NAFTA and the Automotive Industry

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FIRST, I will announce my intention to renegotiate NAFTA or withdraw from the deal under Article 2205.

SECOND, I will announce our withdrawal from the Trans-Pacific Partnership.

THIRD, I will direct the Secretary of the Treasury to label China a currency manipulator.

FOURTH, I will direct the Secretary of Commerce and U.S. Trade Representative to identify all foreign trading abuses that unfairly impact American workers and direct them to use every tool under American and international law to end those abuses immediately.
Trump and the Auto Industry

▪ Campaign tweets and speeches
  ○ singled out the auto industry
  ○ threatened to impose a 35% tariff on vehicle imports
  ○ primary target Mexico - but sent a chill throughout the North American auto industry

▪ Populist appeal but woeful lack of understanding of the auto industry under NAFTA
NAFTA 2.0: Sticking Points

- Auto Industry Rules of Origin (complicated by CPTPP)

- BUT, it’s about more than the auto industry!
  - Dispute Resolution – Chapters 11, 19 & 20
  - Sunset Clause
  - Procurement
  - IP
  - Agricultural sectors
  - Etc.
Rules of Origin

- Rules of origin (ROOs) and regional content-value (RCV) rules
  - shape *what, where and how* products are produced
  - really important for auto given complex supply chains

- significant changes to NAFTA automotive rules could:
  - disrupt supply chains
  - change the structure of the auto industry
  - increase vehicle prices
  - reduce competitiveness of North American built vehicles
Outline

- Canadian Auto Industry: Overview
- Current NAFTA Automotive Trade
- US NAFTA Automotive Demands
- Potential Impact on Automakers and Suppliers in Canada
Canada’s Automotive Industry

- 126,000 direct jobs
- $9.6 billion in wages
- $18.2 billion in GDP
- $86.5 billion in exports
- Importance to Ontario
Canada’s Automotive Industry

- 5 OEMs (Toyota, FCA, GM, Honda, Ford)
  - 2.3 million vehicles; Toyota + Honda = 43% of total
  - ~2.0 million exported to US

- 700+ suppliers
  - Canadian-owned global suppliers
  - Subsidiaries of Japanese, US, European global suppliers
  - Large number of smaller Canadian-owned firms
  - Tooling industry

- Heavily concentrated in Windsor to Oshawa corridor

- Integral part of Great Lakes Auto Region (MI, OH, IN)
Canadian Automotive Industry Employment: 2014

Total Automotive Industry Employment in Ontario (by Census Division), 2014

Source: Sweeney APRC
Challenges

- **Technological Change**
  - New engine/drive train technologies
  - Vehicle lightweighting
  - Vehicle electrification

- **Supplier Logistics**
  - Southern US
  - Mexico

- **Trade Agreements**
  - CKFTA, CETA
  - CPTPP
  - NAFTA 2.0?
Percentage Shares (by value), Total Vehicle Trade, Canada: 2016

**VEHICLE EXPORTS:**
$62.87 billion  
- United States: 97%
- Mexico: 1%
- Rest of World: 2%

**VEHICLE IMPORTS:**
$47.64 billion  
- United States: 71%
- Mexico: 12%
- Rest of World: 17%

Source: Industry Canada, Strategis Online Trade Database
NAFTA Vehicle Production and Trade Flows: 2016 (Units)

**Canada**
2,357,846 units

**United States**
11,930,041 units

**Mexico**
3,457,204 units

**USA to Canada**: 906,225 units
**Canada to USA**: 1,985,686 units
**Mexico to Canada**: 246,324 units
**Canada to Mexico**: 23,587 units
**USA to Mexico**: 157,560 units
**Mexico to USA**: 2,133,724 units

Source: AMIA; USITC; Industry Canada

*estimate*
Percentage Shares (by value), Total Automotive Parts Trade, Canada: 2016

