House of Commons
CANADA

# Subcommittee on the Automotive Industry in Canada of the Standing Committee on Industry, Science and Technology

SAIA • NUMBER 001 • 2nd SESSION • 40th PARLIAMENT

**EVIDENCE**

## Wednesday, March 4, 2009

## Chair

**The Honourable Michael Chong**

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● (1905)

[*English*]

**The Clerk of the Committee (Ms. Michelle Tittley):** Honourable members of the committee, I see a quorum. We can now proceed to the election of the chair. I am ready to receive motions to that effect.

Mr. Valeriote.

**Mr. Francis Valeriote (Guelph, Lib.):** I move that Michael Chong be made the chair of this subcommittee.

**The Clerk:** It has been moved by Mr. Valeriote that Mr. Chong be elected as chair of the subcommittee.

Are there any further motions?

(Motion agreed to)

**The Clerk:** I declare Mr. Chong to be the duly elected chair of the subcommittee.

Before inviting Mr. Chong to take the chair, I will proceed to the election of the first and second vice-chairs. We can now proceed to the election of the first vice-chair. I am ready to receive motions to that effect.

Mr. Lake.

**Mr. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC):** I nominate Mr. Valeriote.

**The Clerk:** Mr. Lake nominates that Mr. Valeriote be elected first vice-chair of the subcommittee.

Are there any further motions?

(Motion agreed to)

**The Clerk:** I declare Mr. Valeriote elected first vice-chair of the subcommittee.

I am now ready to receive motions for the position of second vice-chair.

Mr. Valeriote.

**Mr. Francis Valeriote:** I move Robert Vincent to be elected second vice-chair.

**The Clerk:** Mr. Valeriote moves that Monsieur Robert Vincent be second vice-chair of the committee.

Are there any further motions?

(Motion agreed to)

**The Clerk:** I declare Mr. Vincent elected as second vice-chair of the committee.

I now invite Mr. Chong to take the chair.

**The Chair (Hon. Michael Chong (Wellington—Halton Hills, CPC)):** Seeing that our witnesses have not yet arrived, I'll suspend the meeting until they come in front of us.

●

(Pause)

●

● (1910)

**The Chair:** I am calling the committee to order.

First of all, I would like to thank General Motors of Canada for coming to our committee on such short notice. It is very much appreciated that you have taken this effort. I know that all members on this committee are very appreciative that you have taken time out of your very busy schedules to come to talk to us.

This is the industry subcommittee on the auto sector. We are here to study and understand the challenges facing the Canadian auto sector and to allow Canadians a chance to better understand what the Government of Canada is proposing to do to help the auto industry. Our study and recommendations will be reported to the House of Commons by March 31 of this month.

[*Translation*]

We use both of Canada's official languages. Some members will opt to speak French, and others English.

[*English*]

We use both official languages in this committee, so there will be members who ask you questions in French and other members who ask you questions in English. Translation is provided on your table tops.

We'll start with 10 to 15 minutes of opening comments and statements from General Motors.

Mr. Elias, you have the floor.

**Mr. Arturo Elias (President, General Motors of Canada Ltd.):** Thank you very much, Mr. Chair.

Good evening, everyone. My name is Arturo Elias. I am the president of General Motors of Canada.

I am joined here by John Stapleton, GM Canada's vice-president of finance and CFO, and by David Paterson, our vice-president of corporate and environmental affairs. I will ask both of them to join me in answering your questions tonight.

I have just a few minutes of opening remarks concerning the current economic crisis and its impact on the automotive sector and GM Canada. We will suggest a few policy responses that would greatly assist our sector, and we know you'll be interested in our GM Canada restructuring plan.

Let me start with the 52-page restructuring plan we submitted to the Ontario and Canadian governments on February 20. Our plan is not simply a request for a loan, or a quick fix. Rather, it sets out what we believe is needed in the face of the current economic crisis to ensure a viable, leaner, and greener GM Canada for the long term, a restructured company able to fully repay Canadian taxpayers for any support it may receive from them.

It is an achievable plan. It's based on conservative market assumptions. Not only will it sustain GM's business for the benefit of tens of thousands of GM Canada employees and retirees, but it will also sustain our production of combined U.S.-Canadian vehicle production; our multi-billion dollar local purchasing and logistics leadership in Ontario and Quebec; and our research and development leadership, in collaborative work with universities across Canada, to help reinvent our industry and our products for the future.

GM Canada's submission is consistent with GM Corporation's viability plan, which was submitted to the U.S. Treasury on February 17. Both documents have been made available to the committee and the public at large.

Let me speak about the challenge we face. Like all companies operating in our large, complex, and highly capital-intensive sector, GM Canada is working hard to cope with the unprecedented declines in industry auto sales and the general unavailability of credit for our company, our dealers, our suppliers, and our customers. As you are no doubt reading, these challenges are being faced not just by our domestic auto companies but increasingly by all competitors around the world, from Europe to Japan to North America.

For GM Canada, a perfect storm of economic events hit us here in Canada in 2008, when we were already in the midst of an expensive business restructuring that saw us operating with lower-than-normal cash reserves. As industry revenues collapsed and private capital markets rapidly closed off, we were not able to raise funds by pledging our global assets and intellectual property to raise a large pool of restructuring funds. With capital markets essentially closed, we reluctantly found it necessary to seek financial assistance from governments in the U.S., Canada, and elsewhere.

You will recall that on December 20, the Ontario and federal governments made a most welcome and appreciated offer of financial support, proportional to what was being discussed between the auto companies and the U.S. government in the United States. This sent a very positive message to all levels of our company, the U. S. government, and GM's many stockholders. We began detailed discussions and due diligence with the Province of Ontario and the Canadian government. Those have continued well, under appropriate non-disclosure agreements with respect to competitive information.

In the United States, on December 31, 2008, our corporation reached an agreement with the United States Treasury. This financial support, together with our own efforts in Canada to conserve cash, has enabled us, up to now, to operate our business without having to draw support from the Government of Canada. While we welcomed the offers of support in Canada in December, I think we also agreed it was far preferable to take the approach we have in, first, developing a credible long-term restructuring plan that will enable GM to repay any loans and, second, reaching an agreement for support.

● (1915)

Our plan for Canada is based on significant shared sacrifices, and it respects the government's stated principles of maintaining our proportion of production in Canada in exchange for drawing support proportional to that offered in the United States.

Let me spend a few minutes talking about our restructuring plan. The plan we have developed and discussed, with considerable input and review by the governments, has three broad elements, which might be compared, if you will, to the need of a homeowner, facing a large mortgage and a severe cut in income, to first significantly reduce household expenses and then seek to refinance the mortgage.

Our plan does that in three elements. The first is to adopt a new, lower-cost contract manufacturing business model that will help ensure a more steady stream of income while taking all necessary steps to reduce our costs. This has included significant cuts in executive and salaried work benefits and wages.

The second element is a negotiated new contract with our Canadian Auto Workers partners to bring wages and benefits for our active and retired hourly workers to benchmark levels, and also the establishment of a new post-retirement health care structure similar to the U.S. VEBA model. This work remains under discussion and is very important, as the more we can together reduce our costs the less we will need to borrow.

The third element is the necessity to refinance GM Canada's balance sheet, to reduce our carrying costs and ensure a viable stand-alone business in Canada able to generate profits and repay loans from the Canadian taxpayer. We are working very hard to reach these necessary agreements in the month of March, as GM Canada will then start approaching the minimum cash levels required to sustain our business.

Let me also highlight a few things our plan would enable us to do in Canada. The plan would maintain our share of Canada-U.S. production in the 17% to 20% range. It would have no further plant closures or significant structural reductions in employment beyond those we have already announced. It enables the launch of five new product mandates in Oshawa and our CAMI joint venture, including Canada's first hybrid car production and new transmission investments in St. Catharines. It allows us to proceed in Canada with research and development work related to the electric car systems for future vehicles that would follow our new Chevrolet Volt, and we will build upon our collective university research and development relationships, including with four key universities in Quebec. It would allow us to sustain our auto supply chain and dealer operations across Canada. These have been mapped out for you in our submission.

Of course we will proceed with a very attractive new GM vehicle lineup, which now includes more available hybrid models than any competitor in Canada and will soon include the Chevrolet Volt extended-range electric vehicle.

Now, we also understand the committee is interested in what can be done to assist the auto sector through this difficult period. Let me conclude with just a few of the recommendations we have thought of, and then we will be pleased to take your questions.

On the credit front, credit is now critical for companies, suppliers, dealers, and consumers. The government has responded with an initiative to provide $12 billion in financial assistance for secured credit, and a consultation period is under way. This support truly needs to move fast and extend to groups like GMAC, who assist auto dealers to maintain their operations and finance their vehicle inventories. We were also pleased to see that Export Development Canada has extended receivable insurance to assist Canadian auto parts suppliers.

● (1920)

Relative to consumer stimulus, around the world governments are now providing new direct forms of stimulus to help consumers with the purchase of new vehicles. This help comes in many forms, ranging from targeted income tax credits or sales tax reductions to scrappage programs like Germany's offer of approximately $4,000 in assistance for consumers who retire old, higher-polluting vehicles from the roads and buy new ones. It would be equally beneficial to start removing some of the outdated federal and provincial taxes or levies that remain in place on automotive manufacturers, dealers, and Canadian new buyers. Clearly, all action to accelerate the return of the consumer to the new car market would be welcome.

Finally, relative to regulations, we must recognize, as I believe the federal government clearly understands, that Canada enjoys a significant amount of automotive investment, employment, suppliers, R and D, and related spinoffs because we are fortunate to be part of the largest integrated auto market in the world in North America. In Canada, we have approximately 10% of the North American market sales, yet we have 20% of the production here. It is, therefore, critical that Canada not regulate its way out of the integrated market through the tyranny of small differences in automotive regulations. You would be hard pressed to find a more regulated industry in the world than the automotive industry. We can cope with regulations, but we cannot cope with a patchwork of disharmonized regulations that generally offer little or no incremental benefit, but do add massive incremental costs that we must ultimately pass to the consumer.

Mr. Chairman, with that overview, let me turn it back to you for guidance. David, John, and I would be pleased to take your questions.

● (1925)

**The Chair:** Thank you very much, Mr. Elias.

We'll use the order of questioning set out in the routine motions of the main committee, so we'll spend about an hour providing the members with opportunities to ask you questions.

We'll start with Mr. Valeriote.

**Mr. Francis Valeriote:** First of all, I want to thank Mr. Paterson, Mr. Elias, and Mr. Stapleton for coming on short notice. I appreciate it. I know we've talked before, and I appreciate those talks. I read the rather lengthy report that you provided and I very much appreciate the effort that went into that submission to the federal government.

I'm particularly interested in some of the irritants that might exist right now. I understand you're trying to reduce your structural costs and renegotiate your contracts with CAW. I'm sure those are very sensitive discussions going on at the moment. But from reading your report, I understand there are some other issues. You've alluded to them: the scrappage program, levies, regulatory issues. You seem to intimate that we ought not to promote these regulatory issues too much. On the other hand, I know they need to be harmonized with respect to emission standards, safety, etc.

Can you talk to us and be more specific about the scrappage programs, the levies, and the regulatory issues, and even the trade impediments that you refer to in your report?

**Mr. Arturo Elias:** Yes, let me talk about the harmonization of regulations. We at GM design vehicles for the North American market, and obviously we enjoy here in Canada the benefit of the economies of scale that harmonization brings. It's akin to procuring the same part and you get the benefits of the volume of scale. So maintaining and moving towards harmonized regulations, whether it be in safety or fuel economy, is very desirable.

With respect the CAW agreement, I can tell you that we were very pleased that tomorrow we will start formal bargaining discussions with our labour partners. The key message I would like to say is that all of our stakeholders are much aware of the situation and the challenges that our company and our industry face. I think there's general consensus that there must be shared sacrifice to reach competitive levels that will enable us to sustain our operations in Canada. So I am optimistic that we can achieve, through our bargaining process, the type of results that will enable us to have a very strong car company over the long term and, as I indicated in my remarks, repay the Canadian taxpayers.

David, would you like to add something?

**Mr. David Paterson (Vice-President, Corporate and Environmental Affairs, General Motors of Canada Ltd.):** I'll just pick up on the comment where scrappage was mentioned, for example. This is an area that General Motors Canada perhaps has more experience in than anyone else in the industry in Canada because of a relationship we've had with the Clean Air Foundation over the last several years. We offered our customers a $1,000 credit toward the purchase of a new car if they demonstrated they had removed a car that was 10 years or older and made sure it was scrapped from the road.

In Canada we still have over one million vehicles registered on our roads that are over 10 years old. The degree of technological improvement that has happened in terms of not just fuel economy but particularly in terms of reduction of all kinds of other emissions, particularly emissions that are health related, is extraordinary. Every time we get an old vehicle off the road and replace it with a new one, we automatically get an environmental benefit.

We found this program that we offered together, called Car Heaven, was extraordinarily positive. We were able to retire over 30,000 old vehicles from the road and we were pleased to have been awarded a Canadian Environment Award for climate change for the work, together with our partners at the Clean Air Foundation.

Around the world, in Germany we cited a program that is doing effectively the same thing, but they are providing quite a significant benefit to someone who does this trade-in, trading in the old and making sure it's scrapped. It must not come back as a second-hand vehicle. The German government is offering the equivalent of about $4,000 Canadian, and that incentive is clearly working in the German marketplace.

One lesson we would underscore is that the more straightforward and simple these programs are, as was the GM program, the more effective they are. That is one mechanism that really does help bring consumers back into the marketplace, but we have suggested a number of other ones.

You asked about regulations as well. I'd say we have seen some very positive change, with the current government taking on issues such as the bumper regulations, which had been disharmonized for a long period of time, but we still have a list of over 30 different regulations, which are often safety regulations, or others that are just slightly disharmonized in various ways. Progress is being made toward taking away that tyranny of small differences, as we call it, and it's very important because even though these differences can have no appreciable difference in terms of safety, they can cost hundreds of millions of dollars in terms of design changes that are required just to be able to bring a vehicle into the Canadian marketplace.

Again, removing some of those taxes, those barriers, are all things for the longer term that can really help the auto industry.

● (1930)

**Mr. Francis Valeriote:** Are you encouraging a better scrappage response from the government? And would you talk about the green levy?

**Mr. David Paterson:** I can do that quickly.

We certainly think that one of the outdated levies we pay, which costs us millions of dollars, I must say, is a levy that was part of the ecoAuto rebate program. We'd like to work together with the government in designing these programs to make sure they can really work. We think there are lots of good models around the world. I mentioned the German one. We're seeing them increasingly taken on, but these things always work best when we do them in consultation and help design something that will really work.

You will hear from the dealer association later. They have some excellent ideas in this area as well. I'm sure that, working together, we could find some additional stimuli that would really help on the consumer side.

**The Chair:** Thank you, Mr. Paterson.

*Monsieur Vincent, vous avez la parole*.

[*Translation*]

**Mr. Robert Vincent (Shefford, BQ):** Thank you, Mr. Chair.

Welcome to the committee.

The federal and Ontario governments have appointed a special advisor to examine the problems plaguing the auto sector. His name is Mr. Jim Arnett. Have you met him? Did anything come out of this meeting?

