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The Honourable Michael Chong

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● (1830)

[*English*]

The Chair (Hon. Michael Chong (Wellington—Halton Hills, CPC)): Good evening, everyone.

This is our subcommittee on the auto sector. We're studying the challenges facing the auto sector in Canada, and we'll report our findings and recommendations back to the House of Commons by the end of this month of March.

Our first panel today will be from the Ford Motor Company of Canada. We have Mr. David Mondragon, president and chief executive officer; Madame Caroline Hughes, director, government relations; and Mr. James Rowland, manager, government relations.

Thank you very much for appearing, and welcome to our committee.

Without further ado, we'll have the panellists begin with about a 10-minute introduction and then we'll proceed to comments and questions from our members.

Go ahead.

Mr. David Mondragon (President and Chief Executive Officer, Ford Canada): Thank you, Mr. Chair.

Good evening, everyone. My name is David Mondragon. I'm the president and chief executive officer of the Ford Motor Company in Canada.

Ford Canada is pleased to have this opportunity to address the subcommittee on the automotive industry in Canada.

With me tonight is Caroline Hughes, our director of government relations, and James Rowland, an executive with us in government relations. Together we'll be happy to answer your questions regarding the automotive industry in Canada from Ford's perspective.

First, though, I'd like to start with a brief overview of Ford's history and restructuring actions. Ford's position has not changed. We do not expect to access government loans for automotive business. At Ford, we are well on our way to transforming our company. In fact, few companies have restructured more aggressively than Ford. As Canada's longest established automaker, Ford Motor Company of Canada is proud of its 104-year history of contributing to the Canadian economy. Together with our 47,000 employees, retirees, and dealership personnel, Ford has demonstrated a legacy of hard work, innovation, and commitment to communities all across Canada.

Long before the current global economic crisis, Ford recognized its business model needed to be changed. During the past several years, Ford has taken steps to put the company on a path to long-term viability.

We have adjusted our automotive operations to meet demand at lower market volumes in North America, and these actions have resulted in difficult decisions to downsize our Canadian operations over the past few years. We took early action to restructure our business, focusing on product innovation, fuel economy, industry-leading quality, and unsurpassed safety. We'll introduce seven new vehicles in the first six months of this year; that's more than any other manufacturer.

And when it comes to product, everything we do at Ford is focused on excelling in four key areas: fuel economy, quality, safety, and smart technology.

When it comes to alternative fuels, Ford was one of the first automotive manufacturers to put fuel-cell vehicles on Canadian roads. We are the first automaker in the world to be operating hydrogen internal combustion engine vehicles, and those hydrogen vehicles are being used as shuttlebuses right here on Parliament HIll.

Ford is bringing affordable fuel economy to millions of drivers by delivering best in class or among the best in class fuel economy with every new vehicle we'll introduce. For example, this year we'll introduce the new Ford Fusion Hybrid, which is the most fuel-efficient mid-size sedan in the world.

Also this year, Ford will introduce industry-leading EcoBoost engines, delivering 20% better fuel economy and up to 15% lower CO_2 emissions.

Ford will be selling a new battery electric commercial vehicle this year as well, the Transit Connect, a 2010 model we'll introduce later this year.

And we've introduced a joint venture with Canadian-based Magna International to develop a battery electric small car by 2011.

By 2012, Ford is bringing to market a family of next-generation hybrids, plug-in hybrids, and battery electric vehicles.

Now let's turn to quality for a moment. Ford quality is now on a par with Honda and Toyota, and that is consistently being recognized by important third parties like J.D. Power and Associates and *Consumer Reports*.

Ford is also leading in safety with more five-star safety ratings than any auto company, and recently moved past Honda with more top safety picks awarded by the Insurance Institute for Highway Safety.

Clearly, 2009 presents many challenges. Companies and consumers everywhere are feeling the impact of the global economic crisis, and we do not expect the Canadian auto industry sales to grow. In fact, we expect them to shrink by about 13% this year.

In February, industry sales were down 28%. So far this year, sales are down 26% compared to the same time last year. When you consider that 20% of all retail sales in Canada are automotive-related, this downturn will have a severe ripple-through effect. This decline in auto sales translates to about 250,000 fewer vehicles being sold, with an estimated impact of $20 billion in lost sales and nearly $3 billion in lost taxes in 2009. If we see even sharper declines like those the U.S. is experiencing, those losses will double.

● (1835)

By far the most important way the Canadian government can support the auto industry is through direct consumer stimulus to get people into our showrooms, willing and able to buy new vehicles. To do this, consumers need access to credit and incentives to purchase new vehicles during this difficult economic time.

There are two important actions the government can take to help in this regard. While the Canadian secured credit facility announced in the 2009 budget will help provide auto financing companies with the funds they need to provide consumer loans and leases, and to finance dealer inventories, the $12 billion announced is likely much less than what is needed. The Canadian Finance and Leasing Association estimates that annual auto loans and leases are worth about $60 billion.

The credit markets have been frozen for more than a year for the auto financing companies. As a matter of fact, not since 2006 has Ford Motor Credit been able to securitize any loans in the open market in Canada. These funds are needed to underwrite new loans and leases, and this lack of credit is reflected in the reduced industry sales and the pullback in leasing activities that have occurred over the last year.

With additional credit, auto finance companies will be able to underwrite more loans and leases for consumers. Investment-grade ABS securities offer the government and taxpayers a high-quality investment that will provide significant returns. These can be set up as low risk and will provide the industry with the flexibility it needs to raise funds in this challenging credit market. The funds should apply to automotive loans, leases, and dealer inventories, and the funding needs to be implemented urgently.

Canada appears to be three to six months behind the U.S. downturn in sales. Providing this access to credit will help us mitigate further declines. We need to establish an anchor in the sea, and right now there's no anchor in the sea for our ship.

The second action the government can take is to offer consumer stimulus, which would be provided in a program that would offer a $3,500 incentive to purchase a new car or light truck. In January, Germany introduced an incentive that provides consumers with 2,500 euros, or the equivalent of about $4,000 Canadian, to purchase a new car or light truck when they turn in a vehicle that's nine years old or older. Remarkably, new vehicle sales in Germany rose by 22% in February with the introduction of this program.

The federal scrappage program introduced by Environment Canada is not working, and no one appears to be using it. It's likely because a 10-year-old vehicle has a value of about $3,500 and the incentive offered is only $300. The Canadian government should introduce an immediate $3,500 consumer stimulus incentive for any new car or light truck purchased from now through to the end of the year.

To qualify for this incentive, consumers would be asked to turn in a vehicle that's 10 years old or older to be scrapped. This will ensure that the sales are truly incremental and the money is not being paid to consumers who would have purchased a vehicle otherwise. This program would also benefit the environment, because a 10-year-old vehicle produces 12 to 18 times more air pollutants than do new cars and trucks, and the average fuel economy of a vehicle purchased today is much better than the fuel economy of a vehicle purchased 10 years ago.

The consumer incentive is urgently needed to spur automotive sales, which will help drive economic activity and factory production for all manufacturers in Canada. With the livelihood of one in seven Canadians dependent on the auto industry, I don't have to tell you how critical it is that we take steps to stimulate the industry.

We look forward to working with this committee and helping to stabilize our economy here in Canada.

Thank you for the opportunity to meet with you.

Now, Caroline, J.R., and I will take questions.

● (1840)

The Chair: Thank you, Mr. Mondragon.

We'll have about 50 minutes of questions and comments from members of this committee, beginning with Mr. Valeriote.

Mr. Francis Valeriote (Guelph, Lib.): Thank you, Mr. Mondragon, Ms. Hughes, and Mr. Rowland for coming in this evening. I appreciate it.

You spoke of the scrappage program, and you made a comparison between that in Germany and that in Canada, and you said our scrappage program is not working. I think our scrappage program offers $300 for a vehicle over 10 years old. I notice that the scrappage program was talked about in a document that the Canadian Vehicle Manufacturers' Association had submitted to the government in October of 2007. I understand that this scrappage issue has been on the horizon for quite some time now; it has been the subject of irritation and has been identified as a program that would stimulate sales. Can you confirm that for me?

Ms. Caroline Hughes (Director Government Relations, Ford Canada): First of all, I can confirm that the program was in fact discussed by the CVMA. We've been a member of the CVMA since 2007.

In fact, we as industry participants talked about scrappage for probably many more years than that. It's seen as a very beneficial way to help consumers turn over the fleet and get into the newer, cleaner, safer vehicles quicker.

Mr. Francis Valeriote: Were you given a reason by this government as to why they weren't embracing a more fortified scrappage program?

Ms. Caroline Hughes: We've had a number of consultations with government and with Environment Canada.

One of the challenges that even we have, as industry, is agreeing on a very complicated scrappage program. That's the beauty of the German program. It's very simple to understand. It's very simple for consumers to take part in. Essentially, the program allows the market to work.

The biggest problem we have today is the fact that there is not enough consumer demand. If a consumer is offered an amount that is more than the value of the vehicle, they might choose to turn in the car that they might otherwise have hung onto.

Mr. Francis Valeriote: But did you introduce that program, or some similar model, to this government and ask them to introduce it in the industry?

Ms. Caroline Hughes: We did not introduce a program of that magnitude back in 2007.

Mr. Francis Valeriote: But you did have a program that you introduced, hoping it would be implemented and deployed?

Ms. Caroline Hughes: We didn't have the specific details; we did have suggestions as to how a program could work.

Mr. Francis Valeriote: Would sales in Canada be more fortified now had that program been introduced?

Ms. Caroline Hughes: I'm not sure I can answer that.

Mr. Francis Valeriote: Okay.

Mr. David Mondragon: I'm not sure you could run it for that long a duration and still have the same impact in the market. Today approximately 30% of the vehicles in Canada are over 11 years old. That's about 6 million out of the fleet of 20 million in Canada. It's a sizeable number. But as you start to draw those down....

So I don't know about the long-term impact of the program. We think it's a great short-term stimulus.

Also, you used the word “irritation”. It's an opportunity for Canada—to help Canadians, to help our environment, to help our industry, and, because our industry is such a pivotal part of our economy, to truly help our economy stabilize itself and get back on a road to recovery.

Mr. Francis Valeriote: I appreciate that. I'm suggesting that had it been introduced a little sooner, we may not have had this current deterioration or erosion in sales.

I have another question for you. I'm interested in what other irritants might exist in the industry. Are there certain regulatory issues on emissions or safety standards, or issues with regard to thinning the border? Are there issues relating to the industry specifically? And can you comment on how addressing these issues might help the industry?

● (1845)

Mr. David Mondragon: I would say that we have a number of issues we're working on with the government. First and foremost is helping free up the credit market for securitized ABS lending. The actions taking place are very favourable. We're very appreciative of that. Now we need to get the money in the hands of the financiers so that we can move our business forward.

Second is what we're talking about now, the stimulus program. Stimulus could be on many different fronts, such as scrappage or a tax-free holiday—

Mr. Francis Valeriote: Mr. Mondragon, I'm asking you to speak to us specifically about other regulations that might help the industry—emissions, safety, those kinds of things—as well as the border....

Mr. David Mondragon: Free trade, harmonization of fuel economy, border crossing—there are a number of issues on which we're working with government. I wouldn't so much call them...what did you say, “irritants”?

Mr. Francis Valeriote: Yes.

Mr. David Mondragon: I wouldn't say they're irritants; they're hindrances for us. They're an opportunity for us to strengthen our relations and strengthen our business in Canada.

I'll let Caroline add to that.

Ms. Caroline Hughes: Sure.

As you and probably all members of the committee are aware, our industry is very integrated on a North American basis. We started that integration back in 1965 with the Auto Pact. To the extent we can, having common vehicle standards for safety and emissions on both sides of the border is extremely helpful for us. Any deviation from a common standard drives additional cost into the product and design process.

In some instances—especially, ironically, with our more advanced technology vehicles—when the volumes are so low, especially as they're being introduced to market, we often see delayed or potentially no introduction to Canada if the standards are such that we can't design to those unique standards and still make the business case for introducing those vehicles in Canada.

We've been happy with the commitment for a harmonized North American fuel economy standard, not fractionalized regional standards or a multiplicity of standards. We've benefited greatly from the harmonized emissions standards that we've had on tailpipe emissions.

On the safety front, there still are a number of standards that are not yet harmonized. We would encourage the government to continue to work to harmonize those as best they can.

Mr. Francis Valeriote: I have a final question, at least for this round.

We heard last week that if General Motors fails, their supply chain will begin to erode, and that will impact on the other automobile assemblers like you, Chrysler, Toyota, and Honda. Can you comment on the accuracy of that?

Mr. David Mondragon: It's widely publicized and widely known that the supply base for not just the big three but for Toyota and Honda is fairly interdependent. We all share suppliers. Basically, about 80% of the suppliers have work that's distributed through all the manufacturers. There is risk if the supply chain goes down or gets in check, but we're hopeful that won't happen.

The suppliers right now are asking for some support in the United States as well. I believe they're asking for support here in Canada as well to stabilize their financial position. A stable supply base is very important to our industry going forward.

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

[*Translation*]

We work in both official languages. Therefore, some members may be putting their questions in French.

[*English*]

We use both official languages on this committee. There will be some members who will ask you questions in French and in English. If you wish to use the translation, the earpiece is on your desk. The clerk can help you get that set up.

Mr. David Mondragon: Okay.

[*Translation*]

The Chair: You have the floor, Mr. Vincent.

Mr. Robert Vincent (Shefford, BQ): Welcome and thank you for your testimony. Last week, the media reported that Ford would not be taking part in the Salon de l'automobile in Quebec City. What message do you think the automaker's absence is sending to Ford dealers, and also to Ford's Quebec customers?

● (1850)

[*English*]

Mr. David Mondragon: We were in the Montreal auto show, which for us covers the Montreal-Quebec market. We had a great presence there. We introduced our new world B-car, the Ford Fiesta.

The Canadian introduction was in Montreal, which is a very important market for us. It's a very car-driven market. The mix of cars far outweighs the mix of trucks sold in Montreal and Quebec versus the rest of Canada. It is an important market for us.

Due to financial constraints—and we are managing our finances very closely at Ford—we are cutting back in areas where we think we can cut back. Rather than make a poor showing, we will make a no-show at some of the events. We felt that the coverage at the Montreal auto show went extremely well, with over 200,000 people in attendance, and we felt we could represent the Quebec market at that auto show. As well, we had most of our dealers from Quebec come to Montreal for the introduction of our new vehicles as well as some dealer meetings during that time.

[*Translation*]

Mr. Robert Vincent: I see. Mr. Himanshu Patel, an analyst with JP Morgan Chase, maintains that while Ford may not have immediate liquidity problems, the lack of a marked turnaround in the U.S. auto sector means that Ford is only 9 to 12 months behind GM in terms of needing financial assistance.

In your opinion, is this analyst close to speaking the truth when he talks about Ford lagging 9 to 12 months behind?

[*English*]

Mr. David Mondragon: I guess we at Ford would beg to differ with the analysts. We feel that we have a good financial footing today. We have over $24 billion in liquidity today, and we feel we have a financial footing to weather the storm. We are also working very closely with all stakeholders to try to find other avenues to strengthen our financial position, thus strengthening Ford Motor Company in total.

As a matter of fact, I handed out one of our cards, which is the fundamental plan at Ford. It talks about four key components. It's under “One Plan”.

And I apologize, Robert, that it's not translated. We will get you a translated copy.

It says we will be “Aggressively restructuring to operate profitably at the current real demand and changing model mix.”

Next it says that the second key component of our plan is to “Accelerate development of new products our customers want and value.” And that's happening today, as we bring out seven new vehicles over the next six months. They're resonating with Canadian consumers, and that's evident in the fact that our share has grown over 200 basis points in the last three months.

We also plan to “Finance and to improve own balance sheet.” We'll finance our way through these very difficult times and manage it through the very, very tough decisions that we're making at Ford.

And then we will “Work together effectively as one team.” That's the Ford Motor Company, our dealers, and our suppliers.

If you look through some of the actions Ford has taken, they're pretty substantial. We've cut over $5 billion in costs over the last three years. We are well positioned to manage our business going forward. We've eliminated excess capacity, closing 17 plants to right-size our production capacity in line with real customer demand. And we've right-sized our workforce, drawing down 60,000 employees over the last three years. Since 2005 we've retired 60,000 employees, 15,000 of them salaried and 45,000 of them hourly employees. We've reduced our labour costs, negotiating favourable agreements with our UAW and CAW partners. We've continued to invest in advanced technology while doing this. And we're leading on fuel efficiency in the market, with quality, safety, and technology that has really differentiated our brand in the marketplace.

Again, we've made very difficult decisions, and this plan at Ford started three years ago. These cards have been in place for over two years, so it's not something that just came about when the economy turned south and the industry got tough. We've been planning for this and we've built ourselves a financial reserve so that we can manage through difficult times ahead, and that's what we're doing as a company.

● (1855)

[*Translation*]

Mr. Robert Vincent: Today, the UAW and Ford reached an agreement in Detroit. Do you expect that an agreement will be reached shortly with the CAW?

[*English*]

Mr. David Mondragon: First off, we heard tonight that the UAW agreement was ratified, and we're very pleased with that. We have great working relations with the CAW and a long history of good relations with the CAW. The conversations are starting now, but outside of those conversations, we're not free to discuss any of those negotiations.

We do not, as a manufacturer, have a production or cost advantage today in Canada versus other North American jurisdictions. And we're hopeful that through these discussions with the CAW we'll be able to bring our costs in line with other areas in North America.

[*Translation*]

Mr. Robert Vincent: If we continue on the same path and lose 25% or 28% of our market every month, at some point, Ford will no longer be able to get by without asking for government assistance. You said that everything was going well, from the standpoint of restructuring your operations, plant closures and layoffs. However, if new car sales continue to slip dramatically, what do you expect to see happen in the coming months?

[*English*]

Mr. David Mondragon: Our plan is to make the difficult decisions we have to make as a company to finance our way through this difficult economic time. We are working with key stakeholders, we work with some bond-holders, we're working with the UAW, and we're working with the CAW to manage our finances very closely. We're making very difficult decisions inside our company, so that we do have the stability, so that we do have the liquidity.

The key to Ford, though, is staying on our plan, not veering one inch from our plan. If you ask anyone at Ford, they'll tell you, they'll recite these four key tenets we have, and we are moving our business forward.

At Ford, it's a product-led transformation. If you look at our product and you look at where we've been and where we are now, things are a lot different just from the past few years. We used to sell a 60% mix of trucks and a 40% mix of cars. By 2010, our sales mix will be 60% cars and CUVs and only 40% trucks—far less dependent on trucks and big vehicles on the road, and taking advantage of smaller cars that are more fuel efficient, with better technology and better safety, to drive our business and meet the needs of consumers, especially here in Canada, and especially in markets like Quebec and Montreal, where they demand the utilization of smaller cars that fit the needs of their infrastructure.

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

We'll now go to Mr. Lake and then Mr. Masse.

Mr. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): Thank you, Mr. Chair.

I have a few questions. Obviously, I'm not going to ask you why you're in a different position from some of your other competitors, because you've kind of answered that question a little bit.

One of the things I'm interested in, in terms of where we're going from here, is that in late February, in your 10K filing, Ford indicated the industry sales volumes below 9.2 million in the U.S. may trigger the need to draw on public funds. Do you anticipate you'll come forward with a request for assistance in the future? It sounds as if various suggestions are that we might be in the neighbourhood of 9.5 million units. We're getting pretty close. Is 9.2 a trigger point?

Mr. David Mondragon: I wouldn't say right now. I think it's not healthy to speculate on what a trigger would be.

There are a lot of difficulties in the industry. Our plan is to finance our way through it. Again, we're making difficult decisions. We're working with all our key stakeholders, and we want to make it through on our own. We've got product that's viable, that's relevant to today's consumer, and we think with the introduction of these vehicles we'll stabilize our market. We're looking in Canada at a market that's going to decline 13%. The U.S. decline is far more exacerbated than the Canadian decline. However, we're following the same trajectory as the U.S. If we don't stem the tide here in Canada, we're going to fall into that same sinkhole they've fallen into. We've got to anchor at sea; we've got to stabilize our industry and start growing from there. We're hopeful we'll be able to do that.

● (1900)

Mr. Mike Lake: Of course, you're far more affected than just the 13% drop in sales in Canada. What percentage of vehicles that you manufacture in Canada are actually sold in the United States?

Mr. David Mondragon: Approximately 80%.

Mr. Mike Lake: So you're significantly affected by the drop-off in the States. I think it's a relevant question for us as we move forward. We're trying to make key decisions for the industry. It is important for us to know what the chances are that you're going to come to us for help in the future. I'd like to maybe hear a more specific answer to that.

Mr. David Mondragon: Our intention, again, is to finance our way through these difficult times. Based on what we see today, in the economy today, as turbulent as it is today, our intention is to finance our way through it. We have ample liquidity today. We're working with key stakeholders to strengthen our financial position, and we can manage our way through some very difficult waters.

Mr. Mike Lake: Manage your way until when?

Mr. David Mondragon: It's not helpful to speculate. It's not helpful for us to speculate, nor for our employees, for our consumers, or for our dealers to speculate. It's not helpful for the economy for us to speculate.

Based on what we see today, based on the environment as difficult as it is today, and given the fact that our vehicles are resonating more today than they have over the past three years with consumers in Canada and in the U.S.—our market share is growing in the U.S. and in Canada, which means we're growing in an economy and an industry that's declining—we're getting a bigger piece of that pie. And I said, in Canada we're up 200 basis points in terms of our share of the market. We think there's great opportunity to grow that even further as we introduce seven new vehicles over the next six months —more than any other manufacturer. We have that same leverage in the United States as well.

Mr. Mike Lake: I do want to follow up on that. You talk about your sales relative to other companies, and I think there is an important point to be made there. How much of that advantage that you have in terms of market share—let's be clear, you're still dropping in sales but your market share is a little higher—is because of the perceived strength?

I think one of the challenges we have is that the more we talk about the weakness in each individual company, the less likely people are to buy cars. That is one of the dangers of going through the process we're going through. How much does your perceived strength help you weather the storm to an extent?

Mr. David Mondragon: Can you elaborate on what you mean by perceived strength?

Mr. Mike Lake: You're not asking for money when everybody else is.

Mr. David Mondragon: Let me pass around what we'll call article F-1. You can take a look at it. I like to use this as an example.

An hon. member: Can we introduce articles like this?

The Chair: If we're going to distribute documents, they have to be in both official languages. We do have members of the committee who use the other official language.

So unless it is in both languages, I'd ask that you read it into the record.

Mr. David Mondragon: That's fair, Michael.

This was written by Sally Gibbs. I don't think she had the ability to translate it for us, but we will translate it for the group.

