NAFTA @ 25

How has the Canadian Auto Industry fared?
¿Cómo ha sido la industria automotriz canadiense?

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Trade protectionism, regional integration and labour disparities in the North American automotive industry

November 8 2019

FLASCO Unidad de Seminarios II Mexico City,

Presentation: Objective and Theme

- Review:
  - performance of Canada's automotive industry under NAFTA
  - competitive challenges faced by Canada

- Theme:

  Canada's auto industry prospered during the 1980s and 1990s but faced increased competitive challenges after 2000. The future is far from certain.

The view from 1998

"the Canadian auto industry has exhibited considerable strength during the 1990s ….. Notwithstanding the present robustness of the Canadian industry, the most important challenge for the industry for the next decade will be the retention of its present share of North American production, value added, and employment as Mexican production is fully rationalized and integrated into the rest of the continental auto industry."

P. Kumar and J. Holmes (1998) in S. Weintraub and C. Sands (eds.) *The North American Auto Industry Under NAFTA.* Washington DC: CSIS Press

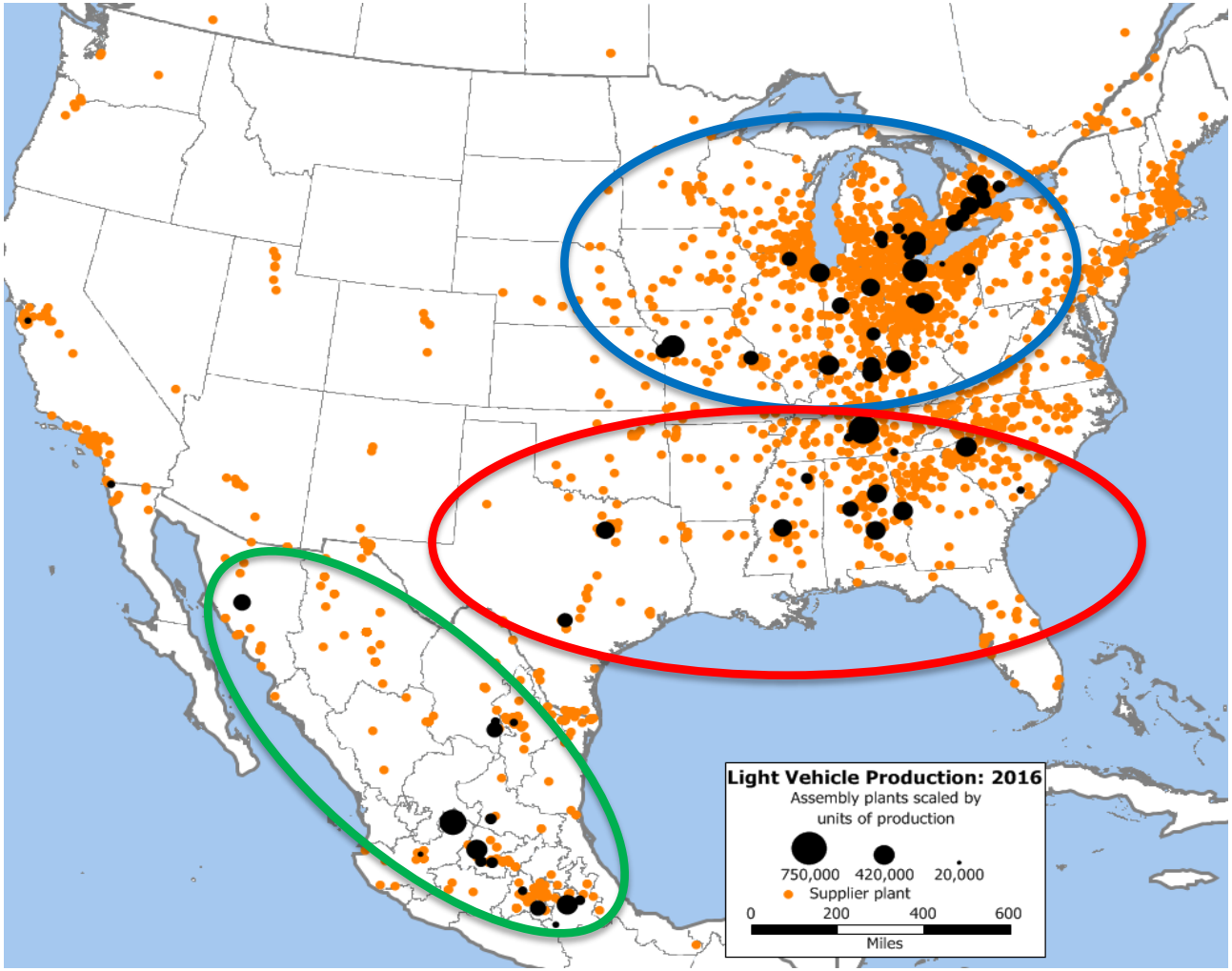
Important Canadian manufacturing industry

- Automotive manufacturing remains a major industry in Canada
  - $19 billion to GDP; $71 billion in exports; 120,000 jobs

- Reliant on US market for over 90% of vehicle and parts exports
  - 98% of Canadian vehicles and over 80% of parts enter U.S. duty free under NAFTA

- Canadian (Ontario) auto production highly integrated within Great Lakes Region (ON,MI,OH,KY, IN,MO)

