



Strategic Review of the Canadian Automotive Industry
Dennis DesRosiers - February 28, 2007

desrosiers
AUTOMOTIVE CONSULTANTS INC.



Importance of the Auto Sector to the Canadian Economy

- The automotive sector is Canada's largest direct employer and one of Canada's largest trading sectors
- Over 700,000 workers directly employed by the sector
- Millions of other jobs indirectly affected by the sector
- About 40,000 firms directly involved with manufacturing, distributing, selling and repairing vehicles
- All Provinces have some exposure but most Manufacturing is in Ontario with a smattering in Quebec

2

desrosiers
AUTOMOTIVE CONSULTANTS INC.



Importance of the Auto Sector to the Canadian Economy

- One in seven jobs in Canada are tied directly or indirectly to the automotive sector, one in six in Ontario, one in five in Automotive communities like Windsor, Cambridge, Oshawa
- Many other sectors have a very high dependence on the automotive sector
 - Petroleum Industry
 - Banks
 - Insurance
 - Raw Materials
 - Ports/Shipping
- A truly national industry with thousands of jobs in every province directly tied to the automotive sector

3

desrosiers
AUTOMOTIVE CONSULTANTS INC.



Importance of the Auto Sector to the Canadian Economy

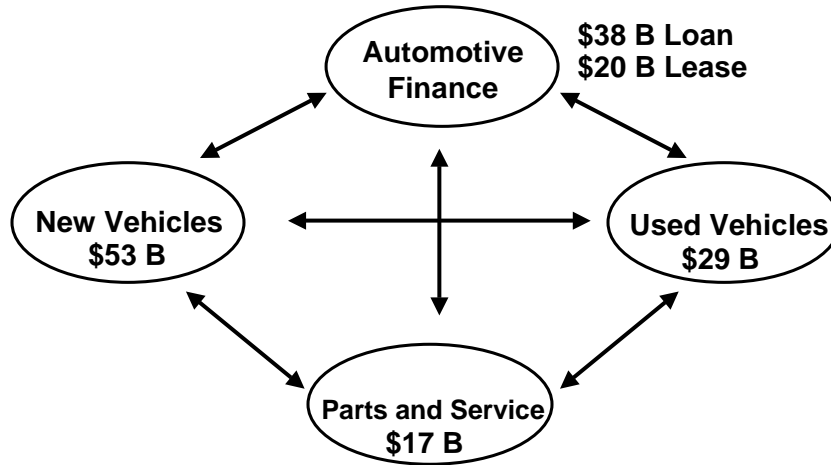
- Motor vehicles are ingrained into our lifestyles
 - 80%+ Canadians drive to work
 - Cities-Suburbs are built around access to personal use transportation
 - Commerce – “Find someone who hasn’t used a Tim Horton’s or McDonalds drive through”
 - Emergency Vehicles
 - Entertainment

The Automotive Industry is NOT going away, it is really a case of what vehicles will be required and where these vehicles will be built and the mobility of jobs in the manufacturing side of the sector

4

desrosiers
AUTOMOTIVE CONSULTANTS INC.

Four Windows” to Automotive - 2007



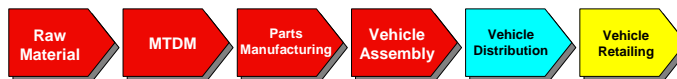
Final Retail = \$156 Billion in Revenue including Financing

5

desrosiers
AUTOMOTIVE CONSULTANTS INC.

The Auto Sector by Function

New Vehicles



Used Vehicles



Manufacturing Focus in Red

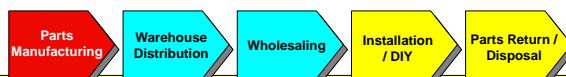
Distribution Focus in Blue

Retail Focus in Yellow

Vehicle Finance



Aftermarket



6

desrosiers
AUTOMOTIVE CONSULTANTS INC.

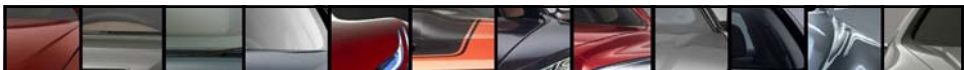


The Auto Sector by Function

- The manufacturing side of the sector is the most sensitive politically in that most of these jobs are relatively mobile and increasingly can be located in any number of countries
- Distribution and Retail is relatively job neutral ... if one dealer fails another somewhere else benefits but both are in Canada so it is neutral and usually not politically sensitive.

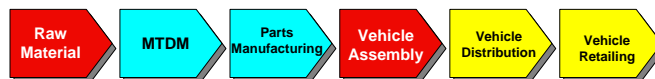
7

desrosiers
AUTOMOTIVE CONSULTANTS INC.



The Auto Sector by Geography

New Vehicles



Used Vehicles



Global Focus in Red

North American Focus in Blue

Canadian Focus in Yellow

Vehicle Finance



Aftermarket



8

desrosiers
AUTOMOTIVE CONSULTANTS INC.



