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November 10, 2010

Sent by Fax (613-992-8351) & Mail

The Hon. Peter Van Loan
Minister of International Trade
125 Sussex Drive
Ottawa, ON K1A 0G2

Dear Minister Van Loan;

Re: Impact of EU-Canada Free Trade Agreement on Canada's Auto Industry

I am writing in regard to your recent public comments, reported in several newspapers on October 28 and 29 of this year, regarding Canada's auto industry and free trade agreements. I attach one example of that coverage; similar studies appeared in other newspapers.

In these comments you defended your government's decision to pursue a free trade agreement with the EU. You claimed that contrary to past warnings (from the CAW and other free trade critics) about the impact of free trade on the auto industry and other key sectors, free trade (and specifically the NAFTA) has clearly benefited Canada's auto industry and Canadian workers.

Frankly, sir, after the incredible pain, dislocation, and fear that workers throughout Canada's auto industry have experienced during the past few years of unprecedented restructuring and turmoil, it is offensive to hear a senior economic Minister claim that this industry has actually done well. Your comments are disrespectful of the suffering that has been experienced in tens of thousands of Canadian households, as autoworkers grappled with job loss, plant closure, lost pensions and benefits, and seemingly permanent insecurity.

One would have to be living in a very different environment indeed, to claim that our industry has benefited from free trade. It certainly bears no relationship to the reality of Canada's auto industry that I, and other working people, experience every day.

You offered one piece of evidence to support your contention that Canada's auto industry has been very successful under free trade: Canada accounts for 9% of the North American market for vehicles, you said, yet is the source of 21% of North

American vehicle production. Both of these statistics are false. Our research staff have contacted your office several times to request background information to support those claims; your office has not responded, likely because your staff are aware the claims are false. I urge you to clarify those comments, and to provide sources to support them (or correct yourself if you acknowledge that the claims are indeed false).

Let me provide you with some historical and statistical perspective on the evolution and recent decline of our automotive sector. This is information that is essential for your work as Trade Minister; you can hardly enact policies to help this crucial sector, if you are not aware of its history and its present condition.

Table 1 (attached) reports Canadian auto sales and production, in absolute terms and relative to North American totals, for 2009. Canada accounted for 17% of all North American vehicle assembly last year, and 12% of all North American sales (not 21% and 9%, as you stated).

Canada's vehicle assembly production in 2009 was almost perfectly equal to its sales (at just under 1.5 million units). Production last year was half the production experienced in the late 1990s. Even though production is recovering this year, production and employment levels remain well below levels experienced in recent decades.

The CAW's long-standing policy position has been that Canada should be guaranteed a share of automotive production that is proportional to our domestic sales. (Your comments mischaracterized that position as saying that Canada's share of North American production should equal its share of North American sales; that is quite a different measure. A large share of the North American market is met through offshore imports – whereas North America exports almost no finished vehicles outside of NAFTA. Therefore, continental production is much smaller than continental sales. It is the latter measure which constitutes the more relevant denominator for measuring Canada's relative success.)

Indeed, our view was consistent with the central principle of the Canada-U.S. Auto Pact, which laid the foundation for our modern auto industry – namely, that the ratio of production to sales must meet or exceed one. That requirement was specified separately within the Auto Pact for both cars and light trucks. And to ensure that the industry also located investment and production in Canada in the auto parts sector (which provides twice as many jobs as assembly), there was an additional value-added test imposed as part of the agreement.

In the wake of the Auto Pact, Canada's industry grew by leaps and bounds. It was a managed trade agreement, not a free trade agreement. Tariffs were eliminated on two-way trade (which expanded rapidly), but only on condition that participating companies respected Canada's right to a proportional share of this vital, high-productivity, high-wage sector. By the mid-1990s, as NAFTA was being implemented, the production-to-sales ratio had in fact surpassed the Auto Pact requirements, reaching as high as 2-to-1. This reflected the fact that auto producers, once they arrived in Canada thanks to the Auto Pact, encountered favourable cost and productivity conditions that led them to expand production even further.

The NAFTA, however, served to eliminate most of the force of the Auto Pact (since any company could now import tariff free from within North America, regardless of Canadian content). The WTO provided the final nail in the coffin, and the Auto Pact was abolished at the turn of the century. Free trade advocates at that time claimed the Auto Pact was irrelevant, and that the Canadian industry would continue to benefit from a disproportionate production footprint. They were so wrong: within a few short years, the production-to-sales ratio plunged, reaching just 1 by 2009, as indicated in Figure 1. Indeed, the ratio attained last year is the lowest our auto industry has recorded since the 1960s (when we signed the Auto Pact).