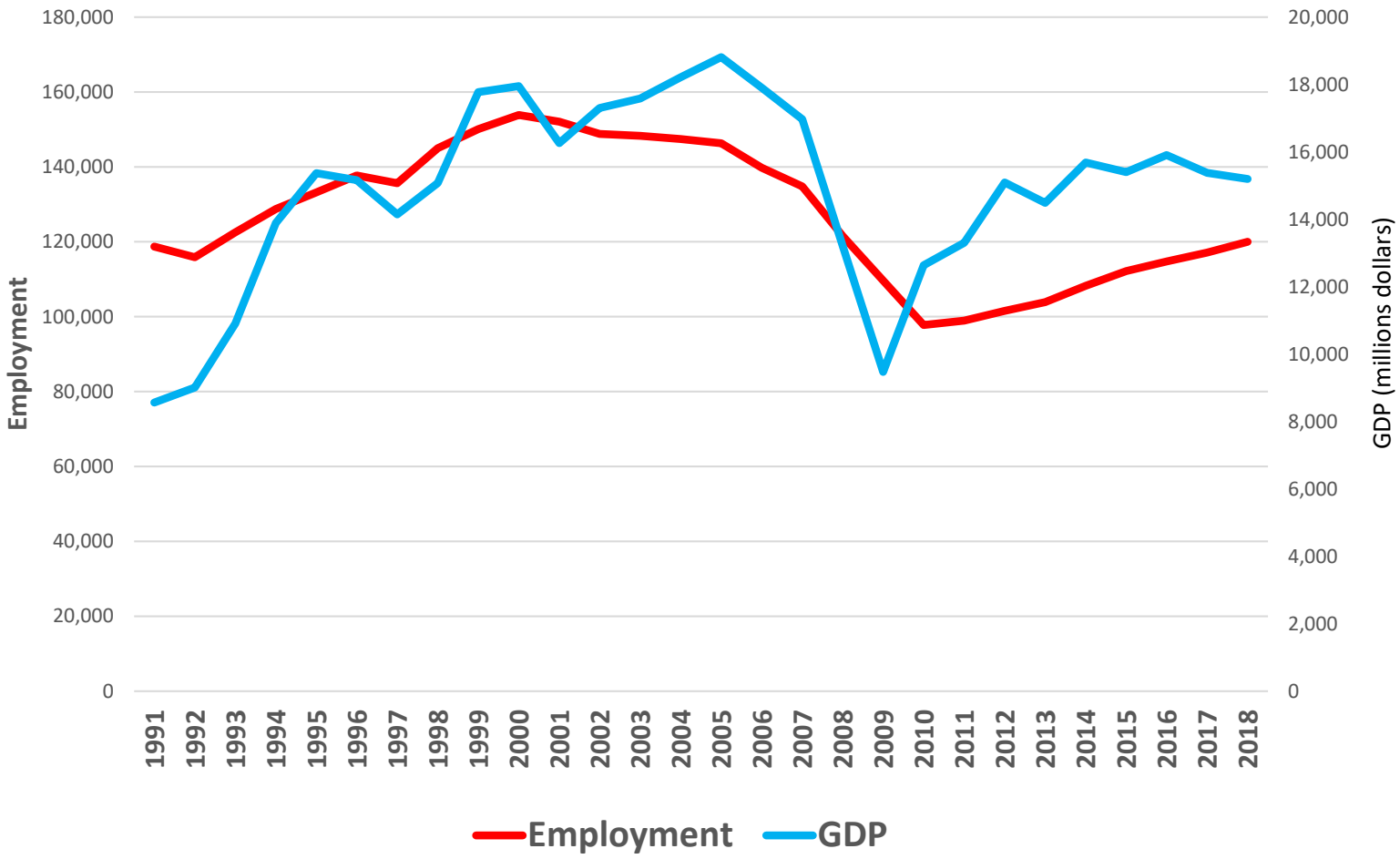
North American auto industry footprint



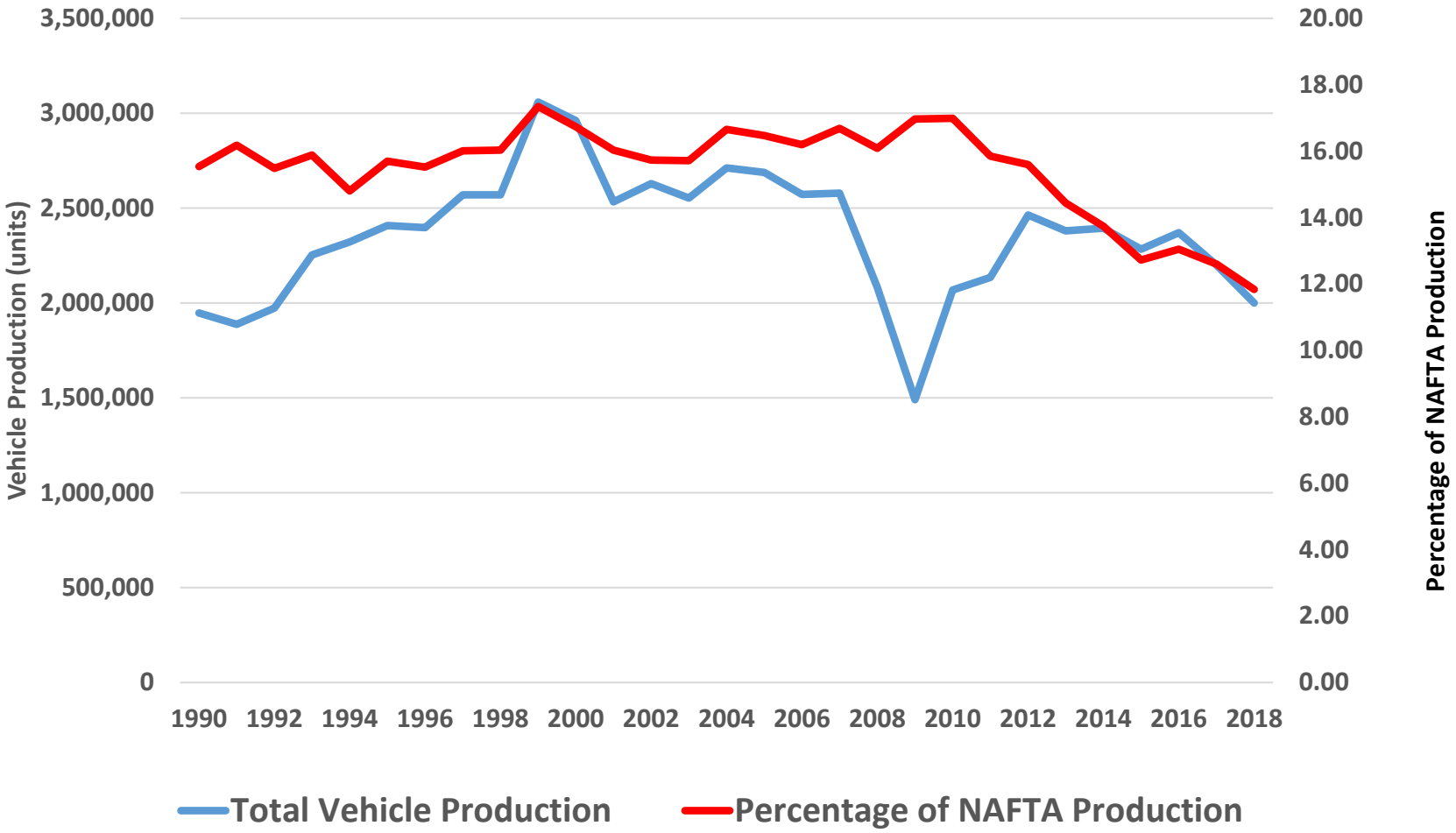
Source: Klier and Rubenstein 2018

Canadian Auto Industry Performance Under NAFTA

Canadian Auto Industry, GDP and Employment, 1991-2018