The Auto Sector by Geography

- The vehicle assembly sector has become very global and will become even more global thus Canadian plants have to compete within a global framework. What realistically can Canada do to counter global issues? Can Canada resist the globalization of the auto sector and the answer simply is NO! (ie: the Korea issue)
- The OE Parts sector is still very North American but is becoming more global but at a very slow pace, aftermarket parts is much more global than OE Parts. So our OE parts competition is really the US and Mexico. (Mexico is significantly out-performing Canada in the N.A. parts sector)
- All things considered the volume of OE parts coming into North America from overseas is still quite small... growing rapidly but from a very small base and is more aftermarket focused than OE focused (this is changing as well though)

9


desrosiers
AUTOMOTIVE CONSULTANTS INC.



The Structure of our Market in Canada


10

desrosiers
AUTOMOTIVE CONSULTANTS INC.



New & Used Vehicle Sales in Canada – 000's of Units

	New Sales 000's	Percent New	Used Sales 000's	Percent Used	Total Sales 000's	Total Units in Operation (Millions)	Sales as a Percent Of UIO
2000	1,549	43.4%	2,019	56.6%	3,569	17,101	20.9%
2001	1,571	43.7%	2,022	56.3%	3,592	17,668	20.3%
2002	1,703	44.4%	2,133	55.6%	3,837	17,911	21.4%
2003	1,594	41.6%	2,238	58.4%	3,832	18,207	21.0%
2004	1,534	40.1%	2,290	59.9%	3,824	18,709	20.4%
2005	1,583	40.6%	2,320	59.4%	3,903	18,883	20.7%
2006	1,615	41.0%	2,325	59.0%	3,939	19,365	20.3%
2007	1,653	39.0%	2,591	61.0%	4,244	19,782	21.5%
2007/2006	2.4%		11.5%		7.7%		

11 Source: DesRosiers Automotive Consultants Inc. 



Market Structure

- The Canada/U.S. border is open to trade in the used vehicle market so Canadian consumers have access to the extremely large U.S. market representing some 248 million vehicles.
- Price increases or restrictions in what consumers can purchase in the Canadian new vehicle market will lead to an increase in imported used vehicles and these are likely less fuel efficient. Indeed, upwards of 200 thousand used vehicles will come to Canada in 2008 and almost of all them will be larger and less fuel efficient products.
- There are few tools to stop these used vehicles from entering Canada and aggressive social policy initiatives could convert Canada to simply becoming a large used vehicle market ... and there is precedent for this in some global markets

12 



Canadian Light Vehicle Market 2000 - 2007

Year	Total Market	Entry Level	Entry Level Share	Mid-Size/ Family	Mid-Size Family Share	Large/ Luxury/ Sport	Large/ Luxury/ Sport Share	Primarily Commercial	Primarily Commercial Share
2000	1,549,441	536,797	34.6%	623,570	40.2%	154,435	10.0%	234,639	15.1%
2001	1,570,629	598,691	38.1%	599,990	38.2%	153,729	9.8%	218,219	13.9%
2002	1,703,246	648,709	38.1%	650,341	38.2%	169,583	10.0%	234,613	13.8%
2003	1,593,506	610,554	38.3%	585,870	36.8%	166,980	10.5%	230,102	14.4%
2004	1,534,415	609,622	39.7%	514,849	33.6%	168,632	11.0%	241,312	15.7%
2005	1,583,291	677,142	42.8%	493,686	31.2%	179,462	11.3%	233,001	14.7%
2006	1,614,701	735,048	45.5%	460,752	28.5%	184,309	11.4%	234,592	14.5%
2007	1,653,388	786,186	47.6%	436,893	26.4%	179,201	10.8%	251,108	15.2%
Change	2.4%	7.0%		-5.2%		-2.8%		7.0%	

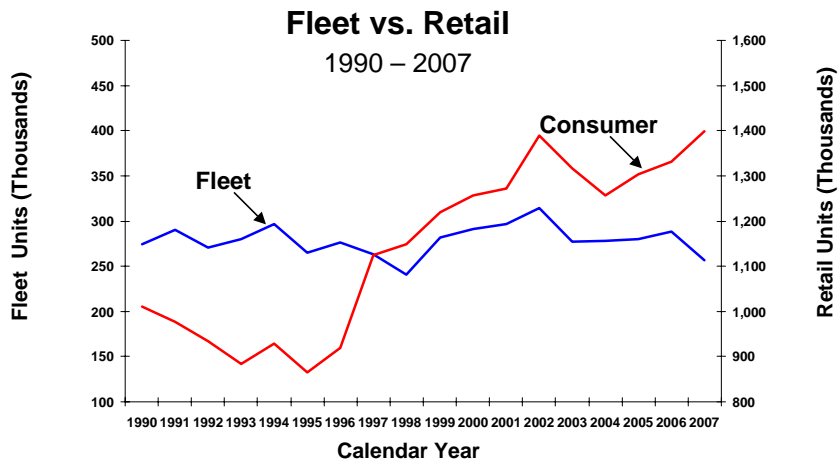
The Canadian market is moving away from Mid-Sized Family Vehicles and instead is becoming primarily a market for small entry level vehicles Large/luxury is growing driven by demographic issues ... the commercial use market is very stable and will remain so.