It was to Mr. Alan Mulally. It says:

> THANK YOU!!!!!! For NOT asking for taxpayers money to bail out your company. I know times are hard, but you have a good product and you can make it through this! I had a 1993 Ford Ranger and put 269,000 miles on it. Just please stay responsible and accountable. The Americans appreciate that and they will choose Ford over the others that take the taxpayer money for their mistakes. Here is $10 to help you guys get back on track.
>
> Sally Gibbs
>
> Retired USAF and thankful American

I use that as an example.

And please, this is not supposed to be inflammatory towards any of the other manufacturers. It is mostly meant to say that we haven't asked for financial assistance and that is resonating with consumers. They are recognizing that we are in a different place from our competitors in Detroit. Our company is not only on a different glide path given our current liquidity situation, we are also on a very different glide path and trajectory on our new product offerings: on the quality, safety, and technology of our product.

That's what is differentiating Ford today, much more than the fact that we haven't asked for government assistance.

Mr. Mike Lake: Don't get me wrong. The fact that you haven't asked for government assistance is a good thing.

I do want to talk about the secured credit facility. You mentioned that as something important: $12 billion in the budget to help consumers buy vehicles. Obviously it's in the Senate right now. It needs to get passed through the Senate to take effect. It is interesting that you mention it is probably much less than is needed. I think I heard you say $60 billion is what's needed.

I have a hard time with that. When I talk to my constituents, generally the feeling isn't that we aren't giving the auto companies enough. Maybe you can make the argument right now to my constituents, who might be watching this, on how you could justify asking for $60 billion in a secured credit facility.

Mr. David Mondragon: Let me clarify that. The $60 billion is an estimate from the Canadian Finance and Leasing Association. That is the amount of volume financed in Canada through loans and leasing at a retail level for our dealerships.

Will it be that high? No, it doesn't need to be that high. But if you look at a ceiling, that's the highest level. What's happening now, though, is that we're taking loans, as a manufacturer, as are the other manufacturers, and we are financing deals. But we don't have a market to secure those. There is not a viable market to bundle those and sell them on the open market. First, that creates a huge cash drain on the company, and, second, it limits our ability to offer vehicle financing in the form of leasing. The leasing market with regard to securitization has been extremely tight, not only here but in the U.S.

Basically, with respect to the loans we're offering in Canada today, we, as a manufacturer, are forced to go to our parent company in the U.S. and borrow money so we can offer those loans in Canada. Quite frankly, we're doing business in Canada on borrowed time. We need the Canadian market, the Canadian financial institutes, and the Canadian government to help Canadians help Canadians. This is about stabilizing the economy in Canada, stabilizing an industry that represents 20% of the retail sales, and stabilizing one in seven jobs in Canada.

● (1905)

The Chair: Thank you.

Mr. Masse.

Mr. Brian Masse (Windsor West, NDP): Thank you, Mr. Chair, and thank you to our delegation for being here on such short notice. It's appreciated.

I want to get specifically to your solutions. We've asked you to come here, and I won't speculate on what you might need in the future. I think we want to get some advice here on what would actually protect workers' jobs.

The $60 billion has been noted, in terms of the difference from $12 billion. You specifically outlined a program—the $3,500—based on Germany's. I'm familiar with that and actually commissioned a paper on what Germany is doing for their workers. But there's one thing I worry about with the 10-year cut-off. Do you not fear that if you had a vehicle at eight or nine years you might not take advantage of it? Would it not make more sense to have a progressive payment if you had an eight-, nine-, or ten-year-old vehicle? I'd hate to see people with a nine-year-old vehicle wait another year when maybe you could phase something in a little bit different.

What are your thoughts on how to make sure this program works?

Mr. David Mondragon: First and foremost, sign us up. We'll take eight years, nine years, seven years, six years, five years. Ten years seems to be a number.... If you look at what they did in Germany, any vehicles nine years or older were included in the program. If you look at Canada, 30% of the fleet is 11 years and older. So it depends on how much of the fleet you want to impact and how robust the program is that the government can support.

To do a program in Canada similar to what they did in Germany is going to cost money. If you offer $3,500 a vehicle and do 100,000 units, that's $350 million. It's not cheap to do, but it will be effective.

If you look at what they experienced, they forecasted a 7% incremental increase in sales in Germany as a result of that program—200,000 units. Their industry is a little less than two times the size of our industry here in Canada, so if we were to do a program of similar value, a good ballpark estimate is that we'd be able to experience around 100,000 units. That's basically the cost of the program. But the lower you go, the more impact it will have because it will offer the opportunity to a broader audience to purchase vehicles in a very difficult environment.

Mr. Brian Masse: It's also critical that people really understand what's going on out there with the credit market. You mentioned you haven't had much of a relationship in financing with the major financial institutions in the last couple of years. I think it's important for people to know—and I've raised this a couple of times—if you go to the websites of some of the major banks that are turning profits right now, they have interest payments for car loans anywhere from 5%, if you're a good credit risk, up to 14%. I know some dealerships are offering people with bad credit or difficult credit up to 30% interest.

Do you think the government should be doing some type of regulating there? If we don't come up with the $60 billion, we'll have to find financing somewhere else. The banks have money right now. They're still turning a profit. In fact they're the only ones making money on automobiles right now, which is outrageous. So is there a role there, especially since the Bank of Canada rate is so low right now?

● (1910)

Mr. David Mondragon: First and foremost, I'd say, just to expand on your point, the market here has basically shut down asset-backed security lending and financing.

That's the first and foremost thing that needs to happen. We need to loosen the skid. We need the government to open those doors and those channels, and quite frankly, it's a very good opportunity to get a great return on investment, because they are asset-backed securities. It means you have a note but you have a very tangible asset that has a great value that you can have support the note; it's not like there's air behind it.

The second thing is that the securitization and the open market needs to support loans, leases, and wholesale, all three of those components. We're having a very difficult time. A lot of dealers are losing wholesale lines. We have some major fleet accounts that aren't able to get financing, that are having to turn away from replacing and replenishing their fleet because they can't get financing in the open market.

There is only one place that is best suited, in my mind, to help facilitate these transactions, and at Ford that happens to be Ford Credit. Captive financing knows this business. We know how to loan, we know how to finance, and we know how to lease and carry wholesale lines. It's our area of expertise, and we know how to stimulate the business. You won't see the Ford Motor Company out there with a 30% rate for a customer. We offer value financing for consumers that is competitive in the marketplace, and we're driven by our competitive set as well.

The biggest casualty of the shortage of ability to finance securities in the market is leasing. The person who is paying the price for our drawdown in leasing.... If you look at leasing now, we're leasing as a brand at about 10%; we used to lease close to 50%. GM is down to single digits, Chrysler is at single digits, and we all used to lease at 40% to 50%. Who's paying the price for that decline? Our consumers. The reason consumers pay a huge price now is because they're forced to finance a vehicle and purchase a vehicle because we don't have an avenue to be able to support leasing.

Now, we do lease 10%, so we're still leasing, but it's a far cry from the normal consumer demand. What happens when a consumer buys versus leases? They have to pay taxes on 100% of the vehicle they buy. When you lease you pay taxes based on what you pay in each month, and if the vehicle has a residual lease-end value of 50%, that means you're only going to end up paying taxes on 50% of the vehicle. So we're penalizing a lot of consumers. The ripple-through effect is much greater, if you want to ask an expanding question, in terms of the duration of contracts today versus what they were just a few years ago.

Mr. Brian Masse: I'm very familiar with this, and I'm glad you brought the leasing up because it hasn't been discussed at length here. And the fleet procurement is so important, I see that in my home town. A mini-van can get a fleet procurement...that really affects the order sales. As well, too, it's about businesses being competitive because they modernize their services.

I would be remiss if I didn't ask you about this issue. I do have a private member's bill out there with regard to the after-market. It may perhaps get to second reading. Would you be willing to constructively come back to the committee at that time to discuss it? What we're looking for is a solution to the problem we have in Canada. There are different sets of information between Canada and the United States, so we're looking for a solution for that. Quite literally, I can get into my car and drive over to Detroit, Michigan, in 10 minutes and have my vehicle serviced by a technician who doesn't have the same qualifications as someone here in Canada.

I agree with the suggestions that you've presented here about getting new vehicles on the road, which is very important, and especially to also fight the misconception that exists. Between your company, General Motors, and Chrysler, and also the overseas markets, some of the vehicle products coming out are very exciting and are better for the environment.

At the same time, we do have the after-market issue to deal with. Would you be willing to come back at that time to talk about a constructive solution to this problem?

Mr. David Mondragon: I'm going to let Caroline answer, but before I pass it to Caroline, I would say a resounding yes, we would love to. I think it's imperative that the manufacturers are part of the resolve. We can't move forward with an initiative like that without getting a manufacturer's input. The technical nuances of the vehicles today are so complex and they vary so much from the vehicles of yesterday that there are a lot of things we need to discuss and take into account.

The first level of expertise that any mechanic needs to have today is electrical and computer, because all of our vehicles now are driven by very complex computer systems, so that's definitely something that we don't take lightly. We would love to be a part of the resolve, and I think we can add a lot of value to the committee, so we would appreciate that.

Caroline has been very involved with this as well.

● (1915)

The Chair: Thank you.

Ms. Caroline Hughes: I believe you're talking about the right to repair bill. We'd be happy to come back and talk to you.

As you know, our dealers spend a lot of money on training and on special tools so they can repair the vehicles. As those vehicles become more computerized and include more technology, we want to make sure that at the end of the day we do the right thing by the customers.

We'll be happy to give you some input on your bill.

The Chair: Thank you.

We'll go to Mr. Valeriote.

Mr. Francis Valeriote: Mr. Mondragon, as you know, every single member of Parliament around this table is concerned about taxpayers' money and its proper investment and about the preservation of jobs. They seem, at this point, to possibly be two competing interests, depending on how this government responds to the needs of the industry.

The reason you're here before us is that we need to have your opinion on where you see this industry going five or ten years from now. Nobody wants to invest $7 billion to $10 billion to keep the lights and heat on for six months. The industry could go through that very quickly.

Could you tell us how you see the industry five years from now and ten years from now? What do you think it will take to make this industry sustainable in the long term?

I'd like that answer from an industry-wide perspective and not from just Ford's perspective.

Mr. David Mondragon: First and foremost, what the industry needs is to find the bottom. The U.S. hasn't found the bottom, and we, quite frankly, have not found the bottom. There are great opportunities for the government to help the industry and the economy gain confidence and establish the bottom, and, as I said before, to put an anchor at sea for our boat so that we don't keep drifting deeper and deeper into a decline.

If you look at our industry right now, Ford is forecasting a 13% decline year over year, as I said. We're not forecasting that our sales will go down by 13%. Our sales decline will be far less than the industry decline, based on some of the things we talked about earlier.

That said, if you talk to some analysts in the industry, that decline varies. It goes as low as 20%. If we follow the same path that the U. S. has experienced, peak to trough was 42%. If we follow that same path—and we seem to be going down the same road today—without levelling off and finding a bottom, we're going to go from an industry of 1.7 million to an industry of a million, which will be catastrophic.

As I said before, that's $40 billion to $50 billion in sales. That's nearly $6 billion in tax revenues across the country. Main Street Canada is the area where this will hurt the most.

Mr. Francis Valeriote: I want to know about five to ten years from now. How do we make this industry sustainable? Do you have an opinion on that?

Mr. David Mondragon: I sure do. First and foremost, it's strengthening and stabilizing the financial markets. Without a financial market that's viable, without the ability for auto manufacturers to finance vehicles for their dealers, to finance vehicles for consumers, and to keep a robust trade cycle in place, the industry will not strengthen and will not grow. It has to be revolving. It can't be that we put $12 billion into the market and when that dries up there's no more ABS. What's going to happen is that we're going to just go up and then back down. It will be a roller coaster. We can't afford to allow that to happen. First and foremost, it's loosening the credit markets and allowing and supporting asset-backed securities. That will help stabilize and grow the market.

The second, short term—I talked about finding a bottom—is the stimulus package. We need to reach out and put money in the hands of consumers. The consumers need confidence in the economy. They need confidence in the government, and they need confidence that they're going to go out and buy a vehicle they can afford.

Mr. Francis Valeriote: Let me ask you this. Do you think $10 billion will last? Will it be enough, or do you think the industry will be back to us?

Mr. David Mondragon: I'm sorry, is it in regard to the $10 billion?

Mr. Francis Valeriote: On the $10 billion, in respect of the current loans assistance they requested, do you think, in your opinion, that it's enough, or will they be back for more?

● (1920)

Mr. David Mondragon: Quite frankly, it's out of scope for me to make comments on any other manufacturer's plan. Everyone is working very diligently to manage their own business, and it's out of scope for me to talk about GM or Chrysler, and I won't do it.

Mr. Francis Valeriote: Okay. You spoke about a loss of sales in Ford. Can you translate that loss of sales in Canada into loss of jobs?

Mr. David Mondragon: Well, let's think about that. I haven't really thought that through. If you lose sales, it puts pressure on production facilities. What's the output of an average production facility in Canada—100,000, 150,000? If you draw down 250,000, maybe you don't need two plants in Canada. If you draw down 700,000, what does that equate to? So there is risk to footprint.

If you look at the industry in total, capacity utilization is one of the biggest issues the industry faces. Worldwide there are approximately 90 million units of capacity. Demand this year could be 60 million or fewer, so that's something that has to be addressed. The worse the capacity utilization scenario gets, the more difficult it is ultimately for manufacturers to be profitable and viable going forward.

Retail outlets are the other part of that. If you take 250,000 units out, the impact on your retailers is great. Our average dealership in Canada sells 500 new, so bang, that's 500 times 250,000, and there's your number. How many fewer dealerships do you really need in Canada now? What's the impact on our retailers? There's your real impact on jobs. It's not so much our production facilities. It's the little towns across the country that will lose dealerships as a result of this. When they go, a great pillar in the community goes, and a huge financial anchor in the town goes. That's an even greater risk. The average dealership employs 50 to 100 employees. If you do the math, it's a substantial risk to our economy, to our lifestyle, and to the average Canadian.

The Chair: Thank you.

Mr. Young.

Mr. Terence Young (Oakville, CPC): Thank you, Chair, and welcome to my constituents and the people who are responsible for about 4,000 jobs, including spinoffs, in Ford and the surrounding areas. It's great to see you. I invited you to Ottawa and you came, so thanks for coming.

Mr. David Mondragon: Thanks for having us.

Mr. Terence Young: Thank you.

This is all about stimulus and jobs. The government agenda is committed to innovation, which is why in early 2008 we created the automotive innovation fund. Ford partnered with the government on a loan from that fund. Would you please tell us about what you were able to do as part of the renaissance project, which, as I understand it, created 500 jobs? That's the first part of my question.

The second part is this. I wonder if you could just tell me a little bit about the EcoBoost engine. Is that part of your plan to accelerate development of new products?

And third—I have to ask this because we talked about it so much in the election—when are you going to build a hybrid in Oakville?

Mr. David Mondragon: I'm going to let Caroline start with this.

Ms. Caroline Hughes: Okay, great.

In terms of the investments we've made, we actually have two investments that we've made with help from the government, federally and in Ontario. The first one in your riding, Mr. Young, is the Oakville assembly complex, where we transformed two existing plants into a new complex. It's a flexible assembly plant producing four world-class vehicles now on a global mandate. The flexibility of that plant allows us to produce any combination of those four vehicles, so we could have a different vehicle, one after the other, rolling down the line all day long, and they're produced with the highest quality. That allows us to more effectively utilize the capacity in the plant, to more effectively utilize our investment, and to protect against future market shifts. So that is a very competitive footprint.

The more recent program that you talked about with the AIF is what we call our renaissance project. That will reopen our Essex engine plant in Windsor, and that's a huge success story for us as well. The Essex engine plant will become one of four flexible engine manufacturing plants in our North American system, a very competitive plant that, again, will be protected against future downturns.

I do want to say, though, on the automotive innovation fund, that neither of those investments could have been possible without the government incentives that were available, both federally and provincially. That will continue to be needed going forward. That's one thing we haven't spoken about at length today. Because of the economic crisis that faces us now, not a lot of people are talking about future investments. We do need to make sure the investment incentives that are available in Canada remain competitive to attract the next round of investment that we see coming.

Specifically, in the U.S., the Department of Energy announced a revitalization fund of $25 billion that will be available to all manufacturers that invest in the next generation of fuel economy technology for vehicles and for manufacturing. That's something we need to make sure the automotive innovation fund in Canada remains competitive with.

● (1925)

Mr. Terence Young: What about the EcoBoost?

Mr. David Mondragon: Yes, let me add a couple of things.

First, we're very excited about EcoBoost. That's technology that's available today, and over the next three years we'll transform the industry with our EcoBoost engines. They deliver 20% better fuel economy and are expected to reduce CO_2 emissions by 15%. They should be on approximately 80% of our vehicles by 2012.

The Oakville, Ontario, Ford Flex will be one of the first vehicles with the EcoBoost engine. We'll introduce that this year. And then we'll have the MKT, which is an all-new addition to our lineup. It'll be an incremental unit we'll be building out of our Ontario assembly plant. It will also host this new EcoBoost engine.

I will say, as I said earlier, we've announced a joint venture with Canadian-based Magna International to develop and deliver a battery-electric vehicle by 2011. So we are on track with that commitment. By 2012, we'll have a host of next-generation hybrids, plug-in hybrids, and battery-electric vehicles as well.

The Chair: Go ahead, Mr. Wallace.

Mr. Mike Wallace (Burlington, CPC): Thank you, Terence, for sharing your time.

You were saying the current scrappage program isn't working because it's not lucrative enough at 300 bucks. You also tell us that 80% of your sales are south of the border.

Are our friends south of the border planning a scrappage program for their vehicles or for vehicles that are purchased down there?

Ms. Caroline Hughes: Can I start?

Mr. Mike Wallace: Sure you can.

Ms. Caroline Hughes: Okay.

There have been a number of different suggestions south of the border. There was one bill that was fairly close to passage, and then it fell apart. What we have experienced over the years, as we've tried to work as an industry to bring something forward to government, is that the more complex you make it, the more you try to over-engineer the program, the more difficult it is to get broad support and ultimately the more difficult it is for consumers to understand it. So it basically falls in on itself.

Right now, there is nothing in place, but we know that our colleagues south of the border are working on something similar.

The Chair: Thank you, Mr. Wallace.

Monsieur Vincent.

[*Translation*]

Mr. Robert Vincent: Thank you. I'd like your opinion on two matters. Firstly, we are hearing about this $4,000 scrappage program. Could the program help to lower vehicle prices? It's well known that in the past there have been shortages of steel because China controlled the steel market, but if we pay people $4,000 for each vehicle retired, that would put considerably more steel onto the market and steel prices will fall. So then, do you think that this program will result in lower car prices?

[*English*]

Mr. David Mondragon: First off, I don't think that retiring 100,000 units—if that was the number—will greatly inflate the price of steel. A steel commodity is really based on worldwide demand. If you look at the spot prices on steel, they have fluctuated greatly over the last six to 12 months. At one time, spot price on steel was $300 to $500. Then it shot up to close to $1,500, and now I'm not sure where it's hovering—maybe around $800 or $1,000. So it fluctuates greatly. The average retirement of fleet comes into play, and that really doesn't vary all that much on an annual basis.

In Texas last year, in the U.S., they had a program of a similar fashion. They offered a dollar value of around $3,000, and I believe they retired around 100,000 units. I don't think that had a huge impact on the commodities market in Texas. So I don't think we would see any kind of surge or influx or decrease, in terms of pricing. What will move the commodity markets with steel is worldwide demand, and that's out of Asia, out of Europe, and out of the U.S. and Canada as well—North America—but, really, a lot of the prices have been driven by the Far East as well as the Middle East.

[*Translation*]

Mr. Robert Vincent: Secondly, in light of the exchange rate, automobiles are always a little more expensive in Canada than in the U.S. However, if vehicles are built in Canada with Canadian dollars by Canadian workers and subcontractors paid in Canadian dollars, could these Canadian made vehicles not be sold at a more affordable price?

● (1930)

[*English*]

Mr. David Mondragon: I'm sorry, can you elaborate? I missed the beginning. Can you go back to the beginning? Is it a specific vehicle that you're recommending?

[*Translation*]

Mr. Robert Vincent: I commented earlier that in Canada, automobiles are more expensive than they are in the U.S. because of the exchange rate. However, if vehicles are built in Canada with Canadian dollars by workers and subcontractors paid in Canadian dollars, could they not be marketed to consumers for a more affordable price, instead of selling consumers vehicles that always cost a little more than the ones built in the U.S.?

[*English*]

Ms. Caroline Hughes: In terms of the prices of vehicles in Canada, we price to the market, as do most manufacturers. So on the pricing side, depending on where the Canadian dollar exchange is, you will see the prices of vehicles in Canada higher or lower than what happens in the U.S., depending on what's happening in the market. Back when the Canadian dollar was 65¢, I believe, DesRosiers Automotive Consultants issued a study that showed cars were, on average, $2,500 cheaper in Canada than they were in the U.S. and trucks were about $3,500 cheaper in Canada. And that was based on the fact that we do price to the market.

To your question about using Canadian labour and Canadian parts, it really is a North American industry. In our case, we purchase parts in Canada for our North American factories, so we will purchase from one or two suppliers, but for commodities across our broad range of vehicles. So that Canadian content gets spread across the broad number of North American vehicles. And the fact that the Canadian dollar, if I understand your question correctly, is lower in Canada will not help the cost of one particular vehicle be lower, because the material content is spread throughout our fleet.

Mr. David Mondragon: I would add that the other difficult part of doing something like that is, quite frankly, the type of vehicles that are built in Canada.

If you look at Canada in terms of consumer consumption, it's about 50-50 cars and trucks. And in January, 55% of the sales were trucks, 45% of them cars. Now it's kind of levelled back off at this 50-50 range.

A lot of the vehicles that are older and high pollutant are trucks, and we want to get those off the road. That being the case, you get big burly truck drivers who need to have their F-150 truck because they've got a big payload they've got to pull or capacity they need to put in the bed, and they're not going to be willing to trade it in for a car or a CUV. That's not just lifestyle; they use these trucks for work and for play. So it would limit the ability for us to really stabilize and grow the business. And it really would be a dissatisfier to many Canadians who have an older vehicle, who would want to trade it in and buy a new one, because they would feel the program disadvantages them. So I would not recommend that.

The Chair: Thank you, Mr. Mondragon.

Our last questioner for this round is Mr. Lake.

Mr. Mike Lake: Thanks, Mr. Chair.