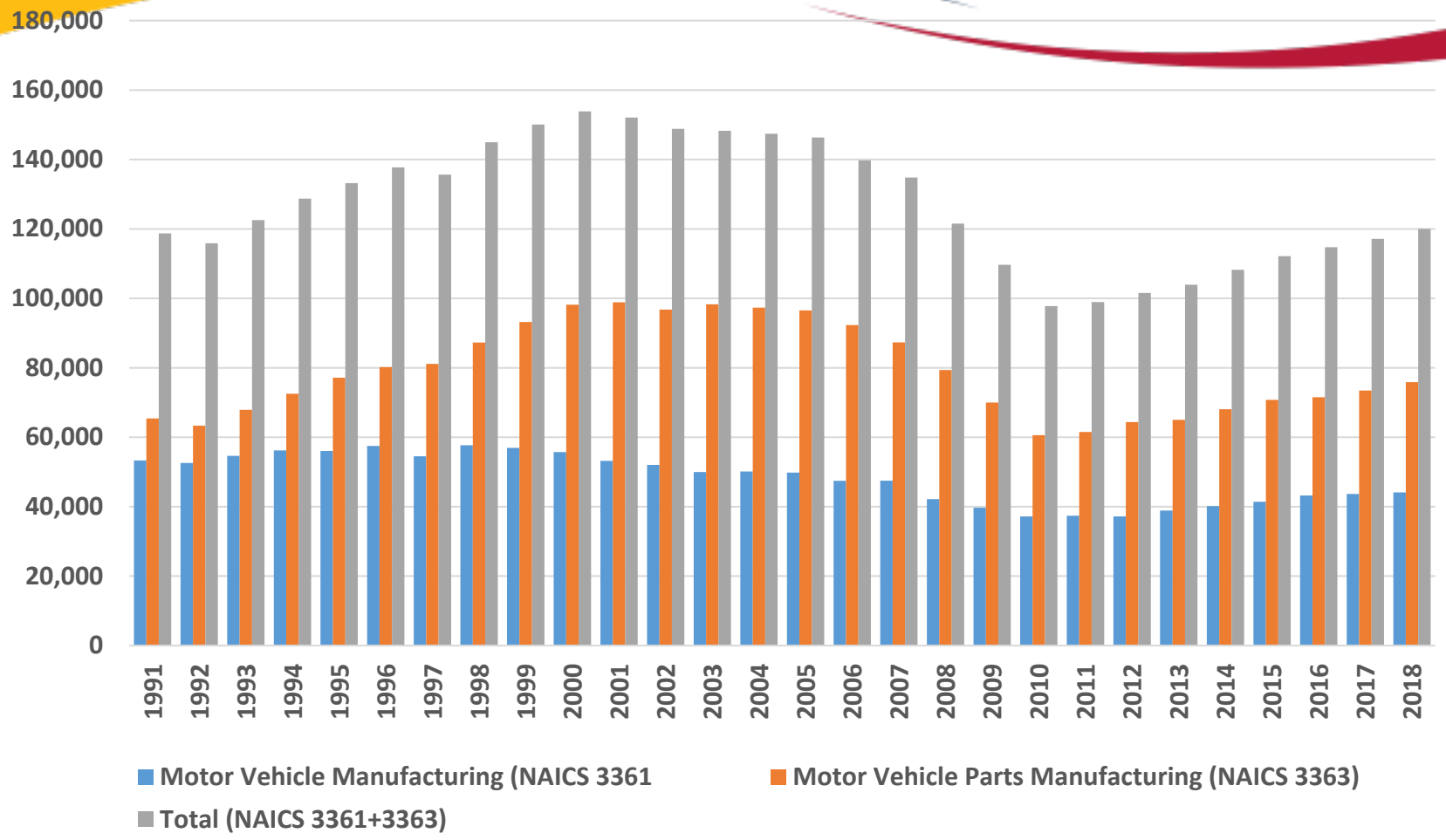


Vehicle Production, Canada, 1990-2018



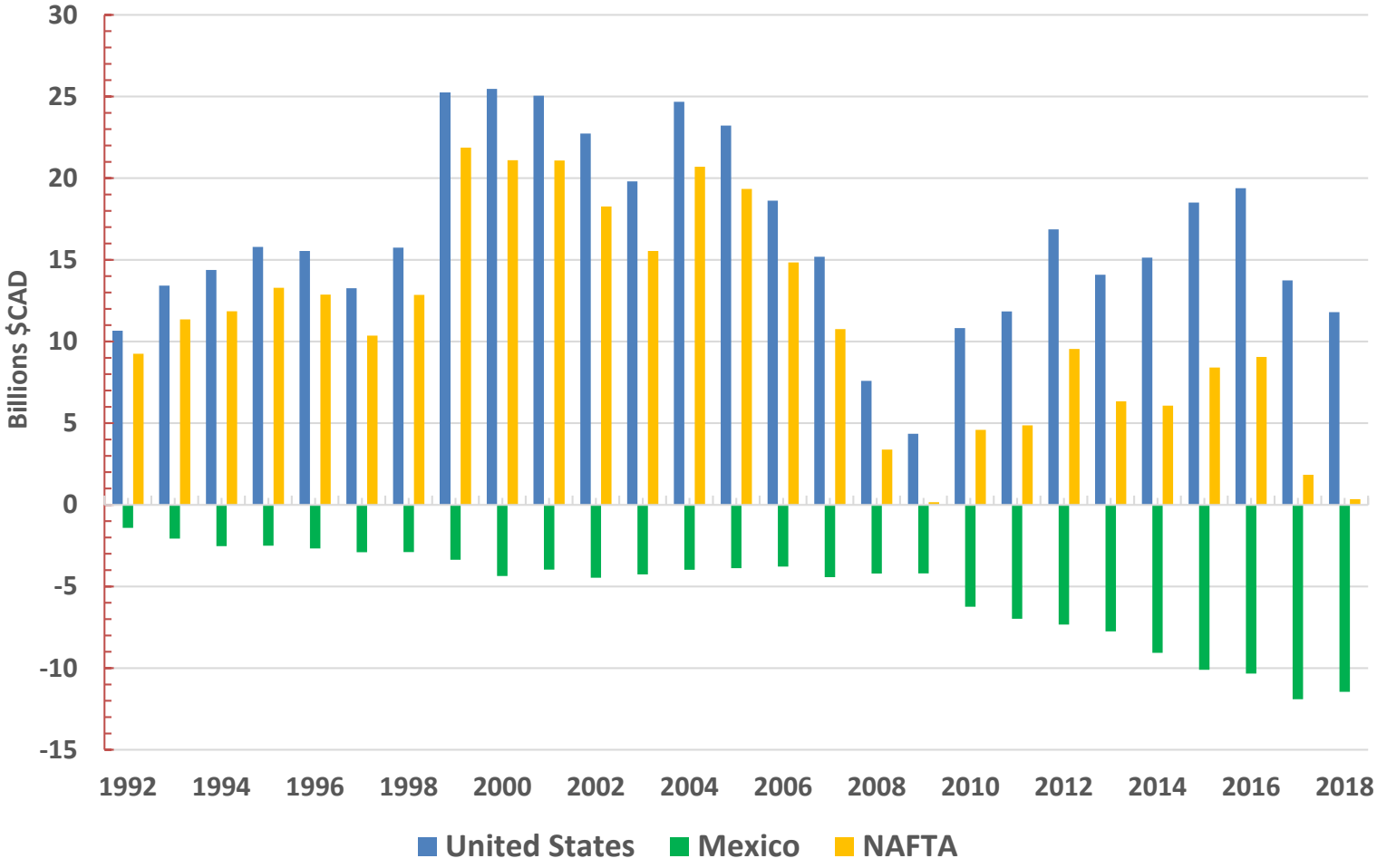
Source: OICA

Automotive Industry Employment Canada: 1991-2018



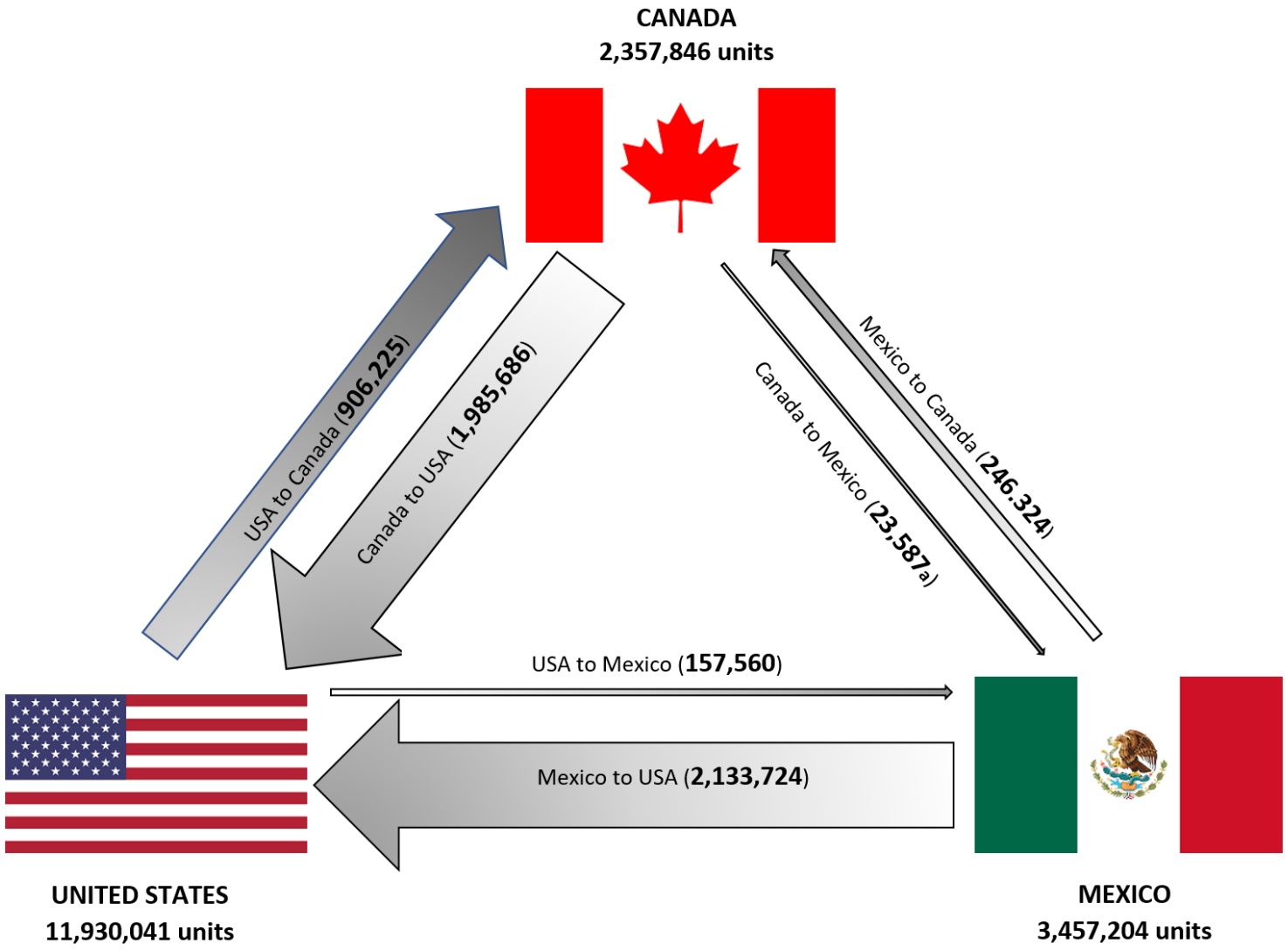
