TORONTO REGION BOARD OF TRADE

Ontario’s Automotive Sector Spotlight: Securing Investments, Jobs, and Growth

Executive Summary

Ontario has historically been a major player in North American auto manufacturing, with a sizable economic footprint supported by competitive taxes, skilled labor, and government incentives. The sector contributed over $10 billion to Ontario's GDP in 2021 and employed over 93,000 people in 2024.

Today, reminiscent of challenges during the 2008-09 recession, Ontario's auto sector stands at a critical juncture. Escalating trade tensions with the U.S. and an array of damaging tariffs on autos, steel, and all non-CUSMA-compliant goods pose a major threat to our economy. While OEMs continue to invest across 11 Ontario plants, their long-term presence must now be seen as less certain. Ontario's highly productive tier 1 suppliers may be further enticed to look south for their future investments, and tier 2 and 3 SMEs—already operating on thin margins—are most at risk of closure or relocation. Tariffs and the push for reshoring manufacturing back to the U.S. by the Trump administration place Ontario in an increasingly vulnerable position: rising production costs, weak investment levels, and substantial job losses.

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Proposed measures

To ensure lasting economic success, we must strengthen what we have while building for what's next. The pressures Canada is facing are not new—they are structural and intensifying. Competing in this environment requires an unwavering and unprecedented focus on both resilience and growth. The Board recommends **five strategic actions** to build a more competitive and resilient manufacturing sector:

MEASURES TO SECURE LONG-TERM COMPETITIVENESS

ACTION	RATIONALE
Remove the U.S. Inflation Reduction Act (IRA) condition on recent EV investments	Retain large-scale dollar commitments
Establish a "Roots in Ontario/Canada" program that includes property tax and hydro rates reduction and raising the Ontario Made Manufacturing Investment Tax Credit (OMMITC)	Retain existing manufacturers and offer direct support for businesses under significant pressure
Streamline approvals for manufacturing expansions and new EV production lines	Reduce regulatory burden and catalyze investment
Harmonize regulations across Canada or adopt mutual recognition policies	Create a single market across Canada that reduces inefficiencies and costs for manufacturers
Offer capital gains tax exemption for long-term investment in Canadian companies	Unlock Canadian investment and anchor the next generation of high-growth companies in Canada

POTENTIAL EMERGENCY MEASURES IN RESPONSE TO SHIFTING U.S. TRADE POLICIES

President Donald Trump's April 2nd, 2025, announcement, along with previous measures, present serious challenges for Canada's automotive sector. Amid ongoing policy uncertainty, Canada must be prepared to act. The Board recommends the federal government consider the following response measures:

ACTION	RATIONALE
Introduce an emergency tariff offset program targeted to auto manufacturers	Prevent plant closures and shift of production to the U.S.
Avoid specialized intermediate goods when imposing retaliatory tariffs and instead target widely available consumer products	Avoid or minimize unintended consequences for our domestic economy
Introduce a rebate for consumers, implement an HST exemption, and encourage lower leasing rates and discounts for Canada-made vehicles	Stimulate consumer spending for Made-in-Canada products

Overview

Ontario has long been a powerhouse in North American auto manufacturing, competing with Michigan as one of the top vehicle-producing jurisdictions. In the early 2000s, the province produced 2.7 million vehicles annually—16% of all North American output—while employing roughly 135,000 workers (2001). Automakers invested heavily in facility upgrades, drawn by Ontario's competitive corporate tax rates, low employer costs, highly skilled labor force, and competitive government incentives. Significant projects included Ford's $1 billion Oakville plant redevelopment (2004), GM's Oshawa plant upgrades (2005),and Toyota's Woodstock assembly plant (2008).

Six original equipment manufacturers (OEMs) continue to operate in Ontario, most with new EV production mandates and newly established battery plants. However, the 2008-09 recession (Great Recession) triggered a sharp downturn in the sector, leading to production cuts, widespread job losses, and a game-changing shift in North American investment toward the Southern U.S. and Mexico. Production volumes in Ontario have declined markedly to 1.3 million vehicles, accompanied by a general loss of employment over the past three decades.

The effects of the Great Recession extended beyond large assembly plants, affecting the entire auto supply chain in Ontario. The auto sector's GDP contribution has since remained below 2008 levels and, perhaps more importantly, the manufacturing sector's productivity has stagnated—growing much slower than in peer jurisdictions.