**PARTS EXPORTS:**
$21.1 billion
- United States: 90%
- Mexico: 6%
- Rest of World: 4%

**PARTS IMPORTS:**
$47.8 billion
- United States: 65%
- Mexico: 13%
- Rest of World: 22%

Source: Industry Canada, Strategis Online Trade Database
NAFTA Automotive Parts Trade Flows: 2016 ($US Billions)

Source: AMIA; USITC; Industry Canada
Canada Automotive Trade Balances
Within NAFTA: 1992-2016

Source: Industry Canada, Strategis Online Trade Data
Canada Automotive Parts Trade within NAFTA: 2016

**Parts Exports 2016**
- Great Lakes: 70%
- South U.S.: 10%
- South U.S. Mid-South: 8%
- Mexico: 6%
- Other U.S.: 6%

**Parts Imports 2016**
- Great Lakes: 56%
- Mexico: 17%
- South U.S. Mid-South: 12%
- US Mid-South: 9%
- Other U.S.: 6%
Not Just About Trade Balances….

- NAFTA countries interdependent in automotive production
- high levels of integration, specialization, and intra-industry trade
- US imported vehicles from Canada and Mexico contain significant US parts content
- keeps the North American auto industry globally competitive (cf. Japan; Europe)
- benefited automakers, consumers, and attracted investment
USTR NAFTA 2.0 Objectives (July 2017)

- **Trade in Goods:**
  Improve the U.S. trade balance and reduce the trade deficit with the NAFTA countries.

- **Rules of Origin:**
  Update and strengthen the rules of origin, as necessary, to ensure that the benefits of NAFTA go to products genuinely made in the United States and North America.
  Ensure the rules of origin incentivize the sourcing of goods and materials from the United States and North America.
To qualify for preferential tariff treatment
  - Vehicle or part must “originate” in the NAFTA region
  - To “originate” must contain a specified minimum RCV
    - 62.5% for vehicles, engines and transmissions
    - 60% for automotive parts on “tracing list”
    - 50% for some other parts

Tracing list (29 categories of parts)
  - for listed components, non-originating value must be tracked through all stages of assembly and included as non-originating when vehicle RCV is calculated
Current Non- Preferential Import Tariffs

- **Canada**
  - 6.1% on vehicles
  - 0% on parts destined for OEM assembly

- **United States**
  - 2.5% on cars
  - 25.0% on pickup trucks
  - 3.1% (avg.) on automotive parts
US NAFTA 2.0 Automotive Demands

- Increase NAFTA RCV
  - from 62.5% to 85% for vehicles, engines and transmissions
  - from 60% to 85% for parts on current tracing list
  - from 50% to 72.5% for certain other parts

- Require 50% US content-value for vehicles built in Canada/Mexico imported to US (i.e. “85/50” ROO)

- Tracing list: include all parts and materials incl. steel, aluminum and textiles
Possible Outcomes

Scenario A: NAFTA 2.0

- Higher NAFTA RCV and expanded tracing list
  - could benefit Canadian parts suppliers and steel/aluminum producers
- 50% US content rule
  - would disadvantage smaller Canadian suppliers
  - how much rejigging of supply chains needed?
- Increase cost of North American-built vehicles
- Expanded tracing list: more cost effective to just pay the MFN tariff?
Possible Outcomes

Scenario B: US Withdraws from NAFTA; CUSFTA remains suspended

- Canadian-built cars face 2.5% tariff entering US – offset by depreciated C$??
- GM Oshawa hit by 25% US tariff on pickup trucks
- US-built vehicles face 6.1% tariff entering Canada (cf. Mexican, Japanese and European vehicle imports 0% under CPTPP and CETA)
- No longer need to meet NAFTA RCV – OEMs could substitute lower-cost parts and negatively impact parts production in Canada and US
High levels of integration, specialization, and intra-industry trade keeps the North American auto industry globally competitive.

- Allows automakers to take advantage of best cost production and manage supply chain risk.

- US-demanded changes to NAFTA automotive rules would:
  - disrupt existing supply chains,
  - undermine competitiveness of the North American auto industry,
  - create unintended negative consequences for the US
  - likely winners would be European and Asian producers
Thank you

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