Source: CANSIM TABLE NUMBER: 14100201 (SEPH)

Canada Automotive Trade Balances With NAFTA Partners: 1992-2018



Source: Industry Canada, Strategis On-line Trade Data

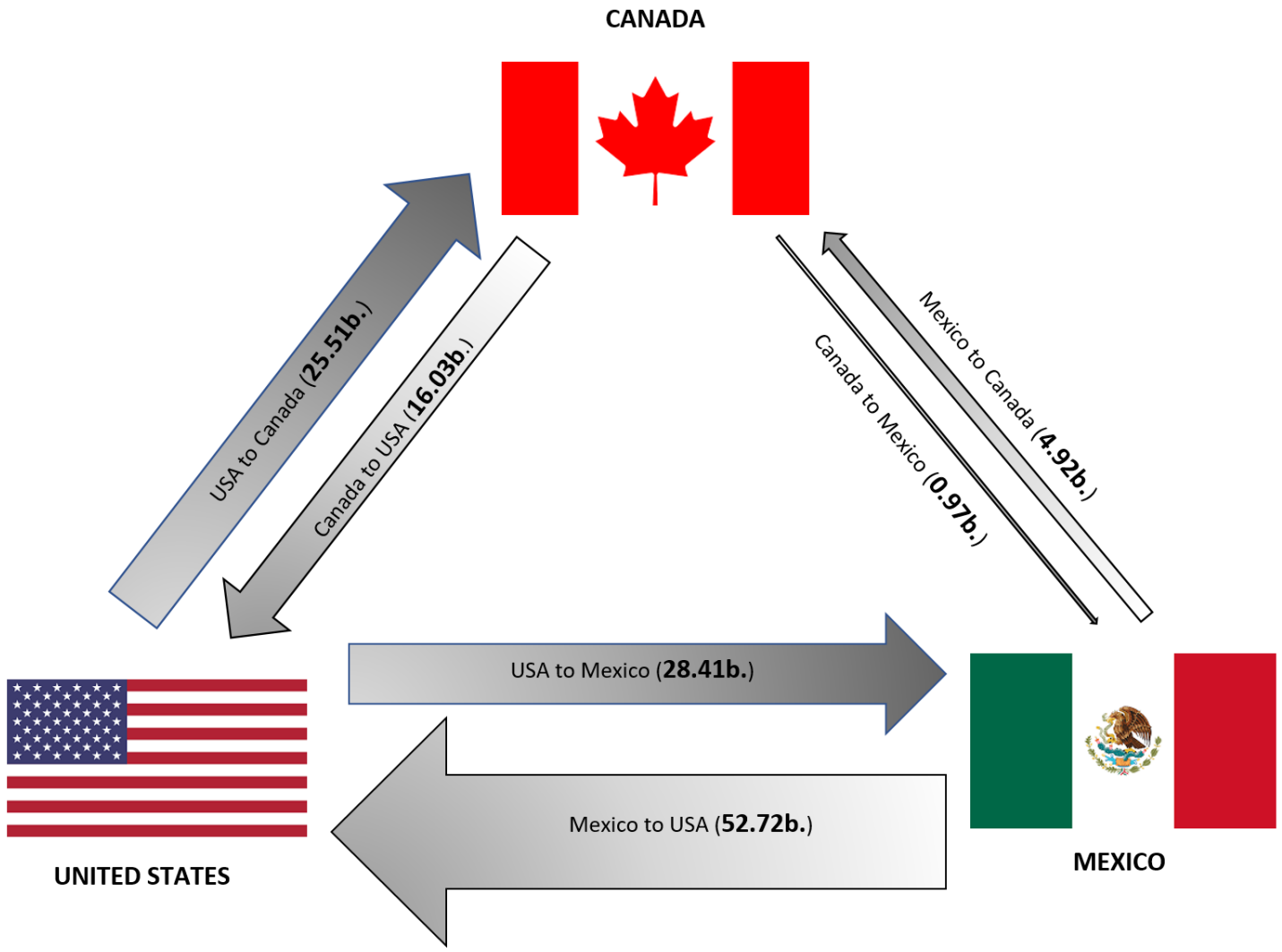
NAFTA Vehicle Production and Trade Flows: 2016 (Units)



