

Briefing Note for the Ontario Auto Mayors

Subject: Automotive Innovation Fund (AIF) and Automotive Supplier Innovation Fund (ASIP)

Prepared by Automotive Policy Research Centre (APRC) (<https://aprc.mcmaster.ca/>)

Background on Issue:

1. Governments around the world have attempted to attract manufacturing investment by providing funding and incentives for capital spending, manufacturing innovation, and R&D.
2. The Government of Canada currently provides sector-specific incentives to the automotive industry through two major programs: The Automotive Innovation Fund (AIF) and the Automotive Supplier Innovation Program (ASIP). The AIF aims to support automotive OEMs and major suppliers (e.g. Magna and Linamar), while ASIP aims to support small and medium-sized enterprises (SMEs).
3. The federal government introduced the AIF in 2008, providing \$250 million over 5 years to support large scale and long-term automotive investments.
 - a. The AIF was renewed in 2013 with an additional \$250 million to be spent over 5 years. This was further supplemented in 2014 with an additional \$500 million;
 - b. The program offers funding for proposals that provide more than \$75 million in private sector investment over 5 years;
 - c. The amount of government support offered is usually between 5% and 15% of the total investment;
 - d. Proposals are assessed on their ability to contribute to R&D capacity, the creation of knowledge-intensive jobs, the federal government's science and technology strategy and environmental agenda, the development of new technologies and processes, the potential for long-term economic benefits to Canada including job creation and retention, and the potential to attract further investment;
 - e. Recipients to date include Toyota, Ford, Magna International, and Linamar.
4. The federal government introduced ASIP in 2015, which provides \$100 million over 5 years to fund investments in production and process innovation by small and medium-sized automotive parts firms
 - a. ASIP provides funding to firms developing new commercially viable products and process technologies of up to \$10 million and 50% of the total investment;
 - b. ASIP contributions are non-repayable;
 - c. Proposals are assessed based on their technology readiness, market relevance, potential economic, environmental, and science and technology benefits, and capability of recipient to achieve their stated objectives;
 - d. Recipients include Exco Technologies, Pravalva Car, Verbom, The Electromac Group, Axiom Plastics, Landau Gage, Palcam Technologies, Novo Plastics, and Mojio.

Analysis & Commentary

1. The AIF has helped secure automotive investment by supporting the individual plans of automotive manufacturing companies, but it is not part of a coordinated policy which brings together all levels of government.
2. Industry stakeholders indicate that the value of the AIF is undermined because the money received through AIF comes in the form of a repayable loan with no interest or interest far below commercial rates.
 - a. Because interest on AIF contributions is below commercial rates, funding received through the AIF is taxed as income during the year in which funding is received;
 - b. Industry stakeholders have also criticized the complexity and length of the application process;
 - c. As a result, some OEMs, including Honda and FCA, have declined to access the AIF despite the likelihood that major investments in Canadian facilities were eligible for such funding.
3. The ASIP has been in existence for only one year, and appears to be successful at funding innovation and R&D in small and medium-sized automotive parts and tooling suppliers
 - a. The ASIP has funded diverse projects at ten small and medium-sized enterprises, all of which are Canadian-owned;
 - b. The focus of the projects funded by ASIP include high-end plastics manufacturing, vehicle connectivity, 3-D printing, and precision tooling.

Recommendations

Canada's federal financial supports for the automotive industry are important indicators of the government's support for the automotive industry. However, the AIF is structured in ways that makes it cumbersome to use. Hence many companies do not access the AIF, making it a less valuable policy tool for investment attraction. Producers indicate that existing programs such as AIF and ASIP would be more effective at attracting investment if the support offered was structured as non-taxable grants. A second hindrance of federal automotive policy supports is the lack of easy coordination between its programs and those offered by the Government of Ontario. As Canada's automotive industry is concentrated in Ontario, it is imperative that these two jurisdictions align their automotive policy tools to optimize national benefits from new automotive investment.

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