

# NAFTA and the Automotive Industry

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# Trump's 100-day Action Plan to "Make America Great Again"



## Donald Trump's Contract with the American Voter

What follows is my 100-day action plan to Make America Great Again.

It is a contract between myself and the American voter—and begins with restoring honesty and accountability, and bringing change to Washington.

On the first day of my term of office, my administration will immediately pursue the following:

### Six measures to clean up the corruption and special interest collusion in Washington, DC:

- ★ **FIRST**, propose a constitutional amendment to impose term limits on all members of Congress.
- ★ **SECOND**, a hiring freeze on all federal employees to reduce the federal workforce through attrition (excepting military, public safety, and public health).
- ★ **THIRD**, a requirement that for every new federal regulation, two existing regulations must be eliminated.
- ★ **FOURTH**, a five-year ban on White House and Congressional officials becoming lobbyists after they leave government service.
- ★ **FIFTH**, a lifetime ban on White House officials lobbying on behalf of a foreign government.
- ★ **SIXTH**, a complete ban on foreign lobbyists raising money for American elections.



★ **FOURTH**, I will direct the Secretary of Commerce and U.S. Trade Representative to identify all foreign trading abuses that unfairly impact American workers and direct them to use every tool under American and international law to end those abuses immediately.

★ **FIFTH**, I will lift the restrictions on the production of \$50 trillion dollars' worth of job-producing American energy reserves, including shale, oil, natural gas and clean coal.

★ **SIXTH**, lift the Obama-Clinton roadblocks and allow vital energy infrastructure projects, like the Keystone Pipeline, to move forward.

★ **SEVENTH**, cancel billions in payments to U.N. climate change programs and use the money to fix America's water and environmental infrastructure.

### Five actions to restore security and the constitutional rule of law:

- ★ **FIRST**, cancel every unconstitutional executive action, memorandum and order issued by President Obama.
- ★ **SECOND**, begin the process of selecting a replacement for Justice Scalia from one of the 20 judges on my list, who will uphold and defend the U.S. Constitution.
- ★ **THIRD**, cancel all federal funding to sanctuary cities.
- ★ **FOURTH**, begin removing the more than two million criminal illegal immigrants from the country and cancel visas to foreign countries that won't take them back.
- ★ **FIFTH**, suspend immigration from terror-prone regions where vetting cannot safely occur. All vetting of people coming into our country will be considered "extreme vetting."

*continued on the back*

### Seven actions to protect American workers:

- ★ **FIRST**, I will announce my intention to renegotiate NAFTA or withdraw from the deal under Article 2205.
- ★ **SECOND**, I will announce our withdrawal from the Trans-Pacific Partnership.
- ★ **THIRD**, I will direct the Secretary of the Treasury to label China a currency manipulator.

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Donald J. Trump

Your signature

LEARN MORE AT  
[donaldjtrump.com/contract](http://donaldjtrump.com/contract)

# *Trump and the Auto Industry*



- Campaign tweets and speeches
  - singled out the auto industry
  - threatened to impose a 35% tariff on vehicle imports
  - primary target Mexico - but sent a chill throughout the North American auto industry
  
- Populist appeal but woeful lack of understanding of the auto industry under NAFTA

# NAFTA 2.0: Sticking Points



- Auto Industry Rules of Origin (complicated by CPTPP)
  
- BUT, it's about more than the auto industry!
  - Dispute Resolution – Chapters 11,19 & 20
  - Sunset Clause
  - Procurement
  - IP
  - Agricultural sectors
  - Etc.

# Rules of Origin



- Rules of origin (ROOs) and regional content-value (RCV) rules
  - shape *what, where and how* products are produced
  - really important for auto given complex supply chains
- significant changes to NAFTA automotive rules could:
  - disrupt supply chains
  - change the structure of the auto industry
  - increase vehicle prices
  - reduce competitiveness of North American built vehicles

# Outline



- Canadian Auto Industry: Overview
- Current NAFTA Automotive Trade
- US NAFTA Automotive Demands
- Potential Impact on Automakers and Suppliers in Canada

# Canada's Automotive Industry



- *126,000 direct jobs*
- *\$9.6 billion in wages*
- *\$18.2 billion in GDP*
- *\$86.5 billion in exports*
- *Importance to Ontario*