13

Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA




Canadian Light Vehicle Sales 1990 – 2007




14






Vehicle Consumers Purchase		
	1997	2007
Entry Level	34.3%	52.4%
Mid-Size/Family	40.4%	24.5%
Large/Luxury/Sport	9.1%	11.0%
Primarily Commercial	16.2%	12.1%
Total	100.0%	100.0%


Consumers are moving away from Mid-Sized Family Vehicles as well as light truck for personal use

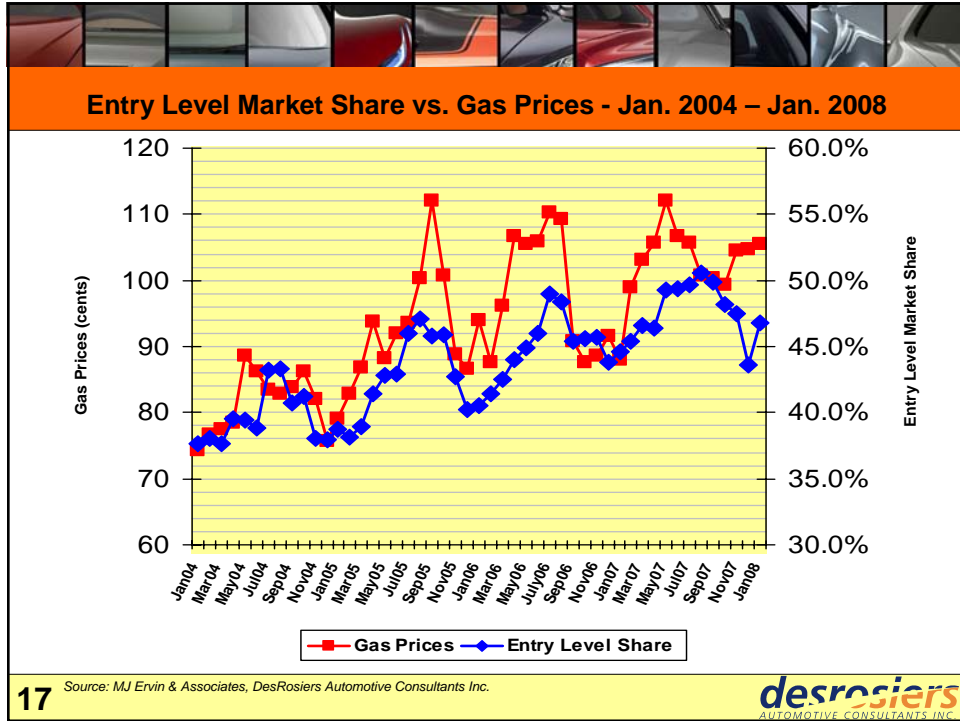
15 



Vehicle Fleets Purchase		
	1997	2007
Entry Level	17.9%	21.9%
Mid Size/Family	58.1%	42.9%
Large/Luxury/Sport	3.7%	7.9%
Primarily Commercial	20.4%	27.3%
Total	100.0%	100.0%

Fleets also moving away from the mid size/family market with a distinct move up-scale.


16 



Entry Level Vehicles 2000 - 2007


Year	Total Entry Level Market	GM, Ford, Chrysler Share	Japanese Share	Korean Share	European Share
2000	536,797	43.3%	41.1%	8.9%	6.8%
2001	598,691	38.9%	43.4%	11.7%	6.0%
2002	648,709	38.8%	44.2%	11.3%	5.7%
2003	610,554	36.7%	46.3%	11.5%	5.5%
2004	609,622	38.4%	47.1%	10.4%	4.2%
2005	677,142	37.9%	46.8%	10.8%	4.4%
2006	735,048	37.0%	48.2%	10.0%	4.7%
2007	786,186	37.0%	48.3%	10.0%	4.7%
Change	7.0%				


Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA



Mid-Size/Family Vehicles 2000 - 2007


Year	Total Mid-Size/ Family Market	GM, Ford, Chrysler Share	Japanese Share	Korean Share	European Share
2000	623,570	78.2%	20.1%	0.9%	0.7%
2001	599,990	75.9%	21.3%	1.9%	0.9%
2002	650,341	73.3%	23.2%	2.7%	0.8%
2003	585,870	68.6%	27.2%	3.5%	0.7%
2004	514,849	65.7%	29.9%	3.5%	0.9%
2005	493,686	66.4%	29.0%	3.4%	1.2%
2006	460,752	63.9%	30.3%	5.0%	0.8%
2007	436,893	61.6%	31.0%	6.7%	0.7%
Change	-5.2%				


19 Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA 



Large/Luxury/Sports Vehicles 2000 - 2007


Year	Total Large/Luxury Sport Market	GM, Ford, Chrysler Share	Japanese Share	Korean Share	European Share
2000	154,435	46.4%	22.7%	2.0%	29.0%
2001	153,729	39.7%	26.6%	3.4%	30.3%
2002	169,583	37.1%	27.3%	3.4%	32.1%
2003	166,980	33.1%	29.9%	2.9%	34.2%
2004	168,632	35.2%	28.8%	2.2%	33.7%
2005	179,462	39.1%	27.4%	1.6%	31.9%
2006	184,309	38.8%	26.4%	1.6%	33.2%
2007	179,201	33.2%	28.7%	1.3%	36.7%
Change	-2.8%				