I'll preface this line of questioning, I guess, by saying that of course we recognize the importance of credit to businesses and consumers right now, and the problems getting that credit are making it very difficult. We hear it time and time again. But I get a little bit concerned. I hear you say the industry needs to “find the bottom”, and it seems to me one of the reasons we're heading for the bottom in the first place is loose credit. It seems to me there are a lot of commentators out there who look at the situation in the States and say that a big part of where we are right now is because people are taking on way too much consumer credit. I'm talking about consumer credit here. With loosening consumer credit, while obviously we all agree it's a significant part of the answer, is there a danger in terms of trying to solve this long-term viability question by maybe over-loosening credit? What is the danger? Maybe you could speak to the danger of that, the potential of us over-loosening credit, people taking on—you know there are huge opportunities to buy vehicles, but if people are buying vehicles they still can't afford on credit, that might be a problem.

Mr. David Mondragon: First and foremost, I don't think anyone is suggesting that the banking industry or any of the manufacturers offer credit to people who aren't creditworthy or can't really afford a vehicle. That's not our practice.

The quality of paper we securitize through the ABS market is AAA. That's the highest credit rating you can get, and it offers a very good return and a great safety net as well. It's safe and it's well secured. But we have a long history of great financing and credit practices that really manage the consumers and help them with affordability that fits within their means. Nobody wins—manufacturers or the industry—if we finance vehicles to people who aren't creditworthy.

That's not what happened to the U.S. industry, by the way. It's not a result of the fact that the finance institution and the captives have been financing the people who aren't creditworthy. What's happened to the industry and what's plagued us here in Canada is that there's no ability to securitize paper, so we keep on taking loans, financing vehicles, and then we're holding that paper. And that's a big cash drain on our system. So we have all these notes that we're sitting on, and it's like oil in the car. We need to move those out, bring in fresh capital, so that we can keep that ball moving. That's really what the industry needs.

Now I'll let Caroline elaborate on that. Was that good?

• (1935)

Ms. Caroline Hughes: That was good.

Voices: Oh, oh!

Ms. Caroline Hughes: You covered my butt.

Mr. Mike Lake: For clarity, I wasn't just talking about credit for vehicles in the States being the problem. Overall credit is what I was referring to.

I'm curious, and I want to talk just a little bit about the long term, about long-term viability and our ability to keep manufacturers here. I assume that most auto manufacturers are in operation to make a profit and that eventually the goal is to get back to profitability.

I just want to ask about this in terms of the corporate income tax rate here in Canada and the ability to maintain a manufacturing industry, that significant share we have, of course. We're going to hear from the CAW in a few minutes. We definitely have some skilled workers here in Canada who contribute very strongly to our ability to hold onto that manufacturing base.

How important is it to keep our tax base down as compared to that of other countries? As you know, we're shooting for a 2012 tax rate that would be the lowest in the G-7. How important is that for competitiveness here?

Ms. Caroline Hughes: I believe every automotive company operating in Canada is foreign owned. We're all foreign multi-nationals, so obviously the tax rate is important for us. It's good that Canada is proceeding towards a competitive tax rate. We have a competitive tax rate now, and it's important to make sure that remains the case.

In terms of securing the next investment, though, or upgrading the facilities, I believe, and it's been Ford's experience, that it's more important to have a competitive investment incentive coupled with all of the other business conditions you need. But you need to have the competitive investment incentive to be able to secure the next investment when that investment is ready to be made. That was what was so successful for us in Oakville and also with our Essex engine plant program.

Mr. Mike Lake: I'd like to ask a final question, if I could. This proportionality question has come up as part of the discussion in virtually every discussion we've had so far, but not so much today because of course you're not asking for money today, so there's not that tie-in to the ask for a loan.

But I am very interested to hear, first of all, what proportion of your North America-wide manufacturing is done here in Canada. More importantly, where do you see that going? For example, do you have mandates that are coming to an end and other mandates that are going to take their place? I'd like to get a little bit of a direction from you on that.

Ms. Caroline Hughes: Sure. We'll have to get back to you on the proportion in Canada versus the U.S. I don't have the exact number. With our sales going down, production versus sales is a number that we'd need to recalculate for you.

In terms of our capacity, we're very happy with where our capacity is in Canada. In Oakville, as I mentioned, we have a flexible engine assembly plant that can do the four vehicles that we presently have there, the four crossover vehicles, which are in growing segments. We also have the ability to switch to many other platforms in our plan. Should gas prices rise and demand fall for those vehicles, we could always fill that plant with other vehicles we have. Similarly, with our engine plant in Essex, we have the same flexibility to adapt.

The Chair: Thank you very much.

That ends the comments and questions from members of this committee. I'd like to thank our witnesses for appearing in front of us today.

Thank you very much.

Mr. David Mondragon: Thank you for having us.

The Chair: We'll now recess for five minutes to allow a change in panellists.

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(Pause)

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• (1945)

The Chair: Good evening.

Welcome to the subcommittee on the auto sector. This committee was struck about a week ago in order to study some of the challenges facing the Canadian auto sector.

Your testimony here today, along with that of others, will provide the basis for a report and recommendations that will be submitted to the House of Commons by the end of March.

I thank you for appearing in front of us today.

[*Translation*]

We work in both official languages, so some members will be using French, and others English.

[*English*]

We'll have about 10 minutes for opening statements, and then we'll proceed to questions and comments from members of this committee.

We have in front of us today Mr. Ken Lewenza and Mr. Jim Stanford, both from the Canadian Auto Workers union.

Welcome.

I give the floor to Mr. Lewenza.

Mr. Ken Lewenza (National President, Canadian Auto Workers Union): Let me begin by thanking the committee for the interest in the auto industry and its significance, its importance to the Canadian economy. I obviously thank each and every one of you for your efforts and your commitment to preserving a very important industry in the Canadian economy.

Just as an introduction, the Canadian Auto Workers represents approximately 225,000 members across Canada. About one-quarter of those are auto-industry-related jobs, very significant jobs to our union, and again, very important.

Needless to say, I want to say right off the bat that Jim and I both flew economy on our way here today, and we were serviced by wonderful CAW members who took care of us from the time we left Toronto to the time we got here today.

I want to raise a couple of issues of major importance, recognizing that the time has changed. Obviously, we have been in collective bargaining with General Motors, Chrysler, and Ford. We selected General Motors to establish what we would call the pattern relative to these sacrifices that have to be made by auto workers and other stakeholders, as dictated by several people in terms of maintaining our Canadian advantage here in Canada.

I want to emphasize that because people are asking me why we opened bargaining in a time when we had a three-year collective agreement, it's very, very clear in terms of the downward pressure and the demand of the U.S. government that the UAW be an active part as a stakeholder in the United States to reopen negotiations. So we had to look at the UAW and say, “What are the competitive disadvantages that might result because of their bargaining relative to Canada's particular position?” In the last couple of days we bargained a collective agreement with General Motors that will be the pattern for Chrysler's and Ford Motor Company's. General Motors indicated to us very strongly at the conclusion of bargaining that we maintain our Canadian advantage relative to future investment decisions of the corporation, which is important.

I also want to recognize, as part of the negotiating process, that both Prime Minister Harper and Premier McGuinty announced in December that they would make a 20% footprint in support of the auto industry in comparison to the United States. That was a very important announcement as the Americans were dealing with how they were going to invest their moneys in the United States. So when Prime Minister Harper and Premier McGuinty suggested they would provide support up to the 20%, that was an important statement. And obviously they said at that particular time that all stakeholders had to make some sacrifices. Minister Clement, from that time forward, has indicated that all stakeholders, including auto workers, have to make some sacrifices.

What our deal contains is very significant. In terms of the provisions, we're obviously saving dollars off our active hourly labour costs. Again, General Motors said our active labour cost is competitive with any jurisdiction in the world, especially in areas like Germany, the United States, and Japan—areas that we compete with in a direct way.

We obviously did some substantial, painful reductions in legacy costs. The committee should understand that at General Motors, for example, we will have 30,000 retirees, with much fewer actives moving forward, so we had to deal with the question of legacy. We were able to significantly reduce legacy costs moving forward.

We said at that particular time that when the Government of Canada and the Province of Ontario introduced a support, or recommended support for the industry, we would be part of the solution, and we have been part of the solution. It is incredibly important now that all the stakeholders have made a contribution. I'm being told the dealers have done their job, the executives have done theirs, and the non-union folks.... Everybody involved in the industry has done their part. It's very important now for the industry to survive, that the Canadian government provide the support necessary on a proportionate level. So that's incredibly important.

Before I introduce Jim, I want to say a couple of words in conclusion. What's important today is that the Government of Canada provide the support. The second thing for us is to take a look at the terms and conditions of the agreement and maintain our proportionate manufacturing footprint right here in Canada as a condition of the loan and ensure that auto workers are also obviously protected. Again, only the government can do it today. People should understand that every country in the world that has an auto industry is providing support for their particular industry.

● (1950)

I also want to raise the importance of the auto industry—GM, Ford, Chrysler, Toyota, Honda, and all major auto producers in Canada—to the auto parts sector in Canada, which is facing a significant restructuring. I would ask the government, during the course of its deliberations, to consider support for the auto sector.

At this time, I would like to introduce the chief economist of the Canadian Auto Workers Union, a man respected from one end of the country to the other, Jim Stanford.

The Chair: Go ahead, Mr. Stanford.

Dr. Jim Stanford (Chief Economist, Canadian Auto Workers Union): Thank you, sir, and thank you, Ken.

A short description of our current collective agreement with General Motors, reached yesterday, has been distributed to the committee in both languages.

What I'd like to do is just very quickly provide some additional detail on our reading of some of the economic context of the crisis in the auto industry, our recent bargaining, and the government's decisions in moving ahead. I will table three reports with the clerk for future distribution to the committee, in time for your study.

First of all, I would like to emphasize that one of Canada's greatest assets moving forward is our sustained and visible productivity advantage. The auto sector is one of the few industries where Canada is more productive on a consistent basis than the United States. The most recent data indicate that Canada has about an 11% labour productivity advantage in auto assembly versus the United States and a 35% advantage relative to Mexico. That advantage has been there consistently over the last decade; in fact, our productivity advantage relative to the U.S. has grown slightly in recent years. I think it reflects the emphasis of all Canadian participants, including the companies and the union, on modern technology and investment in new capital equipment, the high performance work practices, and also the health and wellness of the workers. That's an important part of what makes a productive workforce.

So I leave that for your consideration. The productivity advantage is there, and we'd like to make even more of it with more investment in our facilities.

My second point is about the economic importance of the auto sector to the broader economy. This is not just about helping the auto producers, and it's certainly not about helping the auto workers—as if we needed some kind of charity. This is about us as a country deciding that we need to preserve this vital part of our economic base.

I will table the study from the Centre for Spatial Economics in Ontario, which analyzes the spinoff impacts of the auto industry. It indicates that if the major North American auto producers were to fail, the ultimate toll, counting those spinoff jobs in Canada, would be 600,000 lost jobs, only about 25,000 of which would be the direct CAW members. Those are a lot of other non-CAW members whose future depends on this industry being here.

Substantial reductions in GDP would occur, of about $65 billion, or 4.4%. That's enough to take a recession, which we're already grappling with, and make it look a lot like a depression.

The data on the fiscal impact of the crisis in the auto industry are interesting. If the North American producers were to disappear, there would be a net negative fiscal impact of $13 billion a year on the federal government, which is substantial. I know there are a lot of folks who call themselves the representatives of the taxpayers out there, who complain about the government supporting the auto industry. If I really cared about taxpayers, I would be awfully worried about that $13 billion hole in the federal government's budget that would suddenly appear, and how we would fill it.

Finally, we will table additional information about the relationship between international trade and the industry's current problems and its future recovery. Our industry in Canada is totally dependent on foreign investment—of course, all of the auto assemblers are foreign owned—and on exports for its existence. That is something we celebrate. But we have to look at the context in which our international trade and investment relationships take place, and that context has shifted from a very strong positive to a very strong negative for our industry over the last decade. In 1999, Canada enjoyed a $15 billion annual surplus in automotive products and trade with the rest of the world. Last year that converted to a $14 billion deficit. So we've snatched defeat from the jaws of victory and lost what was once a bright spot in our international relations. It's now become a large and growing net drain.

The deficit reflects both a decline in our exports—mostly to the U. S.—and an increase in our imports, particularly from offshore. In fact, in 2008, for the first time in decades, Canada has experienced an automotive trade deficit within North America. We still have a small surplus with the United States, but that is now more than offset by a deficit with Mexico. That, I think, is both a cause and a consequence of the crisis in our industry and the loss of our jobs.

We think it will be interesting, given the restructuring in the U.S. and a parallel restructuring here in Canada, how that will affect the shape and the location of the North American industry. I think we face both a risk and an opportunity here. Obviously the Americans are putting money into their industry, and they are going to tie that to American investments, American supply, and American content.

Canadian governments will do the same thing, and we obviously encourage you to maximize the footprint commitments that will be made as a quid pro quo, if you like, for providing assistance to the industry. I would like to see us and the Americans work jointly around something that could end up looking like a new North American auto pact, where the governments in both countries will provide assistance to the industries in return for proportional commitments that would strengthen the North American industry.

● (1955)

We can't draw a line between us and the Americans—the industry is completely integrated—so it makes no sense to do it separately. If we did that, combined with some accountability from non-North American jurisdictions in terms of if they're going to continue to export here, they have to open up their markets to take products back from here or else they have to expand their own investments in North America, that could end up being a positive.

So I'd like to emphasize, as the industry recovers, that the international trade portion of it, that dimension of it, has to be part of the picture. This is something the Canadian Automotive Partnership Council and other stakeholders have examined, and I think it has to be on our agenda as well.

Thank you very much, and we look forward to your questions and comments now, sir.

The Chair: Thank you very much for those opening statements. We'll have about an hour's worth of comments and questions from members, beginning with Mr. Valeriote.

Mr. Francis Valeriote: Mr. Lewenza and Mr. Stanford, I'm very grateful, and we're all very grateful, you've taken the time to come up here. We know how busy you've been. You're probably far more tired than any one of us, and we know you have to leave here to continue other negotiations.

Having said that, you've raised some really interesting points in your comments. I want a broader question and then I'll dig down into some more specific questions. We want to preserve jobs in Canada. We already know that to do that we have to preserve our 20% of the footprint through mutual negotiations, that kind of thing. But as a committee, we also need to know that before money is invested, essentially, or loaned to General Motors and Chrysler, Canadians know it's a good investment and that jobs will indeed be protected. To do that, we have to be satisfied that it's going to do more than just keep the lights on for the next six months.

Can either or both of you discuss with us where you see the industry in five to 10 years from now? Will it be sustainable, will it be viable, and how do we get there?

Mr. Ken Lewenza: The answer to the question is yes, it can be viable and it could be sustainable. I believe General Motors, Ford, and Chrysler made some painful decisions, before the global financial crisis, to restructure their operation based on their particular market share. The problem was, as they were restructuring their operations, a global financial crisis hit, credit froze up, and as a result of that, the perfect storm hit.

I believe they have the automobiles, the vehicles, the consumers want in the future. There's a lot of discussion, there's a lot of research, there's a lot of.... As the Ford Motor Company said, more environmentally friendly vehicles are going to be part of the fleets. So there's a lot of work, there's a lot of effort, but, unfortunately, today it looks as if those efforts are wasted as a result of this global credit freeze. But there's absolutely no question that General Motors, Ford, and Chrysler were on the right track prior to the global financial crisis, as painful as the restructuring was.

Dr. Jim Stanford: In a way I'm sympathetic to the notion that we have to see the long-run business plan, not just for the companies but for the industry as a whole. We aren't interested in just throwing money at a problem and crossing our fingers—absolutely not. We have to be sensible, we have to be prudent, and we have to be proactive in using all of our resources to make sure we're building something we need. We need this industry. We need the high technology; we need the well-paid, high productivity jobs it generates and the spinoff jobs and the exports that come with this industry, but make sure we get our share of it.

That's where I think, coincident with the short-term immediate task, which is to help these companies survive the crisis, we have to have our eyes on a longer-run picture as well. This is where we would again emphasize the need for Canada to develop a national auto strategy. We used to have one. We had a vision of how we would build this industry and expand our share of it. The auto industry didn't just fall in our lap. It's something we built through proactive, smart policy.

The Canadian Automotive Partnership Council had been working for several years to try to develop the framework for a strategy like that. That process has not been active in the last couple of years, and I think it badly needs to be reactivated to fill in that long-run dimension of the challenge we face.

● (2000)

Mr. Francis Valeriote: I'd like to pursue that specifically.

We asked in question period today about a national auto strategy. We've been pressing for this for some time. I picked up a document that was developed in October of 2007 from the Canadian Vehicle Manufacturers' Association that addressed a number of concerns that to me, by any other name, amounts to a national auto strategy.

It's interesting that you mention the Auto Pact because I'd scribbled down a question for you this afternoon and it revolves around the idea of a national auto strategy, and indeed a North American auto strategy, which really means possibly revisiting the Auto Pact. What salient points do you think we need to address if we were to renegotiate that?

Dr. Jim Stanford: There would be several dimensions to a North American auto pact, and there's a lot of exciting potential to do that, given the direction of the U.S. administration today. They are concerned about supporting the auto industry, as well as the broader manufacturing sector and the environment. I think all of those would have to be part of a strategy.

First of all, we'd have to do something to enhance the overall level of North American content in the vehicles that are sold in North America. North America is the only important regional market in the world trading system that tolerates this very dramatic trade imbalance. Every year four million vehicles come into North America from offshore jurisdictions, and virtually nothing goes back in the other direction. That means the average North American content in the typical vehicle on the road is much lower than in other markets.

So it would involve a combination of carrots and sticks to go to the offshore makers and say, “Listen, you can't continue to use North America as a dumping ground for your products. You have to be adding value to the North American economy through new investments here—potentially joint venture investments with existing companies in North America.”

We have an exciting example of that in Canada. Volkswagen is now producing the Volkswagen minivan—the new one, not the old one the hippies used to drive—at a CAW-represented facility in Windsor. This is a way for Volkswagen to put something back into the economy and not just treat us as wallets on legs.

We should tell other companies with no manufacturing presence here whatsoever, such as Nissan, Mazda, Hyundai, and BMW, that we have idle capacity in Canada, productive technology, and productive workers, so come in on a joint venture. They won't do that of their own accord, but if government twists their arms a bit they can make that happen.

Mr. Francis Valeriote: You talked about a $13 billion hole if the industry isn't supported. I'd like to know more about that. Can you explain that to us and to Canadians?

Dr. Jim Stanford: Certainly. That number comes from the study that was developed by the Centre for Spatial Economics, an economic consulting group based in Milton, Ontario. I will table the study—I have it electronically right now—and then arrange for its distribution to the whole committee.

They simulated what would happen under a number of scenarios: the complete collapse of the North American OEMs, a partial collapse, and a gradual downsizing. In the worst-case scenario in Canada you would lose the direct jobs at those companies, but much more than that—600,000 jobs in total and a decline of 4% to 5% in annual GDP. The federal government's revenues would be affected in a number of ways by the loss of income taxes paid directly by auto workers, the taxes that come from spinoff jobs, the sales taxes, and the other taxes that decline in step with GDP. So the government's revenues would decline and its expenses for EI and other programs would increase, and the net fiscal impact would be that $13 billion figure.

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

Monsieur Vincent.

[*Translation*]

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

Last week, we heard from GM officials. The Head of GM informed us that executives were taking a 10% pay cut. I asked him whether they were going to ask for more than that from workers, that is whether they were going to ask them to take a pay cut of more than 10%? He didn't answer my question.

Earlier, I read through your submission. I think you've really gone over the 10%. When workers are asked to take a pay cut, there is one thing that neither the union nor the workers can control, and that's the way the company is run. I don't think the workers are responsible for the predicament in which the company is currently mired. The economic crisis is one thing, but while we look at what's happening and try to make the changes that haven't been made, the workers are the ones left to pick up the tab. The only thing you're asking is for the workers to make some concessions and yet, the price of consumer goods doesn't budge at all.

We also read in the newspapers and hear on television that auto workers earn hefty salaries, that they can afford to take a pay cut. What about auto workers in other countries? Are their salaries comparable?

● (2005)

[*English*]

Mr. Ken Lewenza: Compared to our major competing markets of Japan, Germany, and the United States, on an active per worker cost basis, Canadian workers are cheaper. That's a realistic fact. But we are very cost competitive here in Canada with those major trading partners that manufacture vehicles.

On the salaries of the management folks, the non-union folks, the reality is that the terms and conditions of the loans in the government's directive mandate that everybody make a sacrifice. That's how the CAW ended up indicating to government that it would be part of the solution. So part of the terms and conditions of the loans explicitly say what non-union folks are sacrificing versus what auto workers are sacrificing.

To answer your question one more time, Canadian auto workers in the Canadian Auto Workers Union are competitive with each jurisdiction in developed countries, such as Japan, Germany, and the United States.

Dr. Jim Stanford: Again, just to reinforce your point that cutting wages alone is not going to solve this problem whatsoever, you could say, in fact, on one hand, that it will make things worse. The ultimate problem of this immediate crisis is that people are not buying cars. If industries widespread—not just auto companies, but industries throughout the economy—start cutting their own wages in response to this downturn, that is part of what happened in the 1930s. Then you get a downward spiral in purchasing power, which prevents consumer spending from recovering.

Again, we committed to being part of the solution. We also committed that our labour costs would remain fully competitive, and we have done that. But we don't claim for a minute that what we've done in the contract can somehow save the company or save the industry. That's where we need the bigger response.

[*Translation*]

Mr. Robert Vincent: I've come to the conclusion that when workers are asked to take a pay cut because of the economic downturn, regardless of the sector in which they work, these workers end up consuming less and all industries ultimately feel the effects.

Another matter that we need to consider is free trade. Do you feel that free trade has helped or hindered the auto sector? This is also a consideration.

[*English*]

Mr. Ken Lewenza: Jim will deal with the free trade question, but let me just reiterate for the committee's information, and I'm sure you know this already, that the cost associated with labour in an assembly plant is 7%. The total cost of a vehicle in an assembly plant is 7%. We could have worked for nothing, for absolutely nothing, during this global financial crisis and the company wouldn't recover. So it's not about wages.

Jim.

Dr. Jim Stanford: In terms of the trade impact, again, I emphasize that we're not opposed to trade, and we're not being protectionist in that regard. We need trade. A market like Canada is so small that we cannot support a viable auto industry focused on only our own market. It has to be focused on exports, and this is where foreign investment and two-way trade flows are going to be so important. The question is what the rules of the game that govern trade are going to be. We used a very effective trade strategy called the Auto Pact to build the industry, to bring it to Canada, and then we went above and beyond the requirements of the Auto Pact, because we were so successful.