Source: AMIA; USITC; Industry Canada

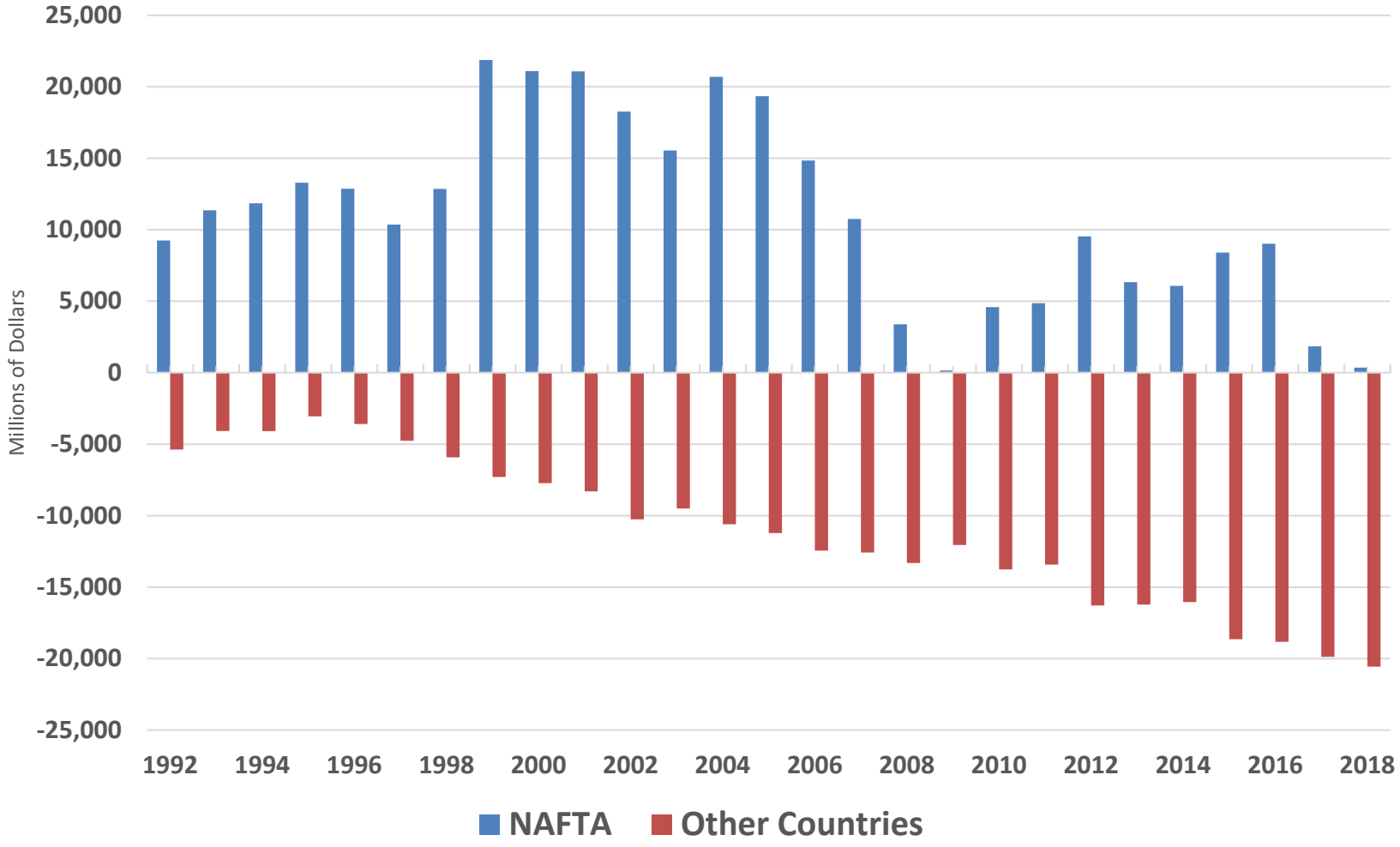
a estimate

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

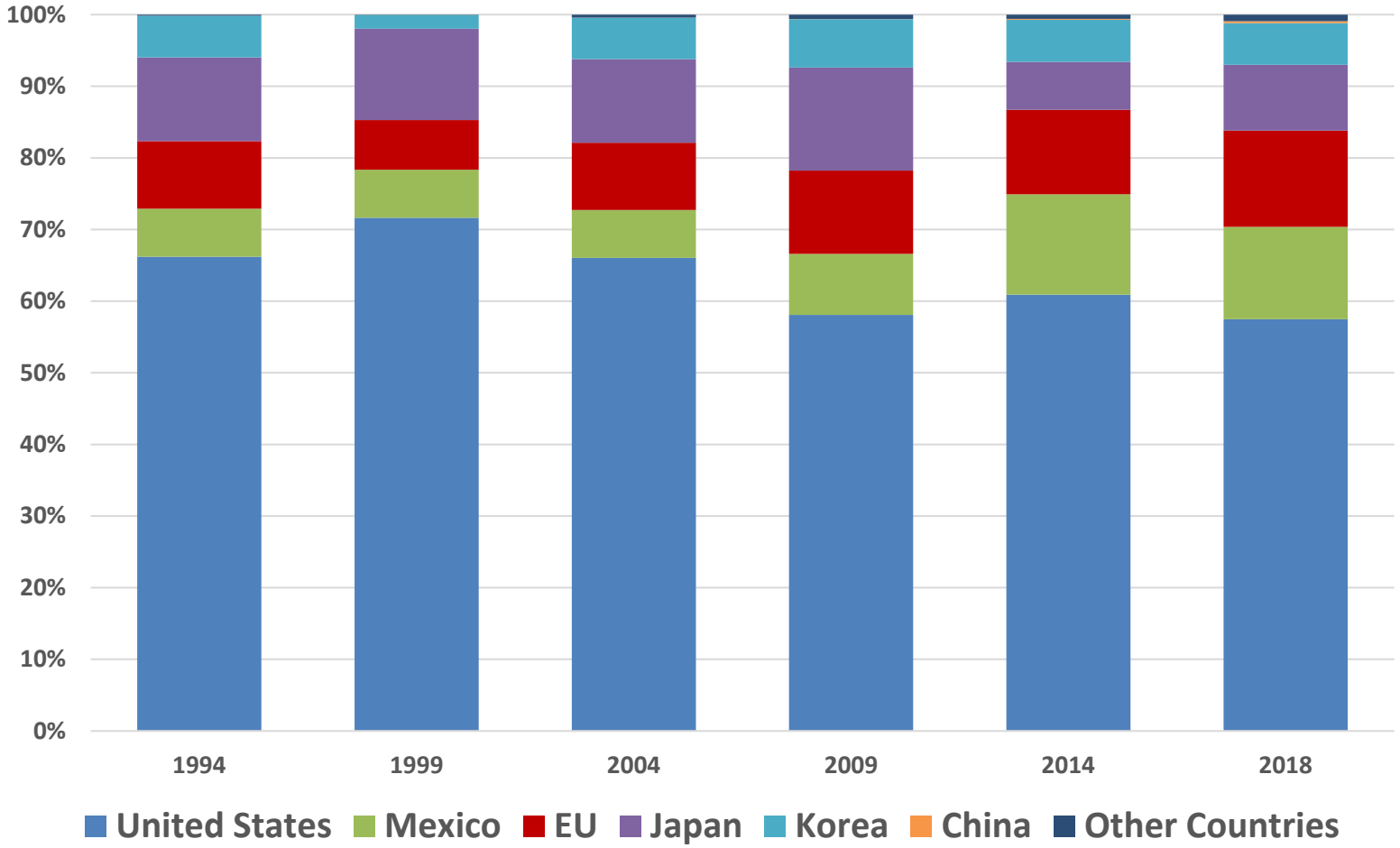


Source: AMIA; USITC; Industry Canada

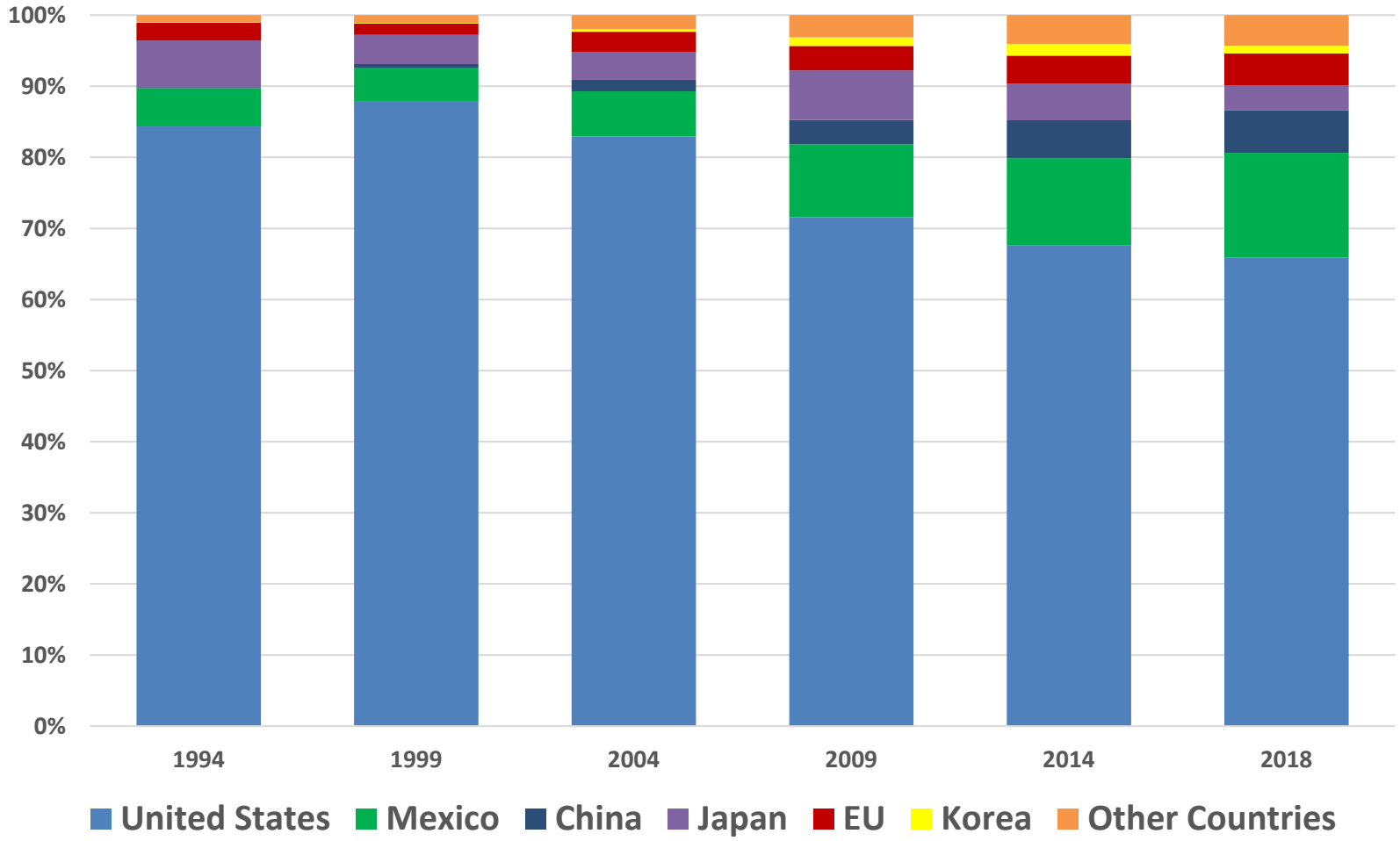
Automotive Trade Balances, Canada, 1992-2018



Canada Import Shares of Motor Vehicles (by value)



Canada Import Shares of Automotive Parts (by value)



Competitive Challenges

Changing Competitive Landscape

- historical dependence on D-3
- Ontario's cost competitiveness vs. U.S.
  - CAD/USD Exchange Rate
  - transformational labour agreements in US
  - cost of electricity, government mandated payroll taxes, carbon pricing, new pension scheme
- logistical challenge posed by southward shift in North American assembly capacity
- growing global trade and free trade agreements

Vehicle Production by OEM, Canada, 2014-2018

OEM	2014	2015	2016	2017	2018
FCA	571,597	596,133	513,037	557,891	491,727
GM	624,883	628,515	579,254	484,268	346,422
Ford	258,358	225,296	200,689	271,494	254,154
D-3 Total	**1,454,838**	**1,449,944**	**1,292,980**	**1,313,653**	**1,092,303**
Toyota	505,335	579,411	590,723	601,716	571,535
Honda	408,124	393,007	384,982	411,162	430,164
Non-D-3 Total	**913,459**	**972,418**	**975,705**	**1,012,878**	**1,001,699**