20 Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA 



Commercial Use Light Vehicles 2000 - 2007


Year	Total Primarily Commercial Market	GM,Ford, Chrysler Share	Japanese Share
2000	234,639	99.0%	1.0%
2001	218,219	99.2%	0.8%
2002	234,613	99.1%	0.9%
2003	230,102	98.9%	1.1%
2004	241,312	97.8%	2.2%
2005	233,001	97.9%	2.1%
2006	234,592	97.9%	2.1%
2007	251,108	94.6%	5.4%
Change	7.0%		

21 Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA 



All Vehicles 2000 - 2007

Year	Total Market	GM, Ford, Chrysler Share	Japanese Share	Korean Share	European Share
2000	1,549,441	66.1%	24.7%	3.6%	5.5%
2001	1,570,629	61.5%	27.4%	5.5%	5.6%
2002	1,703,246	60.1%	28.5%	5.7%	5.7%
2003	1,593,506	57.0%	31.0%	6.0%	5.9%
2004	1,534,415	56.5%	32.3%	5.5%	5.7%
2005	1,583,291	55.7%	32.5%	5.9%	5.9%
2006	1,614,701	53.7%	33.9%	6.2%	6.2%
2007	1,653,388	51.8%	35.1%	6.6%	6.4%
Change	2.4%				

22 Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA 



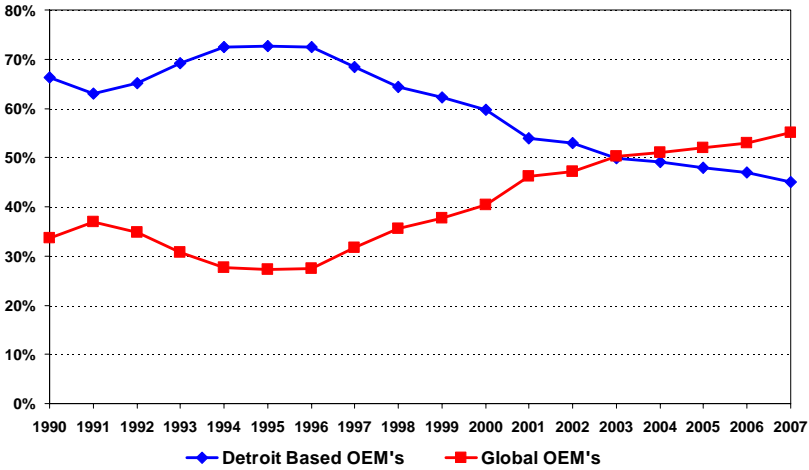
The Fundamental Issue in the Automotive Sector across North America !!!

23

desrosiers
AUTOMOTIVE CONSULTANTS INC.

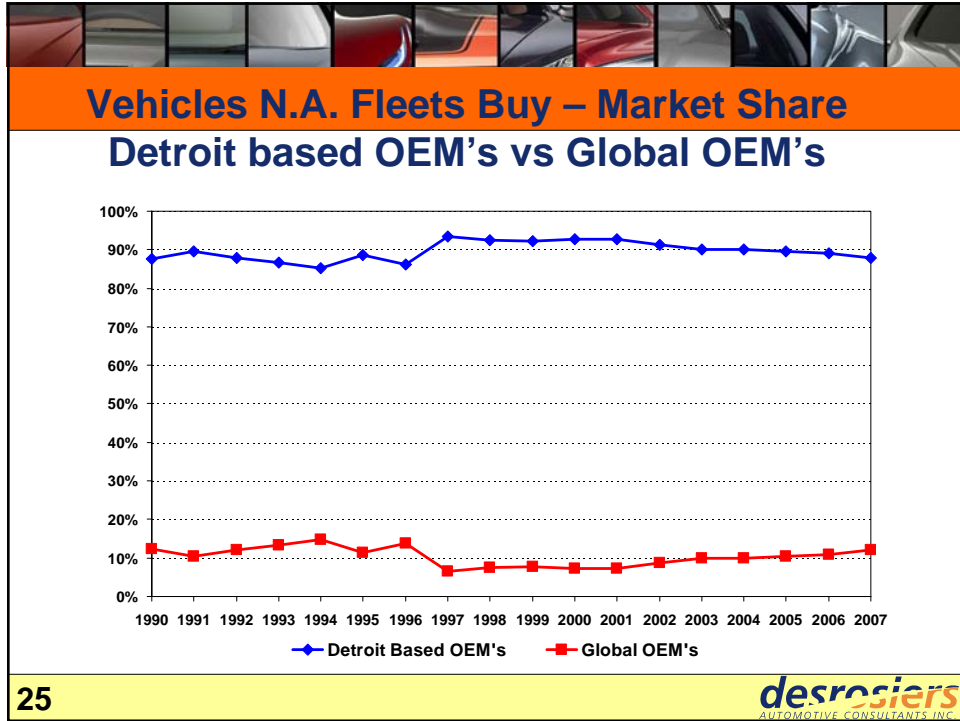


Vehicles N.A. Consumers Buy – Market Share Detroit based OEM's vs. Global OEM's



24

desrosiers
AUTOMOTIVE CONSULTANTS INC.