While the era when a single plant such as GM in Oshawa employed over 10,000 workers has passed, Ontario's automotive manufacturing sector remains a critical component of Canada's economy. The sector contributed over $10 billion to Ontario's GDP in 2021 and employed over 93,000 people in 2024—representing 86% of total automotive employment across Canada. As the only province in Canada that assembles vehicles, Ontario far exceeds all other provinces in motor vehicle exports. In 2024, Ontario exported $66 billion in motor vehicles and parts. The good news is that, armed with significant federal and Ontario government supports to match the U.S. Inflation Reduction Act (IRA) subsidies, in recent years Ontario has attracted more than $45 billion in automotive investments in new electric vehicle (EV) and EV battery production since 2020, with GM, Stellantis, Ford, Honda, and Volkswagen leading the way.

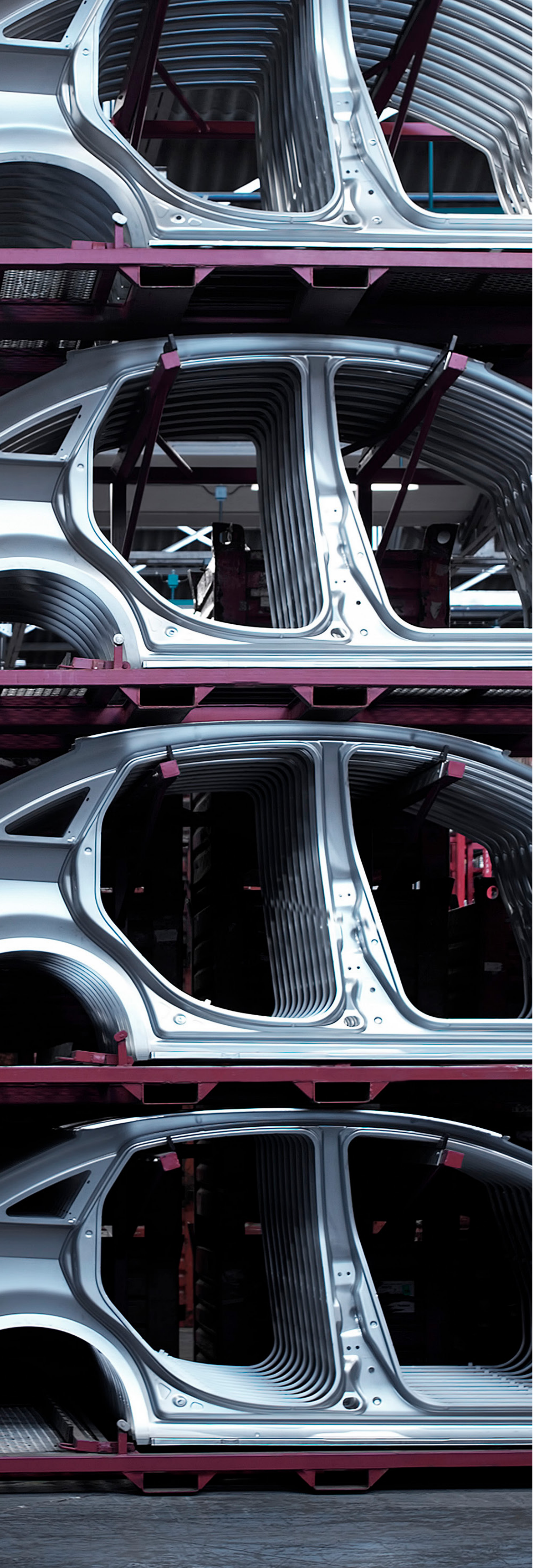
The Trump-Era Disruptions and their Lingering Effects

Today, Ontario's automotive sector is again at a critical inflection point with the advent of a trade war with the United States. North American auto manufacturing is highly integrated, meaning minor disruptions can trigger widespread negative effects throughout the supply chain.

The 25% tariff on all foreign-made automobiles, announced by the U.S. administration on April 2, 2025, presents significant challenges for Canada's auto manufacturing sector. However, given the exemption for U.S.-sourced auto parts—and the fact that Canadian-assembled vehicles contain, on average, 50% U.S. content—the effective tariff applied to Canadian-made cars is expected to be closer to 12.5%. While the tariffs will undoubtedly impact the sector, these parameters provide some measure of relief in the near term. It remains unclear how current tariff exemptions for CUSMA-compliant Canadian auto parts will change going forward and how existing steel tariffs will impact the supply chain.