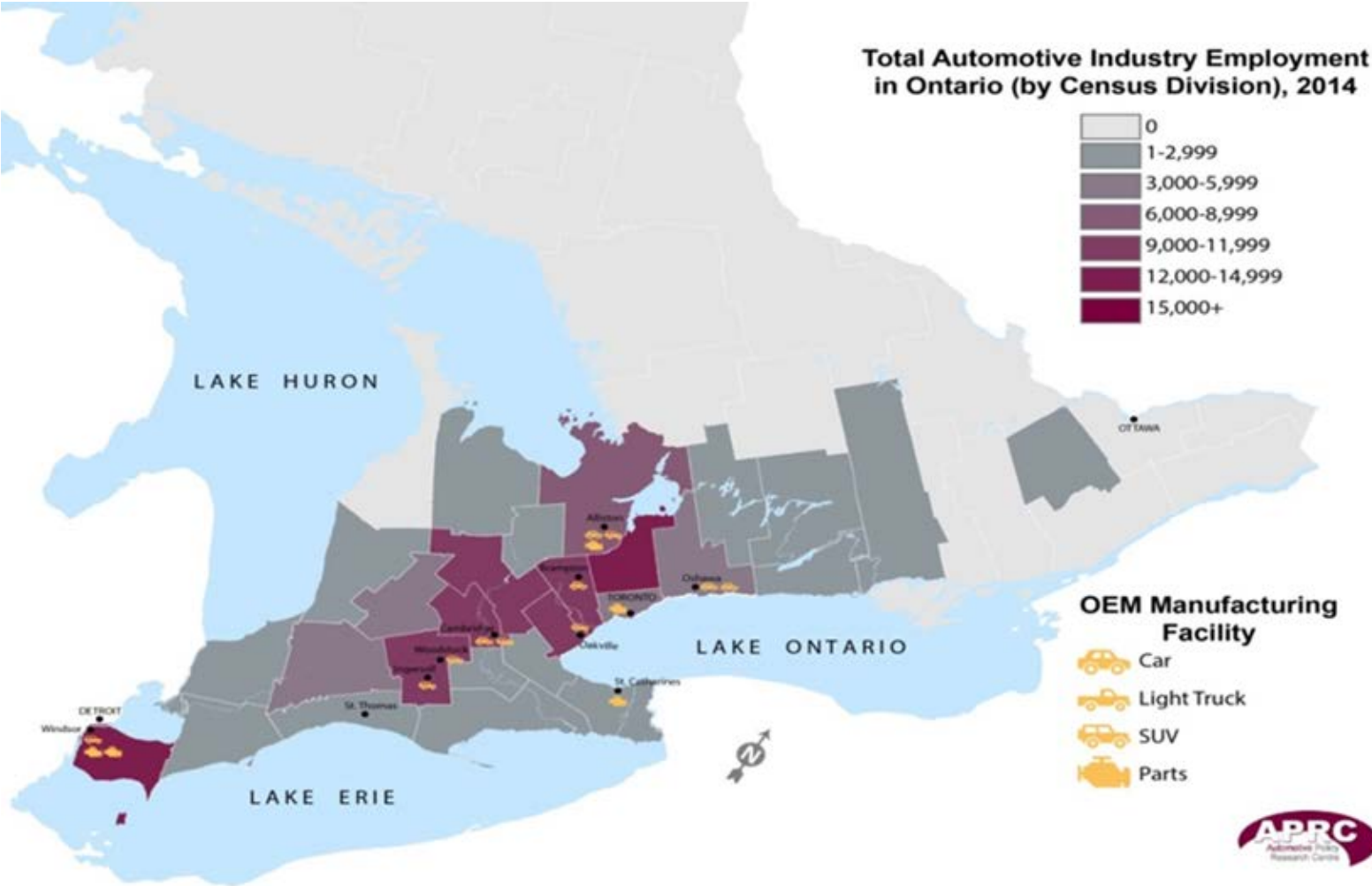
# Canada's Automotive Industry



- *5 OEMs (Toyota, FCA, GM, Honda, Ford)*
  - *2.3 million vehicles; Toyota + Honda = 43% of total*
  - *~ 2.0 million exported to US*
  
- *700+ suppliers*
  - *Canadian-owned global suppliers*
  - *Subsidiaries of Japanese, US, European global suppliers*
  - *Large number of smaller Canadian-owned firms*
  - *Tooling industry*
  
