



PROPOSAL

The Vehicle Inspection Incentive Plan



**Submitted to:
Department of Finance Canada**

**Submitted by:
The Automotive Industries Association of Canada**

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THE AUTOMOTIVE INDUSTRIES ASSOCIATION OF CANADA

The Automotive Industries Association of Canada (AIA) is a national trade association representing the automotive aftermarket industry in Canada. The aftermarket is an \$18.49 billion industry that employs more than 420,200 people – 51% of the total number of employees in the automotive sector in Canada. The automotive fleet is growing and aging – there are currently over 21.7 million vehicles registered in Canada with an average vehicle age of 8.5 years. Canadians rely on their vehicle each and every day to get to work and take care of their personal needs. On average, the number of kilometres driven per vehicles increases by 3% per year.

AIA Canada has members in every community across the country. The industry is composed of companies that manufacture, distribute and install automotive replacement parts, accessories, tools, and equipment. AIA represents manufacturers, warehouse distributors, wholesalers, retailers, and through its councils, the interests of collision repair shops and automotive service and repair outlets. AIA's mandate is to promote, educate and represent members in all areas that impact the growth and prosperity of the industry.

On October 26, 2011, AIA Canada met with a number of Ministers, Chiefs of Staff, Senior Policy Advisors and Members of Parliament to discuss the implementation of a Vehicle Inspection Incentive Program. The goal of this program is to improve road safety, reduce overall fuel consumption and support Canadian families by helping them avoid unnecessary and costly vehicle breakdowns. At these meetings, elected and senior government officials were provided with high level information of the proposed program. A majority of them recognized the value of such a program and expressed interest in learning more about the proposal. Since those meetings, the Association has developed a more in-depth overview of the costs/revenue to government as well as expected economic growth. AIA enlisted the services of the Conference Board of Canada (CBoC) to help perform these analyses and the results are included in the following pages. Overall, the program would require a net investment of \$25.4 million to allow 1.8 million Canadian vehicle owners to have inspections completed on their vehicle and ensure peace of mind to Canadian families who are driving an older vehicle while preventing unnecessary and costly breakdowns.

IMPACT ON SOCIETY

There exists significant additional opportunity each time a customer brings in their vehicle for servicing, and if attained, the benefits would echo through each layer of the automotive aftermarket supply chain. According to DesRosiers Automotive Consultants Inc. (DAC), the total retail value of automotive parts and services in 2010 reached \$18.49 billion.

If all Canadians were to practice the repair and maintenance habits of the most diligent vehicle maintainers, as suggested by the vehicle manufacturers, the aftermarket would grow to reach \$30.40 billion. This represents an additional opportunity of \$11.91 billion that would flow into all levels of the supply chain, from the parts manufacturer to the repair

shop. Comparatively, the additional opportunity available in 2008 reached \$10.33 billion, equating to a 15.3% increase in the additional potential demand available from 2008 to 2010. This increase is largely due to shifts in the composition of the Canadian light vehicle fleet. Over the two-year period, vehicle registrations increased by 800,000, yielding additional potential. Further, Canada's fleet has gotten older, and older vehicles require more maintenance.

When a vehicle owner requests an inspection, the automotive service provider is in a position to evaluate and report the state of a vehicle. A complete inspection allows the vehicle owner to make an informed decision regarding repairs and/or maintenance items to improve fuel consumption or performance, avoid unnecessary breakdowns and ensure their safety and that of their passengers. The repairs could be as simple as replacing worn windshield wipers or correcting underinflated tires but both have a large impact on safety.

The absence of a request for an inspection by the vehicle owner puts the burden of suggesting an inspection on the automotive service provider. Many shops simply do not want to be perceived as trying to increase the cost to the customer, so they only perform

the services requested by their customer. This is the area of concern. These vehicles do not receive a proper inspection and return to the road with potentially unreliable conditions that were not detected. The statistics on underperformed maintenance clearly indicate that these issues are not resolving themselves and require consumer education and incentives.

The goal, therefore, is to encourage Canadian vehicle owners to request an inspection on their vehicle to raise awareness of the value and importance of regular vehicle maintenance on an ongoing basis. Vehicles today last longer but must be maintained regularly to ensure safety and reliability.