Source: Sweeney, APRC

CAD/USD Exchange Rate

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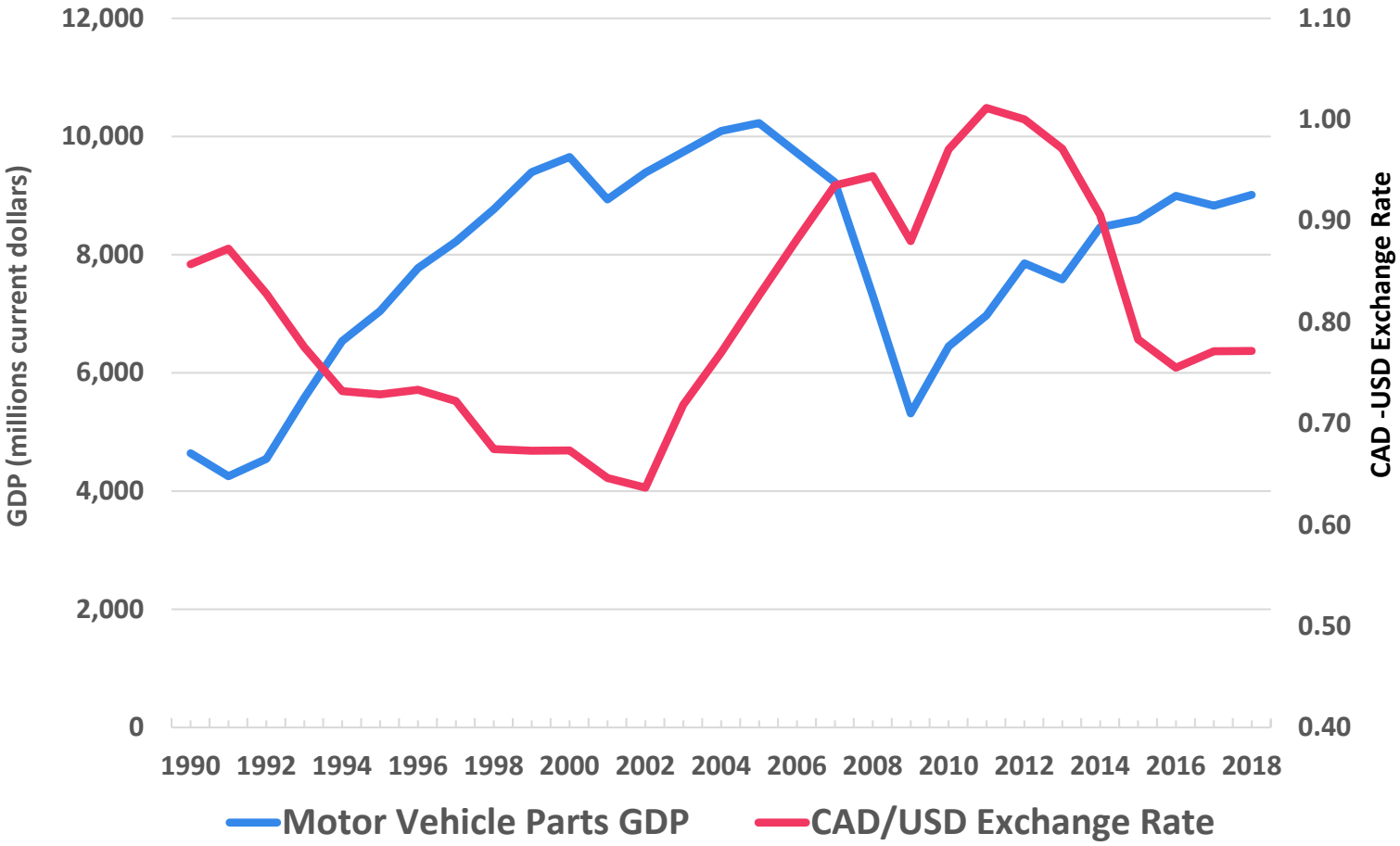
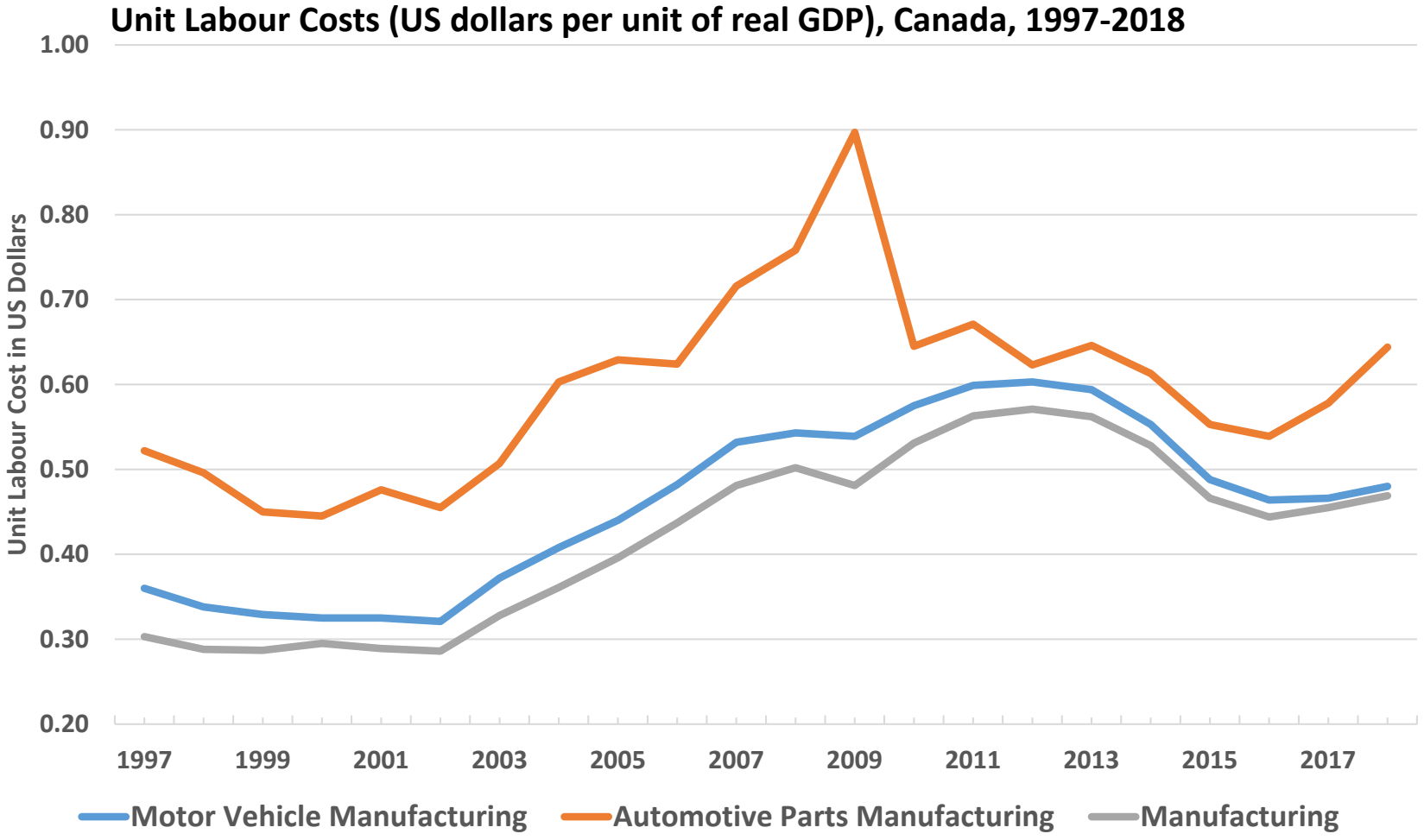
Canadian Motor Vehicle Parts Production and CAD/USD Exchange Rate, 1990-2018



Unit Labour Costs



Source: Statistics Canada Table: 36-10-0480-01 (formerly CANSIM 383-0033)

Transformational Labour Agreements in the U.S.

- Post 2000
  - repeated rounds of “ultra-concessionary” bargaining in U.S.
  - GM and Chrysler bailouts 2008-09: shaped by financialization and state imposed concessions
  - transformed US auto labour relations landscape
    - two tier wages and benefits for new hires
    - narrowing of labour cost differential with non-union segment
    - off-loading of health care and legacy costs
- eroded Canadian cost advantage forcing similar concessions in Canada

Trade Agreements

- CKFTA
  - Increased Korean vehicle imports

- CPTPP
  - Increased Japanese vehicle imports
  - Canadian SME suppliers vulnerable

- CUSMA/T-MEC/USMCA
  - possible increased Canadian parts production
    - impact of LVC on Mexico
    - core parts requirement
  - compliance costs??