- *Heavily concentrated in Windsor to Oshawa corridor*
  
- *Integral part of Great Lakes Auto Region (MI, OH, IN)*



# Canadian Automotive Industry Employment: 2014



Source: Sweeney APRC

# Challenges

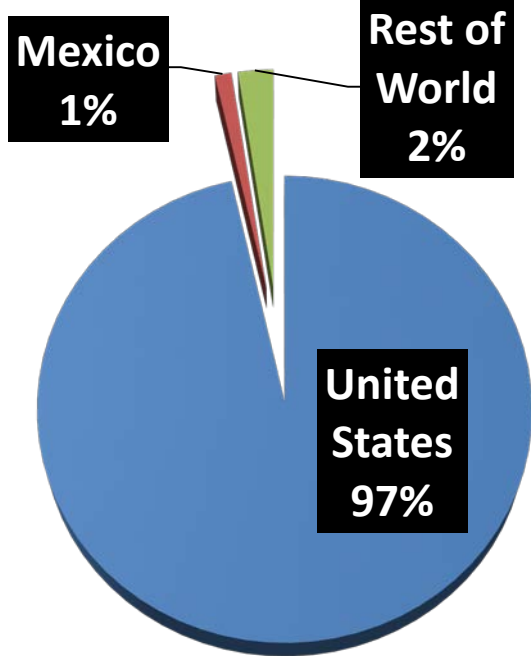


- *Technological Change*
  - *New engine/drive train technologies*
  - *Vehicle lightweighting*
  - *Vehicle electrification*
- *Supplier Logistics*
  - *Southern US*
  - *Mexico*
- *Trade Agreements*
  - *CKFTA, CETA*
  - *CPTPP*
  - *NAFTA 2.0?*

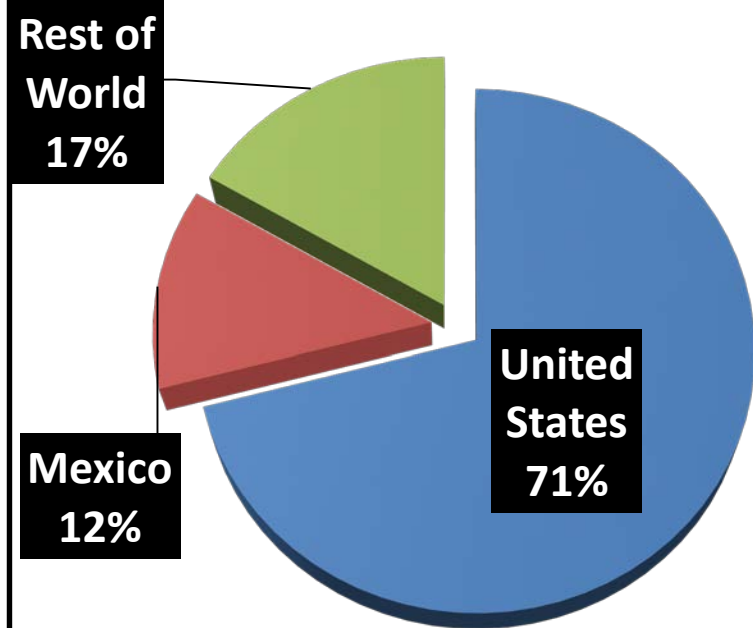
# Percentage Shares (by value), Total Vehicle Trade, Canada: 2016