[*English*]

**Mr. Arturo Elias:** *Bonsoir*. I'm sorry I don't speak French. I wish I did.

We have met with Mr. Arnett. He is part of the group we have met that includes federal government representatives from Industry Canada; members from the Ontario Ministry of Economic Development; members from Export Development Canada, EDC; and ourselves, of course. We have had several meetings with them. I would say the meetings have been extremely constructive. The key objective of all of us has been to put together a plan that is based on conservative assumptions, a plan that makes fundamental change that would allow us to have a viable company over the long term, a company that is self-sustaining, a company that is able to repay the Canadian taxpayer, as I indicated in my remarks.

**Mr. David Paterson:** I just might add, to be precisely clear, that Mr. Arnett is in a function of advising the Ontario government more specifically and directly. That is his official role. But indeed, as our president has indicated, we've met with all of these officials and are together doing extensive due diligence on our business, I must say.

● (1935)

[*Translation*]

**Mr. Robert Vincent:** Thank you.

As you know, the Conservative government will be injecting $2.7 billion in Ontario's automotive sector. Earlier, you mentioned the Canadian taxpayers. It's important for Quebec and Canadian taxpayers to have a clear understanding of your restructuring plan, because the sums of money involved will come from their tax dollars.

Can you reassure us at all about how you intend to spend tax dollars on the restructuring plan? Those who have invested some or all of their savings in your company need some reassurance.

[*English*]

**Mr. Arturo Elias:** Thank you very much.

First among the elements of our plan, as I indicated, is the self-help that we must do in the company to reduce the cost of operating our business. I can tell you that the three of us have taken salary cuts of 10%. We have made reductions in wages. We have restructured our operations. We are working on all elements of our costs.

Therefore, I think that, combined with an agreement with our Canadian labour partners and financial support from the federal government and Ontario, will enable us to have an operation that is sustainable, as I said, and that allows us to restructure our balance sheet and ensure that we have a very lean and green sustainable company over the long term. I think our plan does that. I think our plan delivers on that. We are looking for agreements with all of our stakeholders here in the month of March to make that happen.

[*Translation*]

**Mr. Robert Vincent:** There are three key elements to your restructuring plan. I read that in *Auto 123*. The first element calls for reducing the cost of your operations; the second involves the adoption of a contract manufacturing business model.

I'd like to hear more about the second element, namely contract manufacturing. Will you be awarding subcontracts to Quebeckers and Canadians? Does your restructuring plan call for keeping these subcontracts here at home, in North America, instead of awarding them to China or to some other countries?

[*English*]

**Mr. Arturo Elias:** I'm sorry, can you please repeat the last part? I had a problem with my audio.

[*Translation*]

**Mr. Robert Vincent:** The question is whether you intend to subcontract to companies here in Canada rather to firms in China or elsewhere, in order to keep jobs here in Quebec and in Canada.

[*English*]

**Mr. Arturo Elias:** It is very clear and it's very well understood that whatever funds are provided to help us restructure and implement our plan are to be used exclusively within Canada. We have a very large and extensive supplier network. We have over 3,000 suppliers in Canada, with 275 or a little more in Quebec and over 2,400 in Ontario.

Also, to restructure our dealer network and all of our operations, it is a comprehensive plan that we think has a good chance of being implemented here in the month of March and, again, provides long-term sustainability.

John, would you care to add anything further?

**Mr. John Stapleton (Vice-President and Chief Financial Officer, General Motors of Canada Ltd.):** Yes, just from a supplier-based perspective. We manufacture small to big automobiles, but because we manufacture very large automobiles, if our suppliers ship seats, steel, and frames, the parts need to be kept in general proximity to the manufacturing locations. That benefits the Canadian supply base as we introduce these new programs.

For some of the money that you talked about, you were worried about it branching out into other continents. I truly feel that just as a result of the cost of shipping a lot of the stuff over, because the parts are so big—seats cannot be put into a little box—you'll generally see the supply base stay here in Canada if we produce here in Canada.

**Mr. Arturo Elias:** I would add that in addition to our very large supplier presence in Quebec, we also have, as part of this plan to sustain our research and development activities here in Canada, ongoing relationships and initiatives with many key universities throughout Canada to do some of this. That includes four key universities in Quebec.

We have, in some of those suppliers, outstanding allies and true knowledge. For example, we have suppliers that have allowed us to go from steel parts to aluminum parts and are now even working on magnesium-type parts, which can bring down the weight of vehicles and allow for improved fuel economy, with tangible environmental benefits.

So those are important suppliers we have, important allies, in Quebec as well as throughout Canada. Our relationship with universities and research centres is basically across the board.

● (1940)

[*Translation*]

**The Chair:** Thank you, Mr. Elias.

You have the floor, Mr. Lake.

[*English*]

**Mr. Mike Lake:** Thanks for coming here on short notice; let me start by saying that.

I'll throw in an extra thanks to the clerk and research analysts on the committee. They're giving up their own evening time to spend time with us over the next few nights as well—a significant sacrifice for them.

I'd like to start with a little bit of context. One of the things I was surprised to see when I started looking at the situation, when I became parliamentary secretary in November, was that Canadian auto sales, or sales within Canada, at that point were actually still relatively strong. I believe at that point we were still above the year before for auto sales, while in the States they'd fallen off the cliff. Of course, we talk a lot about proportionality, such as the 10% of sales but the 20% of manufacturing here.

How important is that global context? Perhaps you could differentiate, for anyone who might be watching this on TV with interest or who have questions, such as many of my constituents, in terms of that global context.

**Mr. Arturo Elias:** Thank you very much.

Indeed, we have seen a significant decline in the U.S. market. More recently we have seen some softening in the Canadian market. The reason the U.S. market is important for us is that we export 90% of the products we make. Obviously, if the demand goes down, so does our production, which then has an effect through the chain. Therefore, when we talk about proportionality within North America, I think that balances the sales as well as the production side.

Again, it's a market that is very difficult to decouple. We are extremely harmonized and joined at the hip with the U.S. operations and the U.S. market. That said, certainly what happens over there in terms of demand affects us here in Canada.

**Mr. Mike Lake:** There was an article in the London *Telegraph*—this is a little bit outside of North America, obviously—that talked about, in terms of the global economy, the strength of the Canadian economy versus other economies. This is what they said about Canada at the end of the article: "If the rest of the world had comported itself with similar modesty and prudence, we might not be in this mess."

Does that strike you as a true state of affairs?

**Mr. Arturo Elias:** Yes, it does.

First and foremost, the decline in sales of automobiles has been widespread. I would say that we have seen in Canada a much smaller contraction of demand than we have seen in many other places. As a point of reference, in the United States, as recently as 18 to 24 months ago, the industry was selling in the range of 16 million to 17 million vehicles a year. Here in Canada, up until October of last year, we were essentially running with an industry of about 1.6 million, approximately one-tenth the size of the American market. Since the U.S. market has declined, it has had now six consecutive months of sales below 10 million. Here in Canada, we have seen some softening, but certainly not to that extent.

In general, then, our opinion is that the financial situation in Canada is much better than that in many other countries. Certainly it is our opinion that the banking system as well in Canada is in much better shape than that in many other countries around the world.

● (1945)

**Mr. Mike Lake:** And in fact the World Economic Forum ranked us the number one banking system in the world, and I think the Americans were number 40 on that list. That might speak a little bit to some of the problems.

I want to ask a couple of questions on behalf of my constituents. I sit on round table after round table in my riding. My riding is in Edmonton, and my constituents are fairly concerned about what they hear described in the media all the time as an auto bailout. And I inform them that in fact it's a loan that will be repaid and that there are a lot of conditions attached to that loan that are still being negotiated as we speak.

They'll want some assurance that we'll see the money back—I'll come to that in a second—but one of the things we talk about is this proportionality. And I'm a little bit concerned when I read your restructuring plan highlights about the way the language is worded in your first bullet point. And maybe it was just quickly drafted, or whatever, but you used the words, "which is expected to range between 17% and 20% between 2009 and 2014". There is no guarantee there. It's number one. The range is between 17% and 20%, while we seem to talk about 20%. So that seems to be on the definite lower end of the range. And it uses the words, "expected to" to precede that. That would be a little concerning for my constituents, and I just want to hear your response to that.

**Mr. Arturo Elias:** On the first part of the question, the repayment piece, this is certainly why I think the work we are doing jointly with all of our stakeholders, including the federal government, Ontario, EDC, and all of our stakeholders, is very important. We want to make sure, before borrowing any funds from the Canadian taxpayer, that we have a business model and have made the necessary changes to ensure that we are viable and sustainable over the long term, and our plan achieves that.

On the issue of the range of 17% to 20%, what happens is that products have different life cycles. So you may have a situation where one product in one country is at the end of a life cycle and the other product is at the start of the life cycle. Obviously a product that is at the start of a life cycle generally tends to experience more demand than a product that is at the end of a life cycle. Therefore it's very difficult to focus on a single point with respect to production proportionality, and you have to sort of look at it in a range.

Does that answer your question, sir?

**Mr. Mike Lake:** It starts to. I think what you're saying is that when you talk about a range, it could move up and down depending on what's.... Now, could it go above 20%?

**Mr. Arturo Elias:** Yes, it is possible. We have based this range on what we have seen historically and what we think our best forecast provides going forward. Obviously it will depend on a bunch of factors, including the life cycle of the vehicles, but generally I think it's a reasonable range over the time horizon of our planning.

**Mr. David Paterson:** I just want to back it up a little bit. We are at the launch point for five new vehicle mandates in Canada, according to the specific plan, and that is a very beneficial thing because they will tend to grow as we go forward. So as we see these proportions go forward, one of the really positive aspects of where we're at is that we will have these new investments and that will help drive a very strong proportion.

**The Chair:** Thank you, Mr. Paterson and Mr. Elias.

Mr. Masse.

**Mr. Brian Masse (Windsor West, NDP):** Thank you, Mr. Chair.

Thank you, gentlemen, for appearing here this evening. I appreciate that. I know that Ford and Chrysler were invited also and have yet to come before the committee. Hopefully, they will come at some point.

Today was a particularly bad day for Chrysler. I am very distressed, as is the community, about the families. There were 1,200 people fired today. That's very difficult, not only for them but for the tier one and tier two suppliers. There is also the philanthropic work that's been done for the United Way and what not. It's a very serious issue that is compounded when one auto job contributes several others.

I want to correct one thing, and that is the interpretation concerning the banks. It's interesting. I hear about how they are so strong here today because we didn't do similar things. I remember, in this room, in these halls, in the chamber, stopping the deregulation of the banks a few years ago when it was originally proposed.

I want to touch on something that's interesting in terms of credit. In your opening statement you talked about loans being available and about GMAC credit financing, which I would agree is critical. I just downloaded something from the site of a major bank in Canada. They are proposing car and truck loans for new vehicles for 8% to 9% for up to seven years. I think that's part of the problem we have right now. That is beyond the life cycle of the vehicle, and it seems like a high profit margin for getting somebody into the market right now with interest rates being so low.

I'll turn it over and hear from you as to what can be done about that. I would prefer to see a much lower rate. There are actually some credit unions out there—they are very few and far between—that have 0% to 1% rates for fuel-economy vehicles.

Is there something creative that can be done here? I just don't accept the fact that with interest rates so low, and the banks reporting profits again.... I can tell you that I've watched tier one suppliers with profitable parts go out of business because they couldn't actually get bank loans when they were supplying cars that were selling.

I still have a problem with the banks in regard to this current situation. Perhaps you can shed some light on what needs to be done with interest rates for consumers.

● (1950)

**Mr. Arturo Elias:** Let me first say that I understand your feelings about the loss of the shift at the Chrysler plant.

These are very difficult decisions. They are not our decisions, but we have made similar decisions. They are very difficult decisions. In our particular case, I am very pleased to announce that our plan does not foresee any further closures in Canada beyond what we have now. So that is quite positive, and that's part of the agreement we are trying to orchestrate with the governments involved.

With respect to the banks' lending practices, I'm not sure I can speak for them. We try to work with banks, and we will work with banks to try to provide consumers with affordable loans and so on and so forth. Historically, we have done that through GMAC. One of the policy recommendations was that any support that could be provided to entities like GMAC to bring that consumer back to the marketplace, whether it's a scrappage program or an incentive related to taxes or tax holidays, would be extremely beneficial. At the end of the day, we are in a very difficult economic environment throughout the world, and I think consumers could benefit if in fact we were able to get them accessible loans to buy new vehicles.

**Mr. Brian Masse:** Increasing the amount of credit for the purchase of a new vehicle is one of the things that should be looked at. If it's not done in the context of making sure the loans for those vehicles are very attractive, it is really a subsidy for the banks. They would be financing them by having a high-interest-rate loan that's different from the actual one out there. So that's one of the things I think we need to watch for.

I know you have negotiations taking place tomorrow. The minister has argued that the CAW has to agree to something similar to what has been done in the United States. With regard to what has been done for our banks, both in the United States and Canada, I find it interesting that there hasn't been the same scrutiny of workers. I haven't heard of a banker being made to take the wage of somebody working in Alabama. At the same time, we've asked the CAW and its workers to take a cut. It is really hard for a community. When you look at an economic stimulus package, there's the fact that even though we are rescuing the footprint of an industry that is so important to us, the input back into the economy is going to be less. I would argue that some of the slippage of sales we're seeing in Canada is also a result of 300,000 manufacturing jobs having disappeared over five years, which is significant, by all measures, for those who want to purchase a vehicle and change over old stock.

With regard to how you're going to approach the negotiations, what is considered comparable? Could you shed some light on that? There is a lot of discussion about Canada's health benefits, our taxation system, and all those things used to measure out the workers' wages so that they are comparable. There seems to be a lot of discrepancy.

**Mr. Arturo Elias:** What we are trying to achieve is labour wages and benefits that are comparable to those of our key competitors—transplant companies in the United States—to sort of have a level playing field on that.

When we do our estimations and sit with our labour partners, there is a benefit to operating in Canada because of the health care system. There is a benefit because of our higher productivity in our Canadian plants. But notwithstanding that, we have a gap. We have shared that with our labour partners, and that's the gap we are trying to close. It is not our intent to leave Canadian workers at an income disadvantage versus anybody else; it's simply to bring certain aspects of compensation and benefits to comparable levels.

I have to give our labour partners credit. I think they understand the severity of the economic situation we are facing in our company, and they're committed to working with us to find acceptable solutions to reach these benchmark levels in compensation in benefits and wages.

● (1955)

**The Chair:** Thank you, Mr. Elias.

Now we're on our second round. We'll go to Mr. Valeriote.

**Mr. Francis Valeriote:** Mr. Elias, I have a lot of questions to ask you, so please keep your answers a little shorter.

I've been observing the auto industry for a number of years. I've noticed the employment level has declined from 20,000 in 2005 to about 8,000 or 9,000 now. This hasn't just happened in the last two to four months; this has been happening over a number of years.

In 2005, I know the Liberal government gave $20 million to the Beacon Project and the flex plant in Oshawa. I know they contributed $50 million to a new Toyota plant in Woodstock, which just opened. I attended the opening in November. I know they gave money to Bombardier, which is doing research on new fuel-efficient planes, hiring thousands of people on their new CSeries plane.

I also know that the McGuinty government declared quite openly a willingness to partner with industry, particularly the auto industry, and has done so over the years. Yet I have not seen any response of meaning from this government, and in fact we know the declaration of last year that they don't choose winners and losers.

So I want to know whether you had a plan. Did you go to the government before now with a plan or proposal? If you did, what was that plan and what was the nature of those discussions? Were they willing to partner with you before now?