Ontario continues to attract significant investment from OEMs, but the key question is whether they will remain for the long term. With operations spanning 11 plants, the objective is not only to retain these investments but to also grow them. Meanwhile, Ontario's highly productive and globally competitive tier 1 suppliers are increasingly directing their investments to the U.S. and Mexico—a trend that could accelerate under effective tariffs pressures. The most vulnerable segment of the supply chain are tier 2 and 3 suppliers, which are predominantly SMEs. These firms operate on thinner margins, are less likely to adopt advanced technologies, and are at greater risk of closures or relocation. Ultimately, every tier of the supply chain will be impacted by tariffs, with consequences that compound across the entire sector.

It's important to keep the facts front and center: trade in autos and related parts between Canada and the U.S. is broadly balanced, and there is little evidence that U.S. jobs have shifted to Canada over the long term. Rather, our automotive manufacturing sector has contracted. Tariffs and the push for reshoring manufacturing back to the U.S. by the Trump administration place Ontario in an increasingly vulnerable position: rising production costs, weak investment levels, and substantial job losses.



CONSIDERATIONS IN THE FACE OF U.S. TARIFFS INCLUDE:

- Since November 2024, the mere threat of tariffs and counter-tariffs has already delayed investment in retooling (R&D, innovation, and digital transformation) while threatening to freeze, defer, or cancel pre-committed projects. While tariffs will eventually be absorbed into consumer prices, fixed-price sales and supply contracts cannot be adjusted in the short term, leading to predictions of a complete shutdown of production across the continent.
- Some Canadian companies are looking to replace U.S. imports, but successful substitution at competitive prices in many cases will require some retooling, adoption of advanced automation technologies, and workforce training—difficult in a tight financial climate. In other instances, U.S. products are the only ones available to satisfy industry standards.
- According to industry experts, a 25% tariff would effectively increase the cost of imports from Canada by 20%. If Canada imposes 25% counter-tariffs on all U.S. imports, industrial input costs from the U.S. could increase by over 35%.
- The Bank of Canada projects that Canada's GDP growth would be about 2.5 percentage points lower than it would be without the tariffs in 2025. Lost investment will weaken the chances of a much-needed productivity turnaround with implications for Canada's manufacturing footprint over a longer period.
- If U.S. tariffs persist, Canada's trade balance will likely worsen substantially as exports to the U.S. decline, and potential retaliation will further reduce trade. Canadian exporters will struggle to find alternative markets, lowering overall export earnings. Weaker export volumes and falling commodity prices will, in turn, hurt Canada's terms of trade, leading to a depreciating dollar. While a weaker loonie can make exports more competitive, it also raises import costs of essential manufacturing components, exacerbated by Canadian tariffs on U.S. goods. With 13% of the consumer price index affected by U.S. imports, Canadians may face higher inflation even as economic growth slows, creating a stagflation risk.

Calls to Action

Developed in consultation with the sector's leaders, the following measures outline bold, strategic steps the federal and provincial governments should take to strengthen the sector's resilience and safeguard Canada's hard-earned position as a North American leader in automotive manufacturing.

MEASURES TO SECURE LONG-TERM COMPETITIVENESS

1 Remove the U.S. Inflation Reduction Act (IRA) conditions on EV investment supports

Since President Trump has proposed rescinding unspent IRA subsidies, the Government of Canada and the Government of Ontario should eliminate the requirement that investment support for Electric Vehicles (EV) and EV battery manufacturing be contingent on, or proportionate to, matching subsidies under the IRA. Removing this condition will help retain investment commitments in Canada, regardless of changes to U.S. policy.

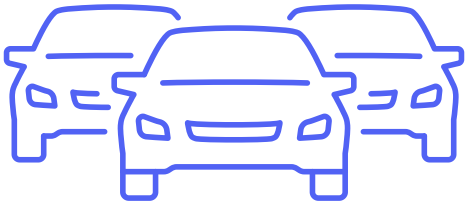
2 "Roots in Ontario/Canada" program

The Government of Ontario should consider establishing a dedicated program to protect the province's auto supply base, offering direct support for manufacturers under significant pressure in the following areas:

1. Offer a three-year property tax reduction for manufacturing firms that commit to remaining in Canada for that period. This could include a reduction in the tax rate and a freeze on assessments.
2. Reduce industrial hydro rates by 35% for three years (capped at $5 million per company per year) for companies agreeing to reduce their energy usage over five years.
3. Double the 10% Ontario Made Manufacturing Investment Tax Credit (OMMITC) for eligible capital investments in new manufacturing and processing equipment. This would substantially increase the uptake of the program to help catalyze a 'full scale' productivity boom across the sector.