## VEHICLE EXPORTS: \$62.87 billion

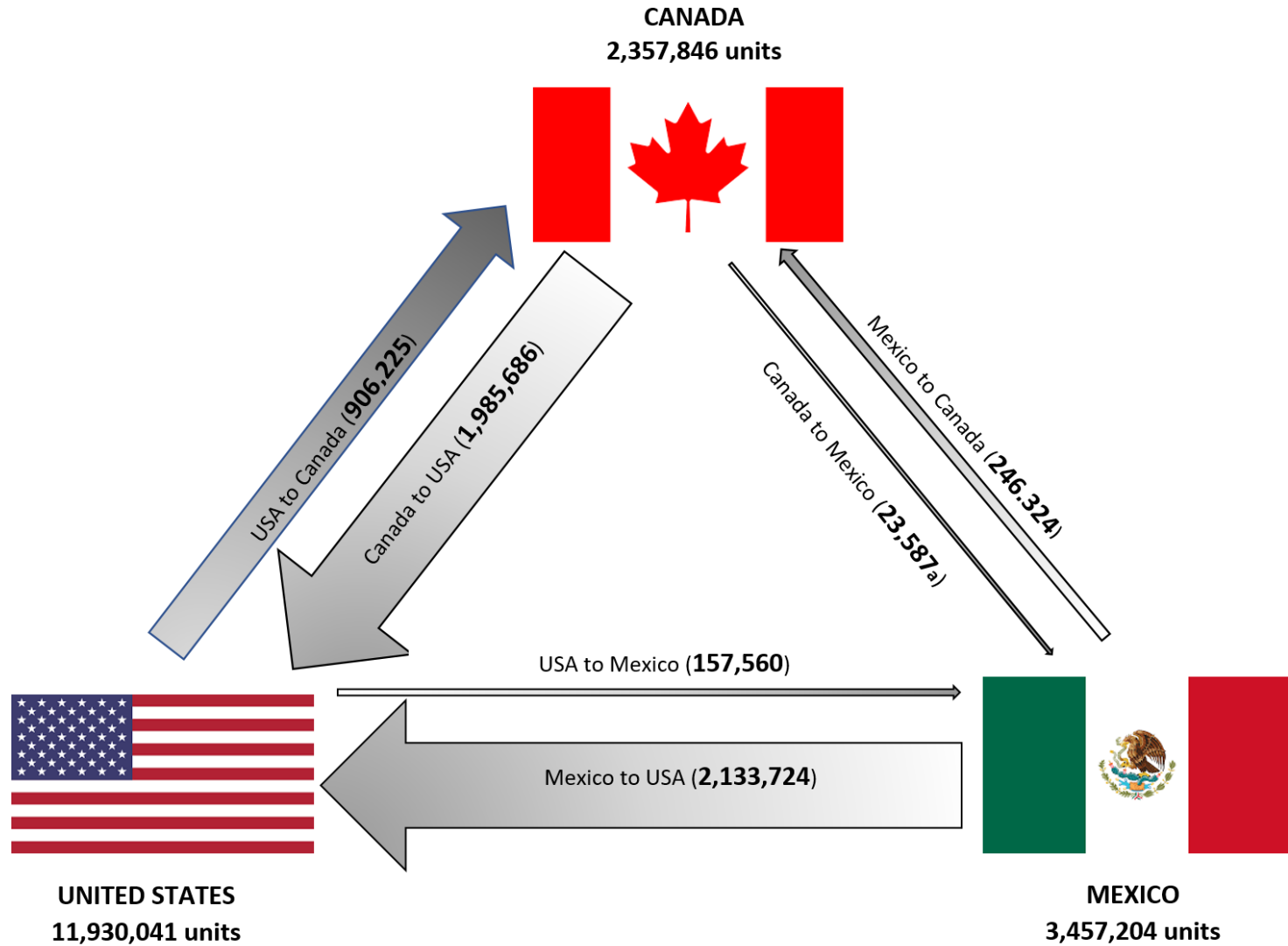


## VEHICLE IMPORTS: \$47.64 billion



Source: Industry Canada, Strategis Online Trade Database

# NAFTA Vehicle Production and Trade Flows: 2016 (Units)



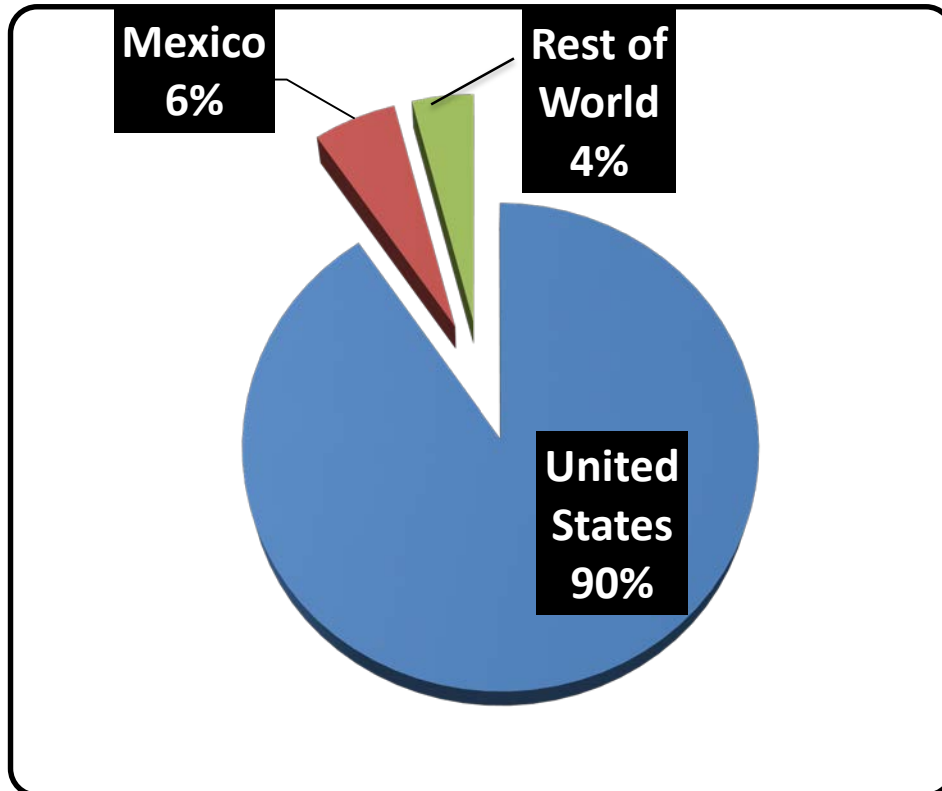
Source: AMIA; USITC; Industry Canada

<sup>a</sup> estimate

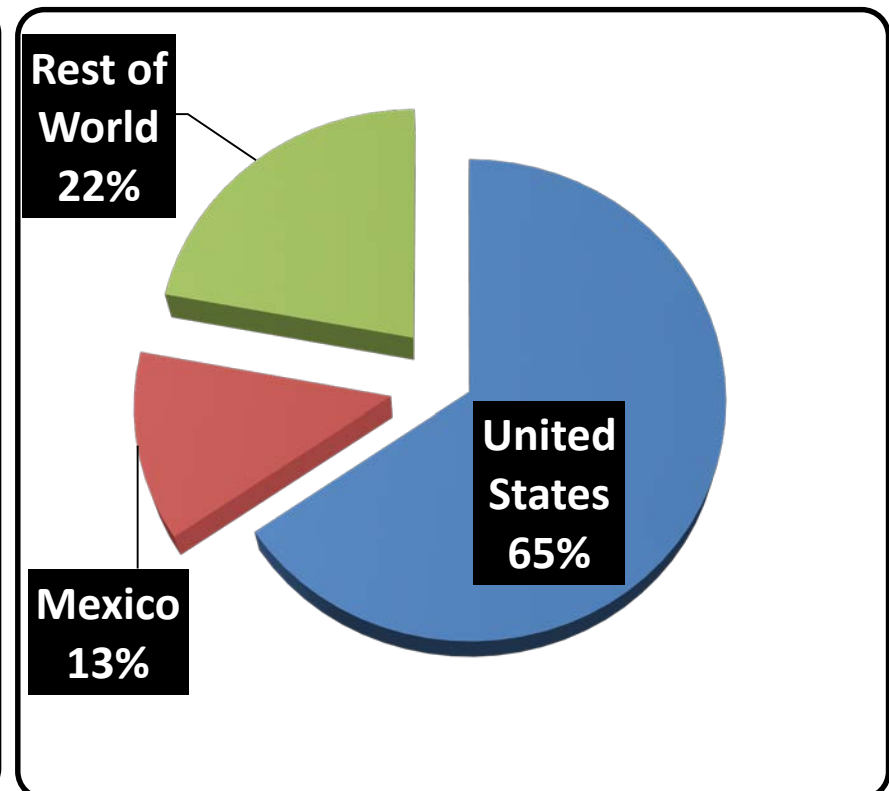
# Percentage Shares (by value), Total Automotive Parts Trade, Canada: 2016



