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Rebuilding a Viable, Prosperous Auto Industry in North America: Looking at the Big Picture

Notes for an Address by
CAW President Ken Lewenza
to the Economic Club of Toronto
April 1, 2009

First, I want to thank the Economic Club for the invitation to meet with you today to discuss the future of the auto industry in North America.

The title of my speech today, "*Rebuilding a Viable, Prosperous Auto Industry*," is NOT an April Fool's joke!

I have now completed over six months as President of the Canadian Auto Workers.

I suppose you could say I've gotten through my probationary period.

And what a probation it's been!

We've lurched from one crisis to another. And the end is not yet in sight.

A few days ago I thought I could see the light at the end of the tunnel.

But after President Obama's announcement on Monday, I now know. That light I saw is the train, coming the other way!

It's an incredibly challenging moment for this industry. One we've never experienced before.

We've never seen auto sales decline by as much as 50 percent in a single year.

Think about it. A normal sales year in the U.S. market is about 16 million units. So far this year, we are running at 9 million. The March sales numbers will come out tomorrow. They could be even lower.

The auto industry spends billions of dollars in fixed costs, before it sells its first car.

In any industry with heavy fixed costs, a 50 percent decline in revenue can mean only one thing: disaster.

And we're seeing that – right around the world, not just in North America.

No automaker is immune from what's happening. Every automaker in the world is asking for, and getting, emergency support to weather this storm.

Even Toyota. The company that could do no wrong. I was fascinated to see their Canadian executives go up to Ottawa a couple of weeks ago and tell the House of Commons committee that they don't believe in bail-outs.

That was very convenient, since they are getting massive emergency aid back home in Japan. Billions of dollars in loans.

So the immediate challenge we face in North America is not unique.

I would like to stress that this challenge is not just about saving the auto industry. This is about our overall economy, and our future as a trading nation.

This is the Economic Club. You understand input-output relationships. You know how trickle-down works.

A recent report from the Centre for Spatial Economics sums it up. It shows that if the Detroit Three disappeared from Canada, we'd lose 600,000 jobs, and close to 5% of our GDP.

Now remember: Only 25,000 of those 600,000 jobs are the CAW members who work for the Detroit Three. The rest are other Canadians.

We'd go from recession to depression overnight. So this isn't just about auto.

And no-one is proposing a so-called "bail-out", either. We are talking about commercial loans, not charity. Bridge financing from the government's own banking institutions, like Export Development Corporation. Not a pipeline of cash running straight from taxpayers' pockets to the auto industry and its workers.

This crisis began with a massive failure of the *private* banking industry. So it is quite logical that we should ask *public* banks to play a role in fixing the problem.

We all have a stake in keeping this industry going in Canada. We all need the jobs, the exports, the taxes that are generated by auto. It's not a bail-out, it's an investment.

Speaking of exports, has anyone noticed that Canada is now racking up trade deficits every month, for the first time since the 1970s?

What a massive failure for a trading nation. And the meltdown of our auto sector is a key reason why.

Our governments let manufacturing wither away, led by the auto industry. They depended on resource exports to pay our international bills.

Now the commodities bubble has burst. But we have less manufacturing to fall back on. The inevitable result is a trade deficit. That's a remarkable failure.

And speaking of taxes, the same study, from the Centre for Spatial Economics, showed that Ottawa would lose $13 billion per year direct and indirect from the collapse of the Big Three. Queen's Park would lose $4 billion per year.

$17 billion per year, for both levels of government. And they are already dealing with massive deficits.

$17 billion has a way of concentrating the mind!

No wonder they are playing an active role in trying to save this industry. Not out of charity. Out of self-interest. And out of concern for Canada's overall economic well-being.

I commend the federal and provincial governments for being pro-active, and for working in partnership with the U.S. officials.

Given our integrated industry, that's the only way we can move forward.

I am very glad that Canadian officials are sticking to the 20% footprint commitment they first announced back in December. That is absolutely essential as we move forward – to preserve our share of this vital industry.

In fact, we could go further. Our union has proposed a North American Auto Pact. Have all three countries work together. Protect a fair manufacturing footprint for North America, and each country in it. Promote investment, technology, and environment.

Indeed, as we grapple with the immediate effects of the current meltdown, we can't lose sight of that bigger picture.

It will surprise you to hear this, but I am actually fundamentally optimistic about the future of the auto industry.

People are not going to stop driving cars. Yes, the cars will change. Consumer tastes will change. Environmental performance has to improve.

And public transit has to be expanded, too. (By the way, CAW members also produce buses and subway cars, not just automobiles!)

But nothing yet matches the flexibility and convenience of the private auto. People will keep buying cars. The only question is, where will those cars be made?

Moreover, the key economic features that make the auto industry so important will remain in place, too.

The technology and productivity of production.

The very strong input-output linkages to other sectors.

The importance of auto in international trade.

Automotive products make up 10% of world trade. That's more than any other industry. A country that doesn't have a strong presence in autos, therefore, will experience a permanent tendency to trade deficit.

The incomes, direct and indirect, that auto generates.