In addition, the Government of Canada might consider matching incentives to OMMITC for companies that build new manufacturing plants, expand, or modernize existing facilities in Canada, investing in automation, robotics, and AI-driven manufacturing processes.

In light of President Trump's proposed 15% U.S. corporate tax rate on made-in-America products, Canada should consider adjusting its corporate tax rate policies to be more globally competitive. One potential change, borrowing from an approach implemented in Estonia, would be to exempt corporate taxes on any reinvested profits. This action would send a clear signal that Canada is committed to attracting and retaining competitive manufacturing activity and investment, while supporting anchor production.



3 Establish a fast-track approval process for major investments

All levels of government should work in unison to sharply accelerate approvals for manufacturing expansions and new EV production lines, cutting regulatory burdens and reducing permitting timelines. Streamlining pre-start reviews for new manufacturing equipment and adopting international regulatory standards—in place of complicating (and more costly) provincial and local standards—are two specific avenues to reduce regulatory burden and catalyze investment. Eliminating red tape will help manufacturers bring new products to market faster and become more globally competitive.

4 Eliminate interprovincial barriers

The Government of Canada, in collaboration with provinces, must ensure the harmonization of regulations across the country (or adopt broad mutual recognition policies) and remove duplicate compliance requirements for manufacturers. Creating a single market across Canada can eliminate inefficiencies and reduce costs.

> **It is time for the Government of Canada to take decisive steps to unlock domestic capital and anchor the next generation of high-growth companies here at home.**

5 Unlocking Canadian investment in Canadian companies

Canada needs a radical reset on investment incentives. Without immediate action, we risk undermining the very foundation of our innovation economy. Outflows of Canadian capital have grown rapidly over the past decade and are now threatened to intensify further as Canadian companies seek refuge behind the U.S. tariff wall. Promising companies could either relocate or shut down entirely. For manufacturers, Canada's investment environment is not competitive, and the consequences are real: lost jobs, lost intellectual property, and lost opportunity.

It is time for the Government of Canada to take decisive steps to unlock domestic capital and anchor the next generation of high-growth companies here at home. One potential strategic measure is to provide a capital gains tax exemption for long-term investment in Canadian companies held for a minimum of five years.

This incentive will reward investment—not punish it. This approach is not without precedent: the U.S. offers a comparable incentive through Section 1202 of the Internal Revenue Code, which allows investors in qualifying small businesses to exclude 100% of their capital gains. This kind of policy has proven effective in fostering a vibrant ecosystem of domestic investment, enabling high-potential companies to scale without being forced to look abroad for capital. By leveling the playing field, it ensures that homegrown innovators are not placed at a disadvantage in the global competition for investment.

Potential emergency measures in response to shifting U.S. trade policies

The announcements by President Donald Trump on April 2nd, 2025, in addition to previous measures imposed by his administration, pose serious concerns for Canada's automotive sector. Despite contingencies and exemptions, these measures put Canadian companies in an increasingly precarious position. In the midst of ongoing policy uncertainty, Canada may need to institute a set of measures to protect the automotive sector and respond decisively. The Board recommends the federal government consider the following measures as a part of its response:

Upfront immediate support program for manufacturers

The Government of Canada should consider introducing an emergency tariff offset program targeted to auto manufacturers for an initial six-month period to prevent plant closures and shift of production to the U.S. The costs of the program would depend on: a) the effective tariff imposed by the U.S.; b) the offset coverage offered by the federal government; and c) the following strategic priorities:

1. Support should be directed towards firms that commit to maintaining their operations in Canada for a minimum of two years.
2. Eligibility criteria could include firms generating 35% or more of their total revenue from U.S. exports and a Canadian or U.S.-related entity as the importer of record responsible for tariff payments. This will enable Canadian manufacturers to sustain the tariff shock and to maintain sales to U.S. customers.
3. Offset coverage should follow a progressive structure—firms with a higher proportion of revenue from U.S. exports should receive a higher percentage of tariff relief.
4. The program must be straightforward, avoiding unnecessary complexity to facilitate swift and effective implementation.

