

OPINION

Cash for new cars won't help Canada's middle class

By JF CHAMPAGNE (/AUTHOR/JF-CHAMPAGNE) JUNE 24, 2020

Where scrappage programs have been introduced, the results have been mixed, often with unintended consequences for the industry, policy makers, and consumers.



The prospect of offering an incentive for new cars over other services may not align with what middle-class Canadians view as COVID-recovery priorities. Photo by Evgeny Tchegotarev on Unsplash

Canada's automotive industry has been hit hard by COVID-19. The road to recovery will be a long one, as many Canadians may be hesitant to spend their limited funds on luxury purchases like a new vehicle. While there's a role for the federal government to play in supporting the automotive industry post-COVID, taxpayer-funded incentives to purchase a new car—otherwise known as a vehicle “scrappage” program—is not the solution, as it leaves both small businesses and middle-class Canadians out of these recovery efforts.

Canada's automotive aftermarket—professionals dedicated to providing vehicle repairs, service, parts and products—are a crucial component of the country's auto sector. Employing nearly 400,000 workers (more people than agriculture and natural resources), the auto aftermarket has provided an essential service for first responders, front-line workers, and other essential employees throughout COVID-19 who required vehicle maintenance or repair. They've also provided vehicle maintenance for other essential services to support Canada's supply chain throughout the crisis. Many of these businesses are small- and medium-sized enterprises, punching above their weight to keep workers and the economy moving.

Local repair and maintenance shops also provide a convenient, affordable alternative to large car dealerships. As Canadians are increasingly driving their vehicles longer, our independent businesses work hard to provide competitive rates for customers, often at a 20

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per cent or 30 per cent price reduction compared to a dealership service bay.

The post-COVID outlook for Canada's automotive industry is uncertain, but we are optimistic. As more Canadians return to work—and by extension, the roads—the auto aftermarket will continue to play a pivotal role in helping the country's economy and workforce get back to business. Surveys have suggested an increased interest in domestic travel (<https://www.insauga.com/more-canadians-prioritizing-domestic-travel-over-international-study>), which may see more Canadians opting to travel by car over plane or train, resulting in more service calls.

To try and accelerate this recovery, Canada's automakers and car dealerships are proposing government-funded cash incentives to purchase a new vehicle, otherwise known as a vehicle scrappage program. A scrappage program, automakers say, can help sustain the recovery of the sector in Canada while also getting older vehicles off the road by encouraging the purchase of low-emission or electric vehicles.

While a scrappage program may help a handful of automakers manufacturing these vehicles, and financially secure Canadians who can afford to spend tens of thousands of dollars on a new vehicle, it is not a policy that benefits local businesses nor the middle class. Where scrappage programs have been introduced, the results have been mixed, often with unintended consequences for the industry, policy makers, and consumers.

Though a goal of scrappage programs is to support domestic vehicle production, there is not enough evidence these policies will incentivize users to purchase vehicles that are manufactured or assembled in Canada. While strings could be attached to a program offering the incentive exclusively for vehicles made here, automakers have acknowledged this approach is problematic as it would result in only a handful of new vehicles being eligible for the program.

The ability of scrappage programs to reduce greenhouse gas emissions and support a sustainable recovery is also debatable. A 2016 European Commission report found that the effectiveness of scrappage programs in reducing GHG emissions “were rarely positive” (https://ec.europa.eu/clima/sites/clima/files/transport/vehicles/docs/ldv_scrappage_schemes_en.pdf) and that “their economic and industrial benefits appear to be contested.” Here at home, in 2011, a federal government evaluation of Canada's National Vehicle Scrappage Program (Retire Your Ride) found program users (<https://www.ec.gc.ca/doc/ae-ve/2011-2012/1447/ec-com1447-en-s5.htm>) often purchased larger, less efficient vehicles the ones they retired, opting for SUVs and pickups over lighter, more aerodynamic vehicles that consume less gas. This same evaluation found that people using the program often retired vehicles prematurely, opting to scrap cars rather than service them, meaning fewer interactions for our businesses.

It is also fair to question whether or not a vehicle scrappage program serves Canadians hardest hit by the pandemic. Many Canadians are facing difficult financial realities due to the COVID pandemic; the prospect of offering an incentive for new cars over other services may not align with what middle-class Canadians view as COVID-recovery priorities. Even with an incentive offered, the cost associated with vehicle maintenance is significantly smaller than what a consumer would spend on a new vehicle (particularly given new vehicles lose 30 per cent of their value in the first year). Countries like Germany, which have implemented scrappage programs, have also acknowledged the incentive benefits a relatively small number of affluent individuals, limiting the impact of the program on stimulus efforts.

Small auto repair shops in ridings across Canada already struggle to service zero-emission, connected, and autonomous cars due to a lack of tools and training. Those who have the training and tools remain at a competitive disadvantage to large car dealerships, who are privy to exclusive vehicle data from carmakers, which is needed to properly service new cars. While the aftermarket industry is supportive of efforts to reduce vehicle emissions, incentivizing the purchase of these vehicles without addressing the inability for all businesses to service these cars hurts small- and medium-sized shops and reduces options for consumers. Incentives for these vehicles will ultimately perpetuate the costly cycle of having damaged vehicles exclusively repaired by large dealerships, driving up expenses for Canadians in the process.

Canada's politicians are stepping up to support the country's businesses, and the automotive sector will play an important role in the country's recovery. The post-COVID recovery presents an opportunity for federal and provincial governments to correct existing inequities in our sector that put local businesses and middle-class Canadians at a disadvantage. Preparing the workforce through access to tools and training, and prioritizing retrofits alongside replacements will ensure a more equitable recovery for as many Canadians as possible.

JF Champagne is the president of the Automotive Industries Association of Canada. He is the automotive aftermarket representative on the Canadian Automobile Service Information Standard Task Force, the Canadian Automobile Partnership Council, and the Automotive Service Labour Sector Council in Quebec.

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Bills targeting Indigenous women's rights the 'culmination' of career for retiring Senator Dyck (<https://www.hilltimes.com/2020/08/24/targeting-indigenous-womens-rights-the-culmination-of-career-for-retiring-senator-dyck/260096>)

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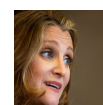
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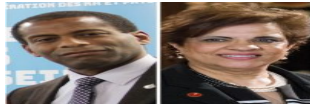
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(https://www.hilltimes.com/2020/08/24/or-not-feds-had-months-to-issue-substantive-response-to-black-caucus-statement-say-political-advocates/260968)Prorogued or not, Independent Senator Rosemary Moodie says the government has 'had months to respond in a substantive way and any continued delay should not be wholly blamed on prorogation.'

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