

## Briefing Note for the Ontario Auto Mayors

### Subject: Provincial Incentives for Automotive Manufacturing

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

#### Background on Issue:

1. Automotive-producing sub-national jurisdictions throughout North America provide a variety of incentives and policy supports to automotive OEMs and in some instances parts suppliers. In order to attract capital investment for existing or new facilities, especially assembly operations, it is important that the Government of Ontario continue to offer support for investments and innovation, including incentives, to ensure that Ontario is competitive with other jurisdictions.
  - a. The value and type of incentives offered by our competitors in the U.S. and Mexico varies considerably from jurisdiction to jurisdiction;
  - b. In addition to cash incentives, many US and Mexican jurisdictions provide quantifiable support to automotive OEMs in the form of tax breaks, infrastructure (e.g. improved access to roads, railways, and utilities), land, and training.
2. Ontario provides incentives and support to automotive OEMs and parts suppliers through several non-sector-specific programs
  - a. Most programs provide direct support valued at between 10% to 15% of the total investment, and are targeted at investments with particular values, and often prioritize the potential for the investment to create or maintain jobs;
  - b. The largest of these is the Jobs and Prosperity Fund (\$2.5 billion over 10 years), which provides support for investments over \$75 million, and been used to support investments by Ford, Toyota, Honda, Linamar, Mitsui High-Tec, and most recently, Fiat-Chrysler;
  - c. Other established programs, such as the Southwestern Ontario Development Fund and the Eastern Ontario Development Fund have provided support to dozens of automotive parts suppliers, from globally-competitive Canadian firms (e.g. Linamar and Magna) to international suppliers with operations in Canada (e.g. Brose, Toyota Boshoku, Nemak, Flex-N-Gate, Hanon Systems) to a wide array of small and medium-sized Canadian enterprises.
3. Ontario recently announced sector-specific funding through the Automotive Supplier Competiveness Program (ASCP)
  - a. The ASCP was announced in March 2016, and is part of the province's Business Growth Initiative;
  - b. The value of the ASCP is \$5 million over two years, and is specifically aimed at helping smaller suppliers increase production and development capabilities;
  - c. A total of \$10 million in funding to the Canadian Urban Transit Research and Innovation Consortium will also provide some support the R&D and commercialization of automotive parts suppliers.

## Analysis and Commentary

1. Ontario's investment incentives are widely used by automotive OEMs, globally competitive domestic and international parts suppliers, and a broad and diverse network of small and medium-sized enterprises
  - a. Ontario's direct investment incentives for OEM's are often less than those of competitor jurisdictions in the U.S., especially those offered by the southern states. Not all governments offer incentives to parts suppliers.
  - b. Automotive OEMs find Ontario's incentive programs more user friendly and flexible than those offered by the federal government.
  - c. Better coordination between the Ontario and federal government programs (e.g. AIF, ASIP) would be helpful;
  - d. A shift towards targeted and sector-specific incentives – as is the case with the ASCP – is underway.
2. The province is home to advanced transportation infrastructure and high-quality publicly-funded secondary and post-secondary educational institutions
  - a. One of Ontario's major competitive advantages continues to lie in its highly trained personnel, in particular engineers, skilled trades, and technicians. Highly trained personnel contribute to high quality production, high productivity and innovative capacity. Ontario's extensive network of community colleges and Universities support the automotive industry;
  - b. Automotive OEMs and parts suppliers that invest in Ontario have access to existing transportation infrastructure.
  - c. The value of these sunk investments must be quantified and taken into account when comparing Ontario's incentives to those in other competitor jurisdictions.
3. Ontario's extensive automotive supply network contributes to the province's automotive competitiveness, and attracts investment from OEM's and other parts makers. As the automobile changes Ontario needs to understand the implications of these changes to its supply network and to support growth in emergent parts production sectors.

## Recommendations

It is important that the Government of Ontario continue to provide automotive OEMs and parts suppliers with support for investments and innovation, including the use of incentives. While non-repayable and non-taxable cash contributions are more flexible and therefore preferred by automotive companies, other types of support may be useful to incent automotive OEMs and parts suppliers to invest in Ontario. These incentives and supports must be assessed relative to their contribution to the standard of living in Ontario, which should include a cost-benefit analysis of the financial returns to the provincial government and the broader goals of economic and social development.

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