With the free trade agreement, the bulk of the power of the Auto Pact was eliminated, and then in 1999, coincidentally, just as our industry peaked in Canada, the World Trade Organization began to argue that the Auto Pact was illegal. The argument was made at that point that we didn't need to worry about it, because Canada's auto industry was so successful. We said no, in the long run, things can change, and they can actually change pretty quickly. Unfortunately, we've been proven right. Nowadays, we produce far less value-added in the auto industry than we consume. That is why we have a large trade deficit.

We're not opposed to trade, and we're not calling to block trade. What we are saying is that trade has to be reciprocal, and we have to have global companies—it is, after all, the global companies that run this industry—adding as much value to the economy and the industry in North America as they take out with their purchases.

● (2010)

[*Translation*]

Mr. Robert Vincent: If the Canadian dollar ever manages to achieve parity again with the U.S. dollar, do you think GM, Ford or Chrysler will seek additional concessions from workers?

[*English*]

Dr. Jim Stanford: Well, obviously, our whole collective bargaining has been tailored by our need to ensure that our plants remain cost competitive, on a long-run basis, with comparable plants in the U.S. and in other developed economies. The exchange rate is a very important part of that equation. When the exchange rate in Canada was undervalued, as it was, say, through much of the 1990s, that provided us with a super competitive advantage, and we actually gained a lot of investment during that period. When the dollar is overvalued compared to its long-run value or compared to its fair value, the reverse occurs: we suddenly look very expensive, and it becomes very difficult to hang onto jobs and investments. That was the experience of, say, the commodities price boom that has now ended.

When we did our bargaining with General Motors, we examined a range of different exchange rate scenarios. At any exchange rate that is potentially feasible on a long-run, sustainable basis, our contract will ensure that our labour costs are fully competitive. Now, there are times, if you look at the Canadian dollar, that it looks like a roller coaster, doesn't it? There are times when, for a short period of time, you'll go above that and for a period of time you'll go below that. Using purchasing power parity, or any other meaningful long-run theory of the exchange rate, our costs will remain competitive.

That being said, to directly answer your question, when the dollar shoots up too high—and at parity, the dollar is very overvalued, according to measures like purchasing power parity—then the industry as a whole is going to feel pain. It's going to make it very hard for our exports to sell abroad and very hard for our facilities to attract new investment.

The Chair: Thank you, Mr. Stanford.

Mr. Lake.

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

From time to time, we get some political commentary happening in the committee, and I think we had that a while ago when Mr. Valeriote was talking. I'm going to take a second to answer his question regarding Canada's long-term plan.

We have a plan called Advantage Canada that was put in place a couple of years ago by this government, a broad economic strategy for Canada. Of course, we have a short-term plan, called the "economic action plan", which we're implementing right now.

Here is some very quick commentary, first from *Newsweek*:

> If President Obama is looking for smart government, there is much he, and all of us, could learn from our...neighbour to the north.

This is from the *Daily Telegraph*, in London:

> If the rest of the world had comported itself with similar modesty and prudence, we might not be in this mess.

The *Economist* said:

> ...in a sinking world, Canada is something of a cork. ....The big worry is the fear that an American recession will drag Canada down with it.

And it went on to say:

> Mr. Harper says, rightly enough, that his government has taken prudent measures to help Canada weather a storm it cannot duck....

And no less a person than President Obama, just a couple of weeks ago, said:

> And, you know, one of the things that I think has been striking about Canada is that in the midst of this enormous economic crisis, I think Canada has shown itself to be a pretty good manager of the financial system...[and] the economy in ways that we haven't always been here in the United States.

That's just a quick answer to Mr. Valeriote's concern.

Now I have a few questions.

There's a lot of talk of restructuring, obviously, as we go through this process, and there's no question that one of the stakeholders at the table is going to be the CAW.

Mr. Stanford, maybe you can give some clarification. According to a presentation that I believe you gave in 2004, paid time off—this is time when people were paid for not working—cost the big three $10 per hour per worker actually on the job. This included regular time off as well as what's called "special paid absence" time off. Is that still about accurate?

● (2015)

Dr. Jim Stanford: No, sir, it's not.

In our May 2008 collective bargaining, we reduced paid vacations by about 40 hours, or a week—we lost a week of paid time off. And then in this contract, which we just tentatively reached yesterday, we reduced vacation time again, by another 40 hours.

We have two types of vacation. One is the traditional vacation that you take when you're able to schedule it. The other is a kind of scheduled vacation. That's what you call the SPA. I want to emphasize that it doesn't mean our members go to a spa and have a manicure and sit in a hot tub. That's how some of the commentators have described it. It's basically a different way of delivering vacation time.

So our vacation time has been reduced by two weeks.

Our effort, over the years—it was part of our productivity strategy, in fact—was to capture some of the gains of technological improvements and productivity growth in the form of time off, the reason being, first of all, that it allowed for healthier workers. We have much lower absenteeism in Canada than we have in the U.S. plants, and that's part of our time off strategy. But it was also to preserve the number of jobs in the industry as we move forward, so that technological change didn't result into a continual downsizing of the industry until there was only one person left pushing the start button.

There was method to our madness on the “time off” issue.

Mr. Mike Lake: Okay. I just want to comment on these SPA days, or “special paid absence” days.

According to Buzz Hargrove, the special paid absences created 2,500 jobs in the 1990s alone. I'm curious. In retrospect, do you think it might have been a better idea to allow the companies to create jobs by building cars and innovating, rather than taking extra paid time off?

Mr. Ken Lewenza: Well, as GM has already indicated, even with our bargained time off, the Oshawa plant, as an example, is the most highly productive, high-quality plant in the world—in the world, and with our bargained time off.

In terms of labour hours per vehicle, which is measured by *The Harbour Report*, eight out of the ten unionized plants in North America are the most highly productive workplaces in the world. So even with our bargained time off, we are a highly productive, high-quality workforce as measured by independent analysts.

That's not the “uncompetitive advantage”. In fact, as Jim has indicated, it provides a healthier workforce, so when they are working they're delivering a better product, and that has been seen in the last ten years on a realistic, factual basis.

Mr. Mike Lake: In terms of structure again, I believe CAW requires automakers to pay into a CAW legal services plan. On the website, I believe, for the CAW legal services plan, one of the success stories noted talks about CAW-funded lawyers being brought in to keep a CAW member from having to pay back the parents of his ex-wife for a swimming pool they bought him. Would you regard that as a legitimate use of the automakers' funds going into that fund?

Mr. Ken Lewenza: I would ask the committee not to buy into the theatrics of what benefits are provided workers. The reality is that the CAW legal service plan has been a wonderful initiative and a wonderful benefit. What we do is provide lower-cost, negotiated insurance plans through basically a not-for-profit co-op, which brought legal fees down throughout Canada. The reality is that it's about 7¢ or 8¢ per hour that goes into a legal service plan. Workers still have to pay a significant amount when they see a lawyer. There are some things that are covered up to $80 an hour. This is not significant in any way, and that theatrical rhetoric out there, quite frankly, isn't helpful in preserving the auto industry in the debate in Canada.

Mr. Mike Lake: It's not theatrics. I'm asking these questions on behalf of my taxpayers, my constituents. If the automakers are putting money into a fund like that as part of the structure, and we're talking about restructuring the industry, I think it's a fair question to ask when we're asking the taxpayer to step up to the plate, to do their part to save the industry, literally.

Is that an appropriate use of the funds the taxpayer is lending the automakers? That money comes from the automakers.

● (2020)

Dr. Jim Stanford: Perhaps I could provide additional detail. The legal services plan is structured like an insurance system. The companies pay an insurance premium into this fund and then there's a specified range of legal services that are covered by the fund. Criminal activity and some of the other ones are not covered, but for your standard family legal bills that you can encounter because of hardship, an accident, or divorce, those are covered.

Secondly, it is the bottom-line labour costs that ultimately determine the competitiveness of our facilities. We are absolutely competitive, even including those.

Finally, in our contract, which was just negotiated, we are reducing the total cost of the various union-sponsored initiatives, including the legal services fund, by about one-third. That has been addressed in this contract.

The Chair: Thank you very much.

Mr. Masse.

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

Thank you for being here, gentlemen.

I find that the parliamentary secretary's question is nothing short of absurd. When you have people here representing hundreds of thousands of workers across this country, you would think you'd actually understand the fact that these bargained benefits were done through the open market. Ironically, it's a conservative, right-wing think tank that's basically pushing a new settlement from the private sector to negotiate openly.

You don't need to apologize for the fact that you have actually provided benefits for your workers. You have provided a number of different health care services. You have provided legal services for those who are in need. You have made donations. Look at 1973 in my riding. General Motors workers are losing their jobs in 2010 and they actually had the record for donating to the United Way. This is the reality on the ground floor and not some of these things here.

I'd point out as well that back in 2003 it was the CAW that pushed for getting back in gear. The first discussion paper that was actually presented, and the precursor to CAPC, noted that we had to do more than just large corporate tax cuts. A paper was commissioned from the parliamentary research division that showed the corporate tax cuts from 2000 and 2005 were supposed to be $4 billion, but at the end of the day they turned out to be $10 billion, so $6 billion—more than was expected—went out the door.

You just finished a negotiated settlement. Some are criticizing some of that settlement, but you actually reached it in record time. Can you highlight some of the things you've come to the table with, and also in the past? There was other work done in the last collective agreement to close the gap to make sure productivity was very high.

Mr. Ken Lewenza: Needless to say, in May 2008, four or five months prior to our bargained deadline in which we normally do traditional bargaining, it was the CAW that went to the employers and saw this perfect storm brewing over our heads. We went to them and solicited an early intervention into our bargaining, and that saved the companies, combined, over a three-year period, $300 million per year in each of the three years of the collective agreement. Again, those numbers have been substantiated now in our recent bargaining.

In this particular set of negotiations we did a number of things. Obviously we froze our wages. For auto workers now, our wages will be frozen for five years. Retirees and cost-of-living improvements yearly will be frozen now until 2012. A number of health care benefits that are provided are now co-pay. There are significant dollar savings moving forward.

At the end of the day, I do want to point out that our objective was not to pick this particular issue or that particular issue. Our objective was to make sure that our hourly active labour cost was advantageous in Canada versus those we compete with. You could grab a host of things that we bargained and then take a look at what we were able to let go. The bottom line was to maintain our competitive advantage here in Canada versus talking about issues.

Mr. Brian Masse: One of the things the minister has requested is that you match the UAW's commitment when you seek the actual agreement.

Interestingly enough, the United States has the advanced technology vehicle loan program. For those who actually aren't aware of this program, it's a $25 billion loan program, separate from the situation that's happening now, and it was actually passed through the United States energy bill last year. That's $25 billion. Compare that in terms of Canada. We have only a $250 million program over five years, so we haven't done the same thing in terms of government.

As well, too, we haven't done the issues with the trade policy. I'd like to hear your comments on the Korea trade issue, because Ford mentioned it here. We've been having declining market share. We can't ship into other markets because of tariff and non-tariff barriers. Can you highlight that? They've also raised it as a concern.

● (2025)

Dr. Jim Stanford: The auto industry in Canada and virtually all the sectors and stakeholders in the auto industry, including the North American producers and including Honda, Toyota, the auto parts manufacturers, and the CAW, are unanimous that a bilateral Canada-Korea trade agreement would be very negative for the Canadian industry.

As it stands, we have a terrible trade imbalance with Korea in manufactured goods and in auto in particular. The Korean market is a sizeable market. It has more people than Canada. It sells not as many vehicles as Canada, but a substantial number of vehicles. For every dollar of automotive product that we sell in the Korean market, they sell $177 worth of automotive products in Canada. That's not an accident, and I don't think it reflects the quality or competitiveness of the vehicles. It reflects deliberate proactive efforts by the Korean government, particularly after the 1997 financial crisis in east Asia, to kind of enhance the economic benefits of their exports while strictly limiting their imports. Our exports to Korea have actually declined by over 80% since 1997, even as the Korean economy grew and developed. That reflects the impact of non-tariff barriers of various kinds to limit imports and also the positive feature of government assistance for investment and technology in Korea. You know that the Korean automakers have come massively forward in terms of the quality and innovativeness of their product. That is all done with dramatic government help and support for exports.

That's the kind of imbalance that has undermined the strength of the North American industry, even before the current financial crisis hit. I don't think it makes any sense whatsoever for government to be proactively trying to help the North American industry survive with one hand, but then to be making life considerably more difficult by liberalizing trade even further with Korea, because it would clearly exacerbate that imbalance. I would be very much in favour of basically shelving those negotiations for the Korea trade agreement.

Mr. Brian Masse: Isn't it true that even though we have an integrated market with Canada and the United States, even the United States has tariffs on certain vehicles coming in? For example, it's 25% on trucks in different jurisdictions. At the same time, we don't do that over here in this country. Also at the same time, we don't even negotiate for new market access to at least balance things out.

Dr. Jim Stanford: We have our tariffs on vehicles that come in from outside of NAFTA. They're about 6% and a bit. The Americans have a smaller tariff than we do on cars, but a much higher one on trucks. That's the 25% rule.

The thing the Americans do that we haven't done in recent years is kind of behind the scenes. It's the sort of arm-twisting, the sort of negotiating, and the sort of proactive outreach.... Again, it's using carrots and sticks, as I said before, to encourage those companies globally to locate in the United States, first of all, and to build up more production facilities there, and also to limit the amount of their exports to the United States.

Again, this is where I think we would be well advised to play a more proactive role in trying to manage trade flows and attract more foreign investment to Canada. That won't happen just by kind of rolling out the carpet and saying, "We play by the rules."

The Chair: Thank you.

Ms. Hall Findlay.

Ms. Martha Hall Findlay (Willowdale, Lib.): Thank you, Mr. Chair.

Thank you very much, Mr. Lewenza and Mr. Stanford, for coming here today.

Before I begin, I would like to suggest to my Conservative colleague across the way that asking key witnesses about a long-term plan, or the lack thereof, for the auto sector in this country is not at all partisan politics and is in fact exactly why we are here.

I will also say that no arrangement can be perfect, but I applaud the spirit of compromise that the CAW and General Motors just showed. I find it completely inappropriate that a colleague here proceeded to attack that arrangement. Again, I stress that we are in a time of crisis and we need to be applauding, not attacking, efforts at compromise, and we, everyone around this table, regardless of our parties, should be working together, not alleging partisan politics and playing games.

Having said all of that, I do have a couple of tough questions I wanted to ask.

First off, in regard to your negotiations, we've looked at material from General Motors and we've looked at the material Ford has given us. In terms of forecasts for auto sales in this country, were you using forecasts in your negotiations about what we expect to see in overall industry units being sold and what we're looking at in 2009-10 compared to 2008?

Dr. Jim Stanford: We don't forecast the number of sales as part of our bargaining. We recognize that as something that's determined outside of the bargaining table context.

They give us kind of a base-case forecast of the total amount of employment that they expect in our plants, moving forward. That is relevant information for us to design the costing of some of our plans. But in terms of the vehicle sales in the Canadian market or the U.S. market, that isn't explicitly considered in our bargaining.

● (2030)

Ms. Martha Hall Findlay: I ask the question because I'm trying to get a handle on the consistency of the forecasts.

I mean, everyone has acknowledged that no one can predict for sure, but clearly, at the very front, if somebody's coming to the government asking for a lot of money, obviously there has to be numbers being crunched and different alternatives being considered. We're looking at what the different companies are saying they expect the sales to be. I'm curious about your views on this in terms of the legacy costs.

I understand, Mr. Lewenza, your comments about auto workers here in Canada being competitive. I appreciate those comments. But we do also understand that there are some significant legacy costs.

If we had 1.7 million unit sales in 2007 in this country, there would have been a certain amount attached to the legacy costs per car. I want to have a sense from you—this had to have been part of the discussions—what those legacy costs were in that circumstance per car; what you think they will be, going forward; what part of the arrangement you've just concluded with General Motors that may affect the legacy cost per car; and what that amount might be.

Dr. Jim Stanford: With regard to measuring per car, we would measure per vehicle produced in Canada, not per vehicle sold in Canada. It is the cost of production that this enters into.

We have analyzed the impact of health expenses per vehicle in our Canadian facilities. On average, across the big three industry that we represent, about $150 to $170 of health costs are built into each vehicle that's assembled in Canada. That's dramatically lower than the situation in the United States, where it's over $1,000 per vehicle. That reflects both the obviously superior public health system that we have in Canada and the proactive efforts we've been taking, in partnership with the companies, to limit the increase in the health programs they provide.

I can give another illustration of that. In recent years, the rate of increase in total health benefits spending by a company like General Motors and the others has been growing at about 2% per year. This reflects our efforts to do such things as mandatory use of generic drugs in the prescription program and strict spending caps on the different types of health benefits. That's how we can help to control legacy costs.

The legacy cost is the cost that's paid as the result of workers who have done the work in the past—

Ms. Martha Hall Findlay: Right. I don't mean to interrupt, Dr. Stanford; I understand and I appreciate your efforts to control legacy costs. There are, however, existing costs now in terms of that difficult topic of pensions and other aspects of compensation in the overall auto sector.

To go back to my question, we have legacy costs per car produced in this country. If we have a significantly smaller number of cars produced in this country, then the legacy costs per car go up. How much of an increase would there be if we had, say, 1 million instead of 1.7 million?

As well, in this most recent deal that you've concluded with General Motors, has there been a reduction in that overall legacy cost per car? And if so, can you give me an idea of what it is?

Dr. Jim Stanford: You've really hit the nail on the head on the legacy costs problem with your question about what happens as the amount of production shrinks.

Legacy costs are composed mostly of two items: first, the pension costs; and second, the health care costs related to the retired worker and ascribed to the portion of an active worker's career that is already over. In essence, they are a form of compensation for work that's already been done. The two main ones are pensions and health care.

Pensions should not be a legacy cost. That's the whole idea of pension funding. A regulation associated with pension funding is that you pay for it as you go along. The problem is that the regulation or the structure has not been successful—because of the volatility in financial markets, because of the dramatic changes in life expectancies and actuarial assumptions, and because, in the case of General Motors, of a weakness in pension regulation at the provincial level; they have access to a loophole. So there is a pension legacy cost, even though there shouldn't be.

For health benefits, there is no pre-funding mechanism. We have been exploring with the companies the possibility of a pre-funding mechanism for retiree health benefits. It would be akin to a pension plan.

So those are the sources of the costs. As production declines and current employment declines, then the legacy costs measured not in dollars but measured per hour of work—or measured per vehicle, as you've suggested—do balloon out of control. We have no control over that. We can't control the fact that they're laying off our people and not producing as many vehicles. That makes the costs per unit look higher.

We have taken many initiatives in this contract that will substantially reduce GM's legacy costs on both the pension side and the retiree health benefits side. I can't put a precise number on it, since it's all dependent on actuarial estimations, but there is a huge legacy cost reduction coming out of this contract.

● (2035)

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

Mr. Watson.

Mr. Jeff Watson (Essex, CPC): Thank you, Mr. Chair, for the floor. Thank you to our witnesses for being here.

You may not know this, Mr. Chair, but in my time on the assembly line at Chrysler, both at Pillette road truck assembly plant and the Windsor assembly plant, Mr. Lewenza was my union president, Local 444.

It's good too see you here today.

Mr. Ken Lewenza: It's good to see you.

Mr. Jeff Watson: I have just a minor housekeeping point before I ask some questions, and it is with respect to the question of a national auto strategy. Maybe this is a point that sticks in my craw a bit, but in February 2008, then Industry Minister Prentice announced at the Toronto Board of Trade our four-point auto action plan. I believe Bob Chernecki was there representing Buzz Hargrove for the CAW national executive. He publicly commended the minister for the auto action plan. From that auto action plan, of course, comes the auto innovation fund, which the $80 million federal investment in reopening the Ford Essex engine plant came from. As it stands today, that is the only good news, the only place where the footprint is actually expanding in the automotive industry, with that particular investment.

I think it's fair to say there may be a fulsome debate on whether you think the strategy is comprehensive enough, but I don't think it's fair to say that there is no national auto strategy, in light of those announcements. I leave that for the record. You may want to comment on it at some point.

Mr. Chair, more specifically, the most recent announcement is that there's a tentative agreement reached with General Motors and the CAW. I think the minister has been clear that we commend the step forward. It will now go to some number crunching with some of the other issues in the overall viability of General Motors to see whether the numbers add up and what amount of support can be expected from the federal government.

One of the issues, of course, is GM's unfunded pension liability. To the best of your knowledge, what is that unfunded pension liability currently at? Can you give us a ballpark figure on what you think it is? I've heard anywhere from $4 billion to $6 billion. Are we in the ballpark on that?

Dr. Jim Stanford: Well, that depends, of course, on what benchmark you're using. There are a number of different ways that you can evaluate the funded status of a plan—on a wind-up basis, a fully funded basis, a going-concern basis, a solvency basis.

Mr. Jeff Watson: I believe they're on a going-concern basis.

Dr. Jim Stanford: GM funds on a going-concern basis, because the Ontario government has allowed them to do that, but they actually evaluate the plan internally for their own expensing on an accounting basis. It also, of course, depends on the day of the week as far as the financial markets go, so that is another factor.

The most recent public valuation we have suggests an unfunded liability in the $3 billion to $4 billion range, but again, whether that's gotten worse or better depends on how the markets have performed.

Mr. Jeff Watson: I presume that delinking the pension from COLA for the next three years is a measure to arrest the growth of the unfunded pension liability. Is that correct?

Dr. Jim Stanford: Well, that decision reflects both the state of the pension plan and the state of the industry. The reality, particularly as the industry ages and there are more retirees out there, is that the importance of these legacy costs relative to current production costs becomes larger, so we made the very difficult decision to freeze pensions. We have a pension system where you actually have to negotiate the dollars that you get on your pension; it's not a per cent of final-hour earnings or anything like that. It's kind of old-fashioned in that regard. We have frozen the pension rate moving forward for people who retire in the next few years. We've also frozen the existing pensions for people who are out on retirement already, and that will have a substantial impact both on the current cash costs of the company and on the legacy liability associated with the pension plan.

Mr. Jeff Watson: Does this new collective bargaining agreement then help General Motors pay down their unfunded liability, to make up that unfunded liability, or does it allow them to pay it off? If so, in what time, and how much do you expect that this is going to help in that regard?

● (2040)

Dr. Jim Stanford: It's not paying down the liability, it's actually just eliminating some of the liability. A substantial portion of the unfunded liability will disappear because of the changes we've made in this contract. You'll have to talk to GM and its actuaries about exactly what proportion and the exact number of dollars, but it's a substantial change.

Mr. Jeff Watson: Who do you think should be responsible for the remaining unfunded pension liability? Is it the company, is it taxpayers, with respect to advancing repayable loans for the continued restructuring? Where do you think it should be coming from to bring that back into a much more realistic unfunded liability?

