



February 16, 2016

The Hon. Charles Sousa, M.P.P.
Minister of Finance
c/o Budget Secretariat
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**Canadian Vehicle
Manufacturers' Association**
Association canadienne
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**Re: 2016 Pre-Budget Consultations
Canadian Vehicle Manufacturers' Association (CVMA) Recommendations**

Dear Minister Sousa:

The auto manufacturing industry continues to bring exciting new developments to the advanced manufacturing operations and the assembly of vehicles in Ontario providing benefits to communities, local and provincial economies, and to consumers. The sector is a key driver of high value-added manufacturing jobs and in 2014, contributed nearly \$16 billion to Ontario's GDP.

The CVMA appreciates the commitment of the Ontario government to work in partnership towards a business climate that will support the improved competitiveness of the sector as it vies globally to gain crucial mandate decisions that will maintain the industry's footprint and its contributions to the provincial and local economies.

Ontario has significant potential to play a leadership role at a very transformative point in time for auto manufacturing. As companies invest in technologies to meet lower emission targets and to continue the evolution of the vehicle as a hub of connectivity, an ongoing partnership with government will be critical to ensure there is the right mix of policies in place to support this progress. Given the intense competition from other jurisdictions for auto investment, we will need to work towards addressing key factors that increase the costs of doing business in Ontario and that will, in turn, impact global investment decisions.

As part of pre-budget considerations, the CVMA recommends that the province:

1. Compete for Investment with Globally Competitive Investment Supports
2. Ensure Cap and Trade policy acknowledges the auto industry's high risk for carbon leakage (high trade exposed)
3. Better Align Electricity Rates with Competing Jurisdictions
4. Reduce the Fully-Loaded Cost of Labour - WSIB & ORPP

1. Compete for Investment with Globally Competitive Investment Supports

As a fundamental requirement, Ontario needs to ensure that competitive, flexible and aggressive investment incentives are in place on an ongoing basis, in order to attract ongoing new investment mandates.

The province's *Jobs and Prosperity Fund* begins to address the need for the province to provide globally competitive supports. Given the increased competition between jurisdictions for automotive investment, Ontario must ensure certainty in support measures that are meaningful, flexible and timely.

Supporting research and development is another area where Ontario has opportunity to attract further investments. In order to build upon on the world leading innovation that is already taking place in Ontario, the province should consider an increase in the Ontario Research & Development Tax Credit and include the allowance of a tax credit for capital expenditures.

2. Cap and Trade Policy

The CVMA acknowledges the need to reduce carbon emissions and support a broad based, economy-wide approach. The Ontario government recognizes that it is very important that the Cap and Trade program be designed in such a way that it efficiently reduces GHG emissions, but that at the same time, prevents carbon leakage and supports investment in Ontario.

To keep Ontario auto manufacturing competitive, prevent carbon leakage, attract investment and new product mandates, we ask that the Cap and Trade program design include a:

- Designation of the auto sector as very high risk for carbon leakage as a result of being very trade exposed. Ontario's auto manufacturers export 95 to 99% of all production;
- Assistance factor of 1 (100% free allocation) until competing jurisdictions adopt similar programs. Our understanding is that for the first compliance period an assistance factor of 1 is to be provided to transition industry into the program; this is a necessary and positive step;
- Cap reduction factor of 1% that recognizes auto's past performance in reducing emissions;
- Mechanism to mitigate the impact of increasing electricity costs as a result of carbon in Ontario's electricity supply for trade exposed sectors; and,
- Mechanism to mitigate increasing Ontario auto supply chain costs as a result of direct and indirect carbon in the supply chain.

3. Reduce the Fully-Loaded Cost of Labour – WSIB & ORPP & Enhancing Labour Flexibility

The fully-loaded cost of labour remains much higher than comparable jurisdictions. The CVMA supports efforts to improve income security, however, we caution that proposed changes to Workplace Safety and Insurance Board (WSIB) and the new Ontario Retirement Pension Plan (ORPP) could result in further cost increases and adversely affect industry's competitiveness.

The WSIB continues to aggressively address system costs as it moves to ensure that it is fully funded as directed by the Auditor General. It is imperative that the WSIB's current unfunded liability be eliminated and that no further additional burden be imposed upon the employer. We note that the government has passed Bill 144, introducing full indexation yet the 72-Month Lock-In Provisions remain. The issue of balance and fairness for employers must be addressed.

The introduction of the Ontario Retirement Pension Plan (ORPP) and the allowance of "comparable plans" will provide greater flexibility for employers and ultimate benefit to employees by recognizing any pension plan program that provides employees a benefit that is *equal to or better than* the amount provided by the ORPP. As it is currently understood, this would also include any Defined Contribution pension plan or RRSP program that has an *equal to or better than* contribution rate than is required by ORPP. It remains critical that the

implementation of the ORPP does not increase costs for large-scale employers in the province, mitigating the intended program objectives.

The ability to maximize the asset utilization of Ontario automotive plants is critical in order to achieve a competitive business case, and in order to be able to compete for ongoing investments. Flexibility in scheduling hours worked is critical in order to achieve a competitive automotive workforce in Canada, including scheduling shifts to allow automotive plants to be run at maximum capacity. We encourage Ontario to support flexible workforce scheduling by streamlining and facilitating the approval process for flexible work schedules that provide a greater benefit to employees than what is narrowly prescribed in the ESA.

4. Better Align Electricity Rates with Competing Jurisdictions

Ontario's electricity rates are more than double that of neighboring Michigan. 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 Ontario.

Many of the current programs in place are not applicable to large operations and despite the conservation measures our members have taken, energy prices continue to rise. According to the latest Ontario Long Term Energy Plan, industrial rates will increase 30% by 2018.¹

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.

We believe that addressing these issues will enhance Ontario's competitiveness.

The members of the CVMA greatly appreciate opportunities to meet and work with the Ontario government on the development of policies that support manufacturing and are globally competitive to support and grow auto manufacturing in Ontario.

We would be pleased to discuss any of the recommendations in more detail at your convenience. Please do not hesitate to contact me at 416-364-9333 or by email at mnantais@cvma.ca.

Yours sincerely,



Mark A. Nantais
President

File: 11010JSBG_16
PreBudget (Provincial)

¹ AMPCO Benchmarking Online, <http://www.ampc.org/index.cfm?pagepath=Analysis/Benchmarking&id=36556>