

Fiscal and Investment Scorecard

November 2008

Priority	Initiative	Resp.	Timing	Status	Comments
A	Improve liquidity for vehicle buyers, dealers and manufacturers and automotive suppliers	FED	Urgent	R	Canadian vehicle and parts exports affected by US market collapse and liquidity crisis. Direct or indirect measures needed to provide rapid access to improved liquidity for vehicle purchasers, dealers and manufacturers and suppliers to ensure industry survival. Also need to compete with \$25 billion low-interest loan program established for auto industry in US.
		ONT	Urgent	R	

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CAPC Fiscal Working Group - Liquidity is the Essential Issue

Canada's auto industry's immediate challenge is the collapse of the US market. Many auto exporters are trying to survive the collapse of the US auto market for new vehicles. To date, the Ontario and Federal Governments have provided support to assist in competing for large-scale investments – but this challenge now is different, urgent and severe. Cooperative work is needed to help Canadian auto exporters and their suppliers survive.

In the past few years, the challenge in Canada has been the need to remain sufficiently competitive to win new auto investments (against the incentives and competitive cost advantages of other jurisdictions). The high C\$ and high fuel prices also hurt Canadian manufacturers badly. Ontario policies (e.g. NGJF, the AMIS, capital tax elimination for manufacturers) and Federal policies (AIF, accelerated depreciation, SR&ED, capital tax elimination) helped and they remain essential for the future. BUT unprofitable companies cannot benefit from tax assistance and the investment programs are proving too cumbersome and too time-consuming.

And the auto industry now faces a new and far more serious challenge – the collapse of the US auto market. The industry exports more than 80% of its finished products into the US market. The collapse of the US auto market (driven by a US crisis in credit and confidence) leaves Canadian exporters trying to balance huge fixed costs and severe export revenue declines. Huge cost reductions are underway. Banks are of little or no help in providing loans to help companies stay afloat. In these credit-constrained times, auto dealers and vehicle purchasers also are having trouble accessing the necessary liquidity.

The availability of cash – or liquidity – has become the essential issue where cooperative action is needed. The CAPC Fiscal Working Group recommends direct and indirect measures to provide rapid access to improved liquidity for vehicle purchasers, dealers, manufacturers and suppliers.

There are several possible approaches to this but ideally any initiatives should be fast and coordinated between the Federal and the Ontario governments. New programs with complex covenants and requirements will not help.

In addition, the new US national fuel economy regulations, being finalized in the next six months, are expected to cost the auto industry over \$100 billion in North America. The industry is now spending huge sums on technology and product plan changes to meet the new standards. The US Government has responded with a US \$25 billion loan program that is being finalized to support these costs and address the lack of liquidity in the US to make the required investments. Europe is considering a \$50 billion program. While Canada has not yet

responded, without access to low-interest loans, Canada will be unable to compete for the massive investments needed to meet the new fuel economy standards.

Especially in these challenging times, the industry needs the lead time, liquidity and economies of scale associated with a single, national fuel economy standard harmonized with the new US Federal standard.