**Mr. Arturo Elias:** I think we have had a very good partnership with both the Province of Ontario and the federal government. What has happened here is a significant decline or contraction in demand for vehicles. At General Motors our restructuring has started and has been in place for a number of years now. I think we are in a position today where we don't foresee any further closures in our facilities here in Canada, beyond what we have announced.

In addition, the Beacon Project has provided significant benefits, working with universities, research centres, and chairs to help the industry with breakthroughs in innovations that are going to help us be more competitive on a global scale.

The other important contribution of the Beacon Project to General Motors has been the flex line that we put in place.

**Mr. Francis Valeriote:** But those were Liberal proposals and partnerships. I'm not aware of anything with the Conservative government between 2006 and early 2008.

**Mr. David Paterson:** I can respond to that. We have been working in partnership with Ontario and the federal government consistently. We indicated that we were going to be able to proceed, and under our restructuring plan all this would be recognized, with significant new investments in St. Catharines for a flex line related to new transmission capability. In addition, we would be proceeding with new vehicle capability in Oshawa. We're pleased to say we'll be the first company in Canada to manufacture hybrid vehicles.

So these agreements have really been partnerships that have allowed us to put in place some capital facilities in Canada that are extremely enviable. We have state-of-the-art flex manufacturing. We have a brand new paint plant, and we are doing more R and D in Canada than the rest of the industry combined.

**Mr. Francis Valeriote:** I have another question. Back late last year General Motors worldwide was in the United States communicating with the American government over a new loan. There were discussions, no doubt, about protecting our mandates, and there ought to have been discussions about the pledging of assets to secure those loans. As I understand it from our investigations, all of the General Motors assets worldwide have been pledged now to the American government without anything really available to secure any loans that the Canadian government might offer.

So my question is this. Were you in Canada at the table in the United States when those discussions were going on, and was our government at that table when those discussions were going on, to protect our mandates and to make sure there were some assets left in Canada that could be pledged to secure loans to you?

● (2000)

**Mr. Arturo Elias:** On the security of the loans, yes, we have limited capacity to provide guarantees, and we have been quite transparent with both the Ontario government and the federal government as well as the EDC on this. That's why I think it's critically important that we focus on the proportionality of our production vis-à-vis the United States and change our business model to a contract manufacturer that would enable us to restructure the company and to have the financial returns to repay the loans.

**The Chair:** Thank you, Mr. Elias.

Now we're on to Mr. Watson.

**Mr. Jeff Watson (Essex, CPC):** Thank you, Mr. Chair.

I appreciate the opportunity to ask some questions. Thank you to our guests. I'm not sure whether I spend my time trying to correct some of the factually incorrect things I'm hearing in the politically charged questions across or whether I spend my time asking questions about the restructuring plan.

Let me start first with, I would suggest, some of the hopeful news. Of course, you're probably aware that tonight the economic action plan of the government did pass third reading in the House and it is on its way to the Senate. So after a gruelling process in the House, I think we're making some progress, and we'll certainly keep the pressure on. That of course has the fully repayable loans in it, the money you spoke of for the parts sector, as well as the important money to restart the automotive credit.

I think you've touched on this a little, but to set the stage, there are actually two problems facing...shall we call them the Detroit three companies. One problem is a structural issue. All of the companies were in varying degrees of restructuring their business operations when the second problem, which was the cyclical problem, an economic downturn, hit. That's obviously the bad storm to occur, but it's somewhere a little more ahead of the others in terms of restructuring. But that's essentially the nub of the issue here and why we're talking about this.

Of course, in December the government, with our Prime Minister and the Government of Ontario, announced that there would be fully repayable loans available. First, for the record, of course, the discussion back then was that the lights were going to go out at General Motors, that the clock was ticking, and yet it's not. Can you answer what happened to your day-to-day credit situation for GM Canada in light of that announcement? Why didn't you take the Canadian loans initially?

**Mr. Arturo Elias:** There were two things that essentially happened. We put in place very severe cash conservation measures. In addition to that, the U.S. Treasury loan became effective, the first tranche to our parent, and that provided additional cash for us to operate and focus on what I think is really important, and that is the long-term plan and the support for long-term restructuring. That's the place we're in right now.

**Mr. Jeff Watson:** Because the TARP money was available to the parent company, that allowed an opportunity to access global capital for the Canadian operations. Do I understand that correctly?

**Mr. Arturo Elias:** That's correct.

**Mr. Jeff Watson:** Thank you.

Of course we also want to talk about the scale of priorities here. I think all of us sitting around the table would recognize that while there are irritants—perhaps the size of the vehicle scrappage fee, for example—those are issues of lower scope or priority to stabilizing your Canadian operations, the supply chain, so that we can address those additional issues down the road. I think that has to be said here.

Let me ask an additional question in terms of the relationship before cross-subsidization occurring between your Canadian and U. S. operations, prior to the access to loans on both sides of the border prohibiting cross-subsidization now. Is that why the move to a stand-alone model?

**Mr. Arturo Elias:** That is correct. The U.S. Treasury agreement prevents investment, as it's defined, in foreign subsidiaries.

Maybe, John, you can elaborate a little bit on that.

● (2005)

**The Chair:** Go ahead briefly, Mr. Stapleton.

**Mr. John Stapleton:** Briefly, the bottom line is that the structure kind of put a wall up around the U.S. relative to funding flow, and in that regard, they're looking to not have the American taxpayers shoot funds to other—non-U.S.—entities.

**Mr. Jeff Watson:** I have a question of context. In the pre-period with cross-subsidization, did GM Canada make a net positive contribution to the parent company prior to that? I know that we had a lot of high-profit-per-vehicle vehicles manufactured here. Was that situation a positive flow beforehand, or is that complicated to answer?

**Mr. John Stapleton:** If you go back just a little way, if you look at our assembly plants, we were running full bore in our truck plant and very heavily in our car plants in Oshawa. That helped the situation due to product demand, really, in the U.S., because we ship 90% of our vehicles south. A lot of that dried up, and therefore you start to reduce your workforce, and you reduce your revenue, and there's a crippling effect. It's very tough right now.

**The Chair:** Do you have a short question?

**Mr. Jeff Watson:** It's a very short question.

In terms of the automotive credit that we're talking about, the $12 billion, you're seeking some of that to flow through your credit arm at GMCL. Have you forecast what your interest rates, for both purchasing and leasing, might be available to consumers if we do extend money through that? Where will it be? Have you done any forecasting that way?

Thank you, Mr. Chair.

**Mr. Arturo Elias:** I'm generally not in the business of forecasting. I've been wrong with respect to our outlook on stock markets and currencies, so I'd rather not speculate, if that's okay with the members.

[*Translation*]

**The Chair:** *Merci, monsieur Elias.*

You have the floor, Mr. Vincent.

**Mr. Robert Vincent:** Thank you, Mr. Chair. In response to a colleague's question concerning new job losses, you stated that we should not expect any more closures in Canada, aside from the ones already announced.

When they unveiled their restructuring plan to Congress, the three US automakers admitted they would not hesitate to cut tens of thousands of jobs over the next few years. GM in particular talked about sacrificing one third of its work force by the year 2012.

Can you confirm that there will be no additional plant closures in Canada?

[*English*]

**Mr. Arturo Elias:** Obviously the demand drives production and drives jobs. To the best of our ability, our viability plan has been built on what we consider to be conservative assumptions for the U. S. market as well as the Canadian market. We have a baseline scenario, a downside scenario, and a upside scenario for planning purposes. We believe we have, overall, taken a conservative approach to the industry outlook in both the United States and Canada. We couple that with the restructuring, the reduction of our break-even points, and to the best of our knowledge right now, we would not foresee the closure of another plant in Canada.

[*Translation*]

**Mr. Robert Vincent:** Regarding GM operations, are Canada and the United States considered two different territories. You may answer “no“, but if Detroit decides to lay off one third of its work force and you receive a call telling you that a plant in Canada has been included in the equation...

Could that happen, or are Canadian and US operations completely separate? Perhaps I'm completely off the mark here.

[*English*]

**Mr. Arturo Elias:** The restructuring plan that we have presented to you, which is a public plan, was certainly developed in consultation with our U.S. offices, and so they are fully aware of the plan. They are fully supportive of the plan. They are supportive of the actions that are reflected in the plan, and they are supportive of the conclusions of the plan.

**Mr. David Paterson:** I might add, too, that one of the great strengths of the plan is that it's not just the plants that are there. We have brand new mandates that have been identified for those plants. We happen to be fortunate that we're at a stage where we can identify brand new vehicle mandates that can move forward into those plants, and that gives us an awful lot of confidence in terms of where we can go.

**Mr. Arturo Elias:** If I may elaborate on the issue of the mandates, we are looking at an investment in St. Catharines to build a new, highly fuel-efficient, six-speed transmission in a flexible manufacturing environment. That would be new. We're looking, obviously, at Camaro production in Oshawa very soon. We are looking at new products coming out in a year. We are looking at two new products out of CAMI that will come into play here in the August timeframe.

So to David's point, the life cycle that is so important for determining levels of production and so forth is at the beginning in Canada. So we feel we're in a very good position. Coupled again with what we see as the upsides and downsides for the markets both in the U.S. and Canada, we feel comfortable that our plan will work and allow us to repay the Canadian taxpayer.

● (2010)

[*Translation*]

**Mr. Robert Vincent:** Executives in Detroit plan to pay themselves an annual salary of $1. You are talking about taking a 10% cut. Will you be asking your workers to accept a 10% pay cut as well, that is to accept the same 10% pay cut as the company executives?

[*English*]

**Mr. Arturo Elias:** Our executive workforce and salaried workforce, as I indicated, have taken a substantial reduction, not only in salary but also in wages and benefits. We are simply asking our labour partners—and we want to do this cooperatively with them—to reach comparable levels to those in the companies we compete with in the North American market, who are obviously the workers in the United States.

On the salaried and the executive side, I've been subject to a 10% wage reduction as well, and a reduction in benefits. I am also subject to some of the restrictions on executive pay and compensation imposed by the U.S. Treasury. So we have adopted those in Canada de facto.

**The Chair:** Thank you.

Mr. Young.

**Mr. Terence Young (Oakville, CPC):** Thank you, Chair.

Thank you for coming tonight on short notice.

My name is Terence Young. I represent the riding of Oakville, which is, as you know, Ford of Canada's head office location. So I've been very, very aware and have spent a lot of time on this, how important it is not just to my community and the surrounding area, which has 4,000 jobs in this sector, but also to Canada. I understand the figure is that there are about 500,000 spin-off jobs related to the big three manufacturers alone.

The auto caucus met with the import manufacturers, the 13 companies that manufacture primarily outside of Canada—although some of them manufacture in Canada also, but it's primarily outside—and I have to tell you they supported loans to Ford, GM, and Chrysler. They're supporting the continued existence of their major competitors, the reason being, of course, that they share the same parts manufacturers, and the parts manufacturers' survival is key to their survival. So this is an existential issue.

I think back to 1957, when I was six years old and playing in a field behind the house, when I heard thunder. I ran home to tell my mother, and my mother said, that wasn't thunder, but the Avro Arrow breaking the sound barrier. It sounded just like thunder. That was my first lesson in science. A short while later, the government of the day cancelled the Avro Arrow to save money. It cost 50,000 jobs overnight, and about 30 of the most brilliant aerospace engineers in the world left Canada, went to the United States, and later put a man on the moon. Arguably, our aerospace industry has never recovered.

So I understand the importance of this issue for the Canadian auto industry. I applaud your efforts to become competitive with Toyota, Nissan, Honda, and the others that don't have the legacy costs, etc., and I wish you every success.

I'm trying to understand worldwide overproduction. In 1998 I was parliamentary assistant to the Minister of Finance for Ontario. The auto industry folks came in and sat around the table, and they all said that by 2001 we would have worldwide overproduction. And I thought, well, who's going to walk away and stop making cars? BMW, Chrysler, Ford? Nobody. Everybody is going to keep going until.... Now we have a recession, the catalyst that has put us in this situation.

My concern is that we've been making, probably for seven years, 17 million cars a year in North America, with over a million in Canada, and this year it's going to be around 11 million. Where is General Motors going to be over the next few years in terms of numbers of units produced?

**Mr. Arturo Elias:** In our submission we have outlined the industry outlook and our outlook for volume as well as production.

I'd like to build on your comment that the current crisis being faced in the automotive industry is not just limited to North America. It is spreading around the world, and we are seeing it in all regions of the world.

Secondly, here in Canada we feel a great deal of responsibility to our communities where we operate, to our employees, our suppliers, our dealers, and all the other stakeholders who work with us. We have, as I indicated, more than 3,000 suppliers. That's about half the suppliers here in Canada. We have 700 dealers who employ more than 33,000 people. Then, of course, as you correctly point out, that has a multiplicative effect.

We feel a great sense of responsibility. The support to be provided by the Canadian taxpayers really extends far beyond General Motors, indirectly. It allows us to maintain our operations, support our suppliers, dealers, communities, the universities we're working with, and maintain a research and development centre here in Canada, which is very important.

● (2015)

**Mr. Terence Young:** In 1979—and we haven't had a full discussion about this, I don't think—under Lee Iacocca, Chrysler was given $1 billion. They let it go too far, because Chrysler's creditors took a huge beating and went down; they took 33¢ on the dollar. Nevertheless, he said he would turn the company around and pay back the money. That was a lot of money back in 1979, and they did pay back that money. They paid back the money over 10 years, and Chrysler has survived until this other point, another contingency period. In the meantime, all the employees who worked at Chrysler paid income tax, there was corporate tax, and there was property tax paid.

Where do you see General Motors being in terms of production in three years, five years, and ten years?

**Mr. Arturo Elias:** Again, the whole premise of our plan and our discussion with the government is on the concept of proportionality in terms of support here in Canada, proportional to the support the U. S. government is providing General Motors in the U.S., and proportional production relative to the U.S., because it's an integrated market. Again, our best forecast is that we will be at a proportion of production of 17% to 20% and be able to maintain that over our planning horizon. If you would like, I could certainly send you the specific numbers in terms of what that means in units of production and so on.

**Mr. Terence Young:** I would appreciate it.

**The Chair:** Thank you.

We'll go to Mr. Masse.

**Mr. Brian Masse:** Thank you, Mr. Chair.

Mr. Young referenced that Chrysler actually paid it back and with interest as well. It's unfortunate with today's news, as we did have arguably the most successful minivan plant and one of the most successful manufacturing plants since World War II, when you look at it.

Also, Mr. Young mentioned that a very important component is the parts sector. One issue that is a drag on tier one and tier two suppliers, tool makers, and mould makers is the issue over the PPAP system. That's with regard to payment of work for service they perform for the OEMs. Could you highlight what you're going to do about that situation?

Right now I understand there's a big liability to those who are owed money. There's an inefficiency as well. I know that some of the shops in my riding often end up having to carry interest charges at longer dates for borrowing, which is an inefficiency and a drag on productivity. They're not getting reimbursement as quickly as they should, and so their borrowing costs are then extended. Once again, there's basically a cost in the system for no productivity; it's just the borrowing and management of money.

Is there anything you're suggesting in this plan to restructure those relationships or to be able to improve that? Is there also going to be some payment of those bills that certainly need to be fixed?

**Mr. Arturo Elias:** There certainly has been some coverage of that, but I have to point out that just as we have direct suppliers, which we call tier one, they in turn have their suppliers, which we call tier two and up to tier three. Many of these stories that have been published relate to tier three and tier two suppliers that do not sell directly to us.