-
- Critical to Market Share changes are:
- Product, product, product
 - Competitiveness of each OEM (ie: pricing factors)
 - Speed to market
 - Distribution Efficiency
 - Excellence at the Retail Level
- With the exception of competitiveness issues there is very little Governments can do to help the OEMs with any of these issues!!
- 26 desrosiers
AUTOMOTIVE CONSULTANTS INC



- GM, Ford and Chrysler are going through a three step process to address their issue of lost market share
- First is to re-size their organizations which is largely completed ... and up to this point they have been “Canada Light” in this re-sizing exercise in that Canada has generally taken less downside than in the U.S.
- Second is to re-structure and to address the cost structures within their organizations with the biggest task being the reworking of their labour contractsUAW is done ... CAW is this fall
- Third is to re-invest in new products and new plants which is in the early stages ... this is where Canada has the most upside opportunity but also where Canada is the most vulnerable!

27


desrosiers
AUTOMOTIVE CONSULTANTS INC.



- GM, Ford and Chrysler market share losses have translated into significant reductions in their light vehicle production and any entity touching them has had a negative adjustment to make starting with themselves
- New Domestic investments have resulted in significant increases in their N.A. production and overseas suppliers who have come to North America have significantly benefited .. There is actually a surprisingly small increase in overseas sourced components

28

desrosiers
AUTOMOTIVE CONSULTANTS INC.

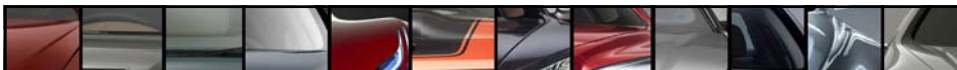


North American Production of Vehicles # of Units

Year	GM, Ford, Chrysler		New Domestic	
	Units	Share	Units	Share
2000	13,196,873	74.7%	4,117,212	23.3%
2001	11,593,637	73.3%	3,997,567	25.3%
2002	12,281,894	73.5%	4,168,305	24.9%
2003	11,499,933	70.9%	4,422,906	27.3%
2004	11,060,100	68.2%	4,805,539	29.6%
2005	10,372,739	63.6%	5,511,509	33.8%
2006	9,676,079	60.3%	5,621,219	35.5%
2007	9,194,342	59.6%	5,914,860	38.4%

4 million units fewer Detroit based vehicles produced has resulted in huge downsizing at any entity touching these companies ... suppliers, tool and die, dealers, raw material etc ... and the OEMs themselves

desrosiers
AUTOMOTIVE CONSULTANTS INC



North American Production of Vehicles # of Units

Year	GM, Ford, Chrysler		New Domestic	
	Units	Share	Units	Share
2000	13,196,873	74.7%	4,117,212	23.3%
2007 F	9,194,342	59.6%	5,914,860	38.4%
2008 F	8,669,650	58.0%	5,960,384	39.8%
2009 F	8,251,172	56.3%	6,049,446	41.2%
2010 F	8,549,476	55.2%	6,563,668	42.3%
2011 F	8,629,313	53.8%	6,974,082	43.4%
2012 F	8,714,815	52.8%	7,358,401	44.5%

There does not appear much downsizing left out of Detroit .. The upside for Canada is to get another one or two assembly plants from the new domestics

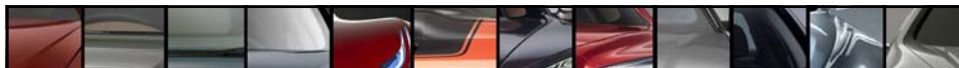
desrosiers
AUTOMOTIVE CONSULTANTS INC



- The North American Auto Parts Sector is also in the midst of a mass Global **“localization”** of the supply base, not necessarily a “globalization” of the supply base as overseas suppliers move into North American
- The level of competition from on-shore has never been greater and will get more intense.
- Dozens of suppliers have moved into North America and more will come to North America so there is opportunity to grow this aspect of our auto sector

31

desrosiers
AUTOMOTIVE CONSULTANTS INC.



N.A. Original Equipment and Aftermarket Parts Market

Year	Size of the Parts Market \$US Billions	Imports of Parts from Outside North America	Parts Sourced From Overseas Owned but N.A. Located Suppliers	Parts Sourced From N.A. Owned Suppliers
2000	\$289.3	10.5%	19.9%	69.6%
2001	\$270.8	10.6%	20.7%	68.7%
2002	\$274.4	11.2%	22.5%	66.3%
2003	\$302.7	11.4%	24.7%	63.9%
2004	\$312.7	12.5%	27.0%	60.5%
2005	\$321.4	13.9%	29.7%	56.4%
2006	\$320.4	15.0%	30.4%	54.6%
2007	\$317.3	15.3%	33.6%	51.1%

There are very few components coming into North America from overseas, most of the activity is overseas suppliers building plants in North America

32

desrosiers
AUTOMOTIVE CONSULTANTS INC.



Canada has traditionally been very successful within the North American automotive assembly sector. We are actually operating from a relatively strong position.

Although there are serious issues emerging that threaten our current success.

33

desrosiers
AUTOMOTIVE CONSULTANTS INC.




