

Fiscal and Investment Scorecard

Priority	Initiative	Resp.	Timing	Status	Comments
A	Investment: Sustain, better coordinate, improve flexibility and transparency of Automotive Investment Incentive Programs	FED	ST	R	TPC has committed \$401M in support. TPC no longer applicable for automotive investments going forward. Some policy consideration towards supports for industry-led innovation.
		ONT	ST	G	\$650 million Next Generation Jobs Fund announced in June 2007.
		QUE	ST	R	2006 Budget: \$75m over 3 years for innovation and R&D activities in university research and improved R&D incentives for businesses. Nothing specific to Manufacturing.
A	Establish a refundable Investment Tax Credit (ITC) for new machinery and equipment	FED	MT	Y	2007 Federal Budget temporarily increased the capital cost allowance rate to 50% straight-line rate for purchases between Mar 19, 2007 and 2009. CAPC supports an extension of this provision but prefers a refundable tax credit for new auto assembly and component manufacturing machinery and equipment to assist companies not in a position to write down taxes.
		ONT	MT	R	No progress to date. CAPC will continue to pursue refundable tax credits for new auto assembly and component manufacturing machinery and equipment.
		QUE	MT	Y	Quebec corporations that acquire manufacturing and processing equipment are entitled to a capital tax credit that was increased from 10 to 15% until January 1, 2011.
A	Eliminate/Reform Feebate Program	FED	ST/MT	R	2007 Federal Budget imposed manufacturer levies to fund the ecoAuto and Green Levy program rebates of up to \$2000 or levies up to \$4000 based on vehicle fuel efficiency label rating.
		ONT	ST/MT	R	Tax for Fuel Conservation (TFFC) applies levies on most vehicle sales in Ontario and rebates up to \$100 in limited circumstances (minivans and pickup trucks exempt).

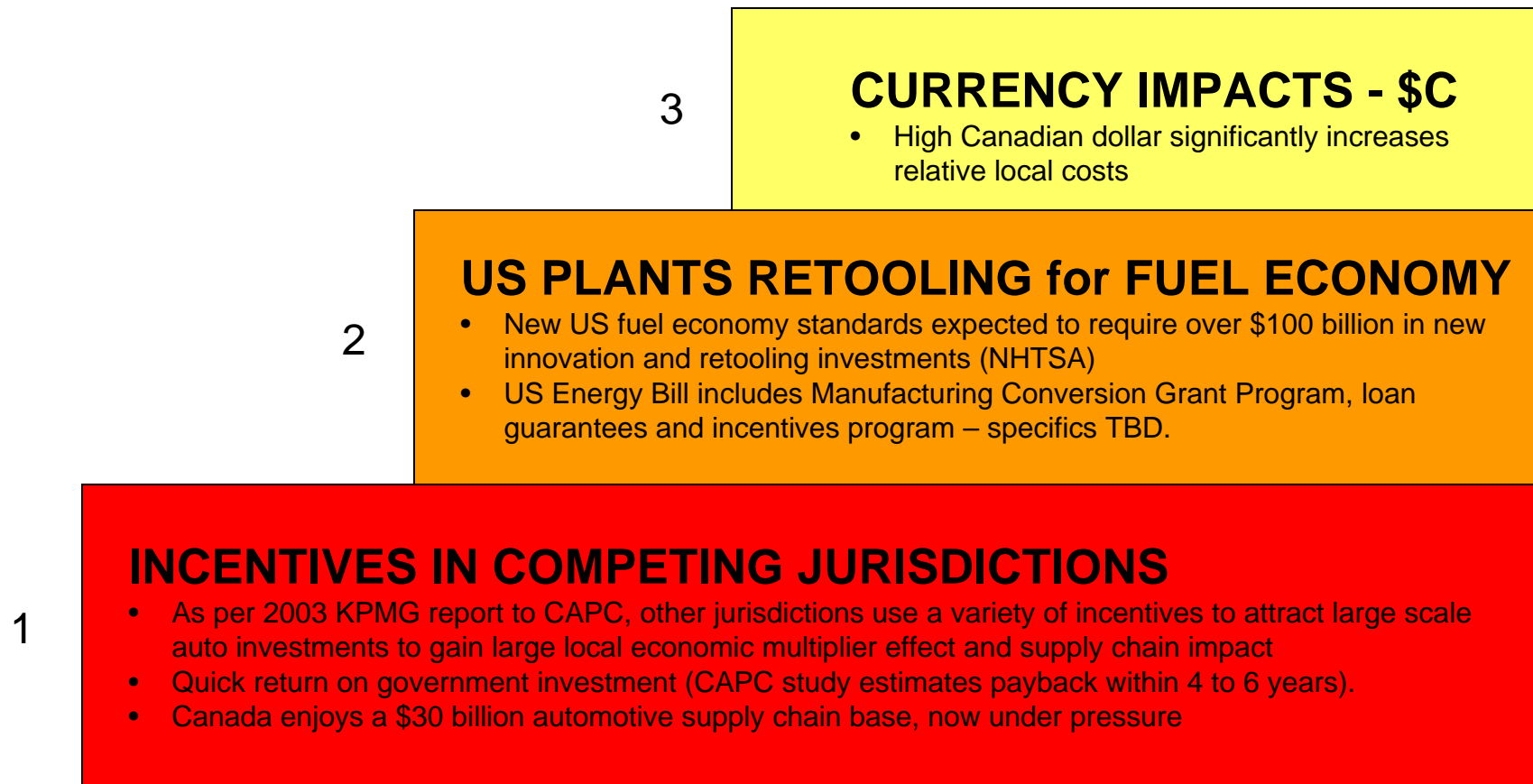
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B	Extend loss carry-back period to 10 years to allow monetization of tax losses	FED	ST	R	By extending the carry-back period to 10 years, unutilized losses could be used to recover taxes previously paid to fund critical investments in times when business are not in tax-payable position.
B	Eliminate Capital Tax	FED	ST	G	The Federal Government eliminated the Large Corporation Tax January 1, 2006.
		ONT	ST	G	Accelerated elimination of capital tax by Jan 1, 2008 for manufacturing sector (0.3% in 2006, .225% on Jan 1, 2007 and elimination on Jan 1, 2008) and reduction of rate for all sectors by 21% retroactive to Jan 1, 2007.
		QUE	ST	Y	The tax rate on capital, which currently is at 0.36% in 2008, will be reduced to 0.24% in 2009 and 0.12% in 2010. Capital Tax will be completely eliminated on January 1, 2011. Quebec corporations that acquire manufacturing and processing equipment are entitled to a capital tax credit (see above).
B	Reduce general Corporate Tax Rates	FED	MT	G	2007 Fall Economic Statement reduces the general corporate rate to 15% by 2012 starting with a 1% reduction in 2008 beyond the already scheduled reductions. GST reduced 1% to 5% Jan 1 2008 (7%-6% reduction done in 2006).
		ONT	MT	R	Announced rate reductions repealed by the government. The Manufacturing & Processors (M&P) rate was to drop to 8% in 2006 but has reverted back to 12%. Coordinated income tax collection will lower corp. tax processing costs (+).
		QUE	MT	R	Corporate income tax rates for Quebec companies will increase from the current 9.9% to 11.9% in 2009.
B	Harmonize Provincial Sales Tax with GST	ONT	MT	R	No progress to date. CAPC will continue to pursue refundable tax credits for new auto assembly and component manufacturing machinery and equipment.

