House of Commons
CANADA

Standing Committee on Industry, Science and Technology

INDU • NUMBER 010 • 1st SESSION • 39th PARLIAMENT

EVIDENCE

Thursday, June 8, 2006

Chair

Mr. James Rajotte

Also available on the Parliament of Canada Web Site at the following address:

http://www.parl.gc.ca

Standing Committee on Industry, Science and Technology

Thursday, June 8, 2006

● (1105)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): We'll call this meeting to order. It's a few minutes late, but we had a subcommittee meeting just before this so it took us some time to get over here.

This meeting is continuing our study—the first study of this Parliament to this committee—of the manufacturing sector and the challenges and opportunities facing that sector. I think all members would agree that it's been an excellent endeavour thus far. We look forward to the groups who will be appearing before us today.

In the first hour, we have the auto industry. I know some members of this committee would argue that it's the most important industry in this country. I would not disagree with that at all.

I'll list the witnesses for the benefit of the committee members. From the Canadian Vehicle Manufacturers Association, we have the president, Mark Nantais; from DaimlerChrysler Canada, Lorraine Shalhoub, director of public policy and external affairs; from Ford Canada, we have the director of government relations, Paul Roy; from General Motors of Canada, we have the vice-president of government affairs, David Paterson; and from the Association of International Automobile Manufacturers of Canada, we have David Adams, who is the president.

Welcome to all of you. Welcome to the committee.

We allow up to ten minutes for a witness or association presentation. I would encourage you to be as brief as possible in your opening remarks, because I know that members of the committee do have many questions for you.

We will start off, in order, with Mr. Nantais, for up to ten minutes.

Mr. Mark Nantais (President, Canadian Vehicle Manufacturers Association): Thank you very much, Mr. Chairman.

Good morning, members of the committee. Thank you all for giving us this opportunity to address you today respecting the challenges of manufacturing in the Canadian automotive industry.

I'm going to go through a bit of a deck that will simply guide discussions, and I would like to touch upon several issues as they relate to manufacturing: the Canadian dollar itself, energy matters, skills, training, the globalization of the industry, and how that relates to an immediate and rather urgent issue for us, which is the Korea free trade agreement. As well, we'll leave with you some thoughts on other issues that you might want to pursue, perhaps at a later date.

That said, I would like to give you a little background information, and I suspect David Adams here will support the background information, because it does speak to the entire industry.

We have roughly 570,000 jobs that are directly or indirectly related to the automotive industry in Canada. We are the largest manufacturing sector. We account for a trade surplus of roughly $6.5 billion of a $22 billion trade surplus with the United States. Certainly, when it comes to CVMA member companies, we procure about $40 billion from Canadian sources, which is roughly three times what the entire federal government purchases on an annual basis. As an industry, we represent roughly 11% or 12% of manufacturing GDP.

I understand you do not have the deck that I have, but I want to comment on one of the charts that we will be providing to you in both English and French. It relates to the manufacturing shipments in terms of dollars, and the impacts of manufacturing. We have had a huge increase in shipments, measured in billions of dollars, roughly from about $23 billion in 1992, to currently over $50 billion. Now, within that trend, which is very positive and significant, one of the higher elements or bubbles is really due to the automotive investment that took place, roughly from 1999 through to the year 2001.

There are a couple of blips or dips there, one of which was due to 9/11, and that's understandable. Another was due to the Ontario blackout. What is more important is the deeper dip, which was really due to a strike in General Motors' brake plant in Michigan, which caused a significant drop in those shipments.

The reason I raise this is to demonstrate how integrated our industry is. For one thing, it demonstrates the economic influence that our industry has vis-à-vis the overall Canadian economy, and the reliance that we have on a predictable border crossing, as well as the need for a reliable energy and delivery system. I'm going to talk about those as we go forward.

As for current trends, we have always had our strength in being a low-cost jurisdiction, and that's no longer the case. CVMA member companies are still, nonetheless, heavily investing in Canada, and roughly $5 billion out of the $7 billion of most recent announcements on new investment have been due to the big three member companies, DaimlerChrysler, Ford, and General Motors.

We're now looking forward to shifting away from strictly manufacturing into the area of higher-skilled, higher-value activities, including research and development in both automotive design and research activities.

So that just gives you a bit of a backdrop.

Let me speak briefly about the strengthening of the Canadian dollar. The dollar has, as you know, appreciated very significantly against the U.S. dollar over the past couple of years. That has been due primarily to the strength of commodity prices, and oil prices, and such. We haven't seen the rubber hit the road on this yet. For assembly plants it will have a significant impact on our operations as we go forward. It may not have manifested itself directly at this point in time, but given its current direction, and given the current level it's been sustained at, it will have an impact as we go forward.

The segments of the automotive industry that have already been impacted very negatively are our parts suppliers and the supply chain that feeds our assembly plants in Canada. They're struggling, as this dollar goes up, with keeping their prices in line in a competitive sense. Their competitiveness, as a result, is eroding.

Further, because of the global nature of our industry, we don't look strictly at U.S. dollar exchange rates. The value of the currency in other major auto manufacturing nations such as Europe, Japan, and Korea are all equally important to us now, because it impacts the price of imported vehicles in our market, and also because of emerging global sourcing patterns.

Energy policy: as I mentioned, we require a reliable energy supply and delivery of that supply. The Ontario blackout had a very significant impact on us over a two- to three-day period. It was almost a week by the time power was fully restored. The key thing here is we are unsure of a long-term energy supply policy, particularly in Ontario, and when we have that uncertainty that speaks to future investment decisions. We need reliability, and we need reasonable costs compared to other automotive jurisdictions with whom we compete.

In the area of skills and training, the automotive sector is shifting toward higher value-added activity such as research and development, and automotive design and engineering. The shortage that has often been referred to and spoken about in the press is something that is perhaps more prominent in our supply chain. We have a fairly good pool to draw on, but certainly our supply companies do have a real problem, and that involves everything from literacy through to actual apprenticeships, general skills, and some of the technical skills that we need to make sure we are able to achieve our longer-term vision for the auto industry, and that we have the highly skilled workforce there to support it.