Canadian Production

	Vehicle Production	Share of N.A.	Production/Sales Ratio
1960	395,855	4.7%	75.7%
1970	1,189,461	12.3%	153.6%
1980	1,369,607	13.9%	108.4%
1990	1,947,371	15.5%	148.2%
2000	2,961,636	16.8%	186.7%
2001	2,532,363	16.0%	158.5%
2002	2,629,437	15.7%	151.8%
2003	2,552,862	15.7%	157.7%
2004	2,711,536	16.7%	138.7%
2005	2,687,892	16.5%	149.5%
2006	2,571,366	16.2%	154.3%
2007	2,578,238	16.7%	152.5%


34


desrosiers
AUTOMOTIVE CONSULTANTS INC.




North American Vehicle Production 2000 – 2007


	Total New Domestic Units	New Domestic % of Total N.A.	New Domestic Canada (Units)	New Domestic % of Total Canada
2000	4,103,226	23.2%	618,213	21.2%
2001	3,997,567	25.3%	614,356	24.2%
2002	4,168,305	24.9%	641,775	24.4%
2003	4,422,906	27.3%	670,737	26.3%
2004	4,805,539	29.6%	811,577	29.9%
2005	5,511,516	33.8%	881,454	32.8%
2006	5,706,938	35.5%	900,839	35.0%
2007	5,914,860	37.9%	871,470	33.8%

35 



But Canada is operating from a relatively weak position in its automotive supply base and most signs point to this sector deteriorating



36 



Employment in Canadian Automotive and MTDM Sectors

	Assembly Sector	Parts Sector	MTDM Sector
1991	53,298	65,416	17,722
2001	53,205	98,894	25,893
2002	52,038	96,803	26,107
2003	49,971	98,334	27,566
2004	50,114	97,342	27,779
2005	49,808	96,540	27,794
2006	47,460	92,315	27,626
2007	47,750	87,296	25,674

37






Canada's Share of the US Market for Automotive Parts

The U.S. Market for OE and Aftermarket Automotive Parts - \$ U.S. Billions

	Total Automotive OE and Aftermarket Parts Market	Imports From Canada	Imports From Mexico	Imports From Japan	Imports From China	Imports From European Union	Imports From All Other Countries	Imports From All Countries	Supplied From U.S. Based Suppliers
1990	\$139.47	\$9.09	\$4.46	\$10.41	\$0.09	\$4.39	\$3.23	\$31.68	\$107.79
2000	\$220.46	\$17.63	\$18.66	\$14.53	\$1.64	\$7.72	\$6.78	\$66.96	\$153.51
2001	\$207.88	\$15.79	\$18.18	\$13.15	\$1.76	\$7.37	\$6.48	\$62.73	\$145.15
2002	\$213.31	\$17.22	\$20.07	\$13.50	\$2.24	\$8.42	\$7.64	\$69.09	\$144.22
2003	\$237.58	\$18.57	\$21.04	\$13.75	\$2.79	\$9.86	\$8.47	\$74.47	\$163.11
2004	\$241.39	\$20.16	\$23.10	\$15.49	\$3.88	\$11.01	\$9.79	\$83.44	\$157.94
2005	\$245.02	\$21.58	\$24.91	\$16.45	\$5.41	\$12.10	\$11.71	\$92.15	\$152.87
2006	\$236.38	\$20.42	\$26.37	\$15.38	\$6.93	\$12.34	\$13.74	\$95.18	\$141.20
2007	\$228.61	\$20.11	\$28.27	\$14.22	\$8.53	\$13.22	\$14.43	\$98.77	\$129.84
Change	-3.3%	-1.5%	7.2%	-7.5%	23.1%	7.1%	5.0%	3.8%	-8.0%

38







Canada's Share of the US Market for Automotive Parts

The U.S. Market for OE and Aftermarket Automotive Parts

	Total Parts Market \$ US Billions	Imports From Canada	Imports From Mexico	Imports From Japan	Imports From China	Imports From European Union	Imports From All Other Countries	Imports From All Countries	Supplied From U.S. Based Suppliers
1990	\$139.47	6.5%	3.2%	7.5%	0.1%	3.1%	2.3%	22.7%	77.3%
2000	\$220.46	8.0%	8.5%	6.6%	0.7%	3.5%	3.1%	30.4%	69.6%
2001	\$207.88	7.6%	8.7%	6.3%	0.8%	3.5%	3.1%	30.2%	69.8%
2002	\$213.31	8.1%	9.4%	6.3%	1.1%	3.9%	3.6%	32.4%	67.6%
2003	\$237.58	7.8%	8.9%	5.8%	1.2%	4.1%	3.6%	31.3%	68.7%
2004	\$241.39	8.4%	9.6%	6.4%	1.6%	4.6%	4.1%	34.6%	65.4%
2005	\$245.02	8.8%	10.2%	6.7%	2.2%	4.9%	4.8%	37.6%	62.4%
2006	\$236.38	8.6%	11.2%	6.5%	2.9%	5.2%	5.8%	40.3%	59.7%
2007	\$228.61	8.8%	12.4%	6.2%	3.7%	5.8%	6.3%	43.2%	56.8%


