



Auto Provisions of the TPP

Summary:

The auto provisions of the TPP will cause significant damage to Canada's auto industry (Canada's #1 export) through three distinct channels:

- Facilitating more imports from Japan, as Canada's 6.1 per cent tariff is quickly eliminated (over just 5 years).
- Allowing vehicle imports from Japan and elsewhere to embody a majority of non-TPP content, from China or other low-wage countries (as the vehicle content rule is cut to 45 per cent from 62.5 per cent).
- Encouraging the offshore relocation of the North American auto supply chain, as the parts content rule is cut to 35 to 45 per cent (depending on the part) from 60 per cent.

These measures together will eliminate about 20,000 good Canadian auto jobs in the years following TPP implementation.

The auto terms of the TPP are very close to the original (secret) US-Japan deal that came to light in Maui. Vehicles will be tariff-free with just 45 per cent TPP-made content. Most of the car could be made in China, yet still come into Canada tariff-free. This represents a huge "back door" for tariff-free access to Canada's market for China and other non-TPP countries, with nothing won for Canada in return.

Auto parts would have even lower content: ranging from 35 per cent to 45 per cent (depending on the part), far below the 60 per cent content required under NAFTA's existing rules. Because the NAFTA rules are effectively being replaced by the TPP (which will encompass all three NAFTA members), this will lead to a substantial out-migration of the North American automotive supply chain. Even North American producers could now reorient their parts purchasing to take advantage of imports of low-wage non-TPP auto parts, yet still brand their products as made-in-the-TPP.

This huge change to NAFTA's rules represents the potential loss of as much as one-fifth of the value-added content of a typical vehicle – relocating not just out of North America, but right out of the TPP zone altogether. That would eventually lead to the loss of about 20,000 auto jobs. (This estimate reflects the weighted-average reduction in regional content which will be allowed under the TPP, considering both vehicles and parts. Unifor will calculate a more precise job loss estimate when we get more details on the precise range of content rules applying to auto parts.) Canada's 6.1 per cent auto tariff is being phased out very quickly: in five years. That's much faster than other countries. We understand the US negotiated an extended phase-out of its vehicle tariffs – 20 years or longer. This is a substantial disadvantage for Canada's auto industry. Even countries such as Malaysia and Vietnam won a 12-year phase-out.

The TPP's auto agreement in no way constitutes a 'victory' for Canada. The government is accepting a deal that will cause dramatic job losses in our number one export industry. Canada was not even at the table for the original US-Japan deal (settled before Maui), and the government has spent the last two months trying unsuccessfully to fix the problem. This outcome confirms the Harper government's mismanagement of this crucial issue.

The government is boasting about special bilateral provisions with Japan, including vague safeguards and a bilateral "committee." We will await further details on these provisions, but they are unlikely to meaningfully alter the one-way nature of Canada's auto trade with Japan. Remember, Japan has no existing tariff on vehicle imports. There is nothing in this deal that will spark any meaningful increase in Japan's extremely small imports of Canadian-made automotive products (\$32 million last year, compared with our automotive imports from Japan of more than \$4.5 billion).

Other Asian countries in the TPP (such as Malaysia and Vietnam) will never buy substantial volumes of automotive products from Canada. 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 growing imports from Japan (including vehicles majority-made outside of the TPP), and via the relocation of a significant portion of our supply chain right out of the TPP.

Last week, Stephen Harper said: "We will only sign a deal if we believe it's in the best interests of all of our Canadian economy, including our auto industry." It's impossible to imagine that this deal will benefit Canada's auto industry – our #1 export. The only question is how bad the damage is going to be. The government's assurances that it would only sign a deal if it benefits the auto industry were hollow.

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