On the other hand, through CVMA and the companies, we have worked, through partnerships with universities, in terms of designing and implementing advanced curricula to satisfy our needs. I currently chair the Canadian Automotive Human Resources Sector Council, which is also looking at those skill requirements. I'd certainly encourage the committee to go to the CAHRS website to look at their reports and recommendations.

This brings me to the main issue: globalization. We have been at the forefront of globalization. We've seen our involvement with the Auto Pact. We are global competitors, global companies, which means we fully support liberalization of trade in both production of parts and finished vehicles.

There are many challenges, however. New markets can be opened for Canadian products to increase domestic production and opportunities in other markets abroad. Competing products can easily be sold in the Canadian marketplace as well. We at CVMA and our member companies want to work with the government to expand those opportunities abroad and increase Canadian prosperity.

The possible impact of China as an emerging automotive powerhouse is real and has received the majority of attention to date, but the hypothesized negative impacts on the North American industry may still be a number of years away. As automotive investment and production increases in China, it's really aimed at satisfying the high-growth domestic market there. While we're not ignoring the situation in China, other more immediate and pressing issues exist, particularly the ongoing negotiation of the Korea free trade agreement.

We support free and fair trade, and we support expanding those markets abroad, but we've entered into negotiations here that we believe will harm Canada's auto industry. Of the $2.6 billion trade deficit in 2005, 67% of that deficit was in automotive. There's virtually no market access into Korea for Canadian products because of a series of complex and consistently changing non-tariff barriers. If Korean products gained a 6.1% advantage through the reduction of the tariff here in Canada, the market share of locally produced vehicles would be negatively impacted.

We know the Koreans will not open their markets. Government-to-government memoranda of understanding in the United States clearly show that while those memoranda were there to try to remove these NTBs, there has been virtually no movement on the part of the Koreans to do so. Our market is wide open and theirs is fully closed.

When you look at their performance relative to other OECD automotive-producing countries, the average around the world is roughly 48%. In Korea, it's 2.4%. Clearly, they're well below what the OECD average is in terms of those other countries. When you look at the makeup of the markets, in Korea 98% of their market is satisfied through domestically produced product—only 2% from around the world. Not just Canada, but all vehicle manufacturers from countries around the world make up only 2% of that market.

● (1110)

So where should we focus our efforts? We believe we need to coordinate a Canadian and U.S. approach to identify a solution that will achieve a real, bankable, sustained opening of Korea's automotive import market. We need a comprehensive and sustained dismantling of Korea's auto tariffs and non-tariff measures. That's the only way we're going to successfully achieve market access.

We've offered a solution. It's a solution we call a “market metric” approach, where we should be achieving a certain level of threshold in terms of market penetration. And until such time as we do that, with the potential for what we call a tariff snap-back with a lack of performance, we don't believe that simply going about the negotiations as we currently are is going to achieve any real benefit for Canadians. In fact, we see no benefit for the automotive sector whatsoever.

To wrap up this particular item, which is, as I said, very important to us, I'll point out that what globalization means is that Canada must create a business environment that can attract and support globally competitive industry, and have a long-term industrial policy that is closely aligned with the international trade priorities.

As such, we think we should be focusing very limited resources on opening new markets for Canada's most important industries, but at the same time we should not trade off the auto industry, which plays such a very significant role in terms of the economy. There may be some wins that are small, but we do have a very negative net outcome for the automotive industry in Canada.

We'd be pleased to answer any questions, Mr. Chair, and certainly prepared to enter into discussion.

Thank you.

● (1115)

The Chair: Thank you very much, Mr. Nantais.

I believe now we're moving to Mr. Adams for a 10-minute presentation.

Mr. David Adams (President, Association of International Automobile Manufacturers of Canada): Mr. Chairman, and members of the committee, thank you very much for allowing me the opportunity to come before you today.

As you indicated at the outset, I am the president of the Association of International Automobile Manufacturers of Canada. Just for a bit of perspective on this particular association, it has a 25-year history of serving as a national association and representing the interests of member companies engaged in the manufacturing, importation, distribution, and servicing of light vehicles whose head offices are located outside of Canada and the United States. Currently, we have 13 member companies with head offices in three countries: Japan, Germany, and Korea.

The association originally evolved out of the Canadian Importers Association as a specialized trade committee dealing with automotive importation issues. As the size and scope of the members' activities in Canada has grown and broadened, so too have the activities of the association. In 1999, the AIAMC was incorporated as a separate not-for-profit corporation.

For perspective, since 1979, combined sales of the AIAMC-member companies have grown from 10% of the Canadian market to 43.3% of the Canadian market in 2005. Further, AIAMC member companies sell 59% of all new passenger cars in Canada.

If we transition to manufacturing, since the mid-1980s three of our Japanese member companies, Honda, Toyota, and Suzuki, as part of a joint venture with General Motors, have invested over $8 billion in manufacturing facilities, including the recently announced $1.1 billion Toyota investment in Woodstock, and a $154 million Honda investment in Alliston. These investments have set the stage for these three companies to produce over 33% of the total Canadian light-duty vehicle production in 2005, growing from slightly more than 400 vehicles when Honda first started producing vehicles in Canada 20 years ago. And yes, that's 400 vehicles.

Additionally, it should be recalled that Hyundai Auto Canada produced vehicles at an assembly plant in Bromont, Quebec, from 1989 through 1993 before closing it. It was a $350 million investment. The plant employed about 800 people and had an annual capacity of 100,000 units. It never realized its full capacity over the course of its operation.

Like other vehicle manufacturers in Canada, all these companies have benefited from an integrated North American market for automotive goods resulting from the negotiation of the automotive products agreement, otherwise known as the Auto Pact, in 1965, followed by the Canada-U.S. Free Trade Agreement and the North American Free Trade Agreement in 1994. As a result of the duty-free access to the U.S. market afforded by these trade agreements, each company exports more than 75% of their production to the United States.

Canada has no national or indigenous automobile manufacturers. While Honda, Toyota, and the CAMI joint venture may not employ the same number of Canadians in their facilities as their other multinational manufacturers operating in Canada, their recent investments and contingent employment announcements have assisted in moderating the significant restructuring that the automotive industry is experiencing. Of interest is the fact that these three companies have more of their NAFTA production in Canada, on a percentage basis, than the traditional North American manufacturers, and they sell more of their Canadian production to Canadians than the traditional North American manufacturers.

