

Minister of Finance



Ministre des Finances

Ottawa, Canada K1A 0G5

DEC 29 2009

2009FIN283793

Mr. Roland Balloun  
balloun@me.com

Dear Mr. Balloun:

Thank you for your correspondence regarding assistance for the automotive sector. Please excuse the delay in replying.

The automotive industry is among Canada's leading employers and exporters, and is a key driver of our economy. Automotive firms and their employees have been challenged as a result of the economic downturn, intensified global competition, and changing consumer preferences. It is clear that fundamental changes are needed for the industry to compete and succeed in the years ahead.

The required changes have been made particularly challenging because of recent turbulence in financial markets, which has made it difficult for firms and consumers to access financing. Financing helps consumers to purchase new vehicles and enables businesses to invest in the new machinery and advanced technologies required to remain competitive.

Our Government is taking action to address the challenges facing Canadian automotive firms and consumers. In December 2008, the Prime Minister, the Right Honourable Stephen Harper, and the Premier of Ontario, the Honourable Dalton McGuinty, committed to supporting Canada's automotive industry at levels proportional to the assistance provided by the U.S. Government, reflecting the highly integrated nature of the North American automotive industry.

On April 30, 2009, the governments of Canada and Ontario announced that they would provide \$3.7 billion to support the restructuring of Chrysler. This amount includes the \$1 billion announced for Chrysler in December 2008, and provides additional working capital and a medium-term restructuring loan to support the company's Canadian operations. In conjunction with the U.S. Government, the Canadian and Ontario governments supported a court-supervised restructuring of Chrysler through joint Canada-U.S. debtor-in-possession loans. This restructuring process has since been completed. The governments of Canada and Ontario have received a combined 2-percent share in a restructured Chrysler, and Canada has recently appointed a director, Mr. George Gosbee, to the board of the restructured company.

Canada

On June 1, 2009, Canada and Ontario announced that they would provide about \$10.6 billion to support the restructuring of General Motors (GM). This amount includes the \$3 billion announced in December 2008 for GM, and consists of both working capital and medium-term restructuring support for GM's Canadian operations. The governments of Canada, Ontario and the U.S. also supported a court-supervised restructuring of GM through debtor-in-possession financing, which has since been completed. Canada and Ontario have received a combined 11.7-percent ownership stake in a restructured GM, as well as US\$403 million of preferred shares. The Government of Canada has appointed Ms. Carol Stephenson to the board of the restructured firm.

Our Government will continue to work in close collaboration with the U.S. and the Government of Ontario to support GM and Chrysler as they undertake the significant adjustments required to ensure a viable and sustainable future, with the objective of maintaining Canada's 20-percent production share in the North American automotive market.

We are also helping to improve credit conditions more generally through the \$12-billion Canadian Secured Credit Facility, announced in Budget 2009. This Facility will help make credit available to consumers and businesses across the economy, and will be priced on commercial terms to minimize the risk to taxpayers.

Our Government is also supporting automotive parts manufacturers by expanding the accounts receivable insurance offered by Export Development Canada (EDC). In April 2009, we announced that we would provide a further \$700 million in accounts receivable insurance support through EDC, in addition to the approximately \$550 million in accounts receivable coverage already provided by EDC, for a total exposure of \$1.25 billion. This amount is proportional to the US\$5-billion Auto Supplier Support Program announced by the U.S. Government.

Additionally, our Government announced the creation of the Canadian Warranty Commitment Program in April 2009. Under this program, we are committed to honouring consumer warranties on new vehicles purchased from GM or Chrysler for a limited period while improved restructuring plans are put in place. The Canadian warranty program parallels the warranty program provided by the U.S.

We are taking targeted action to contribute to a more competitive Canadian automotive sector. Budget 2008 established the \$250-million Automotive Innovation Fund to support strategic, large-scale research and development projects in the automotive sector to develop innovative, greener and more fuel-efficient vehicles. In April 2009, we officially launched Automotive Partnership Canada, a collaboration of five federal agencies that will provide \$145 million over five years to support significant,

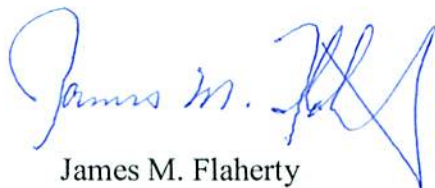
incremental, and collaborative research and development activities of benefit to the Canadian automotive industry.

Our Government understands the importance of protecting taxpayers' money and ensuring that public support is based on strong business cases. We will continue to exercise rigorous oversight over the use of public funds. We also recognize that Canada's evolving role as an automotive-producing nation must be understood in the context of an increasingly global market, and that our focus should be on helping firms invest strategically in areas in which Canada will have a competitive advantage in the long run. To achieve this long-term success, we will continue to work with all stakeholders as they play a significant role in identifying solutions.

As announced in Budget 2009, the Minister of Industry, the Honourable Tony Clement, who has responsibility for policies relating to the automotive industry, will develop a strategy over the coming months to position Canada's automotive sector for sustainable, long-term success. For these reasons, I have provided a copy of your correspondence to Minister Clement.

Thank you for communicating your concerns.

Sincerely,



James M. Flaherty

c. The Honourable Tony Clement, P.C., M.P.