



**Submission by
CAW-Canada**

To

**Legislative Committee
on Bill C-30
Clean Air Act**

**February 6, 2007
Ottawa, ON**

**Basil 'Buzz' Hargrove
National President**

Introduction:

The threat of global warming has convinced many Canadians of the need for decisive action to reduce Green House Gas emissions. This committee, in the process of considering amendments to the Clean Air Act (Bill C-30), can improve on Canada's record by strengthening our commitment to environmental sustainability.

The CAW continues to support the Kyoto protocol and the principle of international obligations. While it is getting harder to achieve Kyoto targets we need to be part of a broader community of nations in our efforts to halt and reverse the degradation of our environment.

In the short time available today, my remarks will be limited to what improvements we can make in the auto sector and how we should best go about that task. Even before this committee started its work, the Clean Air Act indicated that a new set of targets and standards would be established for the auto industry.

Passenger cars and light trucks account for about 12% of GHG emissions. While lowering that level requires determined action, the burden on the auto industry should not be disproportionate to its share of GHG emissions. Every industry needs to be part of the solution.

It is our view that the governments should put in place standards that will drive environmental improvements in the vehicle industry.

The standards need to be achievable, effective and constructed in a manner that compels improvements at the same time as they strengthen Canada's auto industry. While there are real challenges to meeting those twin goals, we can achieve both. The economic and social costs of inaction on climate change are too high for us not to meet the former. The costs of the wrong action, in terms of lost jobs and production, are too great for us not to achieve the latter ---- a stronger auto sector.

Other Countries:

Even a cursory review of other countries reveals two important developments. One is that requirements for fuel economy and GHG vehicle emission reductions are being adopted more widely and are becoming more stringent. The second is that national governments have developed those standards and targets in full recognition of the importance of the auto industry to their respective economies and to the national character of their industry.

- In the EU, for example, the standards have been established as emission standards rather than fuel economy standards and they have been set in a way that has favoured diesel engines and fuels --- a continuing strength of European vehicle producers.
- In Japan, where there is heavy congestion and short travel distances, the government has established standards on an average weight basis with tradeable credits across classes and has provided incentives to the mini-vehicle market which now accounts for about 30% of the Japanese market. While the Japanese car companies could not survive by supplying the choice of vehicles favoured by the domestic market and supported through consumption taxes, the offset is equally evident. The Government's policy of maintaining an artificially low yen together with a large and open, lucrative export market in North America allows Japanese vehicle companies to produce and ship larger, more profitable vehicles.
- In China standards have been set on a weight-class basis with a required minimum fuel-efficiency level to be achieved. As others have noted, the Chinese standards have been constructed in a manner that favours domestic production over imports and is part of an effort to encourage foreign automakers to bring more fuel-efficient technologies to the Chinese market.
- In the U.S. the new fuel economy standards for light trucks and the President's proposals for a flexible CAFE standard for cars together with a commitment to renewable fuels, continues to recognize the character of the U.S. industry

When that international experience is translated to Canada it argues strongly for a standard setting approach that;

- sets a new fuel economy standard on the basis of reviewing the strengths and weaknesses of our domestic industry,
- develops standards which recognize the influence of the U.S. market on our production, and;
- establishes differentiated standards by market class which will promote and reward technological developments rather than encouraging product substitution.

Canada's Auto Industry:

In Canada our approach to environmental improvements in motor vehicles needs to recognize three features of Canada's auto industry.

First, our industry is unlike any other country's auto industry. Canadian production is fully integrated with the much larger U.S. and the products we produce---for both historical reasons and current cost structures---are larger vehicles. These include minivans, crossover SUV's, pickup trucks and large cars, the vast majority of which are shipped to the U.S. Two-thirds of the 2.5 million vehicles built in Canada in 2006 were in the largest categories and more than 80% of the engines built here are 8 cylinders. Standards should be set at a level and structured in such a way that supports and drives technological and fuel economy improvements in all of these product groups.

The second characteristic of the Canadian industry is its current vulnerability. By any measure our industry is in trouble. And there is a crisis among traditional North American vehicle producers in Canada:

- Despite strong sales last year Canadian production actually fell by another 4%. Canadian production has fallen from a peak of over 3.0 million units in 1999 to less than 2.5 million last year. We have lost over 500,000 units a year, more than 17% of our peak production.
- There continues to be a massive increase in imports from outside North America. In 2006 imports reached 26% of our market, a level unheard of anywhere else among auto-producing nations.
- For the first time in 18 years Canada will register an overall automotive trade deficit. Our surplus with the U.S. will be more than offset by our deficit with Japan, South Korea, China and the European community.
- We are losing jobs. In assembly we are down 6,000 from the peak in 1999. Any job gains from the new Toyota plant in Woodstock will be more than offset by the losses that continue at Ford, GM and DC. In the auto parts sector we have lost about 7,000 jobs in the last year and every day brings more layoffs and closures.

The Canadian auto industry has been battered by Canada's artificially high dollar. This together with restricted overseas markets, efforts by countries like Japan to maintain undervalued currencies and the right of foreign producers' to unfettered access to our markets has led to layoffs, job losses and plant closures. Our efforts to reduce the auto industry's environmental footprint should not aggravate an already critical situation. This argues for an approach that sets standards across vehicle segments coupled with initiatives to support Canadian production and Canadian investments in 'green' automotive technologies.