This growth in Canadian vehicle production has also meant growth, not only in the number of parts and components and manufacturers coming to Canada to supply these facilities, such as the $50 million Toyotetsu components plant that was announced in April for Simcoe, Ontario, but more recently in the quantity of parts and components being sourced from Canadian parts manufacturers. There is significant room for growth in this area.

I'd now like to focus on the four priorities that were identified by the committee for us to comment on. The committee has had representations before it. Mark mentioned the appreciation of the Canadian dollar—44% against the U.S. dollar since 2002. That appreciation does not necessarily impact all manufacturers in the same way. Clearly, to the extent that one has manufacturing operations only in Canada and is looking to sell goods abroad, the appreciation of the dollar is a significant negative factor.

However, larger multinational auto manufacturers that have operations in Canada and the U.S., as well as other countries, have a natural currency hedge. So despite the fact that more than 75% of vehicle production is exported, many of the parts and components required to produce those vehicles are imported and will be positively impacted by a rise in the Canadian dollar.

As Mark noted as well, the rapid appreciation of the Canadian dollar has a decidedly larger negative impact on the Canadian parts manufacturers compared to the vehicle assemblers, to the extent that they export their production. The parts sector is also where much of the employment growth for the industry is likely to come from in the near future. We need to be vigilant with respect to this sector.

● (1120)

In that regard, our first recommendation is to assist in offsetting some of the negative impact of the dollar's appreciation by accelerating the capital cost allowance rates for purchases of manufacturing tooling and equipment. A faster writeoff, combined with an appreciated Canadian dollar, would make imported machinery much more attractive for parts manufacturers to purchase, enabling them to become more productive.

Mark also talked about high energy costs, and our members who manufacture have the same issue. Ontario used to have an abundant source of energy at reasonable prices, and this is not necessarily the case today. In January 2005, a submission by the industry consultation committee of the Ministry of Economic Development and Trade noted that electricity rates for industrial customers had risen by more than 46% between the first quarter of 2000 and the second quarter of 2004. With respect to price predictability, it should be noted that the Ontario Minister of Energy did announce in February that it would be providing predictability and price stability for large industrial users by dropping the price per kilowatt hour to 4.6¢, beginning in May, and would increase it to 4.7¢ in 2007 and 4.8¢ in 2008. While it was a welcome announcement, this is viewed as an interim solution to a systemic problem. Beyond the rising cost, the stability and reliability of the electricity supply has taken on increasing importance as well.

With respect to globalization, the automotive industry is perhaps the most global of all industries. Globalization is viewed as having a negative effect on Canada's automotive industry. However, the numbers do not necessarily bear this out.

Capital investment in Canada has been fairly consistent at about $3 billion a year for each of the last seven years. Direct employment in the parts and assembly sector has been relatively stable at about 150,000 for the past five years. And the figure of 148,250 employed in 2005 is about 11% higher than the 133,181 employed in 1995. Vehicle production has been relatively stable at about 2.6 million units for the past five years, and Canada has held on to about a 16% share of North American production over that timeframe.

Vehicle sales have been relatively stable as well at about 1.55 million units over the past five years. That is not to say there is not significant transition taking place in the industry and in the different sectors and manufacturers within the industry. The challenges currently facing the traditional North American manufacturers are well documented and likely to persist, at least for some time. Again, however, the health of much of the parts manufacturing community is pinned on General Motors, Ford, and to a lesser extent DaimlerChrysler, pushing through their current challenges.

Other manufacturers, such as those in my membership, continue to achieve impressive sales results and add North American production capacity. With respect to sales, six of the AIAMC's 13 member companies had record sales in 2005. In the past year, Canada's first greenfield investment in almost 20 years was announced by Toyota. A Hino truck plant was also announced for Woodstock. There is the Toyotetsu component plant, which I referenced earlier, as well as the Honda engine plant. These investments were made because sales volume dictates additional capacity, and around the world most manufacturers have adopted the business model of producing vehicles in or close to the markets into which they are selling these vehicles. These assembly facility investments then serve to anchor parts and components plants.

In the October 27, 2005, issue of the *Canadian Auto Report*, Carlos Gomes, senior economist in industry and commodity market research with the Scotiabank Group, suggested that a Canadian-built Japanese model now contains less than $2,000 of auto parts imported from Japan, down from a peak of more than $5,000 in the mid-1990s.

A more telling statistic is Canada's auto parts trade deficit with Japan. The deficit last year was about $1.7 billion, which is almost exactly the same as it was in 1996, despite the fact that automotive production from Japanese companies in Canada has increased 140%, from about 366,000 units to about 881,000 units last year. It is clear, then, that a lot more parts sourcing is being conducted by these companies in Canada and the United States.

The NAFTA market is highly competitive and represents the largest automotive marketplace in the world. As sales volumes continue to grow, direct foreign investment should continue to flow into the region. However, Canada needs to take appropriate steps to ensure that it has a highly competitive tax structure that keeps the industry competitive within a global context.

● (1125)

In this regard, the 2006 budget rightly acknowledges that although the corporate statutory tax rates on manufacturing income are 5.1% better than in the U.S., this percentage will shrink to 2.0% in 2010 with the U.S. tax cuts. Moreover, the budget points out that on a marginal effective tax rate basis, Canada currently has no advantage over the U.S. and proposes measures to ensure that on a marginal effective tax rate basis, the tax rate will be about 32% in 2010, slightly lower than the U.S. rate of 35%.

Some additional recommendations are to have a marginal effective tax rate—

The Chair: Mr. Adams, could we get you to wrap up?

Mr. David Adams: Sure. I'll just go through my recommendations quickly, then.

Having a marginal effective tax rate that is slightly better than the U.S. is likely not enough to attract foreign investment to Canada, as opposed to the large U.S. market. The government needs to continue to look for ways to enhance the competitiveness of the Canadian corporate tax environment.

AIAMC would also support the idea of federal government discussions with the provinces with separate provincial taxes, with a view to encouraging harmonization of the provincial retail sales taxes with the GST, if it makes sense. Such a move would assist investment by reducing tax on business and capital goods and on intermediate materials.