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Automotive Investment - Competitiveness Step Challenges for Canada



February 2008

Summary – CAPC Fiscal, Investment and Innovation Working Group Presentations to the CAPC Meeting 5 February 2008, Ottawa

The presentation was supported by the attached updated CAPC Fiscal Investment Working Group (WG) Score Card. The Innovation Working Group has submitted a separate and more detailed update as well.

Industry Investment and Competitiveness Challenges - Update

The challenges to Canadian industry's ability to attract the large scale mandates and related investments which anchor the Canadian automotive industry and supply chain continue to increase. While most attention is rightly focused on the competitive challenges posed by the sharply lower US dollar (and relative cost pressures in Canada) the Canadian competitiveness challenge continues to also be driven by other factors with direct public policy implications.

1) Competitive Incentives - Competing jurisdictions in the US and elsewhere continue to provide investment incentives (or tax offsets) ranging from 15% - 30% or more of total investment or reinvestment costs. As outlined in the CAPC KPMG study these jurisdictions are focused on retaining the strong social and economic benefits derived from large local automotive supply chains. A further CAPC study has indicated these government investments "pay themselves back" in taxation and related benefits in 4-6 years.

2) Green Retooling Supports - Added to this competitive challenge is concern in facing the massive investment implications of the new US Energy Bill which mandates a 40% fleet fuel economy improvement by 2020 – (approximately 2 product cycles). NHTSA conservative cost estimates for this change by US industry exceed \$100 billion. Accordingly, the US Energy Bill provides for green retooling incentives for US auto plants to assist them to adapt to this challenge – with estimates for this support in the range of \$10-\$20 billion in loan guarantees and related supports. Program specifics are yet to be determined. While Canada has proposed to follow the US 40% fuel economy requirement, it has not indicated whether it will support the necessary investments to achieve this extraordinary technological and investment challenge in Canadian operations.

3) Currency Impacts – The rapid move to currency parity with the US dollar has significantly increased the relative cost (and therefore competitiveness) of Canadian-purchased goods and services including energy, raw materials, parts, labour and related benefits and pension costs. While companies are aggressively moving to reduce costs, hedge their currency exposure and move to higher added value activities, the speed of the adjustment has been punishing.

Responding to the Competitiveness Challenge

While Canadian automotive companies move quickly to reduce costs and further enhance their existing productivity and quality leadership in North America, public policy also plays a critical role in our industry's ability to meet the competitiveness challenge outlined above.