- 232 tariffs on US imported vehicles and parts??
  - NAFTA 2.0 side letters

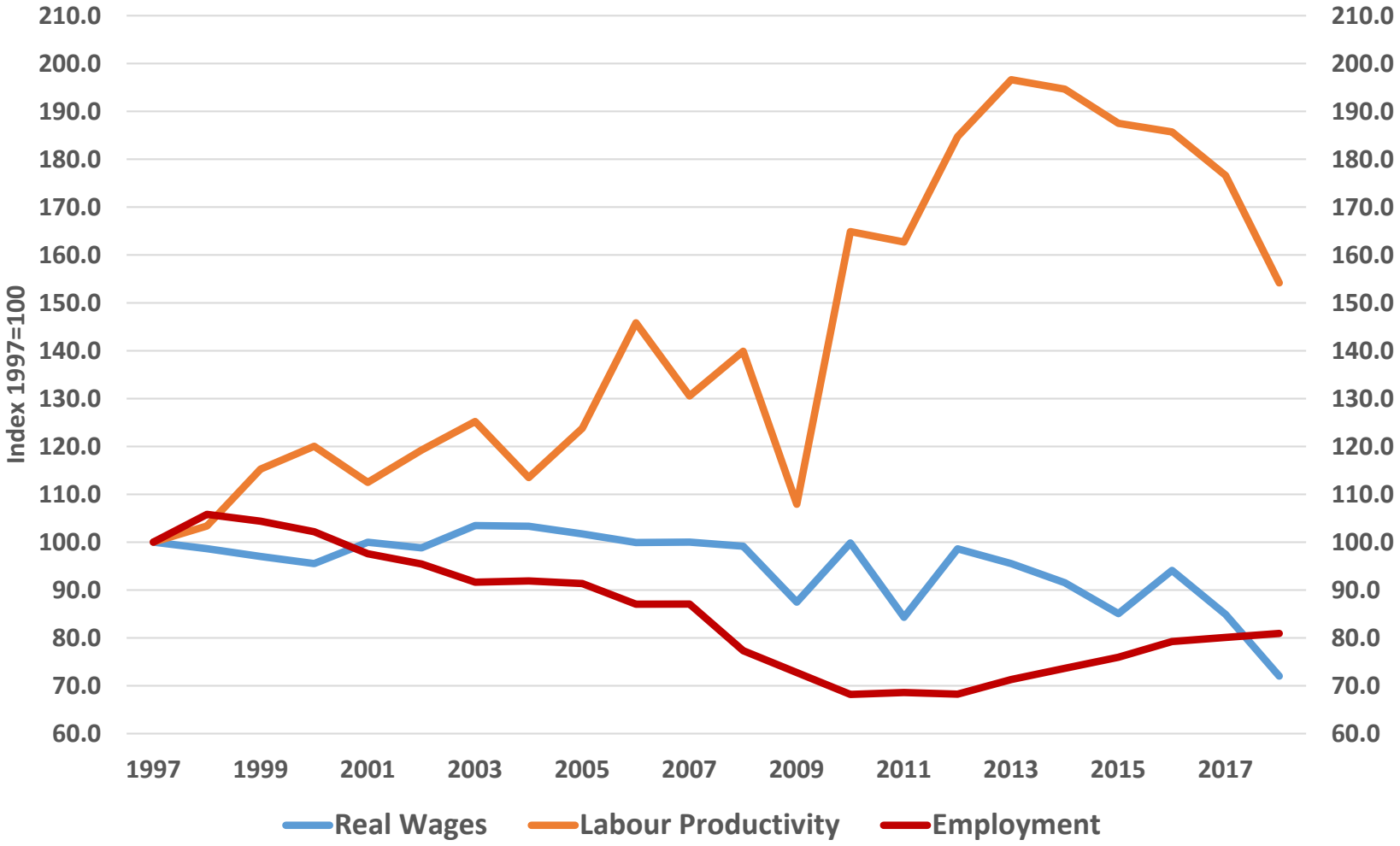
Impacts on Stakeholders

- OEMs and global suppliers have prospered financially, especially since 2010

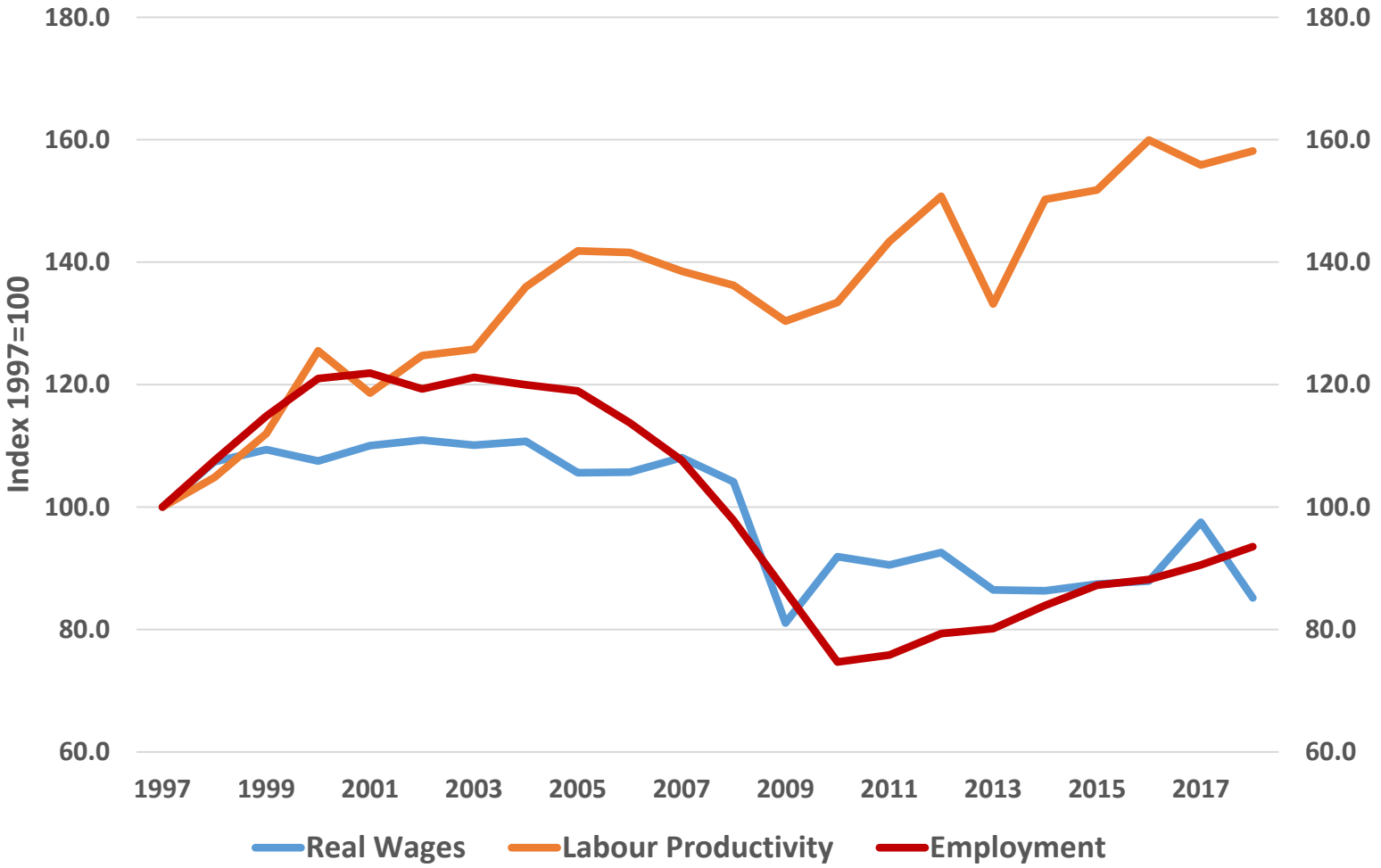
- Canadian-owned SME suppliers facing increased global competitive pressure

- Autoworkers
  - absolute loss of good jobs
  - stagnant or declining real wages
  - shift in bargaining strategy

Employment, Labour Productivity and Real Wages (Indexed), Motor Vehicle Manufacturing, Canada, 1997-2018



Employment, Labour Productivity and Real Wages (Indexed), Motor Vehicle Parts Manufacturing, Canada, 1997-2018



Challenges going forward

- *Trade uncertainties*
- *OEM investment decisions*
- *Disruptive technological change*
  - *New propulsion technologies*
  - *Vehicle lightweighting*
  - *Vehicle electrification*
  - *CAV technologies*
  - *ACES vehicle of the future*

In summary….

- Canadian auto industry has lost ground since 2000
- preferential access to US market remains critical
- fortunes of Canadian (Ontario) auto industry tied to resilience of automotive R&D and manufacturing in the Great Lakes Region
- disruptive technologies driven by climate concerns will impact parts sector
- policies needed to (a) support advanced manufacturing and (b) retain (and expand?) OEM footprint

Gracias!

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Research supported by the APRC