The government should attach a high priority to ensuring sufficient cross-border road and rail infrastructure to accommodate current and future trade volumes, so as to remove the border from the investment equation when investors are considering the three NAFTA countries.

Globally, countries are acutely aware of the importance of a local auto industry as an engine for economic growth and prosperity. Countries such as China and Korea have detailed long-term plans for the cultivation of their domestic industry. Canada needs its own detailed long-term strategy for its auto industry if it hopes to retain the industry over the course of the long term. Such a strategy needs to be equally cognizant of those who are actually manufacturing parts and assembling vehicles here now and those who potentially could do so in the future.

While public funds may be necessary as a demonstration of interest in attracting automotive investment, they should not be utilized to pick winners or losers among ambassadors.

The last recommendation I have is that the government needs to work to ensure that Canada retains its positive image regarding the high quality of life that is afforded skilled workers. Investment decisions can sometimes be swayed by the fact that its jurisdiction has a low crime rate, good health care facilities, reasonable housing costs and housing availability, which makes it easier to attract a skilled labour force that has significant discretion over which country they would like to work in.

The Chair: Thank you, Mr. Adams. We're way over time here; I'm sorry for that.

We'll start now. The subcommittee agreed this morning—

Mr. Peter Julian (Burnaby—New Westminster, NDP): Could I rise on a brief point of privilege? Unfortunately, because I have two committees, I have to step out for 45 minutes. If I take two minutes instead of six, could I prevail upon my colleagues to allow me to go first?

The Chair: It's up to your colleagues.

Hon. Joe Fontana (London North Centre, Lib.): We'll accept the same sort of generosity on your part next time.

Mr. Peter Julian: Absolutely. Thank you very much.

Hon. Joe Fontana: It's the first two minutes.

● (1130)

Mr. Peter Julian: I'll just take two minutes, and the rest of my time could be given to the other parties. Thank you very much.

I want to come back to the important issue of the Korea-Canada trade agreement. You mentioned it very specifically in your presentation. What consultations have you had around the agreement? You've raised some concerns today about specific things that would need to be done. If those are not incorporated into the agreement or additional support is not provided to the auto industry, what are the consequences of proceeding?

Mr. Mark Nantais: First, we have been consulting with the negotiating team. It's been a broad-based discussion or consultation involving not just the auto industry and the assemblers, but also the parts manufacturers and labour as well.

Basically, anybody we talk to sees no upside for the auto industry, period. In fact, when you look around to other organizations that represent manufacturers in other sectors, nobody seems to be coming forward to say there are real benefits to this.

There may be some perceived benefits in other smaller sectors, but when you weigh everything out, the impact on the auto industry far exceeds any economic benefit through some of these other sectors. That doesn't mean one shouldn't pursue something for those other sectors, but in our view it does mean that we need to negotiate an agreement that represents and respects the interests and the economic benefits of the auto industry here, without giving it away in order to achieve a lesser economic benefit.

Mr. Peter Julian: What are the consequences, then, if the agreement...?

Mr. Mark Nantais: The consequences would be a number of things. If you were to reduce the 6.1% tariff, for instance, just to give you an example.... If you look downstream at our dealer network, when you have a roughly 2% to 3% margin on a new vehicle sale, if you were to take that tariff off, it's like giving 6.1% to Korean-imported vehicles right off the top.

If you were one of those individuals who has only a 2% to 3% margin, and these other companies are getting a 6% margin, you can well see the potential negative impact for the former group. To the extent that it would displace domestic sales in Canada, there could be longer-term impacts upon production. That means less Canadian sourcing in the parts supply chain.

These are all things we have not yet seen in any economic study. We understand there is a study that exists. We've asked for that study, and thus far they haven't provided it. We're hoping we will get it.

The Chair: Thank you.

Thank you, Mr. Julian.

I believe we have six more members who want to ask questions, so let me ask members and witnesses to be as brief as possible.

We'll lead off with Mr. Fontana.

Hon. Joe Fontana: Thank you, Mr. Chairman.

I was going to ask about the South Korean free trade agreement, but I'll move to another subject matter, even though I think it's becoming increasingly clear that unless we get reciprocity or in fact the Koreans show they're prepared to open up the market, we shouldn't go any further until such time as it happens, for all the reasons that have been mentioned.

There is no doubt we have a very productive sector. There is no doubt that the auto sector is incredibly important to this country. I think we have some competitive advantages, from health care to skilled trades and so on, and I think we're doing very well to maintain and expand.

I need to know, because there is a list of categories, from the dollar to energy to the border to skills, training, technology, and productivity, what it is that is going to keep us at the forefront of being competitive. You're right, if there is overcapacity, production will go where the market is. I think Canada should position itself to become the best in skills and technology—and even taxes.

My question is this. If one were to ask what the most important things are—and I mean being very clear about what the things we need to do are—to make sure we're going to either maintain and/or enhance our ability to produce cars and auto parts, and so on, I think that needs to be said.

Also, there is no doubt that the previous government had put in place the auto strategy with CAPC, a $500 million investment. As we move forward as a committee to recommend to this government, how important is it to have these technology funds or programs available to the auto sector to attract either greenfield auto assembly plants or enhance present production to get into flexible manufacturing, as we did with GM or Ford and other things, for the purposes of continuing to be competitive?

Thank you, Mr. Chairman.

Mr. David Paterson (Vice-President, Government Affairs, General Motors of Canada Ltd., General Motors of Canada Ltd.): I can start to come at that from the back end. I think it's very important to understand that every jurisdiction in the world wants to attract automotive investment because of the incredible power of the supply chain that will always follow an assembly plant.

What CAPC identified as a top priority, in bringing all the different partners within the automotive industry together, was to ensure that we continue to attract investments in assembly plants, because they then foster the supply chain that will come with them.

In the United States it is very common for municipalities who have the legal ability to do so to offer incentives of usually up to 20% of the capital value of a potential investment. There are many ways it happens, from infrastructure support to tax forgiveness at the municipal level, and in other ways.