Mr. Ken Lewenza: It lies in the hands of the corporation.

Mr. Jeff Watson: Okay.

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

Now we're going to go to Monsieur Vincent.

[*Translation*]

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

Right away I'd like to put a few things into perspective. I didn't find the parliamentary secretary's arguments very appropriate earlier. He told you to use the funds to reinvest in GM, when in fact he is having trouble convincing his fellow Canadians. He needs to be reminded that he voted to give himself $3 billion that he plans to spend as he sees fit. So then, he shouldn't be preaching to you about how you should be spending your money or about what you should be doing with these funds.

That being said, Mr. Chair, it amounts to $1,200 per vehicle that will have to come from the workers' salaries. Even if the price of a vehicle was reduced by $1,200, that vehicle wouldn't necessarily sell better or faster. The parliamentary secretary's argument doesn't fly.

Will the concessions that you have made really result in lower production costs? Are you satisfied with the guarantees that the employer has given you further to the concessions made to GM?

[*English*]

Mr. Ken Lewenza: I just want to go back to what we said. We are convinced that we have maintained our Canadian advantage against those we compete with in the industrial world, Germany, Japan, and the United States. Again, they are the countries that we measure our costs against in terms of doing business moving forward.

In terms of the position, it was a very good question about the manufacturing footprint and the ability to keep jobs here in Canada. What we were able to get out of General Motors was a re-commitment to future product allocations into our facilities. These should utilize our plants more effectively moving forward. But it will be incredibly important for the Canadian and provincial governments, during the terms and conditions of the loan, to make sure that we maintain our manufacturing footprint here in Canada on a percentage basis, similar to what Prime Minister Harper and Premier McGuinty said in December. Twenty per cent of our existing production is here in Canada, so they'll provide 20% of the loan. The terms and conditions of the loan should protect that 20% of production in Canada. So if a product falls off because it's not successful, they have to add a product to maintain that investment base here in Canada.

[*Translation*]

Mr. Robert Vincent: I see.

Even if you were to grant more concessions or whatever, in any case, you are not dependent on the company's potential actions. You may be asked to make some concessions and the company may poorly manage its assets or production, but I don't think you should be left ultimately to foot the bill. Other members opposite seem to be singing a very different tune. As they see it, things are going wrong because you are overpaid and you have too much money; basically, you're to blame if the automakers are in trouble today.

What would you say to the politicians who believe this to be true?

[*English*]

Dr. Jim Stanford: We have argued that the current crisis in the auto industry is global in nature, and I think that's worth keeping in mind. The auto industry has very high fixed-cost investment requirements. Before a single vehicle is produced, an automaker has had to invest billions of dollars in the fixed plant for equipment, technology, product design, marketing, administration, and any fixed costs associated with labour.

The fact that auto sales have fallen now around the world—not just in the U.S.—by 20% to 40% means that those automakers are in desperate straits around the world. So even Toyota is asking for emergency loans from the Japanese government. Governments around the world are stepping up to the plate.

What is unique about North America in this regard is the intensity of the finger pointing at workers and their unions. That is unique to the United States and Canada, and they are the only two countries I'm aware of where the government has made labour concessions a condition for providing assistance to the automakers. They haven't done that in Europe, Japan, or China. In fact, in Japan the government is subsidizing auto wages as a way of trying to smooth the downturn there.

So that's the context. We're facing a very broad global crisis in the industry, where the workers and their wages didn't cause the crisis—I don't think there's a credible story to be told that this crisis is the result of workers' wages—and where most governments are responding by trying to bring labour in as a partner in that process.

In Canada we're trying to do that. Both the federal and provincial governments have consulted with us in this regard, and we're looking forward to being part of the solution. But in the broader culture you'll detect a lot of anti-union enmity, and that is a negative barrier for us as a country in trying to pull together everything we need to make sure we have an auto industry. That kind of finger pointing doesn't help us at all.

● (2045)

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

Mr. Lake.

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

I have a few more questions and I want to get some clarification. As I mentioned before, we're talking about the need to restructure the industry and the significant role the CAW has to play in that.

When I talk to my constituents they generally don't totally understand how the pay structure works within the union agreements, so maybe we can get some clarification. I understand the base hourly starting wage is about $33.50 Canadian for an assembler. There's a lot of conversation around holidays. From my understanding, these assemblers get 17 paid holidays. Typical holidays might be Good Friday and Easter Monday. I think there are several more than I got when I worked in the private sector. Obviously I didn't have the CAW negotiating for me, but I still enjoyed my job and chose to be there.

Can you explain how many paid vacation weeks a five-year employee would get?

Dr. Jim Stanford: I have just a couple of points. First of all, the starting wage is not $33.50; it's about $24. We have a very aggressive wage grow-in period. For an assembler, the top wage, once you've gone through that grow-in period, would be about $33.50 or $34.

We have about 15 statutory holidays per year in the current contract, not 17.

Mr. Mike Lake: Is that in the new contract?

Dr. Jim Stanford: It's in the old one. We didn't change the statutory holiday entitlement. Sometimes it depends on where the Christmas break falls, but on average it's 15.

Mr. Mike Lake: So there might be more, based on when Christmas falls?

Dr. Jim Stanford: There could be, but it's 15.

The key point is the overall total labour cost compensation, and I think there's a lot of misunderstanding about that. You hear the number of $70 an hour.

Mr. Mike Lake: Excuse me, my time is very limited.

Dr. Jim Stanford: Okay, I'm sorry.

Mr. Mike Lake: How many paid vacation weeks would a five-year employee get?

Dr. Jim Stanford: I apologize. That's 60 hours of paid vacation—a week and a half of paid vacation on top of the statutory holidays. The scheduled vacation is an additional 40 hours, so there would be 100 hours of vacation and scheduled vacation.

Mr. Mike Lake: After five years someone would get that. Would SPA days be another week on top of that?

Dr. Jim Stanford: That's what I just included. The 60 hours is the regular vacation and then 40 hours is the scheduled vacation.

● (2050)

Mr. Mike Lake: Then there's something called a paid absence allowance. What is that?

Dr. Jim Stanford: That's like a personal day off—

Mr. Mike Lake: Is that paid?

Mr. Ken Lewenza: It's a diversification, that's what it is. Workers have an opportunity to take one-day intervals on their total vacation amount; it's not over and above. They're allowed to take one-day intervals of paid absence allowance, which really comes out of their vacation bank.

Mr. Mike Lake: In other words, they don't have to take a week or two weeks, they can take whatever.

Mr. Ken Lewenza: Yes.

Mr. Mike Lake: Okay. I want to clarify, that's after five years. Then where would someone be in terms of their paid vacation weeks after 20 years?

Mr. Ken Lewenza: The maximum is five weeks, right?

Dr. Jim Stanford: I'll have to confirm this with our contract, and I'd be glad to get back to the clerk with the detailed schedule. After 20 years I believe you are entitled to five weeks, and that will consist of four weeks of regular vacation and one week of this scheduled vacation, or what you called SPA.

Mr. Mike Lake: That's one. Then the paid absence allowance isn't on top of that, it's actually within that amount? And that's on top of the paid holidays then, right?

Mr. Ken Lewenza: On top of the statutory holidays.

Mr. Mike Lake: There's a lot of conversation around this Christmas bonus. It's not really a part of wages; it's an amount that's paid, negotiated? Can you describe what that is?

Mr. Ken Lewenza: We've eliminated the Christmas bonus in this set of negotiations. In each year two kinds of processes were used, either a vacation bonus or a Christmas bonus. Each workplace deals with that in a local issue. In this set of negotiations we have eliminated the $1,700 annual vacation or Christmas bonuses provided to our members.

Dr. Jim Stanford: Those funds have been diverted to help pay for the retiree health costs.

Mr. Mike Lake: Okay.

What percentage does the employee contribute to the pension plans in your pension structure?

Dr. Jim Stanford: We have negotiated a non-contributory pension system over the years whereby the employer pays the full premium into the plan, and this is something that goes on during collective bargaining. We negotiate an overall labour cost and then different portions of it are allocated to different things.

First, I will point out that although there's no direct contribution from the workers, that doesn't mean it's free. It means we gave up other stuff to pay for it. Secondly, it has not affected the funded status of the plan at all, because the total funding into the plan is determined by provincial regulations. So the non-contributory status has no impact on the size of the unfunded deficit.

The Chair: Thank you, Mr. Stanford.

Mr. Masse.

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

You mentioned other countries are doing other things. I know, for example, Germany has a program that supplements the companies so they can pay their workers up to 60% of their wage and 67% if they have a child, because they're trying to preserve their economic footprint in their industries that are in a downturn.

I think we have to go back to the fact that it was the financial crisis and the mismanagement and deregulation that really led to all of this, not the fact of whether or not you had 14 or 15 statutory holidays. That's really at the heart of building vehicles and getting those vehicles into the market.

Have you been following what's happening in Germany and Japan? I know Japan pays a significant investment to their workers as well. Over there it's considered a disgrace if you have to lay off some of your workers. Can you highlight some of the things that are happening in other countries?

Dr. Jim Stanford: Compared to Europe, the North American pattern in terms of benefits and vacation and those kinds of social programs is less developed than it is in Europe. Europeans have significantly more paid time off than we do. They have valued that as a desirable social goal, as well as reflecting the same arguments around productivity that I mentioned earlier.

In Japan there's a tripartite tradition, where the company and the union and the government together try to work over the long term to build the industry, and that now includes government subsidies to the companies to help limit the number of people they are going to lay off, because of that tradition you mentioned. So the government is subsidizing auto wages at a number of the companies in Japan.

Mr. Brian Masse: Instead of the minutiae of some the holiday stuff, I want to get back to the question of how people get newer, cleaner vehicles on the road to get ourselves recovered. Really, at the end of the day, what we're trying to do here is to get new vehicle sales up. It was good that Ford mentioned leasing. It hasn't been brought up as much here, but we had a significant lease market evaporate overnight.

One of the things that I'm concerned about is the continuation. It's interesting that we run the workers through the wringer, but the banks right now are still making huge profits. I use this as an example because they stopped dealing with the dealers, in terms of investment. I'm looking here at a typical bank loan right now that I just downloaded. They're at 8% to 14%, in this one in particular, if you've got good credit. They're probably the only ones making money off a car right now.

Do you support the creation of a fund or the assistance of a fund for the loan of vehicles to the dealership programs and to the financial arms of the companies to get low-interest loans out there? Is there a consensus on that issue? This is a fleecing. I heard this weekend of up to 30% financing on new vehicles or leased vehicles is being offered to consumers out there right now. I don't know how people can get by with that type of a loan.

● (2055)

Dr. Jim Stanford: Yes, and the argument has been that since the automakers' credit arms are in trouble, the banks do the leasing business. But the problem is the terms of that leasing business will be aimed not at selling vehicles but more at making money for the lending institutions.

There's no doubt that the tightening of credit conditions, both the amount of credit and the price of credit, has been a key factor in the downturn of the industry, and anything we can do, especially together with the Americans, to stimulate vehicle sales on a continental basis would make a huge difference.

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

The Chair: Thank you very much.

We'll go to Mr. Lake for a short question.

Mr. Mike Lake: I just want to get some clarification, if I could.

I think you'd mentioned that you can get us the charts for the PAA, the paid absence allowance, special paid absence, paid vacation weeks and paid holidays, so if you could table that with the committee, it would be great—both before and after the new agreement.

I'm going to actually allow Ms. Brown to ask a question in just a second, but the one question I had was regarding sacrifices made. Obviously, everybody who's come before us has spoken about the sacrifices of the GM employees and management, talking about the 10% salary cut. I was just wondering—and I don't know the answer to this one way or another—if the union executives have taken similar cuts to their compensation plans.

Dr. Jim Stanford: Our practice at CAW is that the salary of both our staff and our leadership is tied directly to what the wages and benefits of our auto workers in the big three make. When they take a pay freeze, we take a pay freeze; when they give up a week's vacation, we give up a week's vacation. All of our benefits are tied exactly to what's negotiated in the plan, so it moves in lockstep.

Mr. Mike Lake: In terms of a percentage basis, based on the negotiations that you've just done, what would that translate to?

Dr. Jim Stanford: Again, as we said earlier, it's hard for us to put a specific number on the final bottom-line value of those concessions. Whatever it is that happens to our members in the auto plants will also happen to the staff and leadership of the union.

Mr. Mike Lake: Okay.

Ms. Brown wants to....

The Chair: Go ahead, Ms. Brown.

Ms. Lois Brown (Newmarket—Aurora, CPC): Thank you, Mr. Chair.

Thank you, gentlemen.

First of all, I wanted to make a comment about something my colleague said earlier when he was talking about the benefits in the European countries. Indeed, the European countries do have significant benefits and significant holidays. They also pay significantly more taxes and they have far less personal disposable income. Having spent some time in Europe, I know that there is far less choice in their availability of cash.

But I want to just go back to talking about some of these concessions. I don't want to talk about them specifically or what the actual dollar value is, because I hear what you're saying, that it's only 7% of cost in a vehicle. However, I live in a community that has hundreds and hundreds of mom and pop shops. We have many small business people who have no benefits. They have no pension plans, they have no insurance, no dental plans. They don't have any of those benefits, and yet they are paying for all of those things for the union members every time they purchase a car. So they're subsidizing those things in a car. We know that the objective of production is consumption.

Do you think that part of what you're dealing with here is a perception by the consumer, who may be out there looking for a car, but in the back of their mind they know that they are subsidizing these things for the union? How do we overcome that perception in order to move cars off the lot, because that is what we have to be doing?

Dr. Jim Stanford: That might be an argument for not buying a car. Saying "auto workers make too much money and have too generous a pension, so, forget it, I'm going to ride a bike" is not an argument for not buying a CAW-made car, because pension and benefits in Japan, in Germany, and in the United States are all substantially higher than they are in Canada. The total labour cost is higher in those jurisdictions than it is here. The benefits that we've negotiated over the years reflect the productivity of the industry. Each auto worker on an assembly line in Canada generates $300,000 of value-added per year, and that is the basis for it being the high-income industry it is. So I don't think there's a connection.

I think consumers will go and buy what they think has good vehicle value. Vehicle prices have been declining substantially in recent years, in part because of the productivity. I think it's more the general consumer confidence and access to credit that explain the downturn in sales today.

● (2100)

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

We'll have one last, short question from Madam Hall Findlay.

Ms. Martha Hall Findlay: Thanks very much, Mr. Chair.

We all care about jobs, and we want to make sure that we keep good jobs in this country. We also, as parliamentarians, have a significant responsibility to taxpayers across the country as a whole, so these are very difficult questions.

We have a couple of companies, so far, coming to the government with a very significant request, in terms of money, so my question is very blunt. Looking at the burn rate of, in particular General Motors, but both companies, General Motors and Chrysler, and the request for multiple billions of dollars that's on the table, do you think that's enough, or do you think they're going to be coming back to the government in two quarters, three quarters, four quarters? It's a tough question.

Mr. Ken Lewenza: No, it's a valid question. The reality is that we hope that General Motors and Chrysler, and potentially Ford, when they present their business plan to the Canadian government, provide stability moving forward. It's not in the interest of the Canadian government or the interest, quite frankly, of our members or the companies to continually ask for more.

I want to point out that we have no idea, at this particular time, of the negotiations that are going on between the government and the employers. We have not been involved in that process. We don't know what they're asking for, and we don't know what they're covering. All we're here to say is that the auto industry is incredibly important. Every government in the world is investing in the auto industry in their particular country, and we would ask Canada to treat our auto industry with the same respect other countries do in terms of providing the economic activities that are generated out of the important auto industry.

To answer your question directly, let's hope the auto industry is providing a stable plan that will put some certainty in the hearts and minds of our members and the communities that rely on the auto industry.

Ms. Martha Hall Findlay: Thank you very much.

The Chair: Thank you.

Thank you very much to all the members.

I have a point of order over here.

Mr. Mike Lake: I have a brief point of order, if I may.

Ms. Hall Findlay earlier characterized my line of questioning as an attack on the witnesses. I just want to clarify for the record here, if I could, that there is no intention to attack when we're asking some of these tough questions. In fact, I recognize how hard our Canadian auto workers work. I recognize that these gentlemen have been in tough negotiations, and I think it's important for us to be able to ask tough questions without being characterized as attacking witnesses.

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

I want to thank all the members of the committee for their questions and comments.

I want to thank, in particular, the two witnesses here from the Canadian Auto Workers for coming to talk to us tonight. In particular, I want to thank Mr. Ken Lewenza for coming. I know that you've just started in your new role as national president this past September, and I wish you all the best as you go forward. Thank you very much.

Mr. Ken Lewenza: Thank you very much. Thank you all for your participation tonight.

The Chair: We'll suspend for 10 minutes to change witnesses.

● (Pause)

●

● (2110)

The Chair: Good evening. I want to welcome the witnesses we have in front of us today. We have Mr. David Adams from the Association of International Automobile Manufacturers of Canada. We have Mr. Mark Nantais, who is the president of the Canadian Vehicle Manufacturers' Association. We have Mr. David Worts, executive director of the Japan Automobile Manufacturers Association of Canada. Finally, we have Mr. Angelo Carnevale, who is the vice-president of the Canadian Association of Moldmakers.

I want to welcome all of you to our subcommittee on the study of the auto sector. We struck this committee last week in order to study some of the challenges facing the Canadian auto sector. Your testimony today and your submissions will inform part of the report and the recommendations our committee will report back to the House of Commons sometime before the end of the month.

Before we begin, we'll start with opening statements of approximately ten minutes from each of the five witnesses. We'll begin with Mr. Mark Nantais.

● (2115)

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

Good evening, ladies and gentleman. Thank you for this invitation to appear before you.

By way of background, for over 80 years the CVMA has represented Canada's leading automakers and sellers of light- and heavy-duty vehicles, that is Chrysler, Ford, General Motors, and Navistar Corporation.

Our member companies touch virtually all provinces and territories with their operations. Collectively we have 45 Canadian facilities, including vehicles and parts manufacturing, head offices, and sales and distribution facilities, and over 50% of the Canadian new vehicle dealer network, with 1,750 dealers in nearly every town in Canada. Chrysler, Ford, and General Motors are also the only auto assemblers that have significant research and development facilities and programs in Canada. Most importantly, they directly employ about 35,000 employees and support over 50,000 retirees.

We have thousands of suppliers and business partners across the country, everything from rubber manufacturing in Nova Scotia, mining natural resources and lightweight materials in Quebec, through to steel, chemicals, and high tech in Ontario, petrochemicals in Alberta, etc. So clearly we are national in scope.

These companies also purchase about $24 billion, out of the $30 billion annually, in terms of Canadian tier one auto parts. That's 80%.

Just to move on very quickly, over the past five years these companies have collectively invested $8 billion into their new Canadian operations to establish some of the most flexible, efficient, and greenest manufacturing facilities in the world. This $8 billion in investment represents over 80% of the major auto investment in Canada during this period. If you look at the total industry investment, $10 billion, that represents roughly a 10% return on the investment made by governments through the automotive manufacturing investment supports such as the automotive innovation fund established by the government. The investment made by government was a factor that was absolutely determinant in terms of attracting new production mandates, which are part of the broader effort of these companies to restructure their operations and to maintain competitiveness.

However, today, Canada, similar to other countries, has been hit by a very sudden and sharp collapse as part of an industry-wide and global auto crisis. Sales now register at declined levels that have not been seen in nearly four decades. The dramatic drop in vehicle sales is not a North American phenomenon, nor is it limited to only North American companies. In January, the latest month that detailed statistics are available, sales in France were down 8% year over year. Korea dropped 24%, Japan dropped 28%, Italy dropped 33%, Sweden dropped 34%, the U.K. dropped 35%, and Spain dropped 42%. This is clearly a global problem.

Today all manufacturers, regardless of their home jurisdiction, are taking immediate and sometimes very dramatic actions to deal with the current crisis, including eliminating and scaling back production, employee layoffs, and salary and benefit reductions, much of which you already heard about from certain companies.

The impact in Canada hits the full value chain. Dealers of all makes and models, with few exceptions, are struggling with dramatically decreased sales volumes and revenues. Parts suppliers have dramatically reduced purchase orders for their products. Corresponding with the drop in sales, manufacturers have cut production almost 60% so far in 2009. If this pace continues, production in Canada would fall to just 900,000 units in 2009—a drop in production of over 1.6 million vehicles compared to two years ago.

Given these realities, and recognizing the critical importance of the domestic auto industry to local economies, virtually all governments around the world, including the U.S., Germany, France, and Japan, have been taking complementary action, if you will, to support their domestic industries, by offering an assortment of support to manufacturers, dealers, parts makers, and consumers. Again, it's the full value chain approach.

The Canadian government is definitely playing its key role through the offer of emergency liquidity funding, extension of credit to suppliers through the BDC and EDC, and a secured credit facility, all of which are important, supportive, and highly welcomed measures.

It's critical that these supportive measures be implemented as soon as possible to be effective and that the government policies continue to be implemented to support the industry in a globally competitive manner. This is especially important in three critical areas: continued proportionate support to that offered in the United States, availability of credit, and direct consumer support to help drive vehicle sales—in other words, to help engender renewed consumer confidence.

● (2120)

Maintaining and implementing supporting mechanisms that are globally competitive, and in particular that are proportional to what is being offered in the United States, is absolutely critical if we are indeed serious about maintaining Canada's proportional auto production as we go forward.

Given this tight integration with the U.S., it is critical that the Canadian government implement its stated intention to adopt vehicle fuel efficiency rules like those of the U.S. national standard being developed by the National Highway Traffic Safety Administration.

The U.S. government estimates that the proposed rules will cost manufacturers about $115 billion. In order to minimize the cost to consumers, this cost must be amortized over the largest vehicle fleet possible to create necessary economies of scale. Creating a Canada-only solution would cost both manufacturers and consumers a lot more.

Understanding the difficulties of meeting the new targets, the U.S. government, under its Energy Act, created a repayable loan fund of $25 billion U.S. for the industry to help research and develop fuel-efficient vehicle technologies and vehicles. This will likely be doubled to about $50 billion shortly, we anticipate.

The second issue I want to highlight this evening is the urgent need for the government to implement the actions it announced in its budget, as well as to expand support for consumers as part of future government stimulus action. Mechanisms such as the secured credit facility are critical to allowing finance companies to loan to both business and retail customers, and it must be implemented as soon as possible.

Additionally, as we move forward, given the worsening auto sales collapse, the government should introduce direct consumer stimulus for auto sales in an effort to create greater consumer confidence. Several other countries have introduced a variety of measures to improve consumer confidence and spur vehicle sales, including tax holidays and fleet renewal programs, otherwise known as scrappage programs.