Those are the reasons we care about the auto industry. Not because we love cars – which I do. But because of its unique and important economic effects.

And that's why government must pay special attention to the auto industry. And not just to auto, I stress. There are other sectors, too, which have similar features, and which also need special attention. Other high-value, trade-oriented sectors.

We used to target the auto industry with pro-active policy measures. Like the Auto Pact. And other policies to attract investment, make sure we had skilled workers, build the infrastructure.

That's how we won such a healthy share of this vital industry. In 1999 we were the fourth largest auto producer in the world. That's a stunning achievement for a small country.

How did it happen? Not because Canadians are inherently good at producing cars. But because we <u>*made*</u> it happen: with smart, pro-active policy.

We forgot that lesson in recent years. We took auto for granted. We believed the nonsense that free trade will ensure we get the industries we want.

That's nonsense, and it's been proven by what's happened in the last couple of years.

What industries does free trade give to Canada? Resource exports. That's about it. Digging stuff out of the ground and selling it to other countries. That's not a long-term future for our great country.

Right now, everyone is rightly focused on preventing bankruptcy of GM and Chrysler, and the other auto companies that are teetering due to the credit freeze.

We must do what we can to keep those companies in business. To help them survive through this long, hard night that is ahead. Two to three years, is my guess, before auto sales really rebound.

And until that happens, and people start buying cars again, nothing will matter.

But we must also re-learn the lessons of our own history, and the lessons of other countries that have maintained successful auto sectors.

Places like Germany, Japan, Korea, and now China.

How did they do it? Not by leaving it to chance. And not, I might add, by cheap labour. Auto labour costs in Germany and Japan are higher than in Canada – yet those countries have done well in recent years.

If it was all about labour costs, Germany should be the biggest failure, because their costs are the highest. Yet they are succeeding. Why?

Even in China they are not relying on low wages to build their industry. Far from it.

They are using an active policy framework to put all the ingredients together.

Support for investment, technology transfer, enhancing productivity, and promoting skills.

They don't leave trade flows to chance, either. They promote exports, and they limit imports.

We have successful Canadian-made vehicles, like our minivans, or the 300C made in Brampton, or the Buicks we used to make in Oshawa. These vehicles are all very popular in China.

Yet we don't export a single one to that huge market. Why not? Because China demands domestic production from the global companies that do business there.

Very effective for China. But a disaster for us, unless we do the same thing.

That's why I have been emphasizing, right through this crisis, the need for a broader auto policy.

Think of it as a business plan, but for the whole auto industry.

I want to emphasize that point with you today.

We made some progress in that direction a couple of years ago with the Canadian Automotive Partnership Council. It's known as CAPC.

All the stakeholders were there. All the automakers, North American and offshore. The parts industry, the CAW, universities and engineers, dealers.

The group did a good job identifying the industry's challenges.

Don Walker, from Magna International, is the chair, and he does an excellent job holding it all together.

Unfortunately, CAPC hasn't really been active since 2006.

I'd like to see CAPC rejuvenated, in one way or another, as part of our response to the current crisis.

We need to have a national auto strategy in Canada, not piecemeal announcements, to make sure we win back a fair share of this vital industry.

And we need all our ducks in order to do it:

Support for investment. Environmental improvements. Infrastructure – like the new crossing we need at Windsor.

Skills: We have a huge demographic shift occurring in the next decade, and we must train new people.

And international trade. We cannot tolerate the current situation, where countries like Japan and Korea and China promote their own exports, but strictly limit their imports.

That's not trade, it's a one-way street. It explains why Canada now has a massive auto trade deficit: $14 billion last year.

Just a few years ago we had a $15 billion surplus. We have snatched defeat from the jaws of victory.

No other regional market tolerates that kind of imbalance in a vital, high-value industry like auto. But North America does.

This comes back to our proposal for a North American Auto Pact.

We would push offshore automakers to add as much value in North America as they sell here. There's lots of ways that could happen.

New plants here, of course. Or they could buy exports back from North America, to offset the imports they bring to North America.

Or they could participate in joint ventures with North American automakers, using some of our excess capacity.

We have some successful examples of that already. We produce Suzukis in Ingersol. Great vehicles. Unfortunately, Suzuki's sales have done even worse than GM's and Chryslers's. Which just proves that North Americans don't have a monopoly on bad luck.

We also make Volkswagen minivans in Windsor. Another wonderful product.

We could do more of that. Perhaps the Chrysler-Fiat merger will bring more potential opportunities to our plants.

I'd like to see Mazda producing here. Nissan. Hyundai. BMW.

These companies cannot be allowed to treat our economy as a dumping ground. If they are going to sell here, they have to add value here.

That's how we did it in the past. That's how other countries do it today. And that's the only way to stop the current race to the bottom, where everyone tries to outdo each other with more cutbacks and more concessions.

We must pay attention to Canadian value-added in the auto parts sector, too. After all, there are 2 jobs in parts for every job in assembly. And the parts sector has been devastated by the credit freeze.

The bridge financing being provided by the U.S. and Canadian governments must also address the supply chain. We need liquidity help for parts producers. And we need guarantees that North American value-added will be protected.