**Vehicle Registrations by Model Year & Age
 (2004 vs. 2009 vs. 2014F)**

Age (yrs)	2004	2009	2014F
1	992,725	1,037,576	1,107,174
2	1,555,976	1,617,262	1,536,316
3	1,487,447	1,691,002	1,545,186
4	1,237,235	1,469,903	1,520,351
5	1,326,268	1,508,947	1,496,241
6	1,105,068	1,365,147	1,431,378
7	1,174,949	1,549,597	1,577,042
8	1,078,527	1,453,232	1,618,504
9	832,881	1,213,934	1,405,235
10	994,761	1,263,340	1,421,672
11	920,351	1,007,186	1,247,379
12	891,898	1,022,382	1,346,868
13	905,871	881,595	1,166,748
14	784,923	616,073	884,729
15	710,758	638,308	812,239
16+	2,709,379	3,339,268	3,551,676

• Data is as of July 1 of each year

Source: DesRosiers Automotive Consultants Inc. and registration data © R.L. Polk & Company, 2009 data released 2010. The use of any part of these tables or charts reproduced, transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, or stored in a retrieval system, without prior written consent of R.L. Polk & Company is an infringement of copyright law.

THE VEHICLE INSPECTION INCENTIVE PLAN

For a majority of Canadians, whether they live in an urban or rural community, driving is an essential part of their daily routine. For every community across the country, having safe and reliable vehicles on our roads helps avoid congestion, delays or road closures due to accidents, lost productivity and less stress on first responders and the health care system. Vehicle breakdowns impact all communities. For the average Canadian family, ensuring that their vehicle remains safe on the road is essential. The Vehicle Inspection Incentive Plan will allow the Federal Government to help those families and the communities they live in, with a real opportunity to take better care of their vehicles. Providing vehicle owners with the information they need to make decisions is an act of empowerment that provides the consumer with the ability to make choices that are right for their family and for safer communities.

AIA Canada is proposing the implementation of a federal government tax rebate that would encourage vehicle owners to have an inspection performed on their vehicles to enable them to increase traveller safety, reduce vehicle emissions and improve fuel efficiency.

AIA Canada is proposing that there be a minimum criteria for any inspection to be eligible for the tax credit. This would include requiring that the inspection be performed by qualified, licensed technicians only. There are many standard inspection forms within the industry that can be utilized – a central form would not be required. However, any inspection would, at a minimum, have to include a road test and the removal of all 4 tires to inspect the brakes. In addition, special attention would be paid to the ride control components as well as driver visibility.

The proposal is for a \$50 tax rebate to be established for Canadians, per vehicle inspected, within a twelve month period. This represents, on average, 50% of the cost for a comprehensive inspection which we believe will be a strong incentive, once properly communicated to consumers.

MEASURES OF SUCCESS

Using data from previous AIA research and several assumptions regarding consumer behaviour in response to this incentive (which are detailed below), the CBoC estimated both the dollar cost of this tax rebate and the increase in federal government HST/GST collections that would result from its implementation. The following are the key outcomes:

- 1.8 million annual inspections are carried out across the country, generating \$183.9 million in spending.

- Follow-up repairs after inspections lead to a \$1.1 billion in spending that would not have otherwise taken place.
- Federal GST/HST receipts generated by this activity would be \$66.5 million; \$9.2 million from inspections and \$57.3 million from follow-up work.
- Receipts are largest in Ontario (\$28.4 million) and the Prairies (\$16.2 million), but are substantive in Quebec (\$12.2 million), British Columbia (\$6.6 million) and Atlantic Canada (\$3.2 million) as well. This result is a combination of the number and makeup of the vehicles on the road in different regions, as well as the relative cost of repairs across regions.
- If a \$50 tax rebate is assumed, the cost of this rebate would be \$91.9 million, or a net cost of \$25.4 million once offsetting GST/HST receipts are accounted for.
- A reduction in the tax credit to \$35 would make the proposal revenue neutral if participation rates and spending are not affected.

KEY ASSUMPTIONS

It is important to note that the CBoC has estimated that the money for the vehicle inspections will represent new spending by consumers, and thus will not detract from revenues in other areas. There are a few reasons why this assumption has been made. First, the total amount of new spending is fairly small; at \$1.3 billion, this is equivalent to about 1.3 per cent of total consumer spending. As well, initial upfront expenditures on maintenance may reduce the need for more expensive repairs later. Finally, this analysis does not account for the secondary effects associated with the new spending, such as the wages earned by additional people hired to do the work, or the supply chain effects as more auto parts are purchased. As such, the estimated fiscal impacts are conservative.

In order to undertake these calculations, it was necessary to make a series of assumptions based on related programs around consumer behaviour and costs. These assumptions include the following:

- The tax rebate targets vehicles 6 to 12 years old;
- 20 % of vehicles in the target population receive an annual inspection;
- Owners undertake 100% of the recommended repairs;
- The cost of an inspection is assumed to be \$100 in all regions;
- The cost of follow-up repairs is estimated from the AIA's "The Canadian Automotive Aftermarket Demand Study."