I'll let John speak here, but to the best of my knowledge, we are current on all our payments to our suppliers. We basically have agreed contractual payment terms, and those are being honoured. They would be honoured under the proposal.

John, do you want to elaborate on that?

● (2020)

**Mr. John Stapleton:** To echo that, it's the tier two and tier three, way down in the stream, so everything gets shifted 30 days. In part, we pay based on parts getting PPAPs. That's when we pay for the tools. Everybody has gone backwards. I will say that I think the suppliers are banking quite a bit of that interest or stress in the system based on the piece-cost when we actually write the cheque to buy the parts from them. Hopefully we'll build many cars and repay that quickly.

**Mr. Brian Masse:** I'm not saying it's your company, but there has been the suggestion that the tier one suppliers have been forced, for a number of years, to reduce costs prior to our current crisis and, as well, to outsource to low-market economies. Has your company been one of those that have put pressure on those suppliers to do that?

**Mr. Arturo Elias:** We ask our suppliers also to be competitive, but General Motors purchases about $14 billion per year from Canadian suppliers. Some of that is used here in our plants; some of that is exported back to the United States. The recent small decline that we have seen has been mostly due to the period when we had a strong appreciation of the Canadian dollar. But in general, over the years we actually, except for the last few years, have been growing our presence with Canadian suppliers and it's quite healthy today.

**Mr. Brian Masse:** I'm going to quickly switch gears, I know I'm running out of time. The United States has the advanced technology vehicles manufacturing loan. It's a $25 billion low-interest loan outside of the current discussion that we're having here to bring new clean, green vehicles on line. The Canadian government has in place a $25 million per year loan program for $250 million over five years.

Is this not a competitive disadvantage if we are able to turn around the industry and move to higher-performance vehicles? The U.S. would have a disproportionate amount of low-interest loans for those movements if the numbers are reflected upon here.

**Mr. David Paterson:** The energy bill section 136 loans, which many of our companies have already applied for in the United States and have pending support for, are very significant incentives in terms of providing advanced technology production in the United States. Now, in Canada, as you mentioned, we have the advanced innovation fund, and Ontario has a similar fund. We've benefited from that in terms of bringing forward some of these types of hybrid technology aspects. I must say that if we can utilize that in the future, it's very important to be competitive in all these areas. I agree that this is something we need to watch carefully.

**The Chair:** Thank you. Mr. Lake.

**Mr. Mike Lake:** Thank you, Mr. Chair.

I have three questions that are unrelated, in a sense. In one of the comments you made at the beginning you talked about significant shared sacrifices and we've talked a little about executive pay. We've said repeatedly that all the stakeholders need to be at the table, and it looks as though we have the stakeholders at the table right now.

Looking at the CAW press release issued November 21, I'm reading a quote from Ken Lewenza towards the bottom. He says,

> Hundreds of thousands of jobs in Canada depend on a vibrant domestic auto industry. It's important to note that Canadian labour is a strength within our industry providing skills, productivity and quality that are internationally recognized.

I totally agree with that. I think we have a lot of respect for the workers and the skills they bring to their jobs in the auto industry.

Then he gets into some numbers in the press release. It says:

> CAW labour costs equal seven per cent of the cost of a vehicle, an amount that is less than the dealer margin. At the current value of the Canadian dollar (82 cents U.S.) CAW labour is cheaper than auto labour in the U.S., Germany and Japan.

I'd like to get your comments on that statement from their news release. Is labour an issue here? And would you also comment on CAW costs of labour versus Toyota and Honda plants, for example, in Canada.

**Mr. Arturo Elias:** Let me first say that we've had a good relationship and a good partnership with the CAW. They have helped us with competitive operating agreements in our plants. We have among the most productive plants in North America, and that's certainly a positive.

As you may appreciate again when you look at restructuring a company and getting your cost base in line with your competitors, to be fair, no element of the cost structure you have can be ignored. Seven per cent...I know the number has been quoted, but we are, for example, looking at ways we can reduce our engineering costs, ways to reduce our manufacturing costs and our information technology systems, many of which are much below that.

Simply stated, what we are seeking with our labour partners is to reach competitive labour, wages, and benefits that are comparable to the folks we compete with. And we are trying to follow the same benchmarking philosophy in everything we do, so that at the end of the day you have an entity that has a cost structure that is competitive with market practices and therefore is viable and allowed to generate sufficient profitability to repay whatever loan the Canadian taxpayer decides to provide us in support.

● (2025)

**Mr. Mike Lake:** My second question has to do with the mandates. And again, on the proportionality issue, you say you have five new mandates here in Canada. Hypothetically, right now, let's address a circumstance that isn't a very good circumstance, and let's say that all five of those mandates are not very successful in terms of sales. Therefore it would affect the proportionality. And of course my constituents, the taxpayers who are asking me these hard questions, might have some concerns about that.

What would be done to address that? How would you maintain the proportionality in that situation?

**Mr. Arturo Elias:** Again, the proportionality is driven by a relative demand in both countries, because at the end of the day demand translates into production and production translates into employment and all the benefits of the supply chain. But I think it's very important, if you look at General Motors and what General Motors has done in the recent years—it's nothing short of a revolution in the car industry.

I would say our recent new launches are all vehicles that have received significant accolades. I personally drove the Camaro this weekend that we are proudly producing in Oshawa, and I'm very confident that the car will be a success.

I have looked at our new Equinox that we're producing in Ingersoll in CAMI, and based on my experience, I have all the confidence that the vehicle will be a success. It will be a fuel economy leader in the marketplace.

And I look at the mandates that we have for future products and what General Motors has done in terms of improvements in quality and design and fuel economy and environmentally, so I am optimistic that these product programs, which would be at the beginning of a life cycle, will enable us to execute the plan.

**Mr. Mike Lake:** I have a very short question, if I could. I want to touch on an issue that's kind of timely right now.

On Friday we're going to be discussing Mr. Masse's private member's bill on the right to repair, Bill C-273. Of course the bill would give auto repair shops access to certain information that they may require in order to repair cars, and it makes certain associated amendments to the Competition Act and CEPA.

I just wonder if you might be able to comment on how that particular bill would impact your business.

**Mr. David Paterson:** I can talk to that briefly, and I have talked to Mr. Masse about this too. We understand the situation. We are in a situation in General Motors where we've always provided this information. It's available through websites in Canada and in the United States, in French and English. And the tools, availability, and the like are available.

Our strong preference in this thing would have been to have a mirror, voluntary approach, an agreement. I think everybody would. We understand there are a couple of companies—I think three or four now—that don't provide this information, but the vast number of companies now do. So we would much prefer to see a voluntary kind of mirror agreement to resolve it and to make sure that these things are harmonized.

**The Chair:** Thank you.

Mr. Valeriote.

**Mr. Francis Valeriote:** Mr. Elias, I know there are no guarantees in life, but I come from the town of Guelph, which is an auto town. We have close to 37 auto parts manufacturers that employ probably 9,000 to 10,000 people. You have two dealerships that employ about 123 people. With all combined dealerships, close to 400 or 500 are employed.

If you get this money, what kinds of guarantees or projections can you make that we have hit bottom as far as job losses go? Or are you anticipating more losses?

● (2030)

**Mr. Arturo Elias:** Again, as I indicated earlier in my testimony, our plan is based on very conservative assumptions. It contemplates no further plant closings beyond those we announced in our planning period. I would say that, as you know, the business viability is essentially very simple. It is the revenues that generate your cost structure, which leads to your profitability and your ability to pay, and also the financing that you get to finance your business.

On the revenue side, I can't stress enough how confident I feel about the products of General Motors, so I think that on the revenue side we'll be in good shape. I think that on the cost side we'll be in good shape. Therefore, I believe that we, to the best of our ability, have a plan that basically preserves this proportionality of production.

**Mr. Francis Valeriote:** Will that money trickle down to the auto parts manufacturers? That's what I'm saying. Are their jobs going to be protected?

**Mr. Arturo Elias:** Oh, absolutely. As I indicated, we, General Motors, carry a substantial chain in the whole value chain, whether it's suppliers, dealers, universities and research centres, or our own employees, so obviously a healthy sector certainly has trickle-down effects.

**Mr. Francis Valeriote:** You obviously know there's a certain portion of the population that doesn't support giving loans to the auto industry, for fear that they may not be paid back, I suppose. I would like to know from you what fear lies in a structured proposal to creditors. What impact would that have on your industry? Why wouldn't a good structured proposal in fact save all these jobs?

**Mr. Arturo Elias:** Again, working with the governments and our stakeholders, we strongly believe that the best option for all the stakeholders, for the province of Ontario and the province of Quebec, where we have numerous suppliers, for our employees, and for our dealers is the path we're taking right now. It's a plan that has been developed in consultation with our central offices in Detroit. It has been developed and shared with the Government of Ontario and the federal government. I think it's a plan that has the buy-in, essentially, of our stakeholders. We still need to finalize some elements of the plan and we're hoping to finalize those in the month of March, but we think that is the best option for all our stakeholders.

**Mr. Francis Valeriote:** One more question, Mr. Chair?

I understand that in a structured proposal to creditors there might be some concern about your brand name and possibly a fear that warranties would not be honoured, but I would assume that under those circumstances the government could backstop those warranties and that kind of thing. Could you comment on that?

**Mr. Arturo Elias:** I think the biggest risk in a scenario like you point out is the fact that there could be—and there's evidence to support this—disruption in demand. It's not like an airline where you buy a ticket, you fly for an hour, and then that relationship's all over. We and our dealers and, by the way, our suppliers, who provide spare parts, have a relationship with our customer that extends for years while that vehicle is in place.

We have examples around the world where some of the scenarios that you point out lead to a lot of decline, and permanent decline, in demand. Therefore, our focus has been on this plan we have submitted. We think this plan provides the best option for all of our stakeholders.

[*Translation*]

**The Chair:** Mr. Vincent, you're the only member who has asked questions in French. You have the floor for one last quick question.

**Mr. Robert Vincent:** I would just like you to clarify something for me.

Recently, it was reported that executives had agreed to take a 10% cut in pay. If I understood correctly, when you last spoke, you said that you would not be asking workers to make a greater sacrifice than company executives were prepared to make. Did I understand you correctly?

● (2035)

[*English*]

**Mr. Arturo Elias:** What I said was that the executives in our company have taken a 10% wage cut. Our salaried workforce, depending on their levels, have also contributed to our plan. We feel that on the salaried side we have reached a competitive level. Now, the issue is that you have to be very careful, because if you're not, you start losing your most talented people. Obviously people are our biggest and best resource.

Simply stated, what we are trying to achieve with our CAW partners is also to achieve benchmark levels in wages and benefits—no more, no less. So you would get a shared sacrifice from all stakeholders that enables us across all of our cost structure elements to achieve benchmark levels within the industry.

**The Chair:** Thank you very much, Mr. Arturo Elias, president of General Motors of Canada Limited; Mr. John Stapleton, vice-president and chief financial officer; and Mr. David Paterson, vice-president of corporate and environmental affairs. On behalf of the committee and the members of Parliament here, we thank you very much for coming in front of our committee to give us your testimony, especially on such short notice. We've also noted that you're the first to appear. It's noted and appreciated, and it speaks volumes about your commitment to your company and to Canada and your commitment to openness and transparency to Canadians.

We'll suspend now for five minutes to allow our next panel of witnesses to appear.

●

(Pause)

●

● (2040)

**The Chair:** Calling the meeting back to order, I'd like to welcome our witnesses tonight and thank them for appearing in front of us on such short notice.

This is the industry committee's subcommittee on the auto sector. We're here to study and understand the challenges facing the Canadian auto sector and to allow Canadians a chance to better understand what the Government of Canada is doing to help out the auto industry. Our study and recommendations will be reported to the House of Commons by March 31 of this year.

[*Translation*]

We use both official languages in Canada. Some members speak in French, while others use English.

[*English*]

If you need to use translation, the earpieces are on your desk, and the selector for the different channels is on the apron of your desk.

We'll begin without further ado with Mr. Richard Gauthier, who's the president and chief executive officer of the Canadian Automobile Dealers Association.

You have about ten minutes to give us your opening remarks, Mr. Gauthier.

● (2045)

**Mr. Richard Gauthier (President and Chief Executive Officer, Canadian Automobile Dealers Association):** Thank you, Mr. Chairman. From speaking with a few of your colleagues earlier, I understand and obviously I can see tonight that you're working late hours, so all I can say is that if your constituents all were aware of how many hours you put in on their behalf and on behalf of the country, some of the election campaigns might be a little less stressful. We certainly commend you for that.

Good evening. My name is Richard Gauthier. I'm president and chief executive officer of the Canadian Automobile Dealers Association. CADA is the national association for franchise automobile dealerships that sell new cars and trucks. I would like to point out that we represent dealers of all brands, and all manufacturers manufacturing and selling vehicles in Canada are represented through our association.

So our 3,500 dealers represent a vital sector of Canada's economy. Through our dealers, we are represented in nearly every community in the country. With me tonight I have our director of public affairs, Huw Williams, as well as our chief economist, Michael Hatch.

Mr. Chairman, tonight I'll outline the key issues facing our dealer network in these most challenging times. To begin with, let me provide a few facts about the automotive industry in Canada. Canada's auto industry is more than a hundred years old and in Ontario alone is the leading jurisdiction for auto production in North America and is the tenth largest globally. Each of Canada's assembly jobs provides seven to 10 spinoff jobs, and this is the highest such ratio of any manufacturing industry sector. Tax revenues from the auto industry to all levels of government in this country exceed $10 billion annually, and since 2002, Canadian vehicle assemblers and parts manufacturers have invested over $10 billion in production and research and development. Canada's auto industry exports—you heard some of that earlier—85% of all its production, roughly $100 billion annually, and every $1 million in exports creates or sustains five jobs.

Canadian automotive companies are global leaders in R and D, in lightweight materials, alternative fuel technologies, and occupant safety. We should be very proud of that fact.

Canada's auto industry procures more than $40 billion annually from Canadian suppliers, which is more than twice the total annual amount of the Canadian federal government's procurement, and it also accounts for over 10% of Canada's manufacturing GDP and over 20% of Canada's total yearly merchandise trade, in excess of $150 billion annually. The industry also accounts for over $30 billion in parts and components shipments annually and conducts over $500 million in R and D related to assembly, innovation, new vehicle development, alternative fuels, and vehicle safety every year.

Now, I cannot emphasize enough that the current automotive downturn will have a ripple effect in every community in Canada. The cold reality facing decision-makers today, you yourselves, is that if Canadian-based manufacturers are not provided a bridge across the current economic crisis, then Canada's 3,500 small business dealers located in every community of the country will bear the brunt of that downturn.

The retail automotive sector employs over 140,000 people in Canada and directly contributes a huge portion of its gross domestic product. As economic cornerstones of almost every community in the country, the pain of auto dealers will be felt on main streets and in other small businesses and households from coast to coast.

Parliament needs to remember that dealerships are not company stores. Dealers are independent businesses that make significant investments in land, buildings, equipment, and personnel and provide manufacturers with a retail presence in thousands of communities across the country. Dealers do not take cars or parts on consignment from their manufacturers. Dealers assume the risk of financing that inventory. No manufacturer has the resources to internalize the costs that dealers bear every day.