Even that 1-to-1 assembly-to-sales ratio overstates the position of Canada's auto industry, however, since it considers only sales and production of *final vehicles*. Canada has a relatively strong position in vehicle assembly, but a weaker position in auto parts (of which we produce much less than "our share"). Canada imports about two-thirds of the parts which we assemble into finished vehicles here. That creates a significant trade deficit in parts (almost $15 billion last year), which pulls down our overall trade balance in automotive products (even though we assemble as many vehicles as we buy).

The NAFTA has clearly accentuated the downward decline in Canada's automotive trade balances, by virtue of our disproportionate imports from Mexico. As indicated in Figure 2, Canada's bilateral auto trade deficit with Mexico tripled under NAFTA, reaching almost $5 billion per year. Within NAFTA as a whole (including the U.S.), the collapse of our automotive trade balance has been dramatic: moving from annual surpluses of $10 billion before NAFTA, to a $3 billion *deficit* last year (Figure 3). In terms of automotive trade, we don't even hold our own within North America anymore – let alone with the rest of the world (our regular trade deficit with non-NAFTA trading partners gets larger every year).

In terms of employment, the trend under NAFTA is also clear. Table 2 summarizes the change in Canadian auto assembly and parts manufacturing employment from 1994 to 2009. Over 20,000 assembly jobs disappeared from Canada during that time, and another 10,000 in parts. (Measured against the higher peak levels that industry attained in the late 1990s, shortly after NAFTA was implemented, the losses have been more severe: over 60,000 auto jobs have been lost since the turn of the century.) In no way can it be credibly claimed, as you suggested, that NAFTA has secured Canada's proportional share of auto production or jobs; our industry has declined dramatically by any measure.

Now your government is pursuing another free trade agreement, this time with Europe. Europe is an important and daunting auto exporter. Yet our automotive trade flows with Europe are precariously unbalanced. Last year we imported $3.7 billion in automotive products from the EU (mostly from Germany), and exported just $174 million (less than one-twentieth as much). Bilateral tariff and NTB elimination can only make that deficit even wider – because trade is so unbalanced to start with, and hence even a mutual tariff elimination gives a larger boost to imports than to exports.

Indeed, even your own government's economic study of the effects of the proposed FTA with Europe acknowledges that European auto exports to Canada would grow much faster than Canada's auto exports to Europe, resulting in an even wider trade deficit. (This result is reported in Table 2.13 of the joint Canada-EU economic study, "Assessing the Costs and Benefits of a Closer EU-Canada Economic Partnership," 2008.) Despite this (and despite a widening of the overall aggregate trade deficit with the EU), your study claims that Canada's economy would gain $12 billion in new GDP. Indeed, the auto industry is predicted by your study to be one of the biggest winners under the deal – with total output growing by 5 percent. How this could occur, concurrent with a further deterioration in the important bilateral trade relationship with the EU, is hard to understand.

We are very worried about the impacts of a free trade deal with Europe on Canada's auto industry. Our sector has stabilized in the last year, in large part thanks to the auto rescue initiative launched by your government in conjunction with the Ontario and U.S. governments. But it can ill afford an even wider trade imbalance with Europe, a jurisdiction which sells billions of dollars of automotive goods here each year – but which buys almost nothing back from us in the same industry. (The same imbalance characterizes our automotive trade with South Korea – another country with which your government seeks a free trade deal.)

To facilitate further dialogue with your government on this topic, I would appreciate your response to the following questions:

How, in your judgment, will the Canadian auto industry benefit from a free trade deal with Europe? What companies and products will see an expansion of their sales in Europe? Why? And how large will that expansion be, relative to the growth of Europe's automotive sales in our market?

Can you explain, in terminology that an autoworker could understand, how your government's economic model predicts a 5 percent increase in total output for our auto industry from free trade with Europe – even though that same model predicts the bilateral automotive trade deficit with Europe will get even larger?

Are you prepared to sign a free trade deal that harms our automotive industry, because of economic gains that you expect to be enjoyed by other sectors (in the EU case, such as agriculture)?

In conclusion, I urge your government to fundamentally reconsider its faith that more free trade agreements will improve our trade performance and our overall economic well-being. Your claim that Canada's auto industry has benefited during the past two decades of free trade, is indefensible. Our industry, and the men and women who do the work in it, are still suffering from immense uncertainty and hardship. The last thing we need is another free trade deal. Instead of further opening our domestic market to one-way flows of imports from Europe (or Korea), your department should be working to address and resolve the job-destroying imbalances that already mark our trade with so many countries (including Mexico).

Thank you for your attention, and I look forward to your response.