## PARTS EXPORTS: \$21.1 billion

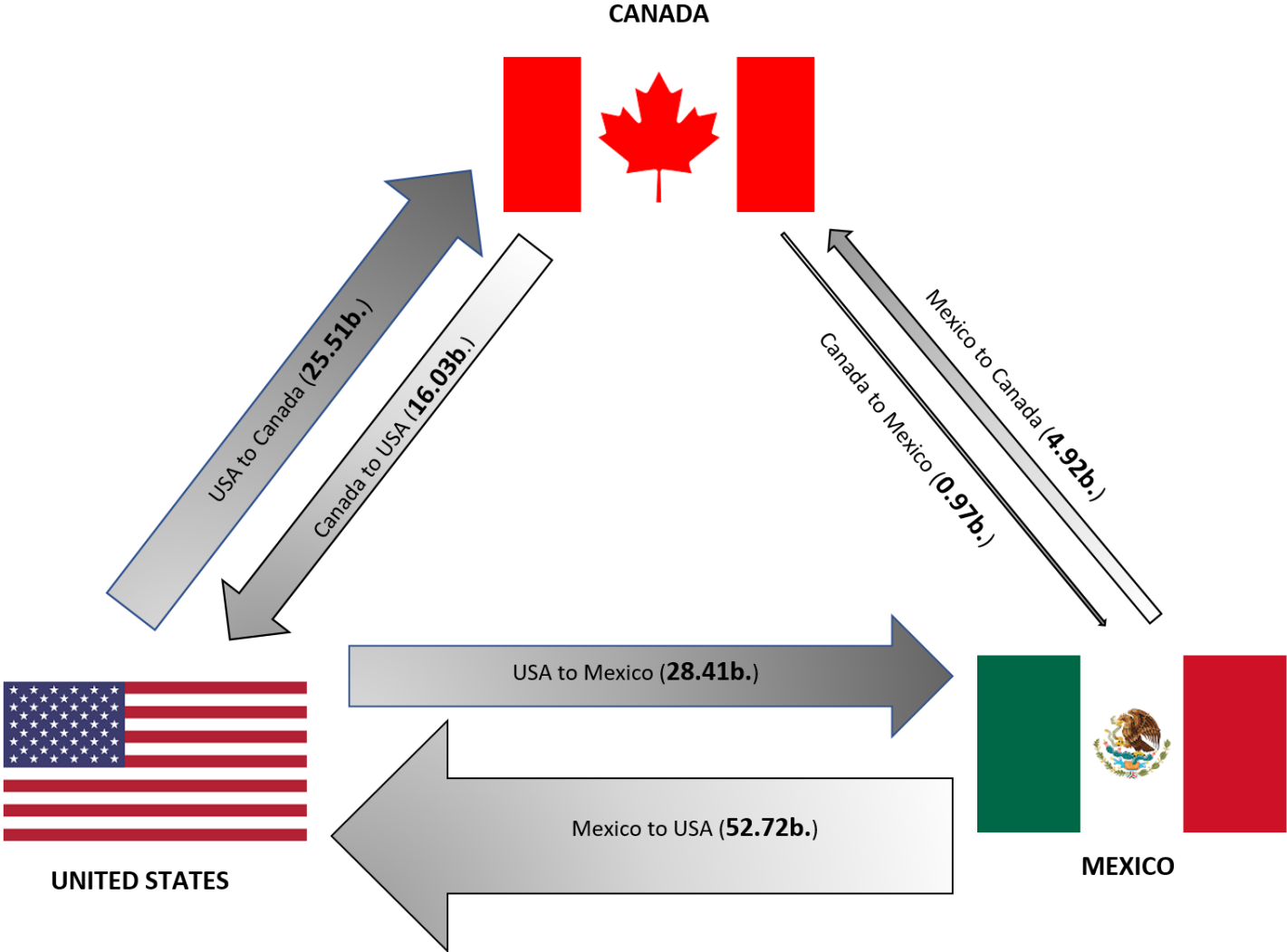


## PARTS IMPORTS: \$47.8 billion



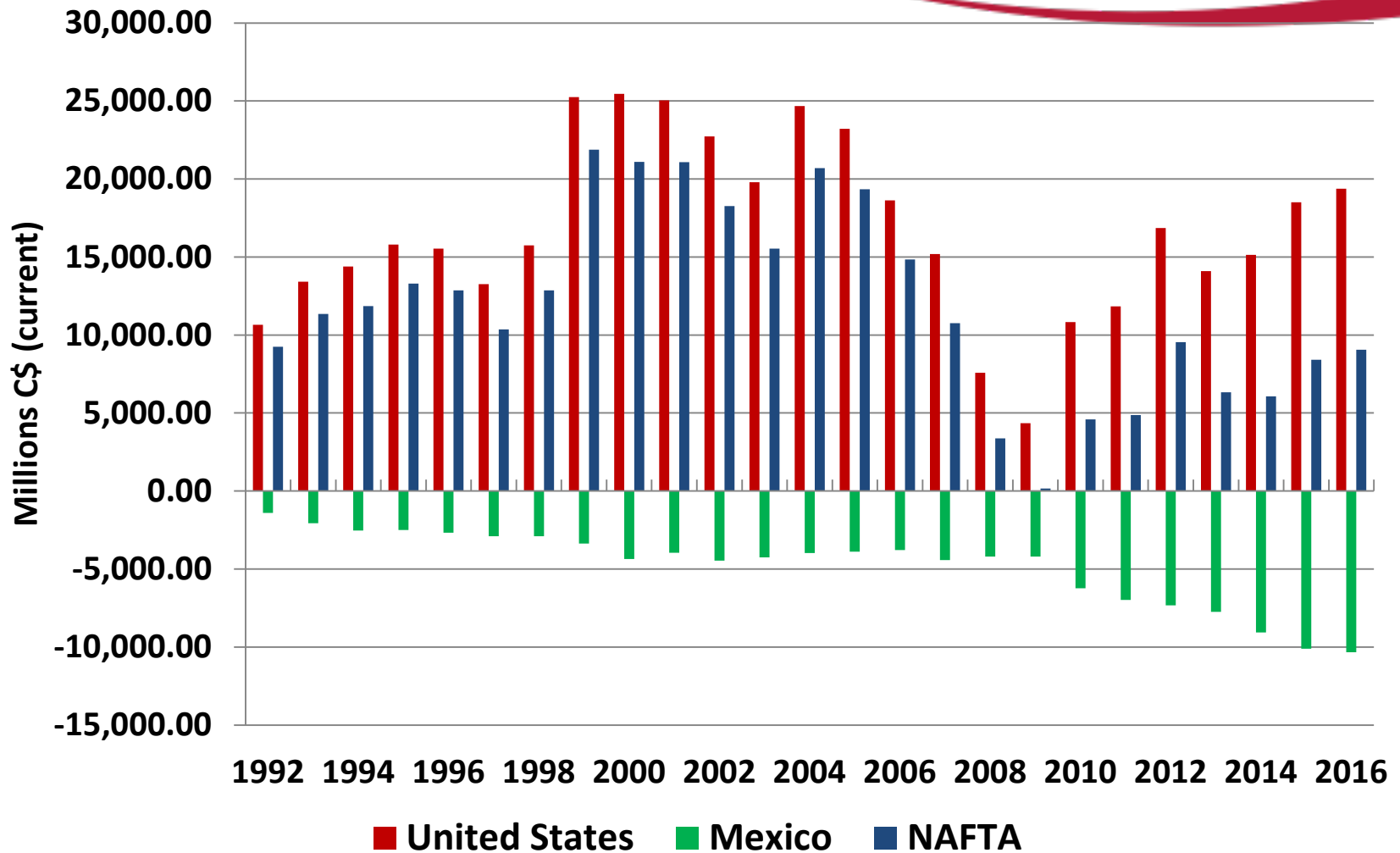
Source: Industry Canada, Strategis Online Trade Database