It will come as a shock to no one in this room tonight, I'm sure, that given the huge costs of financing dealer floor plans and operations that can run into tens of millions of dollars per store, predictable and accessible credit is the oil in the retail auto industry's motor. In my daily contact with dealers from one end of the country to the other, without a doubt, the number one problem facing their businesses today is the deterioration in credit conditions. Not only is this happening to dealers on the brink, but this is happening to sound, solvent businesses, often with decades-long relationships with their financial institutions and the very communities represented at this table this evening.

● (2050)

Given what's going on in the credit markets in the past year, I'd like to congratulate the government on the $12 billion Canadian secured credit facility announced in January's budget. CADA communicated the need for such a facility in the pre-budget period, and the government delivered.

But as parliamentarians, you will know that the easiest part of any program is announcing it. Dealers across the country are still facing tight and unpredictable credit conditions from captive finance companies and chartered banks. While we recognize the need for diligence in designing any program that allocates tax dollars, we must stress the urgent nature of the problems facing Canada's auto dealers as we speak.

The government has to find a way to get credit flowing again and to do so as soon as possible. Credit is the biggest problem facing our dealers, and the government has recognized this. We will continue, as we have to date, to work closely with the government in its implementation of the $12 billion secured credit facility, but there are also other ways to stimulate the industry and, with it, the entire economy.

Canada's car fleet is older than that of its American counterpart. As you all know, old cars are much less efficient, more polluting, and less safe than new vehicles. This committee is charged with addressing the crisis in the auto sector. Drastic times call for bold measures and bold but targeted economic stimulus. This is the approach taken by other G7 countries. Vehicle scrappage or vehicle retirement programs have been adopted by several countries throughout the world, including Canada, over a number of years. In recent months, these programs have taken on added momentum as economic woes cripple vehicle sales worldwide.

Scrappage programs have existed in this country in one form or another since 1996. Simply put, a scrappage program offers cash incentives to consumers who retire old vehicles and purchase new ones. These incentives serve a much sought-after dual economic and environmental policy objective, since on average a 20-year-old car pollutes 37 times more than a new one. Providing incentives for purchasing new cars drives the economy and helps the environment.

The current economic challenges facing the automotive industry present an opportunity for an effective national vehicle scrappage program to complement other economic stimulus initiatives. With roughly five million vehicles on the road that were built in 1996 or before and with new car sales in decline, there exists today a powerful opportunity to enact a scrappage program that has real teeth. Today's program, worth only $300 per vehicle, does not provide enough incentive to get any more old cars off the road than would occur anyway through natural attrition.

Canada can look to other countries for models in designing such a program. In fact, it was mentioned a little earlier in previous testimony that in Germany, for example, consumers are given incentives worth €2,500, or roughly $4,000 Canadian, for retiring old cars and buying new cars or cars that are less than one year old. The program works on a first-come, first-served basis. Funding for the program is capped. Once the cap has been reached, the program will be terminated.

This measure is expected to increase light vehicle sales by 200,000 units for 2009 and should push the German car market just above three million units. Now, applied to the Canadian market, which is about half its size, a similar program could increase sales by more than 100,000 units this year.

Let me add that the members of this committee should also recommend that the government take a very simple step to stop the dumping of high-polluting older vehicles into the Canadian market. This is an easy common-sense fix. Members may not be aware that we have seen a recent rise in the number of older right-hand-drive vehicles on Canadian roads. These vehicles are imported under a current loophole in the Canadian regulations allowing vehicles more than 15 years old to enter the country without complying with the Canadian motor vehicle safety standards or national environmental standards. These vehicles pose a risk to Canadian citizens and undermine the pursuit of our country's safety and environmental goals. We urge government to close these loopholes in order to ensure safer roads, stronger new vehicle sales, and not further undermine our collective desire to clean up the environment.

● (2055)

Now let me turn to another issue of great concern to our dealer network, the so-called right to repair issue. As you are aware, Bill C-273 is currently before Parliament. This bill would effectively require auto manufacturers to share all diagnostic and repair information as well as equipment with the aftermarket. This is unacceptable to CADA. This information represents intellectual property developed by manufacturers at a cost of billions of dollars. Forcing them to disclose this information on a non-voluntary basis would destroy the value of this property and inhibit the innovation that drives the country.

There's currently healthy competition for car owners' non-warranty service work, with aftermarket repair facilities receiving the bulk of the business, even after the introduction of proprietary onboard diagnostic computers almost two decades ago. The aftermarket has the lion's share of the business with 75% of that market, and this is due to the fact that, for all but the newest of vehicles, repair information is readily available from a variety of sources, be it for a small, independently owned garage, a national aftermarket chain, or even do-it-yourselfers.

I understand that you're trying to move this along, so I would just like to address one final consumer concern. We must not let the current market conditions facing manufacturers and dealers distract consumers from the fact that it is a very good time to buy a car in Canada. In fact, the two sides of this situation are closely related. Cars have not been as affordable as they are today in a generation. In fact, Statistics Canada has just reported that the price to buy or lease a car has declined to its lowest point in 24 years as a ratio of disposable income. Add this to the fact that all manufacturers are aggressively seeking new business, and the end result is a very favourable set of conditions for consumers in the marketplace. Quite simply, there's never been a better time to buy a car, and I have been in this business for 40 years.

I'd like to thank the committee for giving us an opportunity to speak with you this evening.

[*Translation*]

Thank you for your attention. I will be happy to answer your questions, if time allows. Thank you.

**The Chair:** Thank you, Mr. Gauthier.

[*English*]

Next we have Mr. Gerald Fedchun, who is the president of the Automotive Parts Manufacturers' Association.

Mr. Fedchun, you have about 10 minutes to give your opening statement.

**Mr. Gerald Fedchun (President, Automotive Parts Manufacturers' Association):** Thank you.

I have appeared before the full committee a few times and certainly have represented suppliers. We represent the suppliers for the assembly of new vehicles, so we are not related to the aftermarket problem. So don't ask me questions about aftermarket—I have no idea what's going on.

Most of our facilities are in Ontario and Quebec. About two-thirds of the parts that are manufactured in those facilities are exported directly as parts, and one-third are consumed by the assemblers here in Canada.

First of all, I want to say we do appreciate the measures that have been taken to stabilize the assemblers—they are our customers. Also, the liquidity provisions in the budget, which have not quite been passed yet, are very important to us. We really look forward to that being passed, because we need to deal with that. Since our first presentation to the government over a year ago, when we were starting to face difficulty, things have gone from bad to worse. Even over the last couple of months, things have deteriorated even more. The February statistics released today, simply put, are another disaster.

So I have to say we have three requests of the government, and we don't usually come asking very often. Usually we're simply contributing billions of dollars in taxation to government, either through the companies or the highly paid employees who work for us.

Our first is simply to ensure that our customer, the assemblers, are around to pay us in the normal course. Financial assistance to them is the first lifeblood of suppliers, and we support what is necessary to make sure all the assemblers are healthy. As is well known, our industry supports one job in seven in Ontario, and about 10,000 employees in Quebec.

Our suppliers are the web of the spider web, and what I mean by that is that they are the connecting links between all of the suppliers.

I was going to hand this out, but I'm told I can't because it's not bilingual. You don't have to read the writing anyway, because the picture says everything. For the Chevrolet Equinox, which is assembled in Ingersoll, Ontario, it shows where the parts come from, where the modules come from that feed into that. It has a number of flags. Some of the flags are Canadian, and some of the flags are American. The Equinox is assembled in Ingersoll, and then about 80% of them are sent to the United States. So this web of parts makers is involved in that.

If one of our major customers, such as General Motors, goes down, it will take a number of suppliers with it. When those suppliers go—and those suppliers also supply almost everybody else in North America as well—they then take all the other OEMs down. In about a week's time, all North American production of vehicles comes to a grinding halt. That is simply a fact; it's not a doomsday scenario. That is the way the industry works. That's how integrated we are. It will then take months and months for the ones that still survive to be able to get back up and running again, and some that could have survived by that time have lost so much money that they fail as well. So you end up with a huge cost then of rehabilitating suppliers, if you can, or else importing more vehicles from overseas. The end result is that you've spent way more money resuscitating the industry than you ever would have spent if you put the money on the table in the first place to keep the original companies alive and healthy. That's why I'm here—because we are the ones who will suffer.

The other part that we need is to have good suppliers, but what's happening is that our good suppliers are running out of cash. We were practically shut down in North America from mid-December until the end of January because of a lack of sales and therefore inventory adjustment. Our payday is the second day of the month, so for January production, we were paid Monday of this week. That was an awfully slim paycheque for most suppliers, because there was no production in January. We were paid everything that we were supposed to be paid—almost nothing. Come April 2, we're going to be paid for February, and February was a very low month, so again there will be a very slim paycheque in April, which means that now things have gotten very poor. So now we have suppliers in the same position as our assemblers: they're simply out of money because they've had no cashflow. So if they have no cashflow, they have to close their doors.

● (2100)

An example is Bauer Industries in Kitchener. It has been around since 1886. It had up to 300 employees a few years ago, and then it went down to 30. Now it has closed its doors. I know those people. They are good operators. They just couldn't survive this lack of production.

We have lots more examples of those. I'd able to pull them out from all over. You people from the communities of Guelph and Kitchener, you can see them too. They're in the record; they're just there, unfortunately. A lot of smaller guys are going under because they don't have the wherewithal to continue.

We can say to the bank, well, maybe we could use our receivables. But the bank won't take the receivables as collateral. They don't trust it. They don't know if it's going to go on. So we need receivables insurance. Then at least we could take those receivables to the bank. That could come from government, EDC and BDC. We would very much like them to have the ability to put receivables insurance in place.

Then we have the good suppliers. Our latest production figures list 9.5 million units for 2009. It's usually around 16 million. Next year it may be 10.5 million to 11 million. So this is a very low ebb in the stream. Most companies could never have predicted it would get that low.

We have to get through 2009. We need some patient capital to get good companies through 2009 and the beginning of 2010. Without that patient capital, even for companies that do survive, when things start to pick up they won't have enough money left to buy raw materials and pay their people in order to take advantage of the increased production. We need some patient capital for that. Again, we believe the money is available through the government program of EDC, the Canada Account, administered by BDC. Out of that will come the ability for viable companies to survive.

In terms of giving companies money, we've always said to simply look at that exactly as you've looked at the assemblers. The simple question is this: can the company emerge from the current market crisis as a viable, sustainable company and repay the Canadian taxpayers the funds lent to it? If it can do that on the longer term, then it deserves to be considered for a patient capital loan. If in the longer term it doesn't have the business plan to do that, we cannot ourselves support government funding to that company.

But we believe there is a position to do that. We also believe EDC and BDC have the capacity, the financial wherewithal, and the ability to analyze companies to be able to make that decision on behalf of government. Certainly they have been in the auto industry for a long time. EDC currently has a couple of billion dollars in outstandings, so they are experienced lenders in this industry and are the perfect vehicle. We certainly would not want to see a new agency set up. By the time it got set up to lend money, no suppliers would be left to lend the money to.

So that is what we really are looking for. We need to be able to re-emerge.

The other thing is to take a look at the industry as a whole. I have to say that people in North America are not changing their transportation habits. They will continue to buy and use personal transportation. There will be many changes in how that transportation is powered, but there will be very few changes in the actual vehicle. Right now 90% of the vehicle is still the same, and it will continue to be the same for many, many years.

The motor power might change in some cases, but even that will be only fractionally changed. After all, a hybrid car is a smaller gasoline engine with an electric motor. It is not a brand new form of transport. Even if we get into doing more advanced electric cars, everything is the same except for the fact that they have a very large battery, or maybe a fuel cell to power the battery. It still has windows and doors and headlights; it still has a steering wheel, air bags, and all the other things that parts suppliers make.

We want the Canadian parts suppliers around to be able to make all those for us.

Thank you very much.

● (2105)

**The Chair:** Thank you, Mr. Fedchun.

We will now go to questions and comments by members of the committee.

We'll begin with you, Mr. Valeriote.

**Mr. Francis Valeriote:** I thank each of you for coming this evening on such short notice.

My first question is for Mr. Fedchun, and it's with respect to suppliers.

We have approximately 37 auto parts suppliers in Guelph, for close to 9,000 or 10,000 jobs. I know that I and others around this table who come from auto parts communities are really concerned about the loss of those jobs.

We've heard from General Motors that the money loaned to them would indeed trickle down to the auto parts suppliers. They gave us those assurances. Do you see any need for any oversight at all of the auto sector, the D3 in Canada, to assure that the money does trickle down to the suppliers? Or is that a concern at all?

**Mr. Gerald Fedchun:** It certainly has not been a concern. I have to say that we have been paid on time all the way through the financial crisis. Every second of the month, everyone has got the cheque they were supposed to get. We have no complaints. If they have the funds, they certainly have been paying.

The reality is that our customers have a vested interest in making sure the suppliers are paid regularly, because they know we're not in really good shape financially. They don't want to lose suppliers. When a supplier goes down, it's very expensive for the customer to replace that supplier, and they're very aware of that. Our tier one companies are also very concerned. Our best tier one companies don't need any money, but they are actively working with us on this because they're worried about their suppliers.

There are about four tiers in the industry. It's very important that all of them have enough cash to stay healthy. So far we have not seen a need for any kind of assurances. They've kept up to their commercial terms as they stated they would.

**Mr. Francis Valeriote:** I talked to the larger suppliers like Linamar, and they have diversified what they produce to the extent that they're satisfied they will survive. I'm grateful for that; they're a good company and they employ a lot of people. But there are a lot of smaller suppliers that may not be able to withstand the pressure.

Can you talk to us about the percentage of companies that would likely collapse if there were a collapse with the industry versus those that are likely to survive?

**Mr. Gerald Fedchun:** I don't have a number now, but this week I've been working with Industry Canada to see if we can put a survey together to come up with some numbers for government. Because we have hundreds of members and hundreds of suppliers, it's very difficult to come up with a number. Usually the smaller the company the greater the liquidity problem. A lot of smaller companies have very small capital bases. Their owners have put money in and have run out of money themselves to put in. They also have more difficulty getting bank financing. So the smaller the company, the more difficult it is. They are the ones that are running at the end of the line. If we don't get money to them right away, I can certainly foresee 20% to 30% not being able to survive through the summer.

My friend Mr. Atul Bali is a small supplier and would be quite helpful.

● (2110)

**Mr. Atul Bali (Member, Automotive Parts Manufacturers' Association):** Thank you very much, Mr. Chairman. *Bonjour tout le monde*.

I represent a company called Maxtech. It's an automotive parts manufacturer...[*Inaudible—Editor*]...over the last 31 years in the country. We have interests in Ontario and Quebec.

I want to make three fundamental points, if I may, to this august committee. Thank you very much for this opportunity.

The first is that there are two major acquisitions one makes in life, as you all know—a home and a car. When you build a home, the wealth typically remains within the community. That is commonly understood, it's logical. When you buy a car that is not made in the country or you buy parts for a car that are not made in the country, a lot of money is being thrown out of the country. It is very important, therefore, that this industry be protected, because otherwise a lot of wealth will leave our Canadian shores.

The second point I want to make is please appreciate, as Gerry was pointing out, that the real innovation and value-added in our country lies with the parts manufacturers more than with the assemblers of cars. It is a very important point.