For about two decades we missed a large number of those investments in Canada, but the tide turned when we started to compete in those areas. I can certainly assure you that in the case of General Motors, we would never have been so successful in putting forward some $3 billion of new investment in the last year had we not had those types of supports. Moreover, they allowed us to also invest in some major innovative partnerships with universities to drive innovation, etc.

So that's one priority that's important in the list, but it also just acknowledges the competitive reality, because people want automotive investment.

● (1135)

The Chair: Ms. Shalhoub.

Mrs. Lorraine Shalhoub (Director, Public Policy and External Affairs, DaimlerChrysler Canada; Canadian Vehicle Manufacturers Association): I would echo David Paterson's comments. I think it's critically important that we have a long-term strategy going forward, that it's known these programs continue to exist, and that it's not a one-time approach. It's important. It sends a message back to our parent corporations that Canada continues to be open for business and is on a level playing field in terms of attracting new investment. As David said, there were studies done by KPMG and other groups suggesting that we weren't in the playing field until incentives were offered. It's very important that we continue to keep those going on.

Secondly, I think it's a question of reducing impediments. To the extent that we can look at the automotive industry as an integrated industry within Canada and the U.S., it's very important that we not think of compartmentalizing the issues that impact the auto industry. As you've indicated, Mr. Fontana, those issues are huge, ranging from energy, to the environment, to tax policies, and to regulatory, transport, and infrastructure issues.

The CAPC group was very instrumental in pulling all of these issues together and looking at the automotive industry on a cohesive basis. To the extent that we continue to do that, it will strengthen the industry and our issues going forward, and hopefully it will reduce those impediments to trade and investment.

The Chair: Mr. Fontana.

Hon. Joe Fontana: I'll make a quick follow-up, if I could.

There's no doubt, as I've heard and as the CAW and others have indicated, that one of the best assets we have, notwithstanding the investments in capital or technology, which you all have.... I think you leverage $4 for every dollar that we bring in or the government has brought in.

On the human resources side, in seven or ten years from now, I understand that 30% of your workforce is going to be retiring. Therefore, if in fact we're going to continue to do all those other things we need to do, how important is the human resource side of the equation to your production, and to our competitiveness and productivity? What are some of the things you think we need to do? I know you've touched on it, but what specifically do you think we need to do with regard to human resources and skills?

Mrs. Lorraine Shalhoub: From a human resource perspective, I think we need to consider the ability to attract skilled trades and skilled people to our industry. It's very important that we have highly skilled, highly knowledgeable engineers, so that we can continue to design vehicles, develop and produce them, and do the amount of R and D we're doing in Canada. That's very important.

We see that in some of the auto parts suppliers—and I can't really speak for them—there is a shortage, if you will, of certain trades, because some of that knowledge and those knowledge bases came from other countries, and they emigrated that knowledge to Canada. So it's important to continue to grow and sustain that.

On the transportation side, for example, in the trucking industry—which is huge to our business because more than 70% of what we import, export, and deliver goes by way of truck—right now we're experiencing a shortage of truck drivers for the FAST programs, and come 2010, we're going to experience a huge shortage in the trucking industry alone. So it's important to look at the whole spectrum, the whole supply chain, when you're looking at skills in trades, and factor that into immigration policies and policies the government is desirous of developing.

The Chair: Thank you.

Thank you, Mr. Fontana.

We'll go to Monsieur Crête.

[*Translation*]

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ): Thank you, Mr. Chairman.

Ms. Shalhoub stated that a host of factors, including environmental ones, must be taken into consideration. On April 5, 2005, the Government of Canada signed a Memorandum of Understanding with the automotive industry respecting automobile greenhouse gas emissions. You were slated to produce your first report on November 30, 2005. Why was the report not released?

● (1140)

[*English*]

Mrs. Lorraine Shalhoub: With respect, the report has now been produced.

I think Mark Nantais can speak further to that.

Mr. Mark Nantais: Monsieur Crête, the report was in fact produced, and it's actually in printing.

This report was not a requirement of the GHG MOU, but it was something we agreed to do beyond the memorandum of understanding. Obviously it was necessary to have it translated and printed. I believe the report, which has been in the hands of Natural Resources Canada for well over a month now, is in printing. The date for its delivery covered the period from April 5, 2005, through to April 30 of this year.

[*Translation*]

Mr. Paul Crête: According to paragraph 9 of the MOU:

> Commencing in 2005, the Canadian Automotive Industry will report its projections for GHG emissions for the coming model year by November 30.

Therefore, as I understand it, a report should have been produced by November 30. Are you saying that Industry Canada only received it a month ago?

[*English*]

Mr. Mark Nantais: That is correct. As I said, the first report was really just a report on the process to date. The requirements under our agreement require us to report on the first annual emissions in 2007. That's when the first report is required, and that's what we plan on doing.

[*Translation*]

Mr. Paul Crête: I read you an excerpt from the MOU and it seems fairly clear that the industry must report by November 30. I hope we're talking about the same thing. The MOU also refers to "a mandate and its operational plan for approval by the parties no later than 180 days from the signing of this MOU", which brought us to October 2005. Are we talking about two different reports? Can you give me the status of each one, to further enlighten me?

[*English*]

Mr. Mark Nantais: If I understand your question correctly, first, there is a series of deadlines that had to be met—180 days to establish the committee, and thereafter its mandate, and so forth.

[*Translation*]

Mr. Paul Crête: The MOU called for an operational plan.

[*English*]

Mr. Mark Nantais: That has all been done. It was all done within the timeframes; it is all part of this first report.

[*Translation*]

Mr. Paul Crête: I see, but it hasn't yet been made public.

Mr. Mark Nantais: Correct.

Mr. Paul Crête: It's currently being translated. Is that right? You're telling me that Industry Canada only received the report a month ago.

[*English*]

Mr. Mark Nantais: Yes, Natural Resources Canada.

[*Translation*]

Mr. Paul Crête: Yes, the report was sent to Natural Resources Canada.

[*English*]

Mr. Mark Nantais: My understanding is it should be released momentarily.

[*Translation*]

Mr. Paul Crête: I see. Will it be made public by the government, or by your organization?

[*English*]

Mr. Mark Nantais: The overall agreement is governed by a joint industry committee. The joint industry committee will issue the report. So it will be issued by Natural Resources Canada on behalf of the government, and we as industry intend to release it as part of our publications as well. It will be available on our websites.