# NAFTA Automotive Parts Trade Flows: 2016 (\$US Billions)



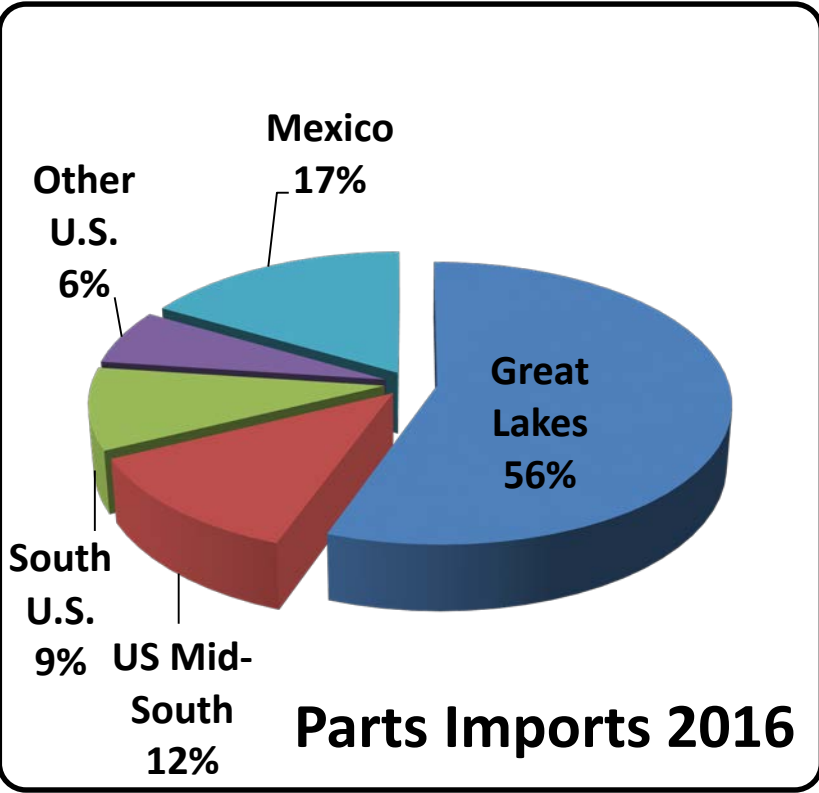
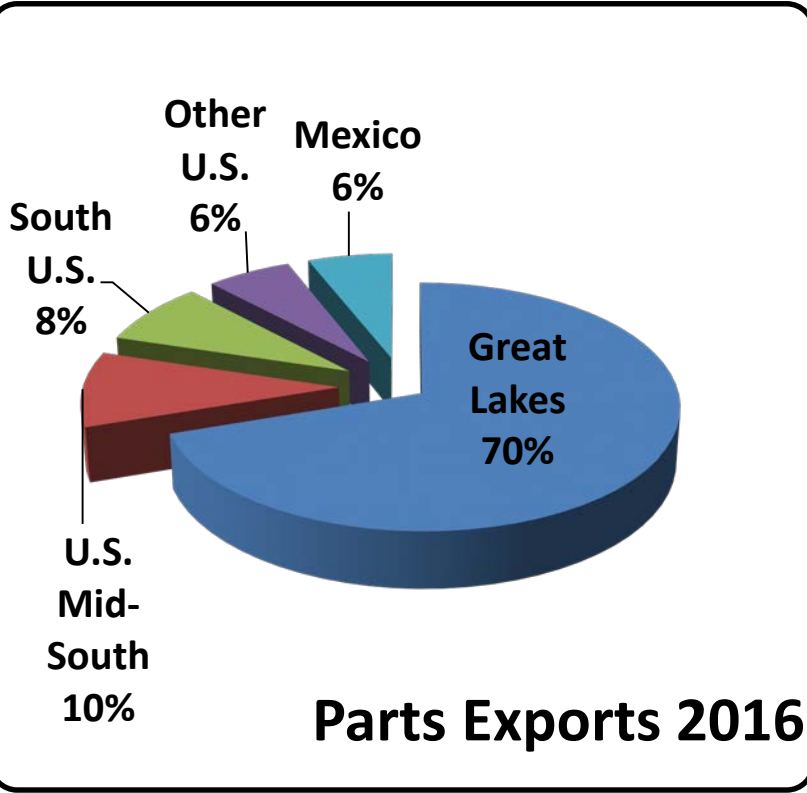
Source: AMIA; USITC; Industry Canada