39 



New Capital Expenditures in Canada and the US - \$CDN Millions

Assembly and Parts Sector

	United States	Canada	North America	Canada Percent Assembly	Canada Percent Parts	Canada Percent of N.A.
1996	\$16,526	\$3,306	\$19,832	28.9%	6.9%	16.7%
1997	\$20,622	\$4,051	\$24,673	29.0%	7.0%	16.4%
1998	\$22,565	\$4,040	\$26,605	24.9%	8.7%	15.2%
1999	\$21,155	\$3,460	\$24,615	27.1%	5.5%	14.1%
2000	\$20,259	\$2,711	\$22,970	20.3%	6.4%	11.8%
2001	\$19,852	\$3,021	\$22,872	25.3%	5.0%	13.2%
2002	\$19,401	\$3,303	\$22,703	22.6%	8.5%	14.5%
2003	\$17,640	\$3,848	\$21,488	28.2%	8.8%	17.9%
2004	\$14,246	\$3,268	\$17,514	27.0%	11.0%	18.7%
2005	\$13,194	\$3,147	\$16,341	32.0%	9.0%	19.3%
2006	\$12,362	\$3,998	\$16,360	41.4%	10.6%	24.4%
2007	\$11,978	\$3,216	\$15,194	33.4%	12.9%	21.2%

40 



Why has Canada been successful in some areas of the automotive sector?

41

desrosiers
AUTOMOTIVE CONSULTANTS INC.



- NAFTA guarantees access to North American market
 - Duty-free access to Canada/US/Mexico markets with NAFTA free trade agreement
 - Few non-tariff barriers (e.g. 62.5% NA content requirement)

42

desrosiers
AUTOMOTIVE CONSULTANTS INC.



- Our Governments have been responsive and responsible on many levels
 - Creating a positive fiscal environment
 - Human Resource policies .. training, education etc
 - A “fair” regulatory environment
 - An understanding of the industry and its issues
 - A willingness to work with the industry through CAPC type initiatives

43

desrosiers
AUTOMOTIVE CONSULTANTS INC



- Canada has always viewed Import OEM manufacturers as valued partners
 - Unlike some US States like Michigan, Canada has not been aggressively negative towards global players and has not been threatening these global players with protectionist measures etc. (Korea Free Trade issue today!)
 - Historically, Canada’s assembly sector has been 100% foreign owned, therefore we value foreign investment

44

desrosiers
AUTOMOTIVE CONSULTANTS INC



- **Japanese** (parts and assembly) and **European investors** (parts) **extremely successful with Canadian operations so there is a high and positive demonstration effect**
 - Toyota's most successful plant outside of Japan is in Canada which resulted in a new second new assembly plant for Canada, currently under construction
 - Toyota's only Lexus plant outside of Japan is in Canada
 - Honda Canada's two assembly plants are launch pads for new product introductions... Pilot, Odyssey, Ridgeline, etc...
 - Honda adding engine capacity into Canada
 - 100+ Japanese and European OE parts suppliers and growing

45

desrosiers
AUTOMOTIVE CONSULTANTS INC.



- **Canada is slowly becoming a global centre for intellectual capital**
 - Canada is becoming, albeit slowly, a centre for research, design, development, and testing of vehicles
 - Over \$1.5 billion in intellectual capital invested in Canada over the last 5 years although very little from the off-shore players, almost all from GM, Ford and Chrysler and a smattering from suppliers ... but still a very small percentage of the estimated \$100 billion in intellectual facilities in North America
 - This is actually the fastest growing aspect of the Canadian automotive sector but this growth is not strong enough to off-set declines in other areas.


46

desrosiers
AUTOMOTIVE CONSULTANTS INC.



- All OEM's have completely renewed their investments in their Canadian facilities
 - GM, Ford and Chrysler all have re-committed to Canada
 - Toyota is doubling capacity (will have 2 plants)
 - Honda is adding engine capacity to their existing two plants
 - The only assembly plant "on the bubble" is the Ford plant in St. Thomas
 - So Canada is NOT threatened on this round of investments, the real issue will be the next round of investments.

47 



- Our Governments (especially Ontario) have also traditionally been very proactive with policies and initiatives that benefit the sector, the industry did not get to its positive position solely through the free market
 - The 1965 Auto Pact
 - Duty Remission Programs
 - Selected Duty reduction initiatives
 - Voluntary Export Restraints (VER's)
 - Loan support for Chrysler in 1980's
 - Targeted incentive programs especially for tooling and expansion
 - PAC, OCAPT type initiatives
 - Overseas Investment promotion, trade missions etc
 - EDC , BDC programs
 - Significant Incentives to help GM, Ford and Chrysler through their current restructurings
 - Selected use of tax policy (ie: S & T write offs, changing the capital tax structure, etc)

48 



- Absolutely every single assembly plant investment in Canada has had a strong and often heavy hand involved at the Federal or Provincial level ... usually behind the scenes but often very publicly
- Canada has largely secured this round of assembly investments .. It is the NEXT round of assembly investments that are vulnerable.
- For the first time in the modern history of the automotive sector Canada will have to secure investments almost solely on our competitive position relative to the U.S.A. and Mexico
- Most in the industry indicate that this will be difficult to accomplish and labour thinks it is impossible ... others believe it is more a crisis in confidence rather than some inherent inability to compete for investments

49

desrosiers
AUTOMOTIVE CONSULTANTS INC.



Issues of Concern

50

desrosiers
AUTOMOTIVE CONSULTANTS INC.