In a technology park in Quebec, there is a company that pioneered the stainless steel exhaust systems used in cars worldwide today. In a small town, Waterloo, Ontario, is a company that pioneered a yearly saving of $50 million in the exhaust systems for leakage of greenhouse gases, which are used in cars today. Our country, through the University of Waterloo and the University of Laval in Quebec, has really pioneered innovation in the automotive sector. So protecting the parts suppliers who are innovative and have demonstrated innovation comes from two areas: their SR and ED credits, and the number of utility patents they have to their credit. These are vitally important.

The third and last point I'd like to make to the point you just made, sir, is the following. Yes, Linamar has diversified. Linamar can afford to diversify. We know them very well; they're our neighbours. The more important point is, can these smaller tier two suppliers manage to diversify? Do they have the engineering beachhead? They sure want to diversify, but there are two things holding them back. One is having engineering services provided. They don't have a beachhead left anymore, with the erosion of equity in these companies. The second is market access for new products that will be marketed with diversification.

We were very honoured that Minister Clement gave us time during a breakfast meeting. We showed the Honourable Minister Clement, the Honourable Minister Flaherty, Alison Tait, and Deputy Minister Louis Lévesque in the Department of International Trade a very interesting innovation that we've created for the APMA. It's called the facility of redeploying assets to fundamentally reduce the dependence on one sector.

If you consider February, ladies and gentlemen, you will see that North America produced fewer than 700,000 cars. China produced nearly 800,000 cars. The installed capacity, as Gerry points out, is 16.5 million cars. You have 9 million cars chasing 16 million capacity, so the critical mass doesn't exist to sustain the parts manufacturers anymore.

I'd just like to say that there are three very practical suggestions we've made. There is a $5 million pilot that we want to get funded. It will help the smaller companies, the innovative companies, to remain alive by redeploying their assets. It's called FRAES, the facility to redeploy assets, engineering, and market service. We request that you look at the number of utility patents that the automotive parts manufacturers have and give dollars, holding patents as security—it could be about $250,000 per patent—as bridge capital or patient capital to take care of the 2009 and 2010 distressed times.

The last point we'd like to make is to think about how to consider the whole idea of using patient capital if a company is viable. And BDC, which is our own national bank, actually has made a template available, through working with the APMA, that understands the viability and the feasibility of parts manufacturers. If they declare a company to be viable based on their diversification plans for reducing dependence on the automotive sector, give them bridge capital of $1 million for every $10 million of sales, for example, as patient capital to overcome their immediate tooling needs, etc.

● (2115)

These would be our three suggestions.

Thank you.

**The Chair:** Thank you very much for those suggestions, Mr. Bali.

*Monsieur Vincent, vous avez la parole.*

[*Translation*]

**Mr. Robert Vincent:** Thank you, Mr. Chair.

Thank you for coming here at this late hour. I too believe that it is important for you to be here.

Mr. Fedchun, I'm listening to you speak and I'm trying to understand how best we can help you, because the $2.7 billion that the federal government is freeing up for the auto sector will certainly impact the auto parts industry, when auto sales recover. However, what kind of support do you need right now? Earlier, Mr. Bali put forward three arguments and referred to a pilot project. What would be the best way to help your sector? Do you have any recommendations for me?

[*English*]

**Mr. Gerald Fedchun:** I think the first thing to do is to pass the budget, because in the budget there is increased funding for EDC and for the Canada Account. We look to EDC and the government to use the Canada Account to be able to fund directly the parts suppliers who need money, those that are thinly capitalized now and don't at the moment meet the current financial criteria as they have done in the past. We certainly have had companies go to EDC and ask for $15 million, for example, but because their financial situation had deteriorated, they could only get $5 million under the normal financing. So we would need to look to the Canada Account for the other $10 million.

The other part of this is that EDC and BDC have had what I think is called their contingent liability section increased, and that's where accounts receivable insurance is a contingent liability. So with that, again, we would need the contingent liability insurance from EDC employed in the parts sector.

If those two things could be done, they would allow the industry to get through 2009 and be able to react and increase production when things get better—which we expect to happen in about a year's time.

**Mr. Atul Bali:** But, sir, money needs to flow very quickly, and that's the reason for our idea of using patents as collateral, or of looking at BDC's feasibility template that we've developed together. There needs to be an immediacy, a sense of tremendous urgency. Last week in Kitchener-Waterloo-Cambridge alone 600 people lost their jobs, and this is recurring every hour of every day as we speak.

So you need to have the budget passed, of course, as Gerry pointed out. And we need to have something simple to monitor; we need to have a program that is not cumbersome, for which is easy to look at performance metrics. And you must create this patient capital to protect Canadian innovation.

In Mississauga, a company with 400 people has decided, because it's a foreign-owned company, to close powder metal plant. That company uses home-grown Canadian technology to create gears out of our metallurgy, for example. They gave the world the first ever cost-saving gear, saving General Motors $82 billion in one year, in transmission technology.

So the point is that you cannot afford this. If any technology is leaving Canadian shores, you must step up quickly on a case-by-case basis and get BDC involved—if it's viable—and get the competitors among the APMA membership in Canada to carry on with that technology.

So using patents, using the viability report, and giving patient capital of maybe $1 million for every $10 million in sales, and getting this redeployment of assets created are three immediate priorities. They are easy to monitor, simple to implement, and there's not too much money involved, at the same time.

So we really request that you understand this. I'm from the trenches and have no prepared speech here. We honestly are struggling every single day in this country.

● (2120)

[*Translation*]

**Mr. Robert Vincent:** Earlier, you mentioned a $5 million pilot project. Exactly what pilot project would that be?

[*English*]

**Mr. Atul Bali:** The pilot project, sir, has been created by the University of Waterloo, Conestoga College, and five automotive parts manufacturing members. We are one of them. We've spearheaded this. For example, golf carts are not made in our country. Did you know that? Golf carts are used by you—I'm sure by us as well—every single summer, but not one golf cart is made in our country. Why not? There's a Bauer automotive plant right where we are, and it's going to close down. The same stamping presses could make golf cart side cars, for example. You have to redeploy your assets to products that were not thought of before.

This pilot project is to show people how an automotive company in Guelph or in Cambridge...for example, the stamping houses.You need stamping for trusses in warehouses. Why don't they make those?

We've shown Minister Clement a complete presentation of how we can create 120,000 jobs in Canada by December 2010. This pilot concerns 1,000 jobs just in this area of Brampton, Mississauga, Cambridge, Waterloo, and Kitchener. So we need to show the government that the pilot works.

Alison Tait from Industry Canada, surface transportation, spent an hour with me this morning to walk through this pilot. They're all very excited. Minister Flaherty wants to put up money for it. The issue is that we need to implement it; we can't just talk about it.

The next phase of that, then, encompasses every municipality in this country, so the pilot can mushroom itself, with the fundamentals being created for training, for sales training, market research for new products, and redeploying of assets.

The way it works, very simply, sir, is this way. I have plastic injection moulding equipment making plastic bumpers for cars. My plant is 30% occupied today. I now look at rain barrels instead, for rain water collection. The exact same equipment is needed. In our industry, $1 million in capital investment creates $2 million in sales, which creates 10 jobs. In this example of redeploying assets, no capital investment is required and $100,000 for new tooling will create the same 10 jobs. So you've tenfolded the use of the taxpayers' dollars.

This is the idea of redeploying assets with the University of Waterloo's engineering service.

**The Chair:** Thank you, Mr. Bali.

Mr. Lake.

**Mr. Mike Lake:** Thank you very much, particularly for coming here on such short notice. I think for both of your groups it was incredibly short notice that we had you come, and you both had good statements prepared.

It sounds like Mr. Bali doesn't need a statement prepared. I definitely have to meet with you at some point following this, because you sound like you have a lot of knowledge that would be interesting to hear.

I want to touch actually first with the APMA, if I could, on a couple of things that I heard. I want to first clarify, you had two asks that you mentioned, but there was a lot around them. I just want to see if I can distill them down.

I wrote, number one, that you want to ensure that your customers can pay you. I think that was how number one kind of shakes down. Number two was on the receivable insurance side of things.

It seems to me that the first question I have would address some concerns that some of my constituents might have. We do, I'm sure on all sides of the table, get letters and phone calls from constituents who ask why are we “bailing out” the auto industry. Let them compete on their own, let them go bankrupt, or whatever the case might be. That's my constituents talking, not me. I just want to clarify the difference.... If you were speaking to one of those constituents, maybe clarify the difference between bankruptcy versus loan, in terms of what we're doing for the auto industry right now and the importance of those big companies not going bankrupt.

**Mr. Gerald Fedchun:** I think part of what I said is that the reality is, because the industry is so integrated, each one of our suppliers—certainly all of our major suppliers—supplies all of the major assemblers. One example that I wasn't able to hand out supplies everyone in North America. So if one of our major customers goes under, the chance of a couple of those major suppliers going under, and then the smaller suppliers, is pretty well inevitable. Then the whole industry comes to a grinding halt. Toyota, Honda, everybody stops production as they lose suppliers. It only takes four bolts in the car; if there's no bolt on the steering wheel, you can't sell the car. The other 39,999 parts are okay, but without the 40,000th part, no vehicle.

So if you don't help now, the cost of rehabilitating the North American industry will be absolutely horrendous. There was a University of Michigan study that indicated it was in excess of $100 million. So it's cheaper to fix it now. It's like a stitch in time saves nine. Government would be much better off in terms of making the industry viable now than trying to fix it after it collapses.

• (2125)

**Mr. Mike Lake:** In terms of the second part of the equation, you talked about receivable insurance, and most of you have talked about the secured credit facility and the importance of that $12 billion, getting that budget passed. Maybe you could elaborate on the importance, because right now we have a budget implementation bill that did finally pass through the House today with the support of the two larger parties. Now it has to go on to the Senate, and sometimes we've seen things slow down when they hit the Senate.

How important is it that this budget gets passed as soon as possible and that credit starts to flow?

**Mr. Gerald Fedchun:** For our industry it's absolutely essential. Without that money, we're going to have suppliers dropping like flies. There will be blood all over the floor. We need the money in the next couple of months, really. That is serious. I'm not trying to joke about this. I have lots of smaller suppliers who are at their wits end and out of money. They can't go to their bank because without the insurance the bank won't lend to them. With the insurance, the other bankers are saying their balance sheets are too weak. We do need some patient capital, because it's been for more than a year that things have been slowing down for the parts suppliers. They really are out of money, and yet in normal times they are good suppliers and they are viable businesses.

We haven't seen volumes like this in forty years, not since I was a kid. I've been in this business since 1964, and 1965-66 with the volumes we've seen.... We have the same volume as we had in 1981, and in 1981 there were 25% fewer drivers in North America than there are now. It's dire, but it's temporary. All this stimulus package, this $1.5 trillion that the west has thrown into this, will take effect and we will come out of this, but we have to get through this year.

**Mr. Mike Lake:** Mr. Gauthier, do you want to comment on the credit again?

**Mr. Richard Gauthier:** Yes, thank you very much for your question.

I certainly echo what my colleague is saying. I have been in this business for almost forty years as well, and the single biggest issue for our dealers right now is the ability to access capital to floor plan their product. Those are the vehicles that you see on the lot when you drive by your local dealership, and they need to obtain the necessary working capital to be able to run their businesses.

Our dealers right now are caught between a rock and a hard place. This has never occurred before, but what we have is a situation where the dealers right now have absolutely nowhere to go. The captive finance companies, which are the manufacturer-affiliated finance companies, are unable to access the capital markets that they would traditionally access in order to be able to fund their own operations. Therefore they literally do not have the capital to lend to their customers, their customers being the car dealers, and this does not apply solely to the Detroit three. The Toyota credits of the world, the Honda finance of the world, are feeling the credit crunch that we are experiencing worldwide right now. What we're seeing now is that our dealers are unable to obtain the kinds of capital they need to carry their inventories.

The average dealer in Canada carries a debt load of about $7.5 million at any given time. It's not unusual for a dealer to have, in new cars alone, anywhere between $5 million to $10 million in inventory, and those are typically financed through the manufacturer-affiliated finance companies or typically the banks. But what we're seeing now is that the finance companies don't have the capital. They're imposing terms on dealers that they cannot live with. They're pushing the dealers away, and the dealers are going to the banks, and the banks are literally saying—and I have met with senior bankers who have told me this—we are not open for business. They're saying, when it comes to car dealers, we're not open for business, end of conversation.

This is not limited to Detroit three dealers. This is any dealer right now. If you're related to the auto industry the banks don't want to deal with you, and if you're a Detroit three dealer you really don't have a place to go. These are dire times for us. We expect that we are going to see dealers start to close in rapid succession if we don't address this very quickly, and this $12 billion fund is a welcome solution to this. We urge government to move this through the House—where in fact it has been passed—and now through the Senate quickly.

• (2130)

**The Chair:** Thank you, Mr. Gauthier.

Mr. Masse.

**Mr. Brian Masse:** Thank you, Mr. Chair.

I know quick access to capital is important. I wonder if I might ask a question to the researcher. In terms of Industry Canada, how much money wasn't spent in the last allocated budget in different departments? The minister himself has actually said, previous to the budget passing, that there was money available for the auto manufacturers immediately from the past budget. He said that very explicitly, publicly, a number of times before the budget was actually even brought forth.

So why we would have to wait for the Senate is one thing I would like to inquire about. And also regarding other departments, I know there has been some discussion in public about a number of different programs that haven't fulfilled their full mandates of the money that was allocated in a previous budget.

To Mr. Bali and Mr. Fedchun to start, with regard to the credit issue, do you feel confident with the EDC and the BDC? We've seen this coming down the road; in Ontario there have been 300,000 manufacturing jobs lost in five years. This latest chapter really heightened things even further, but we were going down that road; there's no doubt about it.

We would run into problems. For example, one plant in Essex County, a tier two supplier, had wages of $13 an hour, modest benefits, and they brought in robotics. They were selling parts for the Ford Escort, and it was selling well. But they were going to go bankrupt and had to turn away business because they couldn't get a bank loan at the proper rate. The bank increased its rates in a series of percentage points and actually took up the profit margin entirely. They went to the BDC, and the BDC said, “You know what? We'll give you the money. We'll back up the bank loan.” But they couldn't get the bank loan.

Do you feel confident that this problem can be solved? There has to be some accountability there. Once again, they were making a profit, a modest one, had modest wages—those wages are comparable to the United States and other jurisdictions—and robotics, and were very much a responsible company, and once again the bank profit level was taking up their entire business profit zone.

**Mr. Gerald Fedchun:** Well, under normal circumstances for BDC and EDC—because they do run their own accounts on commercial terms, so that goes on their financial statements—they can't normally take on weaker companies. The only way this can work is if the money comes from the Canada Account, and those are the funds that are for the account of the Canadian government; they do not go on the books of EDC. EDC basically is a manager of money for the government. They lent the Davie shipyards in Quebec City $382 million, I think, through the Canada Account. That usually would not qualify for regular EDC funding because it was, frankly, a higher-risk investment.

There's no doubt right now that the supply industry is a higher-risk industry, because we've been bled of cash, but just like the Davie shipyards, it's an industry that will recover and will be very viable and very profitable in the longer term. It only works if you take the money from the Canada Account, because we will not meet the normal credit terms they need to impose.

EDC and BDC have been very good. They certainly have been up front—the lender that has been there when all the others are hiding under the table. Still, there is a limit to what they can do under their legislation, and only by using Canada Account money or some kind of similar funding—because BDC got some higher-risk funding in the budget as well—can this work.