Sincerely,

Ken Lewenza

KEN LEWENZA
National President

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Attachment

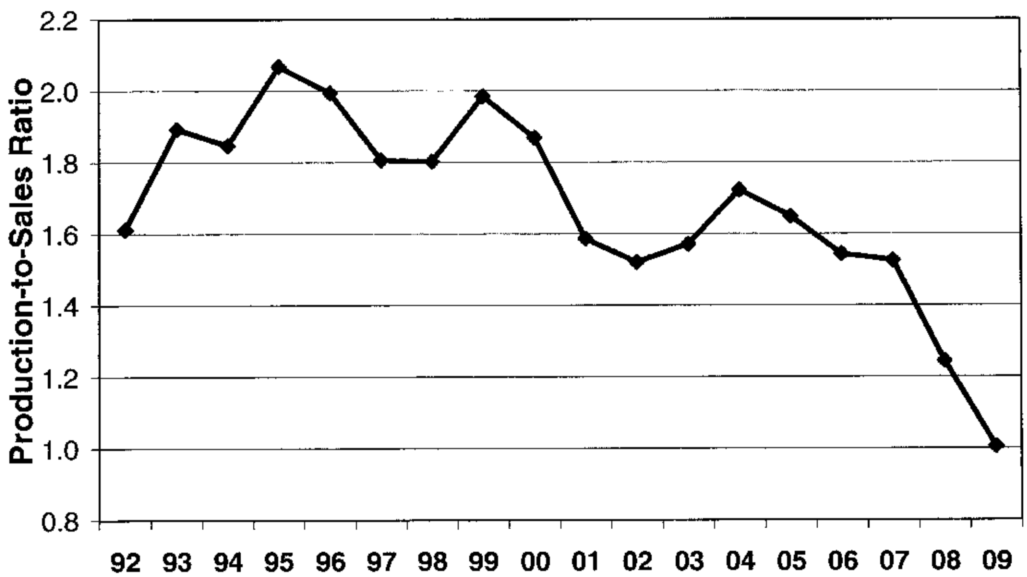
cc: CAW Big Three Master Committee Chairs
CAW Independent Parts & Suppliers Council President

Table 1 North American Auto Production & Sales 2009			
		Sales	**Production**
1	**Canada**	1,482,232	1,490,482
2	**U.S.**	10,601,368	5,709,431
3	**Mexico**	774,240	1,561,052
4	NAFTA Total	12,857,840	8,760,965
5	Canada's Share	11.5%	17.0%
6	Canada Production/NA Sales		11.6%
Source: Ward's Automotive.			

Table 2 Canadian Automotive Employment Under NAFTA			
	Assembly	**Parts**	**Total**
1994	56,200	72,542	128,742
2009	35,613	61,197	96,810
Change	-20,587	-11,345	-31,932
Source: Statistics Canada, CANSIM Table 281-0024.			

Figure 1

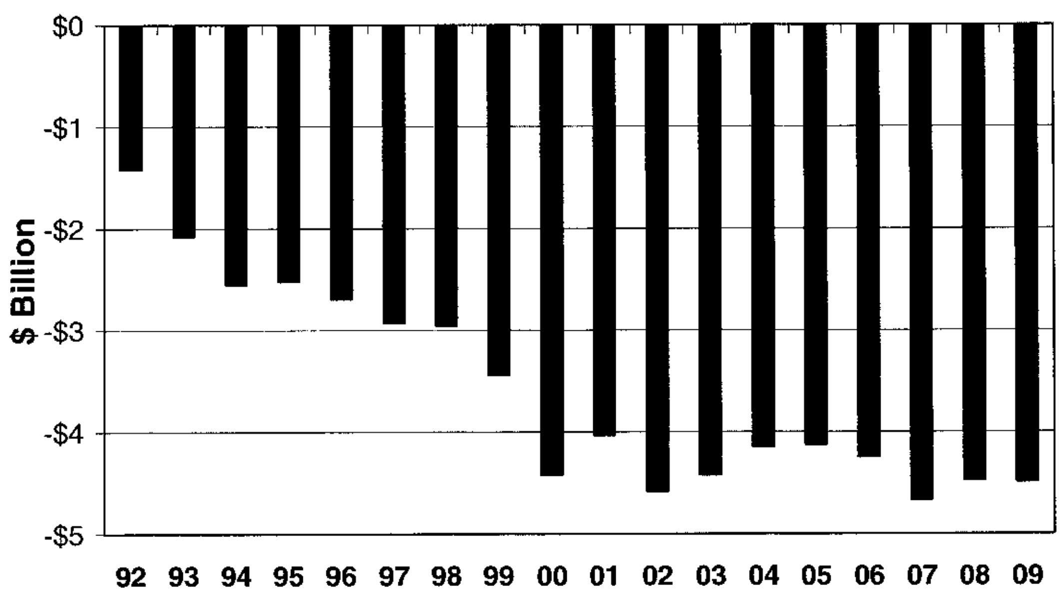
Canadian Production/Sales



Source: CAW Research from Ward's Automotive.