The third characteristic of our industry is the degree to which 'green vehicle' technologies are already underway. While some are at an early stage, others are already in vehicles on the road. These include alternative and flex fuel systems, light weight material research and applications, engine and transmission developments such as active fuel management systems and cylinder deactivation as well as advanced technology products including hybrids and fuel cells. Historically, Canada has been a location for final assembly rather than a main site for research, design and development. In recent years we have had some success in altering that pattern, at least among the traditional North American auto producers. If the Clean Air Act is to be effective in the mid-to-long term it means be putting in place now, a program that rewards and encourages those companies who make a commitment to Canadian automotive R&D and compel those who haven't, to support efforts in Canada.

CAW Proposals:

1. Fuel Economy Standards:

The CAW supports the principle of mandatory fuel efficiency standards. In 2003 we argued for a 25% fuel economy improvement by 2010. The subsequent voluntary MOU between the government and the industry, which was an important interim measure, committed the industry to reduce GHG emissions by 5.3 Megatonnes. When the MOU expires in 2010 we need to move to fuel economy standards.

In the Canadian auto industry, it is more useful to develop fuel economy standards than emission standards. Too often emission standards are expressed (as they are currently in Canada) on an industry-wide basis or as a vehicle fleet average. We have argued instead, for a standard that drives improvements and technological innovations in all classes of products, from sub-compacts to SUV's. In addition, setting 'emission standards' in auto, would put us out of step with national standards in the U.S., which continue to be expressed as a fuel economy calculation. While certain jurisdictions in the U.S., such as California, have proposed GHG emission standards, they have done so, at least in part, because they don't have the jurisdiction to set fuel-economy standards and don't have a significant stake in the auto industry.

In Canada the new standards should be a 'stretch' but be reachable. The CAW believes that setting a target for a 25% improvement, phased in from the expiration of the MOU through 2014 and combined with a provision for trade-able credits is an aggressive target and timetable but one that should be achievable. In any event the government and the industry need to move quickly to establish the standard and a clear timetable

2. Renewing the Automotive Fleet:

While standards are important, most analysts agree, that on their own, they will not achieve the desired results. A comprehensive approach that balances standards with

consumer incentives and fee/rebates to industry, together with public procurement initiatives and a broader transportation strategy is required.

Since standards only apply to new vehicles, they have most of their effects over the mid to long term. In fact, new vehicles contribute only about 1% of GHG emissions. The arithmetic is clear. Standards need to be combined with a program to get older vehicles off the road. The federal government has already recognized that incentives are needed to encourage homeowners to retrofit their homes. A similar program is needed to encourage drivers to replace their current vehicles. Incentives to get older vehicles off the road should encourage fuel efficiency/GHG emission improvements across vehicle segments --- minivans, compacts, pickup trucks, SUVs, etc. They should not favour any one technology nor should they inadvertently shift the mix of products. The new incentive program, which should be financed by the government and the industry, should support North American made products which incorporate 'green' technologies.

3. Supporting Canadian Production and Technologies:

Incentives are one element in the equation. Another is a program to support innovations in alternative fuels, engine technologies, and fuel-efficient components. The federal government should introduce a new fee/rebate program. The CAW has proposed a Green Vehicle Transition (GVT) fee to be assessed on each manufacturer that sells into our market, based on each company's total Canadian sales. The fee, set at about \$500 per vehicle would be earned back by those companies who make Canadian investments in 'green' automotive technologies.

4. A Comprehensive Program:

Reducing greenhouse gases means reducing the amount of fossil fuel we consume. In addition to greater fuel efficiency and new technologies we need a transportation strategy that will increase the use of renewal fuels and reduce the use of vehicles overall. This requires investments in clean and alternative fuels, mass transit, rail as well as efforts to reduce gridlock.

CAW Position on Vehicles and Climate Change:

- The CAW recognizes climate change as one of the most critical issues facing our planet. We continue to support the Kyoto protocol and expect Canada to meet our international obligations.
- Every industry needs to be part of the solution and the burden on the auto industry should not be disproportionate to its share of GHG emissions.
- The CAW supports mandatory fuel efficiency standards in the vehicle industry. The standards need to be achievable and effective. They need to be constructed in a manner that drives improvements while at the same time strengthening, rather than undermining, Canada's auto industry. There are real challenges to meeting those twin goals, but we can achieve both.
- Most of the output of our auto industry is exported to the U.S. While this is an argument against 'stand alone' Canadian standards, we should be moving from CAFE style standards to standards by vehicle class.
- Standards have most of their effects over the mid to long term. Canada's cars and light trucks are responsible for 12% of GHG emissions. But standards only apply to new vehicles. And new vehicles contribute about 1% of GHG emissions. The arithmetic is clear. Standards need to be combined with a program to get older vehicles off the road.
- Getting older vehicles off the road should not be directed solely at changing the mix of vehicles. Instead the program should encourage fuel efficiency/GHG emission improvements across vehicles segments---minivans, compacts, pickup trucks, SUVs, etc. A new incentive program, financed by the government and the industry, should support North American made products.
- If we are retiring older vehicles at a faster rate, we should at the same time introduce 'End of Life' recycling requirements and get the jobs associated with it. (These provisions are in place in the EU, 2000 and Japan, 2005).
- In addition, we need programs that support innovations in alternative fuels, engine technologies, and fuel-efficient components. The federal government should introduce a Green Vehicle Transition (GVT) fee on each manufacturer that sells into our market, based on each company's total Canadian sales. Companies would earn back the fees through Canadian investments in 'green' technologies.
- Reducing greenhouse gases means reducing the amount of fossil fuel we consume. In addition to greater fuel efficiency and new technologies we need a transportation strategy that will reduce the use of vehicles. This requires investments in mass transit, rail and other efforts to reduce gridlock and GHG emissions.