These actions are being credited with lessening the severe downturn in new vehicle sales, where bold, very simple, and direct measures have been taken. Germany is perhaps the most prominent and successful example, where an aggressive vehicle scrappage program is being credited with increasing sales by what is being estimated at 200,000 units for all of 2009, or close to a 10% increase. In February alone that represented a 21% increase.

It is also my understanding that in conjunction with that program, Germany is undertaking to address the freeze on credit issue that we also experience here. The combination of those two efforts has been a tremendous success.

Aside from the immediate economic benefit, we inherently enjoy a triple win with new vehicles that are cleaner—that is, 12 to 18 times less polluting—more fuel efficient, and indeed safer by virtue of some of the most advanced safety systems we are placing on those vehicles.

In addition to the short-term priority issues to ensure the long-term stability of the health of the auto manufacturing industry in Canada, governments must continue to work constructively with the industry on a broad range of business and regulatory issues, which would include the following.

Both environmental and safety regulations must be fully harmonized with the U.S. federal standards. Creating different regulations in Canada simply adds unnecessary costs—and in some cases we can give you examples where the costs to meet these rules are in excess of hundreds of millions of dollars to manufacturers—restricts products that would be bought otherwise in the Canadian market, and increases the prices consumers pay for those vehicles.

Another one is continued manufacturing and investment supports that are globally competitive. This is the automotive innovation fund, which has indeed been responsible for some of these new product mandates that have come to Canada. It needs to continue for the long term.

Streamline border regulations to reduce congestion and delays, particularly at the Canada-U.S. border, and focus on a coordinated perimeter approach with the United States. Customs procedures and transaction costs are very much a part of that.

We are believers in free trade, but free trade must be fair trade. Free and fair international trade agreements level the playing field for Canadian producers and eliminate protectionism in foreign markets, particularly the systematic use of regulatory and non-tariff barriers. The most poignant example of the systematic use of non-tariff barriers to restrict vehicles into domestic markets from every vehicle-producing nation has been that of Korea. Canada should pursue trade agreements that are supportive of Canadian manufacturing and recognize and support our NAFTA history. Canada's ongoing negotiation on the FTA with Korea at present fails to meet these objectives. It's not the right time, nor is the right agreement currently being looked at.

● (2125)

We also need to eliminate unnecessary and unproductive regulatory cost burdens, especially the federal green levy, the program that penalizes manufacturers and consumers.

Those, in summary, are a few things we would ask you to look at in the longer term.

I would very much appreciate receiving your questions.

Thank you.

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

Mr. Adams, you have an opportunity for a 10-minute opening statement.

Mr. David Adams (President, Association of International Automobile Manufacturers of Canada): Sure.

Thank you very much, Mr. Chairman and committee members.

I'd like to thank you for inviting me to this forum to present the views of the Association of International Automobile Manufacturers of Canada on the current state of the automotive industry.

By way of background, the AIAMC is the national trade association that represents the Canadian interests of 14 international automobile manufacturers that distribute, market, and manufacture vehicles in Canada.

In 2008, AIAMC members sold over 839,000 new vehicles in Canada, representing 51.2% of Canada's new vehicle market, the first time ever that AIAMC members have comprised more than 50% of the Canadian market.

While our members' sales have grown, so has their Canadian investment. AIAMC members have invested over $8 billion in manufacturing facilities alone. Annual production reached 796,000 new vehicles in 2008, or 38% of the 2.078 million vehicles produced by the three member companies that have production facilities in Canada.

While the majority of vehicles produced—75%—are exported out of the country, almost exclusively to the U.S., each of these companies sells more of the vehicles it builds in Canada to Canadians. For instance, 48% of Honda and Acura vehicles sold in Canada were produced at Honda of Canada Manufacturing. Thirty-seven percent of Toyota and Lexus vehicles sold in Canada were built at Toyota Motor Manufacturing Canada. Additionally, 3% of Suzuki sales in Canada were built at CAMI, and although I didn't mention it earlier, 1% of Volkswagen sales in Canada are actually built at the Chrysler facility in Windsor. Further, compared to other companies producing in Canada, these three companies have a higher percentage of their NAFTA production in Canada: Honda has almost 27% of their production here, Toyota has 26.3%, and CAMI has 100%.

While many would view the membership of the AIAMC as importers, in the context of NAFTA, over 50% of AIAMC member sales in Canada in 2008 were produced in the NAFTA region. And when Kia's $1.2 billion plant in Georgia opens for full production, Porsche and Jaguar/Land Rover will be the only two of our 14 members not producing vehicles in the NAFTA region.

The North American production-to-sales ratios bear out the fact that import penetration has not increased. Since 1990, the North American production-to-sales ratio has ranged from about 78% to a high of 93%, with most years being in the low 80% range. In 2008, the production-to-sales ratio was 80%. So while more consumers may have been buying our members' products, more of them were also being made in North America, providing jobs both in automotive assembly and in the affiliated parts manufacturing facilities.

As you are well aware, things have changed dramatically, as Mark indicated in his remarks, in the Canadian automotive industry in the last eight months, even in the last week. While much of the dire news has been focused on GM and Chrysler, Honda Canada sales were down 42% in February and 39% year to date. Toyota Canada sales were down almost 26% in February, or 15.5% year to date. In fact, only five of our 14 members increased sales on a year-to-date basis over 2008. Overall, sales for our membership are down 15% year to date.

Neither Canada nor the U.S. are isolated cases, either, as Mark previously mentioned. In Canada, from January through December last year, consumer confidence plummeted almost 30 points as Canada moved into a recession that had already started in the U.S. at the end of 2007. The U.S. recession was largely the cause of Canadian production falling almost 20% from the 2007 level owing to the fact that 75% of our members' production is exported to the United States. And that number is higher for the Detroit three.

Canadians became wary of buying major purchases as concern over the economy and their jobs increased. This was clearly evident in vehicle sales. Despite the fact that our sales last year were only down 1.1% from the 2007 level, which represents the third best year on record, the sales were essentially marked by two dramatically different halves. At the end of the first quarter last year, sales were up 7.3% and were tracking for an all-time sales record. By the end of the second quarter, sales were only up 2.4% over 2007, and, as I noted, by the end of the year we were down 1.1%. So the trend is very import to focus on, not the relatively minor dip in overall sales.

As the recession has taken hold, so has the negative trend. Mark already alluded to some of the sales declines in January and February, which were significant. Sales are currently tracking at a rate of 1.3 million units, which would represent a 20% decline in auto sales if it continues at this rate. Most analysts seem to think that the trend will not continue, but even so, it's estimated that sales will be down between 13% and 15%.

Sales decline will be very challenging for Canada's 3,500 new car dealers, who are also feeling the impact of tightening credit. In that regard, we wish to commend the government on the provision of the $12 billion Canadian secured credit facility in the recent budget. We believe this is helpful in ensuring that more credit is available in the marketplace. However, the speed of getting this facility in place is paramount.

● (2130)

Additionally, in a consultation session sponsored by the C.D. Howe Institute last Friday, there was some concern that the $12 billion may not be enough. There's hope that if that is the case, there would be consideration of additional funds being made available. That said, as Mark indicated as well, more credit availability does not necessarily mean that consumers will re-enter the marketplace. In our view, additional consumer incentive is required.

I won't go into too much detail about the scrappage program. You've already heard remarks from Mark. I'll just say in that regard that we are supportive of an enhanced scrappage program as well. We appreciate that the original scrappage program was essentially designed as an environmental initiative, with no direct linkage to the automotive industry. However, we think an enhanced program, as an economic stimulus, is important and it needs to be put in place. In terms of broad parameters, we believe that establishing a $300 million scrappage program with the goal of removing 100,000 vehicles from 1998 or older from Canada's roadways over the course of a one-year period would be something to strive for. This would increase consumer throughput in dealerships, thus shoring up vehicle sales, while providing concurrent safety and environmental benefits.

Given that new vehicles are lasting upwards of nine years and we're heading into a regime of regulated fuel consumption in Canada, a program similar to the BC SCRAP-IT program, which provides a sliding incentive based on GHG emission reductions over a two-year period, would provide the government with a significant measurable reduction of GHG emissions as well.

While scrappage programs would most certainly assist in bringing consumers back to the dealerships, thereby assisting the retail industry in Canada, no amount of sales increase in Canada is going to appreciably increase Canada's production by any of the six manufacturers producing here. The same would hold true for the parts manufacturers in Canada. We saw production fall by 20% last year because the U.S. was already into a recession. It's clear that further production cuts in North America and elsewhere will be necessary to adjust to whatever the new normal of U.S. sales will be.

The $16.8 million seasonally adjusted average of sales that have occurred throughout pretty much the last decade are not realistic and they are not likely to return any time soon. Those sales volumes were predicated on easy credit, high levels of liquidity, and generous incentives from vehicle manufacturers, combined with a growing economy, high consumer confidence, and relatively low unemployment.

Since the end of 2007, the U.S. economy has been in trouble. Consumer confidence has plummeted and unemployment levels have been rising rapidly, with 651,000 jobs in the U.S. vaporized last month alone.

Production capacity in North America has been built up to around 17 million units, which means there is excess capacity right now of about 7 million units, or roughly 28 vehicle assembly plants in North America. New, significantly lower sales volumes have forced all manufacturers to ratchet back production. Most analysts suggest that it will be several years, if ever, before we get back up to 16 million units in sales.

A December 2008 study by the Conference Board of Canada noted that profits last year for Canadian parts makers would be down $1 billion, and an additional 10,800 jobs would be lost in 2008-09, on top of the 12,008 jobs lost in 2007. I suspect that Mr. Fedchun painted a more bleak and accurate picture of the automotive parts industry when he appeared before this committee, so I won't elaborate on that at this point in time.

In our view, the Canadian government, however, should do its utmost to preserve the automotive parts manufacturing base in Canada, as many of its largest parts makers are global innovators in automotive components and subassemblies.

With respect to the provision of public funds and aid to the auto industry, prospects for the automotive parts manufacturers and the vehicle assemblers will not improve, as I noted, until U.S. sales improve. It's important that any aid that is provided to the industry be available on an equitable basis for all who need it, including the parts makers and dealers. Additionally, aid should not confer competitive advantage on those companies receiving it. For this reason, it's fundamentally important that there be a transparent process for the application and receipt of public aid and an accountability structure put in place to ensure the aid is being used for its designated purposes.

Finally, as the economic situation becomes more dire, protectionist sentiments will take hold, and for this reason we believe that a commitment to the maintenance of an open automotive market in Canada should also be a condition of the provision of aids to manufacturers.

I have a bit more, but I'll leave it at that for now.

Thank you very much.

● (2135)

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

Now we have our next guest, Mr. Don Romano. I overlooked the introduction of him at the beginning. He is the vice-chair and president and CEO of Mazda Canada Inc.

Welcome to our committee. You have 10 minutes to make an introductory statement.

Mr. Don Romano (Vice-Chair, President and Chief Executive Officer of Mazda Canada Inc, Association of International Automobile Manufacturers of Canada): Thank you, Mr. Chair and committee members.

I'm not going to cover a lot of ground.

Mazda Canada is based in Toronto. We have offices in Montreal and Vancouver. We have a warehouse in Toronto. We have 164 dealers across the nation and we employ over 6,000 directly.

We've talked a lot about the declining industry, but I think one of the greater concerns we have right now is the speed at which this decline is taking place. If you look at what happened in the United States, you'll see that the decline started in December of 2007 and was half a per cent. It took seven months before it became a 25% reduction. The decline in Canada started in November. We reached a 28% decline in four months.

The United States is now down 41%, and I believe it's possible, if we don't take action quickly, given the speed at which this change is occurring, that we could also see declines at that same level. We are seeing members in this industry already taking declines at that level.

Another trend that's concerning us is the credit, which is contributing to the speed of this decline. The costs of our funds, despite the best actions that we've given to the banks, are going up. Right now, the funds that we acquire to lend out to customers in APR financing have, in the last 30 days, increased 50 basis points. The cost of funds for leasing has gone up almost 100 basis points in 30 days.

Now, these trends haven't affected the industry yet. These are things that have happened, but that haven't yet flowed through to the consumer side, so we anticipate more challenges in the very near future as the cost of credit goes up.

Leasing is a particular concern. If you take a look at the trends, a year ago we were leasing 43% of all car transactions in Canada. Forty-three per cent of cars were being leased. Today it's 19%. That's a 24-point reduction in the number of leases that are taking place. If you annualize that out over the number of car sales, that's over 390,000 car sales. The decline in our industry isn't that big.

There is a correlation between the decline in leasing and the decline in our industry. No, it's not the only problem, but it is a problem that the secured credit facility needs to be aware of and needs to address through securitization and through this additional focus on making sure we have as many competitive options as possible in the marketplace to secure leasing. What leasing does is provide our consumers an option for a lower payment. When you take that lower payment out of the marketplace, there isn't another option, unless they're going to go for 10- to 12-year finance terms, which doesn't make any sense.

For Mazda, this is particularly important in the province of Quebec. We were doing over 50% leasing. But because there are very few options available and the rates are becoming more and more expensive, that option is becoming less and less available to consumers. Yes, you'll hear that there is credit available, but at what cost? As the price of credit goes up and as the options on leasing disappear, the number of customers we can attract into our showrooms begins to go down. As that goes down, so goes our industry.

So one of our concerns is to keep an eye on the need and make sure there's ample credit, not just for the standard APR, but also for the leasing, which was such a big part of our industry less than a year ago.

Finally, I'm representing a lot of dealers across the country who are also having problems with financing and tight credit situations. Right now, we're seeing dealers who are fortunate enough to have flooring lines. Dealers don't buy the cars. They go out and they finance the cars that you see in the showrooms. If they're fortunate enough to have those flooring lines, their rates are going up. Our dealers' rates on their floor plan, over the last 60 days, have gone up 50 basis points. That means every car out there is costing them more to hold onto. That, coupled with the additional expense of financing the cars, is translating into higher prices for consumers, which is making our cars less affordable and is driving fewer customers into the showroom.

● (2140)

On behalf of the dealers, we also have to make sure that they have ample credit opportunities through our banking systems to provide competitive flooring, competitive construction, competitive flooring lines, and as well, ultimately the consumer financing they need to run their businesses.

Unlike the United States dealership groups, which in many cases are that—they're groups, large corporations—none of ours in Canada, for Mazda, are corporations. They're family owned businesses, small businesses, and many of them are owned by second- and third-generation people who have inherited these businesses and are just trying to keep them afloat right now.

It's hard enough, with the industry going down, to not have the credit available to buy cars from the factory, to floor the cars, to finish their construction projects, to add an additional service bay. When I talk about the tightening of credit, I want to make sure that we've kept in mind the needs of our dealer body—not just Mazda's, but those of every manufacturer out there—and the struggles they're having.

That concludes my remarks, other than to say that I appreciate all that has been done and the efforts you're making in having us here tonight. I know you're putting in a lot of late night hours.

But the industry is moving in the wrong direction, quickly. I believe that with the right actions made promptly, we can turn this around. The industry is sick, but it is not terminal.

I thank you for your time.

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

Now we'll go to Mr. Worts. You have ten minutes to make your introductory statement.

Mr. David Worts (Executive Director, Japan Automobile Manufacturers Association of Canada): Mr. Chairman, thank you for the invitation to participate in this hearing on the auto industry in Canada.

First let me say a few words about our association. JAMA Canada was established in 1984 with the mandate to enhance understanding on trade and economic issues in the auto sector and to promote closer relations between Canada and Japan. Currently, we have eight members; four are manufacturing vehicles in Canada: Honda, Toyota, Suzuki, and Hino Trucks. Seven of our members have affiliated plants in the U.S. or Mexico.

Canadian manufacturing operations account for approximately a third of total light vehicle production in Canada. In 1984 every vehicle our members sold came from Japan. Today three out of every five vehicles sold in Canada by our members are made in North America. Moreover, Canada has been a net exporter of light vehicles every year since 1993. In 2008, twice as many vehicles were exported from Canada as were imported from Japan.

In the next few months Canadian production among our members will pass the 10 million mark. I note that Honda in Alliston will celebrate subproduction of its five millionth vehicle in 2009. Cumulative vehicle manufacturing investment stands at over $9 billion, including the new Toyota plant in Woodstock, Honda's four-cylinder engine plant in Alliston, and the Hino truck plant in Woodstock as well. Production in Canada last year totalled 682,000 light vehicles as well as 1,230 medium-duty trucks, and a little fewer than 74% were exported; 94% went to the U.S. and the remainder to a variety of other countries.

Compared to the Detroit three, Honda and Toyota devote a larger percentage of their Canadian production to the domestic market, as small vehicles such as the Civic and the Corolla are among the most popular with Canadian consumers. In addition, 65 Japanese-related auto parts, materials, and tooling manufacturers in Canada have been established and are employing over 16,000 team members. Total direct and indirect employment stands at over 70,000 in Canada, including dealerships, as well as about 29,000 in vehicle and auto parts manufacturing. I think you have a copy of a map I distributed, which shows all the vehicle and parts plants currently operating in Canada.

From our perspective, the current crisis facing the auto industry is not only global in scope, as many others have pointed out, but the industry is struggling with both structural and cyclical aspects. In spite of plunging demand in the last two months of 2008, it was a record year for sales for our member companies. However, combined sales are down 20% at the end of February, as others have noted. The onset of the recession has created widespread concern among our members over falling demand, lower consumer confidence, and tighter credit. For the Canadian and the global auto industry, 2009 may well be remembered as a transformative period in its history.

While the Canadian auto industry has been restructuring due to the convergence of several factors over the last few years—currency volatility, the price of oil and other commodities, and shifting consumer demand—in some respects the industry began this period of structural change over 30 years ago with the first oil shock in 1973 and the subsequent rise of globalization. For Japanese automakers in Canada, this period of continuous change has been remarkable for the growth of investment in local production for Canada and for export to the U.S. As you have often heard, the Canadian auto industry is deeply integrated within North America. This has allowed Canada to punch above its weight, producing about twice as much as we consume and exporting a high percentage of local production. With the relatively small domestic market, access to the larger U.S. market is necessary to sustain this level of production and export.

Clearly, the cyclical downturn that started last year in the U.S. is the reason production in Canada is now at risk. Moreover the return of the U.S. consumer is necessary to revive production in Canada. Meanwhile governments continue to play a critical role in stimulating consumer confidence as well as creating a positive and competitive environment for trade in investment by maintaining open, secure, and trade-efficient borders; infrastructure improvements, including the border points; sound fiscal and monetary policies; and supporting innovation through R and D tax credits, etc.

● (2145)

In this regard we are encouraged by the government's effort in the federal budget to backstop credit for dealers with the $12 billion secured credit facility, improving access to credit for suppliers, as well as extending the capital cost allowance on machinery and production equipment.

Whether these measures will bring consumers back into the market is not certain. A more direct consumer stimulus, such as an enhanced scrappage program that others have already suggested, may be needed.

With respect to financial support from the federal and Ontario governments, while JAMA Canada members are not seeking loans or credit assistance at this time, we are concerned that the proposed funds for General Motors and Chrysler may be used to create disadvantages for those in the market not seeking such assistance rather than to maintain Canada's current proportion of production in North America.

Finally, on the matter of harmonized regulations, JAMA Canada fully supports the position of the AIAMC and the CVMA on the need to establish a single dominant standard in North America for fuel efficiency, vehicle safety, and emissions in Canada due to the highly integrated nature of the industry.

We also have some concerns about the impact of an FTA with Korea, as well as the possible negotiations with the EU, but as the time is short, I will provide the committee with our position paper when it's available in both official languages.

Thank you for the opportunity to participate in the discussion. I look forward to your questions.

The Chair: Thank you, Mr. Worts.

Our last witness is Mr. Carnevale. You have 10 minutes to make an introductory statement.

Mr. Angelo Carnevale (Vice-President, Canadian Association of Moldmakers): Thank you, Mr. Chairman.

Greetings, honourable members.

On behalf of the Canadian Association of Moldmakers, and in my capacity as vice-president, I want to say thank you. We appreciate the opportunity afforded to us by your committee to offer our input on the current state of the tooling industry in Canada as it pertains to the automotive industry, and we thank you for that.

To state the obvious, our toolmaking industry is in crisis. What may, or may not, be surprising is that we have been dealing with this situation for several years; it's not just due to the current financial crisis. In effect, the rest of Canada is just now feeling our pain.

The initial root of our problem has been inequitable payment terms from the Detroit three—the PPAP payment terms—who are traditionally the largest customers of tool shops. Traditionally, a car maker or OEM would place a production program with its preferred tier one supplier, who in turn would place a tool to be built with their preferred tool shop. The tool would be built and the parts that are produced from that tool would be approved for installation in cars by the OEM. The tier one supplier would receive moneys from the OEM to pay for the tool or the mould. This could typically take from 18 months to 48 months, depending on PPAP or delays. In this timeframe, the tool shops are not paid any amount of funds for their work.

Unfortunately, due to the pricing pressures on program costs by the Detroit three, many moulders and tier one suppliers encountered financial difficulties and either chose not to pay the tooling moneys to the tool shops and/or went into chapter 11—again keeping the funds.

We therefore consider this payment model to be broken and are requesting that a portion of any loans given out by our government be directed to the tooling companies, not as a loan to them but as a payment for work already completed on the OEMs' behalf.

We believe this must be pushed with the weight of government, because this payment plan is unfairly stacked in the favour of the OEMs, and they will not willingly desert this payment strategy as it affords them the ability to kick off tooling and keep the costs off their balance sheets. This payment strategy must be stopped for the future health of the small to medium-sized businesses, which cannot afford to finance the Detroit three. We believe this is an opportune moment for this endeavour, as there is currently a similar effort by the American tool shops that is being viewed seriously by their elected officials.

The mould/tool/die enterprise must be viewed as an independent sector of the automotive business. We are major suppliers to the automotive industry by virtue of its presence in the market, but we could in fact have a robust tooling sector supplying non-automotive industries, such aerospace, medical, wind energy, solar power, fuel cell, nuclear, and houseware products. But we need to be paid for our work so that we can reinvest in new technologies and pursue these opportunities.

Currently we're hindered by the following financial constraints. The majority of tool shops are currently owed significant amounts of money by the automotive sector. Banks are lumping the tool shops in with the automotive industry's difficulties and are therefore restricting credit.

Many banks will not offer accounts receivables coverage for a customer without that customer being approved for EDC coverage. Currently the EDC will not offer coverage for the Detroit three and most of their suppliers, which is in effect forcing the tool shops to refuse work from the Detroit three.

As an example, Chrysler, which is requesting loans from the Canadian government, cannot obtain coverage from the EDC and has recently announced that it will be releasing approximately $500 million in tooling for new models, which most Canadian tool shops will be forced to refuse to quote, given this situation.