**Mr. Atul Bali:** We had made a two-part recommendation to this effect. As you rightly pointed out, the erosion in terms of balance sheets is not looking very good. It started about three or four years ago with the dollar depreciation first and the price of steel and so on. Today's debt-equity ratios look pretty miserable for most parts manufacturers. A normal bank, so to speak, wouldn't even touch an automotive parts company, as our friends here are talking about.

Our recommendation is twofold.

Some foreign non-banking financial institutions came into our country about three or four years ago and lent a fair amount of money against capital equipment as collateral. Today those same institutions, being U.S. based essentially, are withdrawing from Canada. The other peril for the parts manufacturers who have borrowed against such institutions is that they are now working more for the bank than for their own businesses. A tremendous amount of government pressure is being exerted with one strategic objective in mind: they want to withdraw, make life miserable for us, call in their loan, and get out of this place because the U.S. is demanding that from them.

Our first recommendation is this. In EDC one of their products, as you know, is the loan guarantee system. Whenever EDC steps up to the plate and gives a loan guarantee, our suggestion to the minister is to ask EDC to take over that loan for a limited period of time, until such time as things normalize, then again bring in the regular banking channels. Let the instrument of public policy be mandated to take over the loans they have guaranteed in order to at least let these parts manufacturers have some liquidity access in these critical times.

The second aspect of this issue is an interesting one. For maybe two years you need to change the mandate of an instrument of public policy like BDC. They've been registered in our country as a bank, but they do not have to report the returns of a bank for giving patient capital. That is a very important second suggestion we have made.

The first one is going to be limited to certain parts manufacturers, but very critical ones, of course, where EDC is the loan guarantor, if you will. The second one, even more importantly, is to get BDC into the act. If a company is viable, go ahead, give it patient capital, but don't seek the same level of returns for the next two years. If the Canada Account is the vehicle to use for that, so be it, but that is an important suggestion to try to help the industry at this point.

● (2135)

**Mr. Brian Masse:** Do I have more time?

**The Chair:** You can have a very short question.

**Mr. Brian Masse:** You feel confident that if that were applied, it would bridge things long enough if we started to get the production back up again.

**Mr. Atul Bali:** Absolutely.

**Mr. Brian Masse:** It's very important. I've been talking about the extra borrowing costs and all of that being a drag on productivity because the management of the money cycle flow is so inefficient from when a vehicle is produced to how it's financed in the market. I've been using the example of some of the car loans out there. For crying out loud, in many instances the banks are making more on a car because of their interest rates than everybody else in the whole system. It's just not acceptable. There's no production value there. There's nothing value-added.

You mentioned the value-added from your industry. People don't realize, when you talk about the parts supply and the tool and die and mould making, that we have some of the best in the world, but we can't compete anymore because the systems in place are systemic for financial management.

People keep talking about going high tech. We are high tech. We have the best people in the world. At the same time, not only because of the financial management issues but also through some trade issues, which I won't delve into, Mr. Chair, we're putting ourselves at a loss.

**The Chair:** Thank you, Mr. Masse.

Mr. Masse, the analyst has indicated she doesn't know the answers to your questions, but she will look into it and let you know at the next meeting.

**Mr. Brian Masse:** Thank you, Mr. Chair.

**The Chair:** Mr. Valeriote.

**Mr. Francis Valeriote:** Mr. Bali, you referred to three ideas. I'd ask if you could put those in writing and submit them to all of us following the meeting. I know we're all interested in them. Could you do that?

**Mr. Atul Bali:** Yes.

**Mr. Francis Valeriote:** You also indicated you had a meeting with Minister Clement and had discussions. When was that meeting?

**Mr. Atul Bali:** The day after the budget was announced in Parliament, which is about a month ago now. We had a breakfast meeting at the hotel he was staying in.

**Mr. Francis Valeriote:** What was his response when you submitted those ideas?

**Mr. Atul Bali:** In fact, we met him again last Friday in Toronto at a fundraising dinner. He did indicate to us at that time that he had spoken to Eric Siegel, the CEO and president of EDC, and he had spoken to Jean-René Halde, the CEO of BDC, and talked about both the points we just talked about: the need for patient capital from BDC; and two, EDC stepping up to the plate to support the automotive parts manufacturers. He was also very positive on FRAES, our redeployment of assets, and said to let Alison Tait spearhead this at Industry Canada, as he'd like to see this happen.

● (2140)

**Mr. Francis Valeriote:** There's disagreement, I know, between the Conservatives and the Liberals. The Conservatives believe that the $12 billion secured credit facility would help dealers, because purchasers would have access to credit to buy cars.

It's their belief that it would take the budget to be passed in order to deploy that. It's our belief that it needn't and that it could have been deployed two months ago when it was announced, by way of an order in council. I'd ask the chair if we could seek the opinion of some higher authority on that eventually.

I'm curious, though. Do you feel that our Government of Canada has moved quickly enough to deal with the problems in the auto industry, given that two years have gone by? We know that we started losing jobs two years ago. It didn't happen just two to three months ago when this recession hit. Can you give your opinion on that, Mr. Bali?

**Mr. Atul Bali:** We, the automotive parts manufacturers, believe that the government has not moved very fast. It has not moved fast enough. On one given street called Weber Street in Waterloo, among eight who are on that street, we employ 1,300 people. On that same street last month, we had to lay off 650 people, so clearly the government needs to move much faster.

I think the intent is very good and very noble, but we do definitely need to have a way in which the programs that are put into place and the instruments of public policy are directed to undertake these programs expeditiously.

**Mr. Francis Valeriote:** Could I ask one more question, Mr. Chair?

Mr. Gauthier, this relates to the repair issue that you brought up. I'm sorry, but I'm going to read this. It was a question I had prepared and I just had them send it back to me. I didn't think I'd have this opportunity.

In the United States, manufacturers have collaborated with aftermarket repair stakeholders to create the National Automotive Service Task Force, which facilitates the flow of relevant servicing information to those who need it and even includes an inquiry system to deal with complaints. In 2004, of the 500 million non-warranty service events, there were only 48 inquiries.

I'm just wondering if you're familiar with that project in the United States. Might that be a reasonable solution to this issue of repair that's embraced by Mr. Masse's bill?

**Mr. Richard Gauthier:** Thank you for the question and the opportunity to respond.

I believe the statistics you're quoting were taken from our own submission with regard to that matter. Yes, we are familiar with that program. We are also familiar with the statistics that you've quoted.

In that vein, we certainly believe that a voluntary solution is the way to approach this. I believe the previous witnesses from General Motors alluded to that as well. We certainly would support a voluntary approach to this. We certainly don't think there is a need for a legislated approach.

The bottom line is that we get absolutely zero phone calls from consumers complaining that they are having difficulty in accessing servicing for their vehicles, either outside or inside, within warranty. As we've stated in our own document, the right to repair issue is really a solution in search of a problem. We believe that a voluntary approach is the way to go on that. We would certainly be willing to cooperate with all parties in order to be able to arrive at that kind of solution.

**The Chair:** Thank you, Mr. Gauthier.

Mr. Young.

**Mr. Terence Young:** Thank you.

I'd first like to say, Mr. Gauthier, that I thank you for recognizing the late hours, because I know that the folks who build the Fords in my town work 10-hour shifts. When I was in the car business way back in the seventies, we worked until 10 o'clock at night. It seems that every time I have anything to do with the auto industry, it's 9:30 or 10 o'clock at night and we're still working.

**Mr. Richard Gauthier:** I'm sure that as a former automotive worker you're certainly used to these hours.

**Mr. Terence Young:** That's exactly right.

I met with one of the auto dealers in Oakville recently who had the exact problem you're talking about. This was a winning automobile dealer, right on the business plan, whose sales, by the way, were right where they should have been until November. Like the Canadian automotive industry, until November, sales were right where they should have been. They started to fall in December.

It was December when it became quite evident that there was a problem. He had a $7 million loan guarantee to build a brand new dealership. He was on his business plan. He had $1 million cash. The bank came back to him and said, “Okay, we'll still give you the deal, but we want a point and a half higher”, which is understandable. But then they said, “Oh, by the way, we want another half a million dollars cash.” So he basically had to go home and tell his wife that he had to put a mortgage endorsement on their house to build this dealership.

The real problem is that it got worse for him, because he then went to the other banks and they said they wouldn't be doing business with anyone who didn't have a prior business relationship with them. It's effectively a monopoly.

So we've introduced this $12 billion credit facility, and it's my impression from what you said tonight that it's absolutely critical to get it up and operating as soon as possible. Is that correct?

● (2145)

**Mr. Richard Gauthier:** Absolutely. And I have to say, without any hesitation or sense of exaggeration, that we are hearing stories like the one you quoted, sir, every single day. Long-standing bank customers who have been with one particular bank for 20 or 25 years all of a sudden are finding themselves having conditions imposed that seem to come out of nowhere.

We have a situation in Canada where the prime rate is going down—almost daily now—and yet the banks, when it comes to the automotive industry, are increasing rates. Their cost of funds is going down, and yet they're increasing rates at the rate of 3% or 4%. I've seen 5% for a group of dealerships out in western Canada.

So we are running into that every day. I support what you said.

**Mr. Terence Young:** Thank you.

To Mr. Fedchun, I had a visit from a gentleman who lives in my riding of Oakville but who operates parts manufacturing in Brantford. They make manifolds for mufflers that go to plants in Mexico and the United States. These are put on engines in plants in the States; come back up to Oshawa, where they're put on Chevrolet Malibus; and then they are shipped back to the States. It's a real, true-life example of how integrated your industry is.

I'm trying to understand, though, what patient capital is and why it isn't happening. Maybe you can explain that to me.

**Mr. Gerald Fedchun:** Patient capital is simply capital that looks at this as a longer-term relationship. Right now the regular financial institutions are looking at your sales over the next six months, at whether they're inadequate. And they are inadequate; we're down 40% in production from what we normally are.

Capital has to look through the haze of this next year and ask, what is the viability of this company in mid-2010 and 2011, when we get back to more normal production volumes of 12 million and 13 million? You have to remember that we averaged 16 million units of production in North America for the last 10 years. Then the bottom dropped out to 10.5 million. Now it's looking as though we're going to hit 9.5 million units. You have to look to that and say, what does this company look like, even at $11.5 million or $12.5 million? Right now banks don't do that.

**Mr. Terence Young:** Thank you.

Mr. Bali, could you please give me the acronym that you use for your plan?

**Mr. Atul Bali:** It's FRAES, which stands for facilitating redeployment of assets, engineering, and market service.

**Mr. Terence Young:** I just want to make the comment that I think it sounds brilliant. I'm going to follow up with the minister as well.

**Mr. Atul Bali:** Thank you very much, sir.

As well, I'd like to help with the definition of patient capital. The way BDC defined it for us is that it's looking at a company's two-year cashflow projections, looking at not even taking interest perhaps, let alone principal, for the first six months of this two-year horizon. Then it's taking only the interest over the next six months—i.e., month seven to month 12—and then the back-load interest and principal from month 13 to month 24.

That's the patience part of the capital. The other part of it, of course, is that if you look at LIBOR rates today, you'll see LIBOR plus 2%, perhaps, or LIBOR plus 3%, not LIBOR plus 7%, which the banks would typically offer.

**The Chair:** Thank you, Mr. Bali.

Monsieur Vincent.

[*Translation*]

**Mr. Robert Vincent:** Thank you, Mr. Chair.

Mr. Gauthier, you stated earlier that credit was very tight and that automobile dealers were being charged an additional one per cent.

How can we help you to better weather this financial storm? Is there a direct link between auto repairs and auto sales reported by the same dealership? If sales are down, is it possible for the number of repairs done to remain steady, or do the figures drop in the case of new and used vehicles?

**Mr. Richard Gauthier:** Thank you for your question. I'm happy to be able to answer it.

First of all, the best way to help our dealers would be to approve the $12 billion package as quickly as possible. We believe that these funds will help the financing arms of the auto companies to have more cash at their disposal. Then, our dealers will not have to rely so much on banks, which are not interested right now in lending them money.

We realize that given the current economic conditions, it is impossible to completely eliminate the need to do business with banks. However, if dealers can at least have a chance to finance their operations by doing business with the financial arm of the parent company, for instance, with GMAC, Toyota Financial Services or Ford Credit, then they would not need to deal with banks so much. Besides which, these banks do not want to do business with the auto dealers at this point in time.

We're recommending that the Senate approve this $12 billion bailout package as quickly as possible. We feel that this would greatly ease the pressure on our sector.

Elsewhere...

● (2150)

**Mr. Robert Vincent:** Are there any risks involved? We're talking about the taxpayers' money, about $12 billion that comes from the money Canadians pay each year in taxes.

How do you plan to reassure taxpayers? How to you intend to convince them that you will weather this economic crisis in an honourable way, without squandering their tax dollars? Some dealerships may not be so successful. How can we regulate this situation?

**Mr. Richard Gauthier:** That's a good question.

First, let me clarify one thing, Mr. Chair. The $12 billion is neither a loan, nor money from taxpayers. Basically, we recommended that the Business Development Bank of Canada buy back the financing contracts and leases of these financial companies. Normally, these companies would sell these contracts and leases on the open market in exchange for liquidities. The Business Development Bank of Canada would buy back these leases as securities and would then have the receivables associated with these financial documents. In essence, the taxpayer would benefit as a result of this transaction.

We're not taking taxpayer dollars and giving them it directly to this sector. This is not a loan. We are buying back an asset from Toyota Financial Services or from GMAC, which cannot currently sell these securities on the open market. Normally, they would turn to life insurance companies, to pension fund companies that would buy these securities in exchange for liquidities. SInce there are no such buyers, whether life insurance companies or pension funds, in the current market, the government has agreed to step in for these companies temporarily. This is a temporary situation, since the average length of these contracts and leases is about 33 months. We are confident that over the next two to three years, the market and the economy will recover to the point where the government can let market conditions play out and our companies can again experience the capitalization level they have enjoyed in the past.

Therefore, this is neither a loan nor money that comes from taxpayers. We are purchasing an asset, whether a financial contract or a lease, and in the process, reintroducing liquidities into the system.

**The Chair:** Thank you, Mr. Gauthier.

You have the floor, Mr. Lake.

[*English*]

**Mr. Mike Lake:** This is an interesting meeting for me—the two meetings back to back. The average Canadian looking at this situation, when hearing from the manufacturers and the dealers, would assume that the challenge is identical or very much related, and they are related to an extent. But if I'm hearing correctly, what the manufacturers face is as a direct impact of what's happening in the U.S. and the global market, in the sense that Americans stopped buying cars made in Canada. This had a direct impact on the business and on the parts business as well, whereas CADA and the dealers are dealing with the Canadian situation—with an indirect situation wherein Canadians who have jobs or had jobs have faced economic hardship because of what happened in the U.S. situation. When those Americans stopped buying Canadian goods, Canadian employees were affected and stopped buying cars from the dealerships here in Canada.

And there is an important distinction. We're helping the manufacturers with the loan program we're putting together and everything else, and of course that's going to have an impact on the parts manufacturers. But for the dealers, it's an entirely different situation. It's that credit situation. Canadians aren't buying cars because they can't get the credit to buy the cars—or because they've lost jobs and income and can't buy the cars, but the credit side of things has seen a significant impact.

