordability of vehicles to consumers.

3. Continue Attention to Red Tape Reduction

We request that the government continue its examination of how various regulations impact business operations and competitiveness. While many of these may appear more as irritants than major issues, in aggregate they contribute not only to increased costs but are seen by investment decision makers to increase the cost of doing business here.

The Red Tape Challenge: Automotive Parts Manufacturing Report has now been released and we encourage the Ontario government to take the recommended steps to reduce red tape in the automotive sector.

Minister, attention and action on the above recommendations would support the strength of Ontario's auto sector competitiveness and its ability to provide to the province over 115,000 jobs, millions of dollars in tax revenues and exciting innovative research and development opportunities.

Please do not hesitate to contact me directly at 416-364-9333 if you would like to discuss further.

Yours sincerely,

Mark A. Nantais
President

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