In other words, Canada should be demanding a proportional footprint for parts production, not just assembly.

When the CAW agreed to re-open our collective agreement with the Big Three earlier this year to help address the crisis, we attached a number of conditions.

One of them was our demand that the federal government, working with all the stakeholders, should rejuvenate the CAPC process, and work towards implementing an all-around auto strategy to guide our industry through the next decade.

Yes, we have to get through the next year or two. But we also need a plan for creating a viable, profitable, prosperous auto industry long term.

That won't happen by endlessly closing plants and cutting labour costs. You can't dig your way out of a hole. And you can't cut your way out of a crisis.

In that regard, I am so puzzled by those commentators who said that Rick Wagoner lost his job because he didn't cut fast enough. That's nonsense.

He cut GM in half, in less than five years. But it didn't do any good. In fact, it made things worse. Because now fixed costs are even larger per unit, than they were before. And GM's overall critical mass came into question, the smaller the company got.

No, we need a strategy that builds this industry, not cuts it even faster. It *can* be done. Other high-wage countries have built and maintained successful, innovative, profitable auto industries, and we clearly can too.

But it will take political will to do it. Not just to rescue the industry today, but to put in place a comprehensive policy framework to build it in the future. And that is my main message today.

Finally, let me close with a few brief points about our contract talks, because I am sure there will be questions about that.

First, let's be perfectly clear. Nothing we do at the bargaining table will affect whether GM and Chrysler survive or not.

I see there is more media coverage today that perhaps President Obama actually favours Chapter 11 for GM and Chrysler, as a way of giving the bondholders a haircut.

Those decisions are utterly beyond our control.

Remember, direct labour costs are just 7 percent of the total cost of producing a vehicle. Yes, without the bridge financing from government, GM and Chrysler would be unable to meet payroll today. But they also need help to pay the other 93% of their bills. Not just payroll.

We could work for free, and it wouldn't change a thing until people start buying cars again.

We could work for free for a year, and it might prolong the life of GM or Chrysler by a week.

In good faith we followed the government's instructions and negotiated a new collective agreement with GM Canada. It was ratified, and ready to go, by the March 31 deadline we were given.

GM has confirmed that under this agreement our active costs will be fully competitive with both GM's plants in the U.S., and with non-union transplants in the U.S.. The new CEO, Fritz Henderson, reaffirmed that point yesterday.

And remember, we remain cheaper than autoworkers in Germany and Japan.

We would have done the same thing at Chrysler. We were ready to sign a deal last week, and ratify it last weekend. We had the conference rooms booked for our ratification meetings.

Then Chrysler suddenly pulled back, and now we know why. They must have learned in advance that their restructuring plan was being rejected by the U.S. Treasury.

But we were ready to do the deal with Chrysler. And that deal would absolutely have done the same thing as at GM: Made our plants fully competitive with both Chrysler's U.S. plants, and non-union transplants.

There were additional operational and productivity changes in that deal, to sweeten the pot for Chrysler.

Don't forget about productivity. Everyone forgets about productivity. Everyone looks at hourly cost. But they forget about productivity.

We have a very important productivity advantage in Canada. It's not an accident. It reflects hard work, technology, and commitment by all parties, especially the union.

According to independent data, CAW plants are the most efficient on the continent. 8% more productive than UAW plants, 24% more productive than non-union transplants.

We are ready to sign that deal with Chrysler, and we will keep talking with them. We are even ready to take the same pattern agreement to Ford, even though that company has not requested bridge financing.

Now some are saying we must do it all over again. I find this incredible.

We did what we were supposed to do: Reach an agreement that keeps us fully competitive, by the March 31 deadline.

As far as I can tell, no-one else met the deadline. The UAW deals aren't done. The bondholder deals aren't done. The Chrysler-Fiat deal isn't done. The dealership deals aren't done. But our deal is done.

And we will live up to it. In fact, as soon as the bridge financing starts to flow, GM will start saving hundreds of millions of dollars. And Chrysler can too.

It is outlandish to imagine that GM and CAW will go back to the bargaining table and do it all over again. Everyone involved in this process – the government, the company, and the union – would lose their credibility, if that happened.

So our active costs are fully competitive. That point is undeniable.

We have also indicated our willingness to sit down with governments and companies to discuss legacy cost issues: pension and health costs for retirees, and how we manage them going forward.

We have ideas for how to smooth out pension expenses. And how to fund retiree health costs more securely in the future. We've even proposed a Canadian VEBA fund, like the ones used in the U.S. Right now, that is not permitted under Canadian law.

But that will have to be a three-way dialogue, involving the CAW, the companies, and the governments. It can't legally be settled at the bargaining table – because retirees are legally entitled to the pensions and benefits they were promised when they were working.

We won't close the door to anyone. We will continue to engage with Chrysler and Ford on a new contract. And we will engage with the companies and governments on the legacy issues.

But nothing we do will determine whether these companies live or die. That's up to government to help them through the immediate crisis.

And just as important, in my view, to put in place a policy framework that will allow us to build a viable, prosperous industry long into the future.

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