The CAPC Fiscal and Investment Working Group continues to monitor progress in its areas of recommended action through the Score Card process. The WG's recommendations for Action come in 3 key broad areas:

- Competitive incentives
- Competitive tax policy
- Competitive innovation and R&D support

Several important developments have been noted in these areas since the last CAPC meeting. Overall, however, Canada lacks the competitive fiscal and innovation policy framework needed to meet short re-investment challenges and the transformative innovation changes that will be required to address new environmental standards and ongoing competitive pressures from within North America and beyond. The Fiscal and Innovation Working Group believes these challenges can be met with coordinated and urgent policy action.

Score Card Update – Key Highlights

A) Competitive Investment Incentives

The most significant and welcome change was Ontario's announcement in June 2007 of a \$650 incentive fund as part of its Next Generation Jobs strategy. Criteria are still being finalized but various proposed investments are under discussion.

The former federal TPC fund is no longer applicable to the auto sector and has transformed into a fund which supports Aerospace investments in Canada. The federal announcement of a \$1 billion community support fund (with \$350 million earmarked for Ontario) is welcome. However questions remain as to whether the fund will be accessible by the auto sector which notably has many "one industry towns" across Ontario.

As noted above, Canada has indicated it will follow the new US 40% Fuel Economy improvement requirement. Consultation has begun on new Canadian fuel economy regulations but there are no indications as to whether supports for advanced environmental innovation retooling will be provided as in the US.

The Fiscal and Investment WG continues to mark as its highest priority the need for targeted investment partnership funds or similar mechanisms at both the

provincial and federal level. This approach has already proven to be an effective policy tool to secure key investments, enhance competitiveness and assist in transforming the industry.

As federal and provincial governments consider new incentive supports, it is essential that these be made timely in their application, sustained, directly accessible to businesses and qualification should be founded in a broad range of accepted policy priorities: i.e. support for investments that increase skills capability, apply advanced flexible manufacturing systems, enhance energy or environmental efficiency, engineer, develop and commercialize new technologies and enable Canadian automotive companies and their suppliers to develop and export these advances.

B) Competitive Taxation Policy

Another highly significant and welcome tax policy development since the last CAPC meeting has been the federal Government's announcement that it will reduce the general corporate rate to 15% by 2012 starting with a 1% reduction in 2008 beyond the already scheduled reductions. The GST has also been reduced 1% which benefits new vehicle sales. Similar reductions have not followed in Ontario or Quebec. The WG also supports sales tax harmonization between the provincial and federal levels.

Both Canada and Ontario, with its 2007 Fall Economic Statement, have now eliminated Capital taxes applied in the manufacturing sector and Quebec will do so by 2011 – Capital taxes are the most directly punitive to new investment so this step is also very significant.

The federal government has increased the capital cost allowance rate to 50% until March 2009 and Quebec allows new machinery purchases to reduce Capital taxes. While this step is positive (and Ontario is encouraged to follow), the WG joins other industry groups in strongly recommending that such assistances be extended. Additionally, the WG continues to pursue refundable investment tax credits to ensure that the many automotive companies not in a taxable position be able to benefit and utilize this advantage for new investments.

The WG has provided additional tax-policy based recommendations to respond to the need for improved fiscal competitiveness including the elimination of the federal "feebate" program and its unwelcome \$50 million tax on auto companies as well as tax policy changes that would extend the loss carry-back period to 10 years to allow Canadian automotive companies in a loss position to monetize their tax loss carry forwards to fund much needed investments. It is noted that Canada may need to exceed the tax provisions provided in other jurisdictions to regain and overall competitive position.

While important recent tax changes are welcomed, the WG has noted that many Canadian automotive companies are not in a position to benefit from tax-based assistance at this critical time. Many are not in a position write down taxes as a result of the impact of dollar appreciation on profitability as well as many related factors beyond their immediate control.

A mix of policy actions is therefore required.

C) Competitive Innovation and R&D Policy

Key recommendations of the Innovation working Group were also presented in this session as these are particularly important in light of the government mandated fuel economy / environmental technology challenges that are expected to transform the North American industry over the coming decade.

CAPC seeks to establish a Canadian Automotive Advantage based on higher value added skills, processes and technologies that will be competitive and required by the automotive industry worldwide. Canada's Innovation, Science and Technology policies and supports can have a critical role in assisting with the transformation of Canada's Auto industry.

Several recent positive developments were noted including renewed funding for Auto 21 to 2015, the CANMET move to Hamilton and several university-based auto R&D projects with particular note of light weight materials advanced research and capability in Quebec. Industry Canada's consultation in the area of Science and Technology policy has been well received and the WG hopes this will lead in the very near term to new policy directions to help enhance the competitive policy environment for Canada's Auto sector.

Highest priority recommendations in this area are for policy changes to make Canada's generous R&D and innovation funding supports more directly accessible to Canada's automotive companies. It is noted that these companies are usually the prime drivers of the commercialization of R&D in the auto sector. It is also stressed that the fuel economy challenge of the coming decade will require massive innovation and investment in the Canadian automotive supply chain.

It is recommended that:

- SR& ED credits be broadened to apply to manufacturing-related innovation and be made fully refundable.
- New and direct innovation supports also be made available to assist Canadian-based automotive companies investing in higher level skills, innovation, R&D and retooling to meet the environmental challenge of the next decade and build a Canadian Automotive Innovation Advantage.