This current situation could likely create the following scenario: Chrysler could be approved for loans and receive loans from the Canadian government; EDC, a crown corporation, could continue to refuse to offer receivables insurance to Canadian tool shops for Chrysler; Canadian banks would then refuse to margin Chrysler receivables without EDC coverage; the mould/tool/die sector would then be forced to refuse Chrysler work; Chrysler could then place their tooling either in the U.S. or overseas, where they honour progress payments, in effect paying foreign firms with Canadian taxpayer funds; Canadian companies would then be forced either to downsize or to close, and then would also draw down on whatever EDC-covered receivables they currently had, in effect promoting a type of double-dipping of taxpayer funds.

Therefore, we respectfully suggest the following for your consideration: that any funds have a portion earmarked to pay off critical suppliers, and that the mould/tool/die sector be designated as a critical supplier.

The PPAP payment term system must be discontinued. If the OEMs must pay progress payments to their Chinese suppliers, they can pay them to the Canadian suppliers.

The EDC must increase their credit coverage of the Detroit three in conjunction with the loan strategy. As a government corporation, their non-coverage of the Detroit three is inconsistent with the government's strategy of providing funds to the Detroit three.

● (2150)

The industry is doing its part by participating in various organizations, such as the Canadian Association of Moldmakers. Our particular association promotes the country's toolmakers through efforts such as our recent successful trade fair and our attendance at various trade shows in the U.S., England, and Germany, where we hand out members' trade magazines, meet with various trade representatives from other countries, and obtain sales leads to be distributed to our member shops. As well, we're working with various government MPs and MPPs, such as the Province of Ontario, which recently organized a hugely successive “Powering the Future Summit” at Windsor's new casino, which had in excess of 800 people in attendance. We are also working with agencies such as the Windsor-Essex county's development commission and with our trade commissioners and ambassadors to assist us in procuring out-of-country projects, because most tool shops are primarily export-driven concerns. We also maintain close ties with our local colleges and universities.

In conclusion, we've not come before you to request any loans, but only timely payment for services already rendered to the OEMs and a return to fair practice payment terms so that we can move forward and invest our own money in our own future. The typical Canadian small and medium enterprise shop owner is an aggressive and sometimes fearless and innovative business person who has the drive and desire to survive and prosper, as evidenced by the strong attendance at the “Powering the Future Summit”, which was promoting alternative manufacturing opportunities. It's also evidenced by the fact that most are still surviving in spite of the current formidable challenges described earlier.

Thank you for the opportunity to express our beliefs.

● (2155)

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

Before we begin with questions and comments from members, I'll just remind the witnesses that we use both official languages in this committee, so some of the questions will be in English and some will be in French.

We'll have about an hour of questions and comments on the part of members. I'd ask that members direct their questions to a particular witness, or a particular group of witnesses, when they ask those questions.

We'll begin with Mr. Valeriote.

Mr. Francis Valeriote: Thank you.

My question is for Mr. Nantais.

First of all, I'd like to thank all of you gentlemen for taking time out of what I am certain is a very busy schedule to come up and speak to this committee.

Just as some history, we know the government is looking at proposals submitted by General Motors and Chrysler, and they must have an answer by the end of the month. Concurrently with that, this committee was conceived by Mr. Michael Ignatieff, who thought it was important that we look outside the box and determine whether or not there are some things that could be offered by the industry as part of the overall solution.

So with that in mind, I move back to last year. I look at what I understood was going on in this industry before I became an elected member of Parliament. What I saw was a decline in the industry. I noticed from General Motors documents that in 2005 they were employing 20,000 people here in Canada, and that has steadily gone down to about 8,000 to 9,000 this past year, with an expected reduction to about 8,000 by mid-year in 2009.

Mr. Nantais, over that period of time, I am curious if there were proposals by the Detroit three in Canada to the Canadian government, proposals that could or should have evolved into a national auto policy of some sort to deal with this—not exclusively a national auto policy, but a North American auto policy, given the integrated nature of the American and Canadian industry. I ask this because I'm looking at an October 2007 document that was submitted by the Canadian Vehicle Manufacturers' Association, which shows that much of what's being discussed today was actually thought of and conceived back in 2007.

So could you talk to us about what was presented, what was asked, what was not responded to? And in your estimation, should we have a national auto policy, and what should it include?

Mr. Mark Nantais: Thank you very much, Mr. Valeriote.

That is indeed a document that was authored by the CVMA. We put forward at that time a series of different proposals or propositions that we believed would enhance the well-being of the Canadian auto industry—not just the CVMA companies, but every vehicle manufacturer that actually produced vehicles in Canada. It was also consistent with the recommendations put forward by the Canadian Automotive Partnership Council. So it was a series of things, in the context of an automotive strategy, that we thought could achieve that objective. It included things like the AIF fund to assist companies to innovate and bring new investments into Canada. We worked with the Ontario government as well, with the large-scale investment fund, to help create this envelope for new investment. It has worked well.

On numerous occasions we have raised concerns about various other aspects of the industry—everything from the thickening of the border and the need for new border infrastructure, to the need to remove the tyranny of differences in automotive safety regulations vis-à-vis those in the United States. Emission standards is another one on which we've made some real progress. There was a whole series of things that in aggregate would have been very helpful to industry. We made progress on some, and in the context of this committee or the government, we could still pursue others to the benefit of everybody that produces in Canada.

● (2200)

Mr. Francis Valeriote: Would it have helped had those others that you made no progress on been introduced earlier?

Mr. Mark Nantais: We can always look back in hindsight, which is 20/20, and say that could have been the case. I don't think any of those are actually off the table now. It's a matter of working through them with the government and all parties involved and making progress.

We have already initiated a good process to eliminate some of the differences in safety regulations between Canada and the U.S. We've made some real progress there, but we have to be sure we don't lose momentum.

Mr. Francis Valeriote: Is there an organization equivalent to the Canadian Vehicle Manufacturers' Association in the United States?

Mr. Mark Nantais: Yes, there is.

Mr. Francis Valeriote: Do you consult with them?

Mr. Mark Nantais: We have ongoing discussions with them.

Mr. Francis Valeriote: Given the integrated nature of our industry, the need to buoy the industry in the United States, and how much we export to the United States, would they have made similar representations to the Bush administration to buoy the industry there?

Mr. Mark Nantais: They would have made some of their own proposals, yes.

Mr. Francis Valeriote: Okay.

I have a question about the current proposal of $7 billion to $10 billion that's being asked for by General Motors and Chrysler. We have an obligation to the taxpayers, who want to make sure that amount is invested and protected. We've learned that there are no assets in General Motors to secure any loan to them, because that's already been pledged to the United States in the package they offered. In trying to honour the expectations of the taxpayers, we also have a great need to preserve jobs in this country.

I'm trying to find a solution to that dilemma. How do you see the $10 billion or $7 billion being loaned? Do you see it loaned in tranches, with benchmarks being met before the whole amount goes out? Can you give me some perspective on what you think might be a meaningful and reasonable way of structuring these loans?

Mr. Mark Nantais: It's rather beyond my purview to speak specifically about the viability plans, but there are some things, generally speaking, whether we call them principles or whatever, that one can look at in terms of how that money is disbursed, and those companies will make it clear to you what they are. But whatever the terms and conditions of these loans, I suggest they not be overly constraining. The companies need the flexibility in a short period of time to dispense those funds in a manner that is consistent with their viability plans and the timelines and deadlines they face.

The Chair: Thank you very much.

[*Translation*]

Go ahead, Mr. Vincent.

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

I've been listening closely to what people have been saying since the meeting began, just as I listened last week. In my estimation, the current problem is auto sales. Do you have a strategy in place for selling vehicles? Even if billions of dollars are allocated to the Canadian and U.S. industries, if no one is buying a car, dealers won't be moving vehicles off their lots. Have you devised a strategy of some kind to sell these vehicles?

Mention has been made of wage rollbacks. All industrial sectors in Canada, and not just the auto and parts industries, are imposing wage rollbacks on workers, a move that reduces their purchasing power. As a result of this move, banks and credit unions are reluctant to lend money, since consumers are already carrying mortgage and other debt. Banks are issuing even fewer car loans.

What can you do to sell vehicles that the middle class can afford, in spite of wage rollbacks? Therein lies the problem: how do you sell your vehicles? I'm interested in hearing your comments. Why kind of national strategy have you devised to market your vehicles so that the industry and the resale market can recover?

● (2205)

The Chair: Mr. Vincent, is your question directed to all of the witnesses?

Mr. Robert Vincent: It's directed to whomever would like to jump in first.

[*English*]

Mr. David Adams: You've heard tonight, and last week as well, about some support across the board for a sizeable scrappage incentive that really gives consumer incentive to take an older vehicle off the road. The challenge out there right now, whether it's vehicles or anything else, is consumer confidence and what we can do, as an industry, as a government, to try to spur consumer confidence.

When people are concerned about their jobs and about the economy in general, they don't make big purchases, deferral purchases. So if an incentive were to be put in place, such as a scrappage program, around the $3,000 mark, that could bring people back into the marketplace and spur some of that consumer confidence again.

The Chair: Mr. Romano, do you have a comment to make?

Mr. Don Romano: In terms of a sales strategy, I've been in this business for 25 years and there are two fundamental elements to a solid sales strategy. The first is product. In a declining market it's difficult to bring out the kinds of products that will excite customers to come into showrooms. Without that product, without the R and D, without the profitability of the industry, there is no new product. And when there is no new product, there is no future sales strategy.

But all future sales strategies of success will be led by new products, exciting products. You've heard from a number of manufacturers, some of whom will disclose some of the future products they have coming up. Some of us keep them closer to the vest. The most important thing we can do is keep focused on the future and bring out the products that meet the needs of the customers—more fuel efficient, more environmentally friendly, more cost effective, and just more exciting design and engineering attributes. The product has to be number one.

Number two, then, has to be the ability to finance those new products and to promote them to the middle-income Canadians who cannot afford the higher payments today, to be able to have, for instance, lease options, where they're not taking full possession of the vehicle and the ownership and the cost associated with that, but they can lease it, understanding that after a certain number of months they can return the car and buy another car. This increases term rate as well and improves profitability not only for the manufacturers but also for the dealers.

The sales strategy for us is really twofold. It's to ensure the R and D investment continues to bring out the exciting products, and then to work with the government and the banks to ensure financing is available so that they can finance those new products.

Thank you.

The Chair: Mr. Worts, did you have a response to the question as well?

Mr. David Worts: I don't think I'll add anything more at this time.

[*Translation*]

The Chair: Do you have another question, Mr. Vincent?

Mr. Robert Vincent: Yes I do, and it's along similar lines.

Your strategy calls for financing and building vehicles designed for the middle class. Have we currently reached a crossroads in terms of sales of these types of vehicles? Let me give you an example. Yesterday, an industry in my riding was paying its workers $15 an hour. In future, however, it will be paying them $12 an hour. Workers have therefore agreed to take a $3 an hour pay cut. Yet, the price of food and other goods hasn't gone down.

Have you considered designing far more affordable vehicles like the ones we hear about that are being built in other countries and that cost between $5,000 and $7,000? Would it be possible for you to come up with some real designs, given the current economic downturn and the wage rollbacks affecting all sectors?

● (2210)

[*English*]

Mr. Mark Nantais: Maybe if I could start off, I think what we have in play here is that the industry, first off, is fiercely competitive, so there's always downward pressure on the cost of the vehicle. As you heard earlier today, I think it was Mr. Mondragon from Ford who indicated that we've been into negative pricing for a number of years now. So the price has actually come down, and that's been going on. In the end, it will be what the market will bear, but I can say this. When you look at the plans all the companies have—and clearly a new product plan is something that's held very close to the vest—these product plans will include products that people will demand from all different levels of economic income and whatnot, and there will be that full range of vehicles, at least certainly from our CVMA companies.

The other thing here—and this is what I raised earlier—is the whole issue of regulatory differences and unnecessary regulation, because those things can add literally thousands of dollars to any new vehicle. It doesn't matter the size of vehicle. In other words, we can't choose which vehicles to sell that either meet, don't meet, or meet some of those regulations. Everything we sell in Canada must meet all the safety standards, all the emissions standards. So unnecessary costs associated with unnecessary regulations, duplicate regulations, and unharmonized regulations will add cost. If you can remove those things, that helps us get costs down for consumers.

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

Now we're going to go to Mr. Lake.

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

Thank you all for coming to visit us at this late hour.

I just want to start by answering a question Mr. Valeriote had here a few minutes ago. He was asking about what we've been doing.

I note that Dennis DesRosiers had some comments about that. He's been quoted a few times. He said on CPAC the other day: "Mr. Flaherty and Mr. Clement have been brilliant in how they've handled this going way back...", talking about last summer and last fall. He says, "They came out weeks" after "the American government's going through this ridiculous process"—these were his words, by the way—"in early December of embarrassing the vehicle companies. Flaherty, Clement were up there saying we're there, we'll help you...." Then he finished by saying, "Brilliant by Flaherty and Clement. They really deserve a lot of credit."

I'm sure Mr. Valeriote in his next round will make sure he gives them that credit.

I want to get to the issue at hand here. Actually, first of all, I want to talk a little bit around this scrappage program. I want to get a little bit of clarification around the scrappage program, because it sounds intriguing. We talk about Germany's $3,500 per car. I think someone mentioned 500,000 vehicles that we have to sell here. As I kind of crunch the numbers, it looks like a program that would cost somewhere between $350 million, and possibly over $1 billion, depending on how many people would take up something like that. Of course, we're in a difficult situation because we're dealing with priorities here. Obviously, there are a lot of pressures on the economy, outside the auto industry as well, and we're putting $34 billion out there in a stimulus plan to try to kick-start the economy.

I'll make one comment first and then I'll ask the question. The comment I would make is this. There's a significant number of vehicles that are sold in Canada but made outside Canada. What would that percentage be—anyone?

Mr. David Adams: Probably about 85%.

Mr. Mike Lake: So 85% of cars that are sold in Canada are manufactured outside. So a scrappage program that motivates people to buy cars doesn't necessarily help save manufacturing jobs here in Canada; it would help to save a lot of manufacturing jobs outside Canada.

I'm not saying it's not a good idea. I want to make that comment at the front.

Secondly, on the secure credit facility, the $12 billion that we're putting forward, I think that virtually unanimously people have said it's a really good idea to get that money flowing as quickly as possible. But earlier tonight we had some people suggesting that we might need more. I know the minister has not closed the door on looking at more, but on behalf of my constituents.... When we start talking about more money—about a billion dollars, or maybe $350 million, whatever the case is—it becomes absurd, when we start throwing around numbers like $350 million and $1 billion as if they're pocket change. Where does it end? On behalf of my constituents, who ask me this question on a regular basis, where does it end?

● (2215)

Mr. Mark Nantais: Maybe I can kick that off. First, $350 million was a number we put out for roughly 100,000 vehicles. Our view of this is that we keep the program simple; we don't construct something like what we've already constructed, which is not going to work or provide any real economic stimulus. We need something that's simple, that doesn't create winners and losers, as we did on the ecoAUTO rebate program. We need to avoid those pitfalls absolutely. But it is good money spent, in terms of engendering some consumer confidence. And that's what we really need, because consumer confidence is contagious. Whether it starts in the auto industry or elsewhere, it undoubtedly will spill over into the housing industry and all of the key indicator sectors, we hope. So it would be good money spent, in our view, in addition to these things.

In relation to your question about the number of vehicles sold in Canada that are produced elsewhere, let's remember that we're an integrated industry. Most of the vehicles we sell in Canada generally come from the United States—a high percentage. We're an integrated industry, so many of the parts and components that are in the vehicles we bring in from the United States for sale in Canada actually have Canadian parts content in them, in high percentages. We still benefit. It's not necessarily black and white, but there's some real benefit in that, nonetheless.

The secured credit facility is something you're hearing about from everybody, I think, who has come to this table to appear before you. It is absolutely critical, because without access to credit, nothing moves. One of the biggest benefits to the consumer has been leasing: affordable monthly payments. Since credit has been locked up, we've virtually lost leasing. Some companies have a higher percentage than others, but I think it's fair to say that everybody across the board is down, in leasing, because you can't get credit, and yet leasing is so beneficial to Canadian consumers. That's why we're saying it's absolutely critical.

As pointed out before, $12 billion is a good start, and we have to start somewhere. Maybe, at some point down the road, when we can see that this number is not sufficient...I guess we'll cross that bridge when we get there. But we have to get up and moving now.

Mr. Mike Lake: Yes, and of course we need to be constantly monitoring the situation. I know that we have been and will continue to do so.

Speaking in terms of consumer confidence, because that's another big theme that has come up, I was talking a little bit about priorities. Obviously we have a lot of different priorities across the economy. We have an economic stimulus package that, across the board, is designed to keep people working in this country, whatever it is they're doing. Whether it be working in the auto sector, whether it be building houses, whether it be working in the forestry sector or other manufacturing—no matter what it is—we want to keep people working.

How important is it, in terms of their ability to buy vehicles, that people keep working? It's an obvious question, but I guess I want to make a point with it. How many people who aren't working are out there purchasing vehicles?

The Chair: Would any of the witnesses like to try to answer that question?

Mr. Mike Lake: I think the point is made there.

Mr. Nantais, I want to come back to you for a second, because you represent the big three. One of those big three sat before us tonight. They're not asking for money at this point. Perhaps you could comment on what's different about the way Ford has conducted its operations. You are probably limited in the way you can answer this question, but in general, what is different in the way Ford has conducted its operations that makes it not so necessary for Ford to be asking for money right now, compared with the other two?

Mr. Mark Nantais: Yes, I am very limited in what I'm able to respond on that. Ford Motor Company took steps to increase their cash reserves before this hit. It was part of their ongoing restructuring plan. I think we just have to remember that every company that has gone through a major restructuring like that takes a huge hit on their cash reserves. It's not an easy or a cheap thing to do.

It's very difficult for me to comment beyond that, Mr. Lake.

● (2220)

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

The floor goes to Mr. Masse.

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

My first question is for Mr. Carnevale. One of the things that we have limited witnesses on is the tier one and tier two suppliers, but they're part of the overall survival necessary for the industry to move forward, especially with new models. How vulnerable are the mould makers and tool-and-die organizations if they don't have some type of provisions change, either for Export Development Canada or through some type of program that has guarantees?

As you were mentioning, first of all, we can get rid of the PPAP system, which in my opinion is just completely counterproductive. It's inefficient. It creates more borrowing costs, whereby the banks once again come out as the winners, the ones that really benefit from this. Also, it's unproductive. It kills Canadian productivity. How important is it to structurally change those elements if there's going to be assistance?

Mr. Angelo Carnevale: It's very important. This situation that the tool shops are currently in has been years in the making. The PPAP type of parts approval system has been in place for several years. But to pin 100% payment on it...it has come to the point, with the big three coming back to the suppliers, wanting give-backs and cost-cutting, and not just with the mould shops but also the tier ones, where you've carved a lot of the profit out of the system.

Combine that with a very punitive type of payment system. A tier one, for example, could run parts off an interim A type of tool, provide those parts that were saleable or approved to go on a car, and still get paid in 30 days for the parts they supply, yet the tool is technically not approved for payment so they don't have to pay for the tool.

Tool shops, by definition, are export-driven companies, but in order to maintain their competitive edge.... There are intensive payments and intensive costs of new machinery. For a five-year-old machine, whether you use it 500 hours a year or 5,000 hours a year, the technology is five years old and has to be replaced.

Companies will come in. If you want to get into the big three you will be surveyed as to your competence levels and what type of machinery you have. This is all part and parcel of being approved to work for them, yet they're not going to pay you to buy that technology that's necessary for you to be approved as a supplier.

The end result is that it will create a cost disadvantage. No matter what you do, if you're not going to get paid for two years, you're going to have to somehow put your bank's interest on the price of that tool. If you want to compete against a Chinese tool shop, for example, if they're getting paid in progress payments, that alone would cause a cost advantage for them because they're not carrying the money. In some cases, we have been carrying money in this type of payment system from 1995. You heard the president of Ford of Canada in here earlier today saying that it's been tough since October to carry the paper, to carry the money. We've been carrying it since the nineties.

Mr. Brian Masse: It's important that we get this fixed.

Mr. Worts, I want to ask a question with regard to what's happening in Japan. We heard about Germany tonight. Is the Japanese government providing any assistance to the auto manufacturers—parts, assemblers, or labour—in their country right now?

Mr. David Worts: I'm not an expert on what the Japanese government is doing at the moment, but I believe that Toyota has requested some assistance on credit from the Japanese government for their global operations and operations in Japan as well.

I'm not aware that there's assistance to the labour force in particular. I know the CAW mentioned something about that earlier this evening, but I'm not aware of that.

● (2225)

Mr. Brian Masse: How would we get that information? I've commissioned a paper. There's been a lot of discussion about the fact that it seems only the North American Detroit three are getting assistance. However, my research indicates that other countries are providing direct assistance to their manufacturers, their parts people, and their workforce. So since you represent the association for Canada here, how would we go about getting that information? Can we get that further follow-up to kind of balance it out?

Mr. David Worts: I think I could put in a request to our Tokyo office and get a sense of what's going on in Japan and any assistance that may be provided.

Mr. Brian Masse: Okay. It would be helpful to get a balance on that.

Mr. Mark Nantais: If I could add to that, I think now it's evident that any major automotive jurisdiction around the world is supporting their domestic industry in some major way. Certainly, I think it's known that Toyota has sought funding assistance from the Japanese government, and of course that can take different forms as well. We do know that Toyota has also sought funding from the EU in terms of helping them bring forward advanced technology vehicles.

So it doesn't matter which manufacturers or which country; it seems that wherever you have an auto industry and they recognize the economic benefit, whether it's Australia, the EU, Spain, North America, Canada, the U.S., or elsewhere, those jurisdictions are providing some means of supporting their domestic industries.

The Chair: Thank you.

Mr. Masse, you do have more time, but I've asked the research analyst if he would provide the committee with that information as well, and he said he would be able to do that.

Mr. Brian Masse: Oh, great. Thank you, Mr. Chair. That's a great suggestion.

I'll just mention this quickly. I do have a private member's bill with regard to the after market. I think it's important to note that universally, we've heard, there's a request for billions of dollars of loans and potentially more with regard to the purchase of new vehicles. I think it is important that we extend some type of vehicle... and I have gone over and over this, and I will continue to, because the banks are being irresponsible with their lending right now. Once again they're charging 8% to 14% for good credit users, which is ridiculous. They'll make more money on a vehicle than anybody else will.