Surgical retaliatory tariffs

Retaliatory tariffs on U.S. goods must be surgical to avoid or minimize unintended consequences for our domestic economy. For instance, the Government of Canada should assess whether alternative suppliers exist outside the U.S. for affected components. If viable substitutes are unavailable, retaliatory tariffs could inflict further harm to Canadian manufacturers by increasing costs and disrupting production. Counter-tariffs should ideally avoid specialized intermediate goods and target widely available consumer products.

Survival is critical. Retaliatory tariffs can be an effective tool to create pain points that demand a U.S. policy response; however, extreme caution in applying the retaliatory tariffs is essential to avoid making it impossible for Canadian manufacturers to operate.

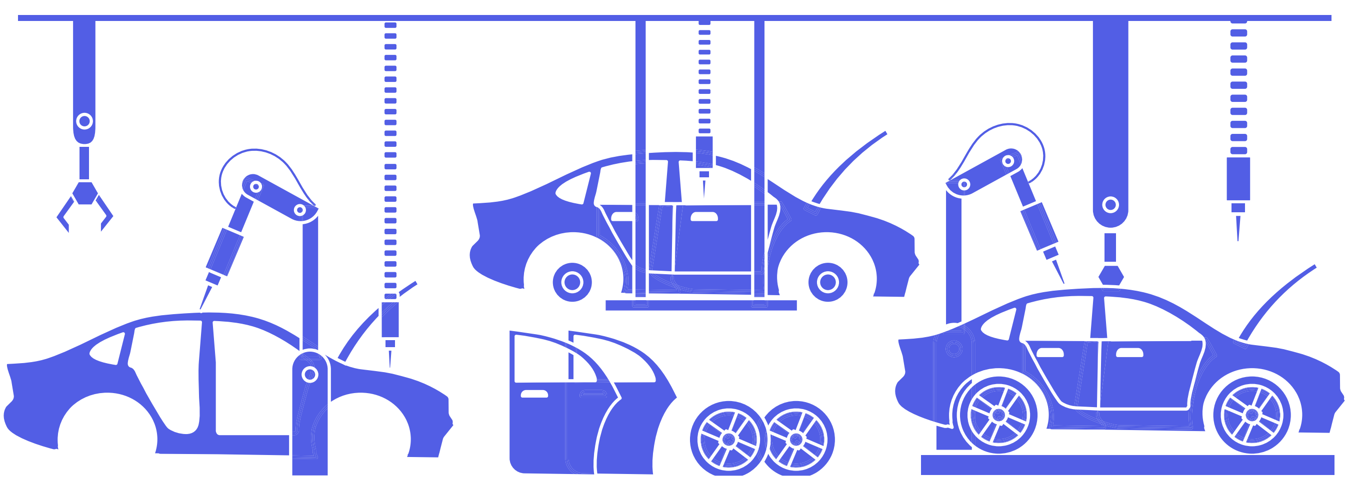
Strengthen domestic demand

The Government of Canada can stimulate consumer spending for Made-in-Canada products. Bolstering demand for domestic products is critical for sustaining production levels, securing jobs, and ensuring supply chain resilience. Initiatives could include:

1. Introduce a $5,000 rebate for consumers purchasing Canadian-made vehicles, driving demand for domestically produced automobiles.
2. Implement an HST exemption for 30-60 days to encourage early pre-orders, helping manufacturers lock in production schedules and stabilize operations.
3. Encourage financial institutions and insurance providers to offer lower leasing rates and offer discounts for Canadian-made vehicles.

What's Next

Building a more resilient auto manufacturing base will require sustained investment in retooling, workforce training, and market development. But the core truth remains: the manufacturing sector is a source of high-quality, well-paying jobs. Protecting and growing this sector is critical to drive productivity and competitiveness, and ultimately enhancing our standard of living.



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The Toronto Region Board of Trade is one of the largest and most influential chambers of commerce in North America and is a catalyst for the region's economic growth agenda. Backed by more than 11,500 members, we pursue policy change to drive the growth and competitiveness of the Toronto region, and facilitate market opportunities with programs, partnerships and connections to help our members succeed – domestically and internationally.

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