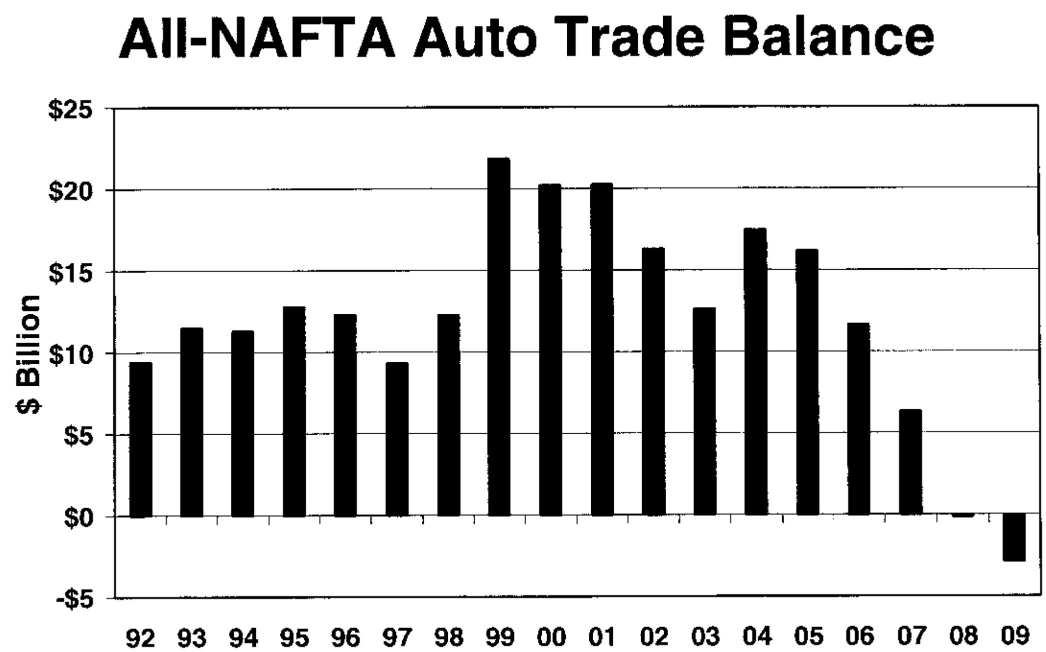
Figure 2

Mexico Auto Trade Deficit



Source: Industry Canada Strategis.NAICS sectors 3361-3363.

Figure 3



Source: Industry Canada Strategis.NAICS sectors 3361-3363.

THE GLOBE AND MAIL

October 27, 2010

Warning on EU-Canada trade deal misguided: Van Loan

By Barrie McKenna
Globe and Mail Update

Trade Minister says report by CAW, Canadian Centre for Policy Alternatives is ideologically driven

A new study warning that free trade with Europe could cost Canada 28,000 jobs is a misguided ideological attack on open markets, Canadian Trade Minister Peter Van Mr. Van Loan Loan says.

The study by Canadian Auto Workers economist Jim Stanford for the Canadian Centre for Policy Alternatives concluded that a proposed Canada-Europe free trade deal would wipe out thousand of jobs in industries such as food processing, apparel making and the auto industry, while widening an already yawning trade deficit.

Read earlier Globe and Mail story here [http://www.theglobeandmail.com/report-on-business/economy/jobs/free-trade-deal-with-eu-could-cost-thousands-of-canadian-factory-jobs/article1773982]

Mr. Van Loan said the CAW and CCPA are ideologically opposed to free trade, even though previous agreements clearly benefitted the Canadian auto industry and Canadian workers.

"The fact is they are ideologically opposed to an agreement that hasn't even been completed yet," Mr. Van Loan told reporters in Ottawa.

"I have no difficulty dismissing that and focusing on the fact that this is a free trade deal that offers enormous upside potential for Canadian jobs."

Mr. Van Loan pointed out that the CAW also opposed the North American free-trade agreement.

"They wanted Canada to have the same share of the auto market in North American as our population," Mr. Van Loan added. "Well, guess what? Today we are 9 per cent of the North American market and we are 21 per cent of the autos that are assembled . . . They were wrong to raise the alarm then and they are wrong again now."

Before launching the negotiations, Canada and Europe sponsored a joint study that suggested free trade would provide a $12-billion boost to the Canadian economy by 2014 and create thousands of jobs.

Dan Ciuriak, a former deputy chief economist at Foreign Affairs and International Trade, acknowledged that both studies have inherent weaknesses in trying to show the impact of free trade.

And he acknowledged there are adjustment costs to workers as certain sectors adapt to lower tariffs and a less protected domestic market. But labour markets eventually adjust, as they did in the case of free trade with the United States, Mr. Ciuriak said.

"The correct perspective, in my view, is that there are adjustment costs, but labour markets do eventually clear," he said.