It is a public report, yes.

[*Translation*]

Mr. Paul Crête: Moving on to another topic, I was contacted by a constituent of mine who works in the metal casting industry. He manufactures automobile parts and is greatly affected by the increase in the value of our dollar. How has the rise in the dollar affected your market, particularly with respect to subcontractors? What impact is this currently having? Are foreign competitors capturing a share of the market? As subcontractors, are Quebec and Canadian suppliers holding on to their share of the market, or, because of the surging dollar or for some other reason, are they struggling? Is my question clear?

[*English*]

Mr. David Paterson: I may be able to answer the question.

General Motors sources a little under $1 billion of supply from Quebec each year. This is primarily in a variety of different areas, but there are particular strengths in the Quebec marketplace, especially in lightweight materials.

There's also extraordinary research and development capability in Quebec in lightweight materials, which is a critical component in our improving the fuel economy of our vehicles. As we've replaced certain steel products with lighter-weight aluminum and now magnesium products, those things are very important to us. We've actually been growing an awful lot of that type of work in Quebec.

The rise of the Canadian dollar does make a difference, especially to the supply market and having to compete with other sources of materials around the world. As new supply contracts come up to be bid with major automotive players, if your cost on a relative base against a competitor in the United States or another jurisdiction has increased in two years by 40%, you can imagine the stress this puts certain companies under.

So it's a reality. We try to work with our suppliers to make sure we're optimizing the innovation within the Canadian supply chains so that we can offset some of those increases.

I would add, though, that the increase in the Canadian dollar also impacts us in the assembly area, as we try to attract our large investments against our competitors in the automotive world, as well.

The same thing will apply if our cost base related to labour—which is a combination of labour costs, their benefits, and the like—and other things we source from Canada goes up 40% in two years. Then it's much more difficult to make the case for the next major investment because of that increase. So one is forced to be more productive, and that's why I think you might find that the Canadian supply chain and the Canadian automotive assembly area are amongst the highest in productivity and quality of any in the world.

● (1145)

The Chair: Monsieur Crête, we're—

[*Translation*]

Mr. Paul Crête: Is my time up? It can't be.

[*English*]

The Chair: It's 6:58, sorry.

Mr. Nantais, go ahead, please.

Mr. Mark Nantais: I would just like to add more for Mr. Crête, if I may.

[*Translation*]

Mr. Paul Crête: Please do.

[*English*]

The Chair: We do have other members who want to ask questions.

Mr. Mark Nantais: I'll be very quick.

One of the main things is the huge increase in cost of materials, which is having a major impact on the supply chain.

The other thing that may be of interest to you is what individual provinces might do from a regulatory standpoint, and how that affects new vehicles and new vehicle designs. The Province of Quebec right now is engaged in an effort that will have a negative impact on suppliers in Quebec—

An hon. member: Negative?

Mr. Mark Nantais: Yes, a negative impact on suppliers in Quebec, and we'd be glad to talk to you offline about that.

The Chair: Thank you, Mr. Crête.

We'll go to Mr. Carrie.

Mr. Colin Carrie (Oshawa, CPC): Thank you very much, Mr. Chair.

First, I'd like to start off by congratulating David Paterson, from GM. I read in *The Globe and Mail* that according to J.D. Power we were number one again at Oshawa Plant No. 2.

An hon. member: Hear, hear!

Mr. Colin Carrie: Coming from Oshawa, I'm very proud of that.

But it does bring me to a question, because when I look at the quality of Canadian-built automobiles, we're consistently—whether it's GM, Chrysler, Ford, or Toyota—producing high-quality vehicles, and here I see for GM Oshawa 2, the plan is to close or revamp that facility.

The question I'm asking is what else the government can do to help in this globally competitive market right now. It seems like the workers are doing a great job putting out a quality vehicle, and still we're looking at these job losses.

I met with the CAW locally, and it's a huge concern for them. I was just wondering what you think we as a government can do, and do fairly quickly, to help in this globally competitive market.

Mr. David Paterson: There are two things. The first thing I must do is congratulate my partner, Lorraine Shalhoub, for having the number two quality plant.

It is true that the quality and productivity ratings from third parties that Canadian plants are getting are amongst the best, and that's due to a combination of the companies and their workers working together and applying processes. So there's much to be proud of.

The second point is that there certainly have been no layoffs at all within Oshawa, and we're working through some changes and seeking to attract some major new investments, as you're aware. We're working on that. To do that, we have an uphill battle against the Canadian dollar and some of those aspects, and some of the other things that we've talked about here.

To overcome those, our quality and our productivity are key. We focus on those. We have to cut our cost base and make sure it's competitive with the best around the world. What government can do to help us in our R and D efforts is make sure that we're as competitive as possible anywhere in the world on taxation and on R and D, make sure that our border is something that we can get products across—because our parts go across on a regular basis—and continue on with the excellent support that we've had while we try to attract investments to make us competitive, especially in competition with other countries that provide very strong subsidies, whether that be the United States or other jurisdictions.

● (1150)

Mr. Colin Carrie: How would you say we're doing? In the CAPC report and on our report card initially, we saw where Canada was. It's been a couple of years. Would you be able to state on the record today how Canada's been doing overall with that report card over the last couple of years?

Mrs. Lorraine Shalhoub: There's been an absence of late with respect to getting CAPC up and running since the change in the government. We're hopeful that we can do that sooner rather than later.

There are some initiatives, and as some as you may know, we rate them red, yellow, and green, sort of similar to the stop light. Some initiatives have stayed yellow and red for some time. The border has been a huge frustration, I think, for all of the member companies here today in terms of seeing progress, and progress quickly. The border signifies that Canada is open. It signifies certainty to future investment, and for future investment coming forward, which sometimes takes some years before it happens. That is also true with respect to product mandate—planning for product mandate on this side of the border versus on the U.S. side of the border, securing suppliers, supplier base, and so on. So the border, and the openness and transparency of the border, are key in terms of investment and signalling to future investment for Canada.