I want to go to something Brian was saying, if I may. He used the phrase “best in the world”. He used it in a little different context, but one of the things that are important to note is that the Canadian banking system is the best in the world. We've had a lot of conversations and we hear different ideas on tinkering with the banking system—maybe doing some fairly significant tinkering with the banking system—but we have to remember that according to the World Economic Forum, our banking system is the number one, the most secure banking system in the world, whereas the American system was ranked number 40.

*The Economist* noted in an article from the fall that “in a sinking world, Canada is something of a cork. Its well-regulated banks are solid.... The big worry is the fear that an American recession will drag Canada down with it.” That is what *The Economist* noted in the fall. *Newsweek* , about a week ago, noted that “Canadian banks are well capitalized and poised to take advantage of opportunities that American and European banks cannot seize.” They went on to say, “If President Obama is looking for smart government, there is much he, and all of us, could learn from our quiet...neighbor to the north.”

I want to ask this question. We're dealing in the short term with the EDC, the secured credit financing, the loan to the manufacturers, and the impact that it's going to have. But in the long term, how important is that solid banking system at the core to the business you have, to the long-term success of the organizations you represent?

● (2155)

**Mr. Richard Gauthier:** First, let me say that your analysis of the situation is right on. You have all of the dynamics exactly where they belong. That is in fact the crisis we're facing at this point.

While there is a lot of press with regard to the strength and viability of our banking system in Canada lately, it's not a secret that the Canadian banking system, for the longest time, has been perceived as the most solid and financially stable banking system in the world. I think what we're seeing worldwide now has just reinforced that notion, and this is an opportunity for us to take some pride in that, obviously. However, the banks, in our view, also have a corporate responsibility during these very unusual, unprecedented economic times to come forward and help government and corporations and citizens work their way out of the downturn in the economy that we're living through right now.

This is an unprecedented situation. As I said, I have been through a number of recessions as a businessman. I have never seen anything quite like this. This is a time when our Canadian banks have been able to show what they are made of, but this is an opportunity for them to step up to the plate, as government is doing right now, and do their share in helping stimulate the economy and help us out of this. It is only with their help and their willingness to step forward that we will come out of this in a much shorter timeframe than other countries.

Banks are risk averse, and we're seeing that right now. I use as an example the government's initiative to buy $125 billion worth of mortgage commercial paper from them over the course of the last year, yet without our seeing that money trickle into the real economy. That's an example of where they need to be able to step up and say that if the government is going to take these mortgages off their balance sheets in exchange for cash, they then have an obligation to make that cash work for the economy.

● (2200)

**The Chair:** Thank you very much, Mr. Gauthier.

Mr. Masse.

**Mr. Brian Masse:** Thank you, Mr. Chair.

Mr. Gauthier, I appreciate the suggestion of a voluntary agreement. Unfortunately, that's really not up to dealers to decide; the problem is with the manufacturers, who won't provide that information because it's proprietary information. As you heard from General Motors, they also don't oppose it. It is important as well to note that in the United States it is legislation. The environmental protection act is part of the recipe in the agreement they have, and there is legislation working through the courts too.

Perhaps we can move to something we agree on, so that we can spend some productive time together and maybe agree to disagree on this issue later, at some other date.

You did mention a suggestion about what Germany is doing with respect to $4,000 per vehicle purchase, which sounds good on the surface. I agree that some of the incentive elements can be very important and popular. Unfortunately, this government's past practice with the ecoAUTO feebate program saw the Yaris, for example, receive a significant amount of cash from Canadians for a vehicle produced overseas. That really didn't help our economy here. It helped get the Yaris on the streets and it provided Toyota with a competitive advantage, but it hurt other Canadian manufacturers who also paid a tax and continue to do so on certain vehicles, because the tax element is still there. The industry estimates that around $40 million to $50 million a year was paid on the tax when the vehicle sales were at their normal level.

To get right to the heart of the question, if we could find a model that was sufficient in terms of an incentive to get there, there would be cynics who would say that's good for the dealers, because they would get the cash. You'd go and buy a new vehicle and then you'd have the servicing agreement that comes with it for the next number of years to get that vehicle on the road.

I agree with some of the environmental arguments you've made, though, and I don't necessarily think that's a bad idea.

What some people might be concerned about is how we guarantee that there isn't a gouging on the price, whereby it goes up because of the $4,000 available. I know that with the government's new home renovation program, whereby you get the money to fix your home, some contractors have already admitted they're going to raise their prices; they've done so right in front of the cameras. I worry about that aspect.

Second, how do we guarantee a low-interest loan similar in level to where interest rates are right now? We all understand that there could be a profit in borrowing; I think people are reasonable about that. With the banks, in terms of their credit card issues and their percentages on loans, we've heard here tonight how difficult it's been to even access credit during profitable times. How do we guarantee that consumers are going to get a low-interest loan for a car?

Yes, there's a win-win: we get new vehicles on the road that become servicing models for your dealerships and provide a credit stream coming in; the production of vehicles is maintained, and hopefully they'll be domestic vehicles. I think that's very important, because I certainly don't want to subsidize Toyota if they're not producing here in Canada. I don't need to subsidize Japan anymore.

Maybe you can respond to that. How do we make that model work really well, or what would you be willing to do to see that it's practically applied here, so that our people who are producing parts for those vehicles are going to have jobs; and as well, to maintain the value for the consumer, if the public's going to expend money to make this happen?

**Mr. Richard Gauthier:** It's a very good question. Clearly you are very focused on the whole issue of making sure consumers have access to competitive loans and that they don't get gouged. We are certainly huge proponents of that and we subscribe to it.

I would start by saying that no one can guarantee anything these days, so I certainly wouldn't want to be the one to make such a bold statement. However, I can say that the passage of the $12 billion Canadian secured credit facility would inject liquidity into the hands of the captive finance companies, such as GMAC and Toyota Credit, and they in the past have been the ones to make sure that consumers have access to more-than-competitive loans. We've seen the zero percent and the 1.9% financings. Why have they disappeared from the marketplace? Why has leasing disappeared from the marketplace? It's because they can't access capital to put those financing instruments out there.

I suggest to you, sir, that if these companies can become liquid again, you are going to see a very competitive environment, because right now there isn't one manufacturer who isn't looking for a way to outsell the other manufacturers. The consumer would be the one to benefit from that. As we mentioned earlier, vehicle prices are at their lowest in 25 years. Combine that factor with aggressive marketing plans and finance companies that are flush with cash or, certainly, that have access to capital, and I think there is a recipe that will benefit the consumer.

● (2205)

**The Chair:** Thank you, Mr. Gauthier.

Mr. Lake.

**Mr. Mike Lake:** I want to propose to our committee, when we're going past nine o'clock, that we invite Red Bull to be one of the witnesses for any meeting that goes past ten o'clock.

**Some hon. members:** Oh, oh!

**Mr. Mike Lake:** It looks as though I have some support on the other side.

I want to touch a little bit on the human element. We throw around numbers, and there are significant effects of what is happening globally upon people's jobs. One of the important untold stories, I think, of what's happening—and you may not have examples of this—is of organizations you represent that may be doing some extraordinary things or going to extraordinary lengths to try to bridge the gap for some of their employees; to make sure, maybe, that the layoffs are minimized, because they know there's light at the end of the tunnel, and recognizing the impact it has on their families.

Can you speak to that for a second?

**Mr. Gerald Fedchun:** I can tell you that I have a number of members who are on short work weeks. They're taking advantage of the...I forget what the federal program is, but you work four days, and then on the fifth day you're laid off. I know there are probably 20 or 30 companies that are on short work weeks doing that. Other companies have slowed down their line speed to accommodate the situation, so that instead of basically running 50 parts an hour, they run 40 parts an hour and keep that speed, to try to do something. They're doing everything they can—they're doing back-flips—to try to keep as many people as they can employed.

Other people are taking vacations. They're saying, take your vacation in the first half of the year, because I think things will pick up in the second half. So people are taking vacation now, when they don't really want to. But there's not enough money to pay everybody, so do it now. These are examples of different common ways. We haven't actually categorized it, but anecdotally it's going on all over.

Still, I can tell you that our industry peaked at about 106,000 people a couple of years ago. The high dollar started to thin the ranks, and we're down to the mid-80,000s. We're probably under 80,000 now, and it's going to get a little lower yet, but it will come back. The same thing happened in the last recession, when we shrank but did recover, because it is a cyclical industry. We who work in this industry all know this. This cycle is deeper and longer than we've experienced, and we need a little help getting out of it.

**Mr. Huw Williams (Director, Public Affairs, Canadian Automobile Dealers Association):** I'll add to that from the car dealers' perspective.

We employ 140,000 employees across the country and we have not experienced job losses yet. Speaking to your earlier analysis, last year we were tracking for one of the best years in automotive history, and right up until November it looked as if we could have had the best ever; then things fell off a cliff. November is when the signal really started to hit that the liquidity crisis was going to grind things to an absolute halt, and that's what we've seen. Dealers are proactively shifting resources around to their used car operations and their service operations, so we haven't had to go through those employment cuts. I think you're going to see dealers try to be as imaginative as they can be in those areas.

One of the tragic things you have to consider is how all of these things relate among the manufacturers, the parts makers, and the dealers. We had a dealer—I won't name him—in the Toronto area who had an order for over 100 vehicles. A customer was coming to him in December asking to do a lease transaction with them, as a fleet lease. They were unable to get financing from their bank to order those vehicles and get them into the hands of consumers, because the banks wouldn't provide the lease financing.

Those are 100 vehicles that the dealer couldn't bring into the showroom to put out on fleet leasing. They couldn't be ordered from the factories, which couldn't order the parts to make it happen. As you get this credit crisis happening, the spin-off effects in terms of job losses is really where things are going to hurt. There is not a day that goes by when we don't get dealers calling begging for credit because the situation is so dire. Even when they're successful operations, they cannot sustain the kind of liquidity demands that are out there.

**Mr. Mike Lake:** I think we have the message: pass the budget, right? That's pretty important, so that we can get the money flowing.

**Mr. Huw Williams:** Yes. I don't want to be partisan with this response, but on the domestic side of the industry the credit crunch only really came in November. Our initial meetings with Finance took place in November and December, and of course Finance responded with a credit facility because they'll make a profit on it. I have to say that to our...I don't want to say astonishment, but we've been impressed with the fact that Finance is absolutely seized with trying to get this program rolling as fast as possible. They put a very short timeframe on the consultation with BDC—it's not a drawn-out period of time—and they seem seized in a very real way, more than I've seen ever before out of Finance officials, to try to get this BDC secured credit facility out into the marketplace.

● (2210)

**The Chair:** Thank you very much, Mr. Williams.

**Mr. Mike Lake:** May I add one more short thing?

**The Chair:** Make it very short.

**Mr. Mike Lake:** The CADA folks commented on Bill C-273, and I want to give everybody the chance to quickly give their own thoughts on it while we're going through this process, because it is something that is up for debate.

**The Chair:** Mr. Fedchun, do you have a position on this?

**Mr. Gerald Fedchun:** I'm sorry, which one is this?

**Mr. Mike Lake:** It's Bill C-273, the right to repair—Mr. Masse's bill.

**Mr. Gerald Fedchun:** No, I have no idea. I know nothing about repairing cars; I'll admit it.

**The Chair:** Thank you very much, Mr. Fedchun and Mr. Lake.

The floor will now go to the last member for today, Mr. Valeriote.

**Mr. Francis Valeriote:** I want to comment on Mr. Lake's analysis of the banking system. He's quite right: it is strong, and that, as you know, is the result of successive Conservative and Liberal governments making sure that regulations were there to keep the industry strong, in fairness. We don't want any one particular government taking credit for that.

My question, directed perhaps to Mr. Hatch or to whoever feels qualified to answer it, is, have you read General Motors' actual restructuring plan?

Okay, you seem to have all read it.

Like Mr. Lake, I have people in my riding in Guelph who support under all circumstances the buoying up of the industry; others are not so inclined. For us to fully understand this, I need to understand what happens in a structured, protected restructuring—protected from creditors.

We're also talking about a lot of money here; we're talking about $7 billion to $10 billion dollars in loans. We can't trivialize that amount. What would happen to dealers and manufacturers if there were a structured, creditor-protected restructuring and the same amount or less money were applied to making sure that parts people were paid, to making sure that people who were unemployed were given the funds they require to survive? Can you look at that and tell us the difference between lending $7 billion to $10 billion out right now and having a structured, creditor-protected arrangement?

**Mr. Richard Gauthier:** We have looked at this. I suppose you are referring to what we call here in Canada CCAA filing—chapter 11 in the United States. We're hearing a lot of discussion with regard to chapter 11. We have had some experience here in this country, although thankfully minimal, with the Daewoo situation.

When we have a manufacturer who files for bankruptcy—but let's talk specifically about a structured reorganization—all CEOs of the Detroit three have testified before Congress and, in their own restructuring proposals, have included analyses that indicate that they do not believe, and we support this, that they can come out of a chapter 11 environment. We believe that our industry does not lend itself to that.

There are numerous surveys that indicate that 80% of consumers would not buy a vehicle from a manufacturer that is under bankruptcy protection. Unlike an airline.... When you and I are required to travel, let's call any airline under bankruptcy protection; that airline continues to operate as an ongoing concern. But your or my relationship with that airline will be for a couple of hours, to get from point A to point B. As long as the plane is safe, we're willing to get on board and get to our destination. In the case of a vehicle manufacturer, with whom the customer relationship is a much longer-term relationship and where you're talking about a three-, four-, or in the case of some manufacturers now a ten-year warranty, consumers have clearly and loudly indicated that they would not buy from that manufacturer.

So our view and our position on this question is that an automobile manufacturer could not come out of a CCAA filing and in fact would probably go straight into bankruptcy. The end result of that would be—and we have experienced this with the Daewoo Motor Company situation in Canada—that literally within days of the manufacturer's either filing for bankruptcy or seeking CCAA protection, the dealer network closes. Because you have a brand and you have a sign outside now that is attached to a manufacturer who is no longer in business, the dealer network goes. The implications of a manufacturer in Canada failing would be disastrous on the dealer network.

So the government must look beyond the factory implications; you also have to take a look at the implications for that dealer network. In the case of General Motors, you have 700 dealers.

● (2215)

**The Chair:** Thank you very much, Mr. Gauthier.

That's all the time we have for today.

**Mr. Gerald Fedchun:** Can I make a comment?

**The Chair:** Sure. You can give a brief intervention, Mr. Fedchun. Go ahead.

**Mr. Gerald Fedchun:** From the other side of this, the parts side, most of the parts people wouldn't get paid. In the U.S., anything over 20 days.... We're averaging 45 days, so 25 days goes out the window.

I told you that two-thirds of our parts are sold mostly to the U.S., and half of our business in Canada is with General Motors. You'd have a huge number of Canadian suppliers go out of business if GM even took a structured bankruptcy, because a big chunk of their receivables couldn't be protected in either Canada or the United States.

**The Chair:** Thank you very much, gentlemen, for your testimony.

Thank you, Mr. Hatch, Mr. Williams, Mr. Gauthier, Mr. Fedchun, and Mr. Bali, for appearing on short notice in front of our committee. Your testimony will be valuable to the committee when it prepares its report and recommendations to our fellow parliamentarians in the House of Commons.

Once again, I thank you for appearing.

**Mr. Richard Gauthier:** Thank you very much for your time. I appreciate you're keeping long hours.

**The Chair:** We'll now suspend for five minutes. When we come out of suspension, we'll be in camera to discuss committee business.

[*Proceedings continue in camera*]

**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**

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