Issues of Concern

- The Resizing, Restructuring and Reinvestments at GM, Ford and Chrysler
- The UAW Negotiations
- Supplying the Japanese OE's in North America?
- Weaknesses in Canada's supply base
- Addressing social policy agenda items

51 



GM, Ford and Chrysler's Restructuring

- The impact of GM, Chrysler and Ford's restructuring on Canada?
 - What happens to the suppliers, communities and workers affected? This is the Windsor Issue which is the community the most affected!
 - Will the OEMs continue to be Canada "light" or will Canada bear a "heavier" burden in the future
 - How does Canada improve its position to secure the next round of investments
- Canada is highly reliant on the success of specific models? Can we improve our chances?

52 



The UAW Negotiations

- Truly transformational. Brings a fundamental change to the cost structure of GM, Chrysler and Ford in the U.S.A.
- Eliminates up to \$25.00 per hour of cost and brings cost structure in line with new domestics
- VEBA for health care and two tier wages a large part of the savings
- But, some aggressive job guarantees and other language that could force investments into U.S. facilities to accommodate
- In addition, outsourcing of components will be very difficult in the future and indeed we could see in-sourcing of components if market share losses continue (this is the easiest route to cover job guarantees)

53

desrosiers
AUTOMOTIVE CONSULTANTS INC.



The UAW Negotiations

- UAW finally understands that the future of GM, Ford and Chrysler resides in successful product programs so they aggressively lobbied for and got product commitments for US based plants
- This threatens Canada and Mexico in the medium to long term (not the short term) but securing all future product mandates just got a lot harder for ALL plants
- The CAW would appear to have no choice but to play this game since Canada is now one of the highest cost auto assembly locations anywhere in the world
- Which Buzz emerges ... Buzz the smart labour negotiator or Buzz the bombastic politician?

54

desrosiers
AUTOMOTIVE CONSULTANTS INC.



The UAW Negotiations

- The CAW would appear to have no choice but to play the cost cutting game since Canada is now one of the highest cost auto assembly locations anywhere in the world
- Union shops in Canada and suppliers will have to “mimic” these labour Agreements over the next few years and also lower their cost structure.
- But Canada does not have \$25/hour in savings available without threatening base wages.
- Trying to cut base wages (likely need \$8 to 10.00 per hour) would be war!!.
- Which Buzz emerges ... Buzz the smart labour negotiator or Buzz the bombastic politician?

55

desrosiers
AUTOMOTIVE CONSULTANTS INC.



The UAW Negotiations

- Now the ball is in GM, Ford and Chrysler’s court, no more excuses
- Their ability to stop their market share erosion, if not increase market share, is now the critical question and the ONLY way to stop market share erosion is Product, Product, Product we therefore expect all time record investments in new products top to bottom through these companies which will benefit suppliers, the tool sector etc and possibly Canada if Canada plays this right
- Add to this an unprecedented expenditure by all OEMs to meet the U.S. 35 miles per gallon climate change standard and there appears to be a significant opportunity for Canada to improve its position within the North American automotive sector

56

desrosiers
AUTOMOTIVE CONSULTANTS INC.



Supplying the Japanese in N.A.

- No doubt that this is proving to be difficult for many N.A. suppliers but the Japanese are NOT bringing in components from the home market (imports are actually down not up) instead they are bringing their best suppliers to North America (opportunity for Canada)
- The roots of any OEMs strength is its supply base and it is very difficult to break into these relationships.
- The best of the best North American suppliers are making in-roads with the Japanese it is just that Canada has very few really good suppliers
- Most successful route is leveraging off a joint venture opportunity, but JV partners are difficult to find UNLESS you truly have world class technology and/or production processes or are willing to invest in same and again this plays to Canada's weakness.

57

desrosiers
AUTOMOTIVE CONSULTANTS INC.



Weakness in Canada's Supply Base

- You don't have to take your shoes off to count the number of highly capable Canadian owned suppliers
...
- We are fortunate to have attracted a number of very capable overseas suppliers but a lot more work has to be done here.
- This whole supply sector issue is currently the biggest downside for Canada from a jobs and production point of view

58

desrosiers
AUTOMOTIVE CONSULTANTS INC.



Social Policy Agenda Items

- The Big Picture Social Policy Agenda issues facing the industry (The environment, fuel efficiency, safety, grid lock etc) currently appear to be more of a downside threat to Canada's manufacturing base than an upside opportunity
- Canada is not well positioned to take advantage of the 'greening' of the automotive sector since most of our production base is focused on larger less fuel efficient products a hold over from our Auto Pact days which encouraged the OEMs to build larger vehicles in Canada ... we benefited from this for years ... now it is hurting Canada

59

desrosiers
AUTOMOTIVE CONSULTANTS INC




What is the role of Government Policy? Can the Gov't play in this sector, if so how, how aggressively, where etc.

Need to set the Rules of Engagement for Government Policy


60

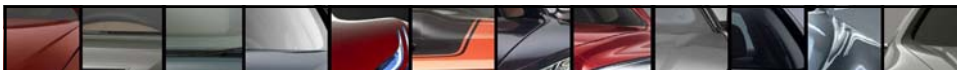
desrosiers
AUTOMOTIVE CONSULTANTS INC



Rules of Engagement for