

The Trans-Pacific Partnership and Canada's Auto Industry



Briefing Note

Unifor and the Auto Industry

Unifor represents 40,000 workers in Canada's auto assembly and parts industries.

Trouble with the TPP

The TPP was negotiated behind closed doors, with no analysis of its impacts on Canada's economy and without any meaningful input from the public. Recent studies predict the TPP will have a negative effect on Canada's economy. Even in best case scenarios, the TPP will have little to no impact at all. In either case, the risks to Canada's public policy and decision-making appear to be real and raise serious concerns for Canadians on a number of fronts. For instance:

- The inclusion of investor-state dispute settlement (ISDS) will grant extraordinary and extra-judicial rights to private corporations, allowing them to sue governments over public policy decisions;
- A "negative-list" approach that opens markets to foreign investors and all service suppliers, unless explicitly excluded from the deal, promotes permanent deregulation and limits government decision-making over the long term;
- Patent reforms and new digital policy rules risk everything from higher Canadian drug prices to data privacy.

The Impact of TPP on Canada's Auto Industry

Automotive products (passenger vehicles and parts) are Canada's number one export product. The auto industry is also a major economic driver of the Central Canadian economy, employing more than 120,000 workers directly (and supporting hundreds of thousands more jobs in economic spin-offs). And it is widely viewed as a strategic export industry for many developing and developed nations around the world. Despite all of this, Canada's auto industry has been the big loser in TPP negotiations. Auto provisions in the TPP are expected to cause significant damage to Canada's auto industry through three distinct channels:

- Firstly, the TPP will facilitate more auto imports into Canada, especially from Japan, as Canada's existing 6.1% auto tariff is quickly eliminated (in just 5 years, whereas the U.S. will phase-out its 2.5% passenger vehicle tariff and 25% truck tariff over 25 and 30 years, respectively);
- Secondly, drastic changes to vehicle content requirements (i.e. Rules of Origin thresholds for passenger vehicles that will drop from 62.5% under the NAFTA to 45% under the TPP) will allow vehicle imports from Japan and elsewhere to embody a majority of non-TPP content from China or other low-wage countries;
- Thirdly, the TPP will encourage the offshore relocation of much of the North American auto supply chain, as the regional parts content rule is cut to 35-45% (depending on the part) from 60%. In fact, special TPP "flexibility" provisions could further reduce these originating material requirements by an additional 10%.

Unifor is urging federal Members of Parliament not to ratify the Trans-Pacific Partnership agreement. Canada's approach to global trade and investment must serve to enhance our collective economic and social development, and must be guided by progressive, fair trade principles.

The auto terms of the TPP are very close to the original (secret) US-Japan deal that came to light in Maui, at the tail-end of negotiations – a side deal that was struck without Canada’s knowledge or input.

The TPP auto provisions in no way constitute a victory for Canada. The vague safeguards established between Canada and Japan in a side letter is unlikely to meaningfully alter the one-way nature of Canada’s auto trade with Japan – and effectively be triggered only after industry damage has been done.

There is also nothing in the TPP that will spark any meaningful increase in Japan’s extremely small imports of Canadian-made automotive products. It is simply not credible to believe that other Asian countries in the TPP (including Malaysia and Vietnam) will ever buy substantial volumes of automotive products from Canada given the regional structure of the global industry. Therefore, the hypothetical upside for our auto industry from new exports to Asian countries can never offset the known downside which we will experience: via a widening trade deficit with Japan, caused by increased imports, and via the relocation of a significant portion of our supply chain right out of the TPP.

Protecting Canada's Auto Industry

The TPP is a bad deal for Canadians, including auto workers. Unifor believes that for any future TPP to have any reasonable prospect of benefitting Canadians, without sacrificing our most important export industry, the following conditions must be met:

1. The TPP must not reduce the regional value thresholds contained for automotive products in the NAFTA, and would preferably increase them. (By expanding the number of countries in the free trade zone, the TPP makes it easier, nor harder, to meet existing regional value thresholds);
2. The TPP must have strong safeguard provisions to prevent against large trade imbalances in auto and ensure that the trade deal leads to greater Canadian exports (not just imports);
3. The TPP must include restrictions on the manipulation of exchange rates and other macroeconomic measures aimed at curtailing imports and promoting exports.

The Trans-Pacific Partnership treaty is **fundamentally-flawed** and a **missed opportunity** for Canada to facilitate global trade that is fair, ethical and of benefit to all. Unifor urges the federal government not to ratify the TPP.

