



The state of Canada's auto sector

Recalculating the route ahead



Disruption is familiar territory for Canada's auto industry. Yet as new trends, economic shifts, trade issues, and technological advances come into focus, more challenges and opportunities lie ahead.

No doubt, the industry has reached an inflection point. It's a fork in the road formed by both domestic and international factors, not the least of which being General Motors' decision to close its Oshawa plant, cross-border tariffs, customer trends, and trade challenges south of our border. Together, these factors influence how car makers respond to market demands and reshape the roles that both original equipment manufacturers (OEMs) and their suppliers play within an ever-evolving supply chain.

The Canadian advantage

GM's withdrawal may have been a warning shot, but there's reason to remain confident in our domestic industry. Canada's globally-competitive supply chain, combined with a skilled and eager talent pool, keeps it poised to remain a dominant global player.

One cannot disregard Ontario's role in Canada's success. Beyond being the only North American state / province with five OEMs with manufacturing facilities in one region – Ontario is home to a dozen leading manufacturing plants, its own extensive and experienced supplier network, a primed talent pool, and some of the world's top technology and R&D hubs. This makes it a prime destination for investors and a Canadian hot spot with tremendous economic development potential.

Even with our advantages, the push among car makers for more cost-effective production, lower labour costs, and automotive innovation has Canadian stakeholders fighting hard for attention all the same. As such, we cannot be content with keeping step with our competitors, but instead seek to lead the

charge. Ontario's auto industry stakeholders and parts suppliers must embrace innovation, adopt new and more industry-friendly approaches to design and manufacturing, and secure our deserved position as a leader in the knowledge economy, if we are to leave our stamp on the next generation of car manufacturing.

At a crossroads

The evolution of the auto sector is no doubt tied to development (and adoption) of future-ready drivetrain technologies. Today, countries are drawing on their internal strengths and domestic resources to bring a wide range of combustion engine alternatives to market. Whether it be battery electric vehicles (BEVs) or fuel cell electric vehicles (FCEVs), traditional combustion engines or hybrids, each option appears to be gaining traction.

In fact, according to KPMG's 2019 [Global Automotive Executive Survey](#), a majority of execs believe multiple drivetrain technologies co-exist alongside each other for the near future. Asked which they believe will take market share, their predictions see BEVs (30%), hybrids (25%), FCEVs (23%) and ICEs (23%) all sharing the showroom spotlight by 2040.

That's not to say there aren't emerging favourites. 79% of those same execs stated FCEVs are the real breakthrough for e-mobility and the drivetrain option is most likely to solve the infrastructure challenge and dependency on the battery. It's no stretch then to see why those same execs expect fuel cell technology to attract significant development dollars over the near term.

Executives market share predictions by 2040



Ask the average Canadian however, and the choice is clearer (for now). According to the same survey, hybrids are the premier consumer choice for their next car, with ICEs remaining a top choice. This perspective appears swayed by the perceived cost of electric vehicles and an acknowledgment among industry leaders that Canada's vast geography, lack of electric vehicle infrastructure, and cold-weather climate isn't entirely hospitable to existing electric technologies (at least, not yet). What's more, auto execs tell us that customers aren't entirely aware of their options as BEVs and FCEVs have yet to reach the "full mindset of consumers today".

Whatever the drivetrain technology of the future may be, the onus is on auto sector stakeholders to read the trends and find their place in making them a reality. Yet while technology is a top influencer in the industry's growth, it is closely followed (if not eclipsed in some markets) by regulatory directives.

The public mandate

While OEMs declared themselves responsible to set the technological agenda in past decades, a majority of Canadian executives are convinced that it's industry regulators who will set the agenda moving forward.

No doubt, there is a clear mandate by many leading governments to reduce the industry's reliance on fuel and pursue cleaner, more tech-savvy alternatives. Canada itself has pledged to ensure nearly a third (30%) of new vehicles sold by 2030 are EVs, and changes are anticipated to come out of its ongoing greenhouse gas emission standards review for 2022 to 2025 model years for light duty vehicles. The push for cleaner vehicle technologies is also evident outside our borders through initiatives like former U.S. corporate average fuel economy (CAFE) standards and China's National Development and Reform Commission (NDRC), endorsing the production of electric vehicles.

The U.S.-Mexico-Canada Agreement (USMCA) is also poised to further reshape industry supply chains, pricing strategies, and investment decisions across North American partners. That's not to say the auto industry's future is completely in the hands of national leaders, but one can't discount the role government is playing in directing its growth.