My private member's bill has a provision.... Basically, I get out of my driveway and I can be in Detroit, Michigan, in five minutes and have a repair done by a service mechanic who is maybe less qualified than is a Canadian technician. Some companies like General Motors provide that information and others don't. The United States has that capability. We don't over here. Does that seem fair that there be requests for a lot of support to purchase new vehicles, but at the same time the United States has a different set of systems for tooling, training, and using software versus what we have over here, especially given the fact that a lot of auto manufacturers have asked for harmonization on a whole series of things, but we don't have that for the after market? Does that seem like a fair scenario for the Canadians?

Mr. David Adams: If you're looking at your bill in particular, I don't know that it necessarily addresses what you want it to address. As I understand it, you're looking for the provision of information, training, tooling—

Mr. Brian Masse: Let's take it out my bill and talk about that situation. Is it fair that there's a different set of rules in the United States from what there is here? It could be my bill. It could be something else, but do you think that's a fair situation for Canadians to be in right now? You can literally, once again, go out and be over in Detroit or you could be travelling down to Florida and have a problem with your car and have to get it repaired at a facility and then later on bring it back to Canada, but the same thing could have been done over here.

Mr. Francis Valeriote: A point of order, Mr. Chair.

The Chair: Mr. Masse, we have a point of order.

Mr. Francis Valeriote: Thank you, Mr. Chair.

We're not here to talk about Mr. Masse's bill. We're talking about the future of the auto industry in Canada.

The Chair: I understand, but I'm going to rule the question in order since it does concern the auto sector.

Mr. Adams, if you could briefly answer it, then we'll move on to Mr. Valeriote.

Mr. David Adams: Whether in the U.S. or in Canada, I think the reality of getting your vehicle repaired is contingent on whether it's a dealership or an independent repair shop having expended resources to purchase the manuals, which are readily available from sources other than the manufacturer, and the tooling, which is readily available from sources other than the manufacturer. So it all depends on who's going to make the investment to purchase the equipment and the manuals, whether it's on one side of the border or the other.

The Chair: Thank you very much, Mr. Adams and Mr. Masse.

Now the floor is Madam Hall Findlay's.

Ms. Martha Hall Findlay: Thank you, Mr. Chair.

Thank you very much, everybody. I'll repeat our gratitude for your being here with us so late.

I have several questions so I'm going to try to be relatively quick, but I will preface this again by saying that we all are very concerned about the jobs throughout the industry. We are also, as parliamentarians, concerned about taxpayers' money, so we have a combined interest in being here.

First off, Mr. Carnevale, thank you very much for being here and for shedding significant light on the complexity of the challenge here. I may have questions to ask after the fact, but I just wanted to make the point that you have added here in showing that this is significantly more complex than I think most people understand and that there are tentacles to this problem that go much further. So thank you for that.

Mr. Nantais, the forecast numbers are pretty dismal, and my question is very blunt. We keep hearing questionable numbers. Several of you have talked about concerns about where the forecasts are, and whether we're sure the forecasts will actually be where they are. You've talked about the credit facility and maybe that not being enough and that we'll cross that bridge when we get to it. But with regard to the actual cash being asked of the government from the two companies, and given the significant burn rate in particular with GM—I'm not as familiar with Chrysler's numbers because as far as I know they're not appearing yet—do you think that's enough?

● (2230)

Mr. Mark Nantais: I really can't say. I can't offer any guarantees. I can't say yes, that is going to be enough, or no, it isn't. Let's be clear here. When we take a look at the economic conditions, whether it be in Canada or the United States or elsewhere around the world, we are indeed a global economy now. So every time I hear Bloomberg news I start to get depressed because they start linking the global picture together. When we think we're making some progress here, somebody on the other side of the world says, no, things are going to hell in a hand basket, and everything drops again. So it's very difficult to say, one way or the other.

But certainly you've heard from General Motors that they have expressed optimism. You've heard from Ford today that they expressed optimism.

It's going to be a very different future, we do know that. But we do know the consequences of not doing anything are going to be far greater, and that once we lose jobs here, they're gone forever. That is the new norm, that is the new reality, so I think we have to look at it in that context.

I'd like to give you more, but unfortunately I can't.

Ms. Martha Hall Findlay: I have a question for Mr. Worts. We've heard different explanations of the role that the parts supply chain plays. I have heard that on the one hand the parts supply chain in Canada supplies, for the most part, the big three and not Toyota and Honda, for example. Their parts supply comes mostly from abroad. And then I've heard the opposite. Can you shed a little bit of light on the parts supply chain in Canada and what proportion of that work goes to which of the companies?

In that context also, what portion of the parts supply in the system actually goes down to the United States, recognizing that a lot of those cars then come back up. If you could shed a little bit of light on the overall picture there, that would be helpful.

Mr. David Worts: I assume you're referring just to Japanese automakers' operations?

Ms. Martha Hall Findlay: No. I'm asking, assuming that you're involved in the auto sector generally, if you can help with the larger picture, because, as I said, the inconsistency I'm hearing is that in some cases.... I'll give you a graphic example. If GM is allowed to go down, the parts suppliers that supply GM will then go down, and on the one hand they will die, or on the other hand they will keep going because they supply Toyota and Honda. But quite honestly, I find that conflicting. If you could shed some light on the proportions, that would be helpful.

Mr. David Worts: It is a complicated situation with global supply chains. Certainly I am aware, from comments that have been made to me by our members, that they have concerns about the viability of GM, Ford, and Chrysler because at some levels they do share some suppliers. If any of the dire scenarios that some analysts have been painting about the loss of the Detroit three occur, it would have a pretty direct and immediate impact on our members as well, because, as I say, having integrated into the North American industry and having localized their operations in North America, they do share some suppliers with those companies.

● (2235)

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

Madam Hall Findlay, thank you.

We now go to Ms. Brown.

Ms. Lois Brown: First of all, I have a comment. I noticed that in all of your presentations, in the first four—sorry, not Mr. Carnevale's—you did refer to the importance of the secured credit facility. We're working on that as quickly as we can. I'm glad to hear you see that as part of the resolution.

Mr. Nantais, I want to just clear the record. We keep hearing about Canada not having a comprehensive automotive strategy, and yet what I'm hearing from you in your comments is that the automotive innovation fund and some of the things that you've already put forward in recommendations to the government, we are most definitely working on. Even though we may not be calling it a comprehensive strategy, or whatever the plan is, it is there and we are moving forward on that.

Mr. Carnevale, I wanted to address my comments to you, and some of them have already been discussed. I'm hearing the same things from my constituents. I have constituents who are in the tool-and-die industry or in the industry providing supplies to the OEMs. I find it disturbing that this has come about. My first question is, who negotiated this kind of a deal on your behalf? How did this come about?

My second question is really to the automotive manufacturers. Is the $4 billion going to go to paying off debts like these? How can we be assured, by putting in taxpayers' dollars, that there aren't a whole lot of other invoices out there that are going to have to be satisfied before you can move forward?

I'd like a comment from Mr. Carnevale first, if he doesn't mind.

Mr. Angelo Carnevale: I think it was an evolution. In the eighties, for example, when profits were fatter, the PPAP system was strictly more of a quality system to ensure that there were high-quality parts being mounted on vehicles. It is a structured system and it has different levels of approvals. Say you have an assembly, a head lamp, for example. You would have the lens, you would have the inside...you would have maybe four or five parts. The problem is if one part out of five does not pass, then the whole assembly is rejected. You may be the tool shop that built the four good ones, but the one bad one held back the PPAP. It was a failure. You didn't get paid.

Now, maybe in the eighties they had some money and they could have paid you. Profits were a little better. Tool shops could afford to carry the money. Then with the cost cutbacks and target pricing, the margins became thinner and it became harder to carry the money. It spiralled, and a lot of the Detroit three started to pressure their suppliers for 5% a year on a five-year program, or they would move it. What happened then is you had tooling going overseas. Now the tooling pie became smaller and all of a sudden it became a buyer's market.

Tool shops, by definition, will fall over backwards trying to work for the customer. It is nothing for a toolmaker to work 30- or 48-hour days in a row to get a tool out on time. When we have a delivery date on a tool, we are quoted to the day, sometimes to the hour, and we'll have it at 10 a.m. on Tuesday, or whatever. I hate to put it this way, but what happens is it almost becomes like a battered person syndrome. You become fearful of the customer, and you will not fight back because you are a typical 20- or 30-employee company that does $3 million or $4 million a year. Do you really think you're going to take on GM? Their legal department is bigger than your whole company.

● (2240)

Ms. Lois Brown: My problem is this. How many of these invoices are out there? Do we have any idea of how much is owed to these small companies? Can any of you comment on that?

Mr. Mark Nantais: I can't really comment on that, but those companies that are seeking bridging loans have disclosed viability plans to you or to the government. That discloses their operations, their viability, their liabilities, etc., in terms of being a going concern. That has to be presumably disclosed in those plans.

Let's be clear here. On the whole issue of quality now for parts and components, that's the way it is. You can't accept parts and components that are inferior, and you have a certain threshold that has to be met, because nobody can afford to release a product now that isn't of the highest quality. That's why Chrysler, Ford, and General Motors...and as you heard from Mr. Mondragon this evening, their quality is at par with the so-called top of the heap, which has been Toyota and Honda, by third parties. Quality is something you cannot compromise on any more. One has to look at whether the relationship between the toolmakers is with the OEM directly or with the tier one supplier.

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

We'll take some questions from Monsieur Vincent.

[*Translation*]

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

My question is for Mr. Worts.

According to your calculations, how does the cost of producing one of your vehicles compare with the production costs of your U.S. competitors?

[*English*]

Mr. David Worts: I don't have a lot of detailed pricing information. There was a concern in 2007, when the Canadian dollar was above par, that Canadian pricing was not reflecting the full value of that dollar, and of course pricing is generally to the market. To compare exactly a vehicle in Canada and in the U.S., given that we have some different standards in the vehicle, is very difficult to do.

[*Translation*]

Mr. Robert Vincent: Regarding the hourly salary, someone mentioned earlier that workers here earn $30 an hour. How much do you pay your employees?

[*English*]

Mr. David Worts: I think the hourly rate at a big three plant in Canada would be comparable to the hourly rate at one of our member's plants in Canada, yes.

[*Translation*]

Mr. Robert Vincent: Are you considering any layoffs or pay cuts to protect production at your plants here in Canada?

[*English*]

Mr. David Worts: At this point I have not heard of companies considering layoffs. They're going to look at any number of measures that can help them adjust to the current market, including slowing down the line rate and reducing overtime. There are situations when extended periods of time off have been taken over the Christmas period to adjust inventories to market conditions. They're trying very hard not to. They generally have a policy of not laying off full-time employees because they realize that in the longer term these are serious assets to the company. Having trained many of these individuals in the Toyota or other lean production system, they're assets to the company and they're loath to lay them off.

[*Translation*]

Mr. Robert Vincent: If I understand correctly, labour costs are comparable. As the union official stated earlier, the cost is about $1,200 per vehicle. Are your costs similar?

● (2245)

[*English*]

Mr. David Worts: The hourly rate might be very similar. Where they differ is probably on the benefits side of the package.

[*Translation*]

Mr. Robert Vincent: Mr. Adams, I've read your Association's “Public Policy Positions“. In the section on investment policy, it is stated that your Association believes in a “collaborative industry/ academia/government sectoral “cluster” approach to spur innovation and commercialization.

Could you tell me more about this “cluster“ approach?

[*English*]

Mr. David Adams: I think that really is modelled on the Canadian Automotive Partnership Council model, which involved the participation of academia, workers, and parts manufacturers. I think where CAPC might have been lacking a little bit was in representation from my membership more broadly. It's one thing to have the manufacturers present, but potentially, at any given time, any company could possibly become a manufacturer in Canada. So I think our voice might not have been heard as much at that table. I think, in theory, the idea was to get the government, academia, and industry—all facets of industry—together to try to formulate the types of things Mr. Nantais referred to earlier. How do we deal with the issue of standards disharmony? How do we deal with the environmental issues we're looking at? How do we deal with things like human resources, for instance? So all those things were looked at through that lens of having all the parties that could possibly make a difference around the table.

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

Mr. Wallace, you have the floor.

Mr. Mike Wallace: Thank you, Mr. Chair. I'm going to be very quick. I need relatively quick answers.

A couple of you will be happy. I have a new domestically made car in my driveway as of Saturday, and I have another one at a Toyota dealership, and I have to decide whether a $3,000 repair is worth it or whether I scrap it, since it's a 1998. So I like the scrappage program, by the way.

On that, I'm assuming you're talking...that's not in lieu of other things; that's in addition to all the other “asks” we have. Is that correct? Could I have a yes or no answer to it?

Mr. David Adams: Yes.

Mr. Mike Wallace: That's a yes. That's in addition. So that would be more government money to support that program, or is that a shared program between us and the car dealers?

Mr. Mark Nantais: That would be government money, but let's be clear here. You're also going to get some revenue in return, by virtue of those new sales. So we need to net it out.

Mr. Mike Wallace: Okay. Thank you.

On the automotive innovative program, Mark, which you mentioned a number of times, I think it has been mentioned that it has made a difference thus far. You said something about extending it. Do you have a sense from your organization of how long and how much money would be required?

Mr. Mark Nantais: Well, in some ways, it's almost as if it should be there in perpetuity. As long as there's an interest in investing in Canada, as long as we have the right business conditions in Canada, it would have usefulness. So it's like one of these things where, when you look at the ledger in terms of the investment decision, one jurisdiction versus another—and we've seen this in the southern United States, where they have put literally a billion dollars cash on the table to attract new investment—the automotive investment fund provides a positive for Canada—

Mr. Mike Wallace: Okay, I appreciate that. You want a long-term vision on that.

Last week we were criticized in the House—inaccurately, in my view. We put $4 billion on the table for emergency funding before Christmas, and no domestic automaker took advantage of that. Is that not correct, Mark?

Mr. Mark Nantais: Nobody has drawn down on that money.

Mr. Mike Wallace: Thank you very much. In the House, an individual got up and asked why we couldn't get the money out when we put $4 billion up. But no one came and asked for it.

My next question is my final question really, and what I've been thinking about is the $12 billion secured credit facility. Mr. Romano may not be happy with this comment. My thinking is that it's good for companies to be able to sell leases or to bundle leases and be able to provide financial tools to potential buyers. That's great. It probably should be available to everyone, but should it be prorated for those who actually manufacture in this country?

● (2250)

Mr. Don Romano: I don't understand why that would be a qualification for getting—

Mr. Mike Wallace: Well, you're using taxpayers' money...I don't mean all of it. My thinking is that we have companies that are producing in Canada, and we have companies that aren't but are also selling cars, so we have to help them all. But do we help those that are actually manufacturing cars in this country a little more, with access to that facility?

Mr. Don Romano: Again, as I mentioned earlier, I think when you have 164 dealers across the nation, family operations that employ more than 6,000 people, we have to consider their needs as well. Right now it's not just the manufacturing base, it's the entire industry, including the parts manufacturers. It's the truck-drivers; it's everybody who's involved in this industry. They all would benefit from a good consumer stimulus program that could be provided through that fund.

Mr. Mike Wallace: Thank you for those answers.

The Chair: Thank you very much, Mr. Wallace and Mr. Romano.

Mr. Masse.

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

Mr. Nantais, the Korea trade deal has come up a couple of times. What type of impact could that have on the sector right now, in your opinion? I ask the question to any other panellist as well.

Mr. Mark Nantais: Our view is that what is being negotiated right now with the Canada-Korea free trade agreement is not the right deal for Canada, whether it's the auto industry or perhaps elsewhere. In our case, what is currently being negotiated could bring as much as, or over, $1,300 on the hood of every vehicle Korea sends to this country, on top of being the wide-open market.

You know, we need reciprocal access to that country, and they've been using, very successfully and systematically, non-tariff barriers to trade, which prevent not just vehicles from Canada, not just vehicles from CVMA member companies, but vehicles made by any manufacturer from virtually any country around the world. You simply cannot get into that market. The United States has attempted other means as well—I think this has come up in previous discussions—of trying to get a compromise, if you will, or cooperation from the Korean government by using two memoranda of understanding back in 1995 or 1998 or thereabouts. They signed those agreements. And guess what? No progress.

The KORUS agreement that the U.S. has on the table right now is also open in terms of the auto chapter, to be renegotiated based on the current administration's view of that chapter.

So we just think it's the absolute wrong time and the wrong deal for Canada. It may well be put in the context of a free trade agreement, but it's certainly not a fair free trade agreement.

Mr. Brian Masse: Does anybody else have anything to add?

Mr. David Adams: I think both major parties have struggled with Canada-Korea because part of the challenge in our existing circumstance is our reliance on the U.S. market for virtually all of our exports. It's trying to diversify your trading relationships and then also trying to weigh the impact that diversification has on your own economy. Those two things are sometimes very difficult to balance.

Mr. Brian Masse: Thank you.

Mr. David Worts: We have specific concerns about the impact that the preferential tariffs on Korean vehicles might have on our members, both those who are importing from Japan and those who are investing in manufacturing in Canada, for small vehicles in particular, which are very popular with Canadian consumers and are very price-sensitive, because they're at the entry level of the market.

Right now, Korean vehicles already have a huge currency advantage, because the Korean won has depreciated against the Canadian dollar, and the Japanese yen has been appreciating against the U.S. and the Canadian dollar. An additional 6.1% tariff advantage would certainly just compound the problems for our member companies.

Mr. Brian Masse: Thank you.

Mr. Carnevale has indicated...and I'd like to hear quickly from each of you about whether tool-and-die mould-making facilities in the PPAP system are treated exactly the same as outsourced facilities, those outside of this country. I'd like to know from your companies whether they're treated exactly the same or whether there are different arrangements for those supplying in China or elsewhere.

Are they treated exactly the same? I'd like to know that.

Mr. Mark Nantais: Mr. Masse, this evening I'm not in a position to respond to that, because I don't know.

● (2255)

Mr. Brian Masse: I'd like to ask the researcher to follow that up as well.

The Chair: Sure, we can get the researcher to do that.

Thank you very much, Mr. Masse.

Mr. Lake.

Mr. Mike Lake: I'm going to direct my last two questions to Mr. Nantais, if I may.

There was a conversation with one of the other questioners regarding a potential other “ask”'—more money down the road—if your members take advantage of this. If things don't turn around, I'm wondering how much time this '“ask” buys us.

Mr. Mark Nantais: Again, I have no means of answering that question.

Mr. Mike Lake: There must have been some research done, though, on how long a gap this amount of money will bridge.

Mr. Mark Nantais: I assume the two companies that submitted viability plans provided some indication of that, or at least addressed that issue to some extent—and to the extent that it's even possible to. But in my position at the CVMA, I just do not have knowledge of that information.

Mr. Mike Lake: Okay. Of course, if this drags on, the third company will probably become a part of the “ask” as well. I guess that was—

Mr. Mark Nantais: In fact, you might have more than three companies.

Mr. Mike Lake: Right, but I'm talking about your members.

The inspiration for the second question I have comes from an article I read in the media over the weekend. I don't want anyone to claim that I've been fed questions to ask during committee, because I haven't been, but I thought there was a good point made in this article. So in the spirit of some of the numbers there, I've done some calculations. As nearly as I can tell, when you take $6 billion to $8 billion potentially in loans, in effect what you're asking for is up to $250 per Canadian as a loan. So for a family of four, your members are in effect asking them for a $1,000 loan.

The question I would ask is, if you had an opportunity to talk to that family of four and tell them why they should lend you $1,000 of their hard-earned money, what would you say to them? And if the follow-up were how sure they would be to get their money back, what would your answer be to that too?

Mr. Mark Nantais: The auto industry in Canada accounts for roughly 500,000 direct and indirect jobs. As Mr. Romano pointed out, whether it's through dealerships or the supply chain, we are located in virtually every community across Canada. When something happens to the auto industry, it doesn't happen only to the assembly jobs. It happens to seven other jobs in that community. And to that extent, everybody is going to feel the pain, particularly when the auto industry itself accounts for 12% of manufacturing GDP in Canada.

Our view would be that sooner or later the $1,000 that you as an individual loan to these companies will pay more dividends in terms of job retention, and therefore benefits in every community across Canada, than if we did nothing. If we do nothing, the pain is going to be pretty substantial in every community where we're located. We've seen this happen before. A strike at General Motors for a period of time in the mid-nineties knocked off a full percentage of GDP in Canada in a very short time. That is huge.

So that would be an attempt at a response to an individual who asks if they should or shouldn't lend $1,000 of their money to these companies.

Mr. Mike Lake: Will that family get its $1,000 back?

Mr. Mark Nantais: It depends on how they engage the economy, I suppose. But I would say yes.

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

I have a last intervention from Mr. Valeriote.

Mr. Francis Valeriote: It's just a short question to Mr. Nantais.

Of those 500,000 jobs—of course, many are parts-related—there are about 58 parts manufacturers in the London area, about 37 in the Guelph-Wellington area, and 31 in the Kitchener area. As part of the strategy discussions with the United States, I understand we will be seeking a protection of approximately 20% of the mandates in Canada to preserve our assembly base here. First, is it worthwhile? Second, is it reasonable to expect that we can also preserve our parts manufacturing in some way by assuring our parts manufacturers they will continue to have part of the market in the United States?

● (2300)

Mr. Mark Nantais: That's a question you really have to ask the parts industry itself.

As I've said, we're highly integrated. We've got parts companies in Canada that, one, are diversifying, which is a good thing, and two, provide parts and components to companies, our assembly plants, on both sides of the border. This is why it is so critical that as we move forward on the government's decision, both in the U.S. and in Canada, we make sure there's no daylight between those decisions. And that's what happened. We had no daylight between those decisions.

In other words, the U.S. government made its decision to provide support, and practically the next day the Canadian government made its decision to provide support. Making sure there's no daylight here, I made sure.... And this is the analogy I use. All the marbles are on a level table. The moment one country puts support on the table, it tends to tip the table toward it in terms of jobs, and all the marbles start to roll toward it. We didn't do that. We balanced the table to make sure all the marbles would stay on the table, and ideally speaking, all parts makers would continue to have a joint share, if you will, of both the Canada and U.S. parts market.

The Chair: Thank you, Mr. Nantais.

The last word goes to Mr. Adams.

Mr. David Adams: I just want to add that we've talked about 16% or 17% retention of production in Canada, but going back to what we've all said in our presentations, the real key is to improve vehicle sales throughput, because 16% or 17% of $10 million is a heck of a lot different from 16% or 17% of $17 million. If we go down the $10 million road, we're talking about a lot more job losses.

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

Thank you to all the witnesses for your testimony. It will be valuable to us. We will use it in preparing a report and recommendations that will be submitted to the House of Commons by the end of the month. Thank you all very much for coming.

I'd also like to thank the committee staff as well as the translation staff for staying to such a late hour. Thank you very much.

The meeting is adjourned.

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