



Canada - Automotive Innovation Fund -Additional \$500 million for Two Years

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Background

In February 2014, the Government of Canada announced a commitment of an additional \$500 million over two years to the Automotive Innovation Fund as part of the federal budget. This additional funding is to support significant strategic research and development projects. These resources are designed to draw long-term investment projects that will secure Canada's competitiveness in the automotive sector and continue jobs creation and economic growth.

Recent Developments

As part of the 2008 federal budget the Government of Canada created the Automotive Innovation Fund to invest in research and development projects in the auto sector. The fund was created with an initial investment of \$250 million over five years to expand employment prospects in the auto industry through innovation. Companies are required to have research and development projects worth more than \$75 million and are required to pay back the contribution. They must also contribute their own investment to be able to receive the contribution from the fund. The objective is to create sustainable innovation and private sector investment to increase the Canadian auto sector's ability to compete internationally.

The fund has been able to attract \$2.3 billion in private-sector investments into creating a more innovative automotive industry. It has included contributions to innovation in the green energy sector such as \$54 million to Linamar Corporation for the development of fuel efficient automotive powertrains. The fund provided Toyota's Ontario based plants with a \$70 million to produce fuel efficient vehicles. The fund provided also \$80 million to Ford Canada to create fuel efficient engines and \$21 million towards Magna International's project in clean vehicle technology. All told, the Automotive Innovation Fund has committed up to \$316 million in six projects by manufacturers in the Canadian auto sector.

On January 4, 2013 the Government of Canada announced that it will extend the program for another five years with another repayable contribution of \$250 million to support continued innovative development in the auto industry. The program's success in 2008-2012 in attracting significant private sector contribution and supporting an auto sector that is more innovative and competitive was a significant factor in the Canadian government's decision to renew it for a second five year mandate. The requirements to access the fund have been maintained to ensure that the companies are directly involved in promoting innovation in the industry. The Government announced now this additional \$500 million for 2 years.

Details about the fund are available at <http://www.ic.gc.ca/eic/site/auto-auto.nsf/eng/am02257.html>.

Sector Insight

The auto sector is an important manufacturing industry in Canada which consists of 10% of the country's manufactured products in 2012. Automotive products are also a key export for Canada as they comprise 14% of the nation's total exported products. Canadian manufacturers supply 18% of the combined U.S.-

Canadian automotive market. In 2013, Canadian automotive production retracted somewhat, decreasing 3.4% to 2.37 million units built. However, sales reached record levels as 1.74 million light vehicles were purchased by consumers, eclipsing the previous mark set in 2002.

Opportunities for US Companies

The Government of Canada's decision to contribute another \$500 million and renew the Automotive Innovation Fund will contribute to a stronger automotive industry in North America. It will allow for American companies -- either through their Canadian subsidiaries or through partnerships -- to benefit from increased investment in automotive research and development. There is an opportunity for American companies to form research partnerships, particularly in fuel efficient vehicles, with Canadian companies to benefit from the increased investment. The capital investments that will result from this fund present an opportunity for American manufacturers and suppliers of industrial equipment. American manufacturers of industrial equipment and auto parts may have a business opportunity to supply their products to the firms benefiting from this innovation fund. The addition of new hybrid vehicles to the North American market will allow for American local vehicle distributors to import them at a reduced cost.

Sources

Budget 2014

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<http://business.financialpost.com/2014/02/11/canadas-budget-gives-automakers-500-million-boost-amid-chrysler-plant-talks/>

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