Help from on high

With talk of regulators setting the agenda, the question remains: What role do Canada's own leaders have to play in shaping (and supporting) our domestic auto industry? While support is always welcome, it's worth noting that the Canadian Government has arguably done its share to nurture the auto sector's growth through manufacturing, production, and R&D tax credits; not to mention specific financial support such as Federal and Provincial funding like the \$200 million to Toyota Canada in respect of their \$1.4 billion plant upgrades.¹

Even still, Parliament Hill has a continuing responsibility to stand up for Canada's auto sector when it comes to cross-border tariffs and the ongoing fight for free trade in the Americas – the latter of which will be absolutely essential to its ongoing health. Here again, the Canadian government has risen to the challenge by maintaining a vigilant watch on its neighbours. That said, with political forces still in play and the USMCA still subject to change, that watch is far from over.

Building on this, the government has a part to play in preparing Canada for the next generation of mobility. Indeed, as the visions (and demands) for "smart cities" and integrated mobility models come into focus, Canada will need to invest in the infrastructure to support autonomous vehicles, electrified roads, "mobility as a service" (MaaS) offerings (e.g., Uber and Lyft), and a more data-driven transportation ecosystem. The so-called "Mobility 2030" is on arrival, and it will take public and private partnerships to take full advantage of the "smart city" visions ahead.

Source: <https://business.financialpost.com/pmnl/business-pmnl/toyota-canada-plants-to-get-1-4b-upgrade-ottawa-ontario-to-pitch-in>

Industry in the driver's seat

The trends are clear and timelines are shrinking. To bolster Canada's position in the global automotive space, OEMs, suppliers, and auto-tech innovators must demonstrate their agility and ability to set the standard for industry innovation.

Like it or not, the ball is squarely in the industry's court. Here's how we can push ahead:

1 The innovation imperative

It's repetitive, but it's true. If Canada's auto sector hopes to continue courting business and keep its workforce active, it needs to make innovation a top directive. That's not simply following the trends, but coming to market with new and more effective means to design, engineer, and manufacture new and more effective auto materials and technologies. Now is the time to be on the leading edge.

2 Be the preferred supplier

It's not enough to say "we can do it"; instead, it's about becoming the partner who can do it more effectively, with greater quality, and at competitive prices. Suppliers who stand out will be those who take requests from OEMs and contribute to a better, more cost-effective solution.

3 Be part of the bigger picture

The future of mobility is one of connected vehicles, charging stations, smart roads, and advanced telematics. It's a digital ecosystem that will track and cater to commuter habits and encourage cross-industry partnerships. That's why execs in our 2019 GAES study agree that the companies who will first combine applied thinking (e.g., city, rural, countryside) with an ecosystem-driven technology set-up (electric, connected,

shared, autonomous, etc.) and infrastructure joint ventures (connectivity (5G), electricity grid, and traffic infrastructure) will be leaders in the mobility and transportation offers of the future.

4 Embrace the tech community

There are no lone wolves in the future of mobility. And while it's tempting to develop the internal capacity to innovate and meet the tech-savvy requirements, the reality is that many companies may struggle to find the time, talent, and resources to go at it alone. That's why two out of three auto execs in this year's GAES survey believe in cooperation rather than competition, and arguably why cooperation with players from converging industries remains the number one strategy for success (88%), closely followed by cooperative partnerships like joint-ventures and strategic alliances (85%).

5 Put data in the driver's seat

Brand is no longer as key for consumers as it was previously, but the aspect around seamless connectivity is gaining importance. As a result, data privacy and security remains a top purchasing criteria as cars continue to connect to the roads, systems and apps around them. The solutions will be ones that can cater to those concerns while still rolling out the best and most integrated customer experiences.

Lightweight is better

Today's big brands are leaning heavier towards lightweight materials that can enable smaller engines and less fuel consumption. Suppliers who excel in producing lightweight materials (e.g., aluminum) that are just as durable, safe, and cost-effective as their heftier alternatives will most likely become the partners of choice.

71% *of auto execs believe that*

Autonomous and non-autonomous vehicles will result in severe safety issues if not separated on the road.

77% *of auto execs and*

69% *of surveyed consumers agree that*

Countries that are rich in raw materials, such as oil and gas, will strive for combustion engines and fuel cell technology (e.g., USA), while countries with high electric capacity will prefer to target the electric powertrain (e.g., China).

83% *of auto execs say that*

With mobility and logistics moving together, companies not only have to re-think their business model but also recognize the need for cooperation to create a mobility ecosystem.

Parting questions

What will power our cars?

How will Canadians relate to their vehicles?

What does the industry need to do to meet the demands of future mobility?

As the automotive industry enters one of the most transformative phases in its history, it's critical that Canada's homegrown players keep these questions in full view. Certainly, as competition ramps up, it's those who can build upon their core competencies and explore new approaches that will find traction in the years ahead.

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