On some initiatives we've seen red, yellow, and green. We're hopeful that we can move forward fairly quickly, because as I had mentioned and alluded to before, CAPC pulls all of the initiatives together from the subcommittee standpoint, whether it's trade, whether it's fiscal, whether it's regulatory harmonization, whether it's environmental, whether it's energy, whether it's investment, and so on, and that is very important to moving forward.

I must say, from a personal perspective, the U.S. companies have looked at it and said, “It's a great model. It would be nice if we could mirror that model.” So it has received a lot of accolades from our parent corporation.

Mr. Colin Carrie: Very good.

I had a more specific question for Mr. Nantais. You mentioned a term, “tariff snap-back”. Could you explain that to the committee?

Mr. Mark Nantais: Sure. Essentially, if one went ahead on the basis that if you negotiate an agreement to achieve certain levels of market penetration with vehicles into the Korean market and all of a sudden you either saw backtracking on that market penetration or stalling of that market penetration—depending on the schedule you agreed upon—then one would endeavour to pull back the reduction of the 6.1% tariff. In other words, you would snap it back to the level that it was at when you began, or to another level agreed upon that might also match the schedule of market penetration.

In other words, if you fail in the agreement, you snap back the tariff that would apply to Korean vehicles entering Canada.

Mr. Colin Carrie: Could you comment on global overcapacity? Would you say it is increasing or decreasing at this time?

Mr. Mark Nantais: I'm going to turn that over to member companies, or perhaps Mr. Adams, if he cares to comment.

Mrs. Lorraine Shalhoub: I think global overcapacity has remained consistent in the last little while. From DaimlerChrysler's perspective, we entered into a turnaround plan where we seriously looked at the number of manufacturing facilities we have on each continent, particularly North America. So we've reduced plants. We've sort of shifted. But of the two plants that we do have now in Canada, those plants are more productive and are running at 90% to 95% capacity.

So it's a question of looking at the efficiencies, looking at the flexibility in your plants and what you can produce. There's no question that the manufacturers have moved towards flexible manufacturing, which allows us to build multiple vehicles, a lessened number of that same model, but transition to models so that you can satisfy market demands quickly.

Mr. Colin Carrie: I see from my reading—

The Chair: We're right at about seven minutes, Colin.

Mr. Adams.

Mr. David Adams: I think Lorraine is right, there is a significant global overcapacity problem, but I think that will be addressed over time as all the facilities move to flexible manufacturing—which may be a closing comment.

If you look at auto manufacturing in Canada, many, if not all, of the plants that we do have in Canada—the major plants, anyway—have moved to a flexible manufacturing basis. So I think that stands us in good stead for the immediate future anyway.

● (1155)

The Chair: Thank you, Mr. Carrie.

We'll go to Mr. McTeague.

Hon. Dan McTeague (Pickering—Scarborough East, Lib.): Thank you, Mr. Chairman.

Congratulations to all those who succeeded with J.D. Power and Associates. In a previous life, I worked for Toyota Motor Corporation in Toronto. We were selling some 65,000 units then. I left, and now they're selling about 170,000 units, which tells you how successful they can be without me.

I want to point out a couple of things that I think are of concern to the committee and to members on our side: the whole issue of access to the U.S. market with respect to...I believe you referred to FAST or NEXUS; the issue of providing products that are coming to and from the United States; and of course, the impact of the 90¢ dollar, not just on the manufacturing side but also obviously on the parts side.

Specifically, I spoke to Dennis DesRosiers some time ago regarding the efficiency of your industry and the overall lifeline of vehicles that you produce. Is there a danger right now that because you are producing products that last a lot longer, with warranties in many respects that are extremely generous, you may be in fact hitting a point of saturation that has little to do with currency but much more to do with the fact that in your products, as in the product I drive, which has 425,000 kilometres on it, with the same engine, the same transmission, you reach a point where the success of the industry may in fact be its downfall?

I'm not here to advocate for building lousy cars, but in fact there are only so many cars you can sell to a family that will last 8 to 10 years without having them return and buy your product down the road.

Maybe that's to David.

Mr. David Paterson: The first thing I would do is to encourage you to buy a new vehicle to replace that old vehicle. The reason is that it's interesting to note that if your vehicle today is about 10 years old, on average it will emit about 22 to 30 times more in terms of smog-causing emissions than the vehicles there today. That's one of the reasons it's important to continue turning over the car fleet, quite frankly. One of the things we can do to seriously achieve the environmental improvements we're doing is to bring in the new technology that we're bringing in.

It is a hyper-competitive market within North America—there's no question—and all of this does line up with the capacity issues we're talking about, and certainly from the point of General Motors having to take some $7 billion out of our cost structure in the last year, which I'm pleased to say we have been successful in moving towards and are turning the company around as a result.

So we've had to be able to make those types of adjustments, whether it's to the Canadian dollar or what have you, and that's all part and parcel of the competitive nature of the industry we're in.

Hon. Dan McTeague: If I could just follow up on that, all kidding aside, should there be an incentive program by the government to get those 10-year-old plus vehicles off the road? Or should there be, as well, incentives for Canadians to purchase hybrid, new technology vehicles with low emissions?

Mr. David Paterson: I think those types of things can be very valuable. In a sense, some of us in the marketplace have jumped into that with our own incentives. My company offers people $1,000 to trade in a 10-year-old vehicle to get them into a new vehicle because of the environmental benefit. It's another aspect of selling in the marketplace, but it also has an environmental aspect.

I think the key thing on environmental technology is to recognize that there's a broad suite of environmental technologies that are making an impact. My friends from Ford have a wonderful new hybrid vehicle that they're bringing out. We have eight new hybrid vehicles, but we also have new technologies in terms of cylinder deactivation that is going to probably, just in its application into pickup trucks that will be sold by General Motors, save more fuel than every hybrid sold in Canada.

We have a whole raft of new technologies that are coming forward into the marketplace, and we are wise to take a technology-neutral approach to the supports we have so that we can let the technologies that really make the best difference, and that people want to buy, move into the marketplace rather than picking winner technologies and trying to incentivize them against the others.

The Chair: Mr. Nantais, did you want to comment?

Mr. Mark Nantais: Yes, perhaps I could supplement that, Mr. McTeague.