AIA ESTIMATE OF FISCAL IMPLICATIONS FOR CANADIAN AUTOMOTIVE INSPECTION PLAN (CANADA)

Share of Vehicles Getting an Inspection	20%
Share of Recommended Repairs Undertaken	100%
GST Rate	5%
Cost of Government Subsidy	\$50

<i>Cost of Annual Inspection</i>	<i>Number of Inspections</i>	<i>Spending on Inspections</i>	<i>Increase in Repair Spending Following Inspections</i>	<i>GST Receipts From Annual Inspections</i>	<i>GST Receipts From Spending Increase</i>
\$100	1,838,902	\$183,890,160	\$1,145,776,679	\$9,194,508	\$57,288,834

<i>Total GST Receipts</i>	<i>Cost of Subsidy</i>	<i>Net cost</i>
\$66,489,342	\$91,945,080	\$25,461,738

OUTCOMES FOR SOCIETY

The potential impact of reducing these “needed” automotive services on the following areas is significant and real. The Canadian government would be supporting families across the country who are feeling the effects of economic and budget constraints by providing an incentive program that will maximize vehicle safety for themselves and their family, save them money by reducing their fuel consumption and prevent unnecessary vehicle breakdowns all the while helping them contribute to reducing their vehicle’s environmental footprint.

Furthermore, the increase in automotive repairs and services has the potential to translate into a significant increase in existing technician productivity, while contributing to the economic growth of the industry as well as employment increase.

THE INCENTIVE PROGRAM HELPING CONSUMERS TO MAINTAIN THEIR VEHICLE HAS TANGIBLE BENEFITS

MAINTENANCE AREA	FUEL SAVINGS	GAS SAVINGS (\$ PER LITRE)	ANNUAL PASSENGER CAR SAVINGS	ANNUAL LIGHT TRUCK SAVINGS
Tires Properly Inflated	Up to 4%	Up to \$0.05	\$95.84	\$138.54
Recommended Motor Oil	Up to 1-2%	Up to \$0.01 - \$0.02	\$23.96 - \$47.92	\$34.63 - \$69.27
Remove Excess Weight (every 45 kgs / 100 lbs)	Up to 1-2%	Up to \$0.01 - \$0.02	\$23.96 - \$47.92	\$34.63 - \$69.27
Remove Loaded Roof Rack	Up to 5%	Up to \$0.06	\$119.79	\$173.17
Turn off A/C	Up to 20%	Up to \$0.25	\$479.18	\$692.68
Monitor your Fuel Efficiency*	Up to 15%	Up to \$0.19	\$359.38	\$519.51
Fix Serious Mechanical Problems	Up to 40%	Up to \$0.50	\$958.36	\$1,385.36
❖ Engine Properly Tuned	Up to 4%	Up to \$0.05	\$95.84	\$138.54
Use a Blockheater (temp. below 0°C)**	Up to 10%	Up to \$0.12	\$59.90	\$86.59
DRIVER BEHAVIOUR				
Avoid Aggressive Driving	Up to 40%	Up to \$0.50	\$958.36	\$1,385.36
Observe the Speed Limit	From 7-23%	From \$0.09 - \$0.29	\$167.71 - \$551.05	\$242.44 - \$796.58
❖ Reducing speed from 120 km/h to 100 km/h	About 20%	About \$0.25	\$479.18	\$692.68
❖ Reducing speed from 100 km/h to 90 km/h	About 10%	About \$0.12	\$239.59	\$346.34
APPROXIMATE ANNUAL DOLLAR SAVINGS: (Maintenance Area only; does not include savings for Driver Behaviour) Over \$2000 for cars / over \$3000 for light trucks				
Assumptions: Price of Fuel – Average for 2011 YTD: \$1.25/Litre Passenger Car Fuel Efficiency (2009): 8.804 litres/100 kms Light Truck Fuel Efficiency (2009): 12.8081 litres/100 kms Average KMS driven (2011): 21,963.33 (personal)		Calculations: Gas Prices = weekly average for 2011 Gas Savings = FE savings x Price of Fuel (\$1.2475/litre) Annual Savings = Gas Savings x Fuel Efficiency x Average KMS driven.		
* not from a government source or accredited agency (www.cleanMPG.com) ** for car and truck dollar savings calculations, it is assumed that 1/4 of kms driven are in sub-zero conditions				

CONCLUSION

AIA has a proven track record in successful partnerships with the federal government. With its ability to leverage resources through strong industry participation and support, AIA will be able to support the Federal Government and The Vehicle Inspection Incentive Program through its extensive network in every community across Canada.

It is our hope that the information provided will give you a better understanding of what we are proposing and we remain available to answer any questions that you may have regarding The Vehicle Inspection Incentive Program.