# Canada Automotive Trade Balances Within NAFTA: 1992-2016



Source: Industry Canada, Strategis Online Trade Data

# Canada Automotive Parts Trade within NAFTA: 2016





# *Not Just About Trade Balances....*



- NAFTA countries interdependent in automotive production
- high levels of integration, specialization, and intra-industry trade
- US imported vehicles from Canada and Mexico contain significant US parts content
- keeps the North American auto industry globally competitive (cf. Japan; Europe)
- benefited automakers, consumers, and attracted investment

# *USTR NAFTA 2.0 Objectives (July 2017)*



- ***Trade in Goods:***

Improve the U.S. trade balance and reduce the trade deficit with the NAFTA countries.

- ***Rules of Origin:***

Update and strengthen the rules of origin, as necessary, to ensure that the benefits of NAFTA go to products genuinely made in the United States and North America.

Ensure the rules of origin incentivize the sourcing of goods and materials from the United States and North America.

- To qualify for preferential tariff treatment
  - Vehicle or part must “originate” in the NAFTA region
  - To “originate” must contain a specified minimum RCV
    - 62.5% for vehicles, engines and transmissions
    - 60% for automotive parts on “tracing list”
    - 50% for some other parts
- Tracing list (29 categories of parts)
  - for listed components, non-originating value must be tracked through all stages of assembly and included as non-originating when vehicle RCV is calculated

# *Current Non-Preferential Import Tariffs*



- Canada
  - 6.1% on vehicles
  - 0% on parts destined for OEM assembly
  
- United States
  - 2.5% on cars
  - 25.0% on pickup trucks
  - 3.1% (avg.) on automotive parts

# *US NAFTA 2.0 Automotive Demands*



- Increase NAFTA RCV
  - from 62.5% to 85% for vehicles, engines and transmissions
  - from 60% to 85% for parts on current tracing list
  - from 50% to 72.5% for certain other parts
  
- Require 50% US content-value for vehicles built in Canada/Mexico imported to US (i.e. “85/50” ROO)
  
- Tracing list: include all parts and materials incl. steel, aluminum and textiles

## Scenario A: NAFTA 2.0

- Higher NAFTA RCV and expanded tracing list
  - could benefit Canadian parts suppliers and steel/aluminum producers
- 50% US content rule
  - would disadvantage smaller Canadian suppliers
  - how much rejigging of supply chains needed?
- Increase cost of North American-built vehicles
- Expanded tracing list: more cost effective to just pay the MFN tariff?

# Possible Outcomes



## Scenario B: US Withdraws from NAFTA; CUSFTA remains suspended

- Canadian-built cars face 2.5% tariff entering US – offset by depreciated C\$??
- GM Oshawa hit by 25% US tariff on pickup trucks
- US-built vehicles face 6.1% tariff entering Canada (cf. Mexican, Japanese and European vehicle imports 0% under CPTPP and CETA)
- No longer need to meet NAFTA RCV – OEMs could substitute lower-cost parts and negatively impact parts production in Canada and US

# Summary



- High levels of integration, specialization, and intra-industry trade keeps the North American auto industry globally competitive
- Allows automakers to take advantage of best cost production and manage supply chain risk
- US-demanded changes to NAFTA automotive rules would
  - disrupt existing supply chains,
  - undermine competitiveness of the North American auto industry,
  - create unintended negative consequences for the US
  - likely winners would be European and Asian producers



# Thank you

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