The other side of this too is that we need to think about the fuel infrastructure, the fuel itself and the fuel infrastructure. We've made some tremendous progress in the areas of gasoline quality and we're making more progress on diesel quality, but when we start to go into clean diesel and we start to go into ethanol there's still room to manoeuvre there. And that also is an area where the government might want to give some consideration as to how you ensure that the fuel infrastructure is there to service these vehicles, which would create all the momentum necessary to create more demand.

● (1200)

Hon. Dan McTeague: I'm working on that side.

Thank you.

The Chair: Thank you, Mr. McTeague.

We have two more members. We are a bit over time. We started about 11:05. So what I'd like to do, if it's amenable to members, is this. Mr. Van Kesteren, perhaps you could put your questions, and Monsieur Vincent, perhaps you could put your questions before the witnesses, and then we could have the witnesses answer both members at the same time. Is that's okay?

Some hon. members: Agreed.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Mr. Chair.

I had two questions and I'm going to narrow it down to one. I think I'm going to go with the free trade. I want to get Mr. Adams' perspective on that.

Do you share the perspective that's shared by the other three manufacturers that this has a negative impact for Canadians?

Mr. David Adams: I knew you'd ask that question, Dave.

In looking at the free trade situation with Korea, obviously I have Korean manufacturers that are part of my association and other manufacturers that are part of my association. I think, maybe taking a different point of view than Mark has taken, if you look at the impact strictly on Canada and not worry about access to Korea, what I would say is that if you look at who's likely to be most adversely affected by that, it would probably be the two Japanese automakers in Canada, which are producing product that's directly competitive with the type of product that would be coming from Korea. However, the position of our association is that we are for free trade, for rules-based free trade, and that's best done through a multilateral context, but I think everybody is aware of how slow that multilateral round is moving with the Doha development round.

The Chair: Okay, one more brief one.

Mr. Dave Van Kesteren: Are there other negative impacts in comparison between the automakers—for instance, pensions that are hurting you and giving you an unfair...?

I'm going to ask the question to you, Mark, or one of the other witnesses.

Mr. Mark Nantais: When you talk about pensions, these are all part of the high costs, legacy costs, that exist with companies, such as DaimlerChrysler, Ford, and General Motors, that have been around for a century providing literally tens of thousands of employees with a very high standard of living. It's something that's evolved over time. Those costs are huge. Part of their restructuring in their plan going forward is, how can you compete in a global market and still carry that additional cost associated with your employees?

Clearly a lot of focus is on that going forward: how do you reduce those legacy costs and remain competitive in a fiercely competitive market? I'll let them speak further on this, but clearly it's one of the things that have to be dealt with as we go forward, because new entrants into Canada, if they're importing from abroad, don't have those costs. So you can see there's a huge differential there on those in Canada who have those costs and those who don't.

If I may pick up on your last question, the Canadian Automotive Partnership Council actually issued a recommendation that Canada really give serious consideration as to how to go forward with the FTA in a manner that does not adversely affect the auto industry. And that included not just the companies here today, but also Toyota and Honda, as well as parts makers. So there's a broad industry support, and a concern, about moving forward with the FTA.

The Chair: Thank you.

We'll go briefly to Monsieur Vincent.

[*Translation*]

Mr. Robert Vincent (Shefford, BQ): Thank you, Mr. Chairman. I'd also like to thank the witnesses for joining us here this morning.

I'd like you to clarify something for me. You talked about being able to compete with other countries. I note here that it takes you 22 hours and 27 minutes to manufacture a vehicle. Productivity in Canada is 4.6% higher than in the United States, and 39% higher than in Mexico. We talk about the value of the dollar and of US companies like General Motors. Our Canadian dollar is worth 90 cents US. You are in fact competitive withe respect to US manufacturers.

Which countries are considered direct competitors of yours? How can we help you become more competitive? You're already number one in this category. The Oshawa Number 2 plant can turn out a vehicle in 15.8 hours, while the Oshawa Number 1 plant can accomplish the feat in 17.9 hours. In my estimation, we're already leading the way here in Canada when it comes to automobile manufacturing. What kind of competition do you face from other countries?

● (1205)

[*English*]

Mrs. Lorraine Shalhoub: I think in terms of comparing productivity, you have to be careful with respect to what the product mandate is at any one plant when they're looking at the productivity numbers. For example, when you're building a truck or a more complex vehicle, your productivity hours are factored differently.

[*Translation*]

Mr. Robert Vincent: What about light vehicles?

[*English*]

Mrs. Lorraine Shalhoub: It depends on the vehicle, right, and whether it's a light vehicle or a truck or a heavyweight, or whether they're building multiple vehicles and numerous parts. That's all factored into those elements. You have to be careful when you're looking at those in terms of which vehicle was being produced at which plant at which time.

But that said, the biggest concern is with respect to the emerging markets and low-cost producers—the countries like China and the other emerging markets where we can't compete on a wage basis because there's no comparison. When you look at the fact that the majority of the vehicle content and purchase is with respect to your labour costs, and you're trying to compare that with a country like China or other countries that have significantly lower wage costs, that's where the competition comes in.

Mr. David Paterson: I might add that in general none of the companies represented here compete against countries; they compete against each other as businesses. And we're all present in most of those countries around the world as well. It's a truly global industry. So the question really becomes, what can a jurisdiction do to take maximum advantage of its competitive advantages to attract that type of business, which offers such a disproportionate number of jobs and wealth within a country?

I think through the Canadian Automotive Partnership Council process we've made a really good start at identifying priorities and working away at many of those priorities. We just really need to keep focused.

The Chair: Thank you.

We'll probably finish it there. Unfortunately, we're about 10 minutes past, and we have the aerospace industry following immediately thereafter.

We want to thank you very much on behalf of all members. I think, as you see, there were some very substantive questions, a lot of interest in the industry and your perspective.

We will have all the material translated and distribute it to the members. Also, if there are any further recommendations you would like to make for this committee, please feel free to forward them to me, and I will ensure all members get them.

Thank you very much for coming before us today. We look forward to seeing you again.

We are adjourning this meeting.

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

Also available on the Parliament of Canada Web Site at the following address:
Aussi disponible sur le site Web du Parlement du Canada à l’adresse suivante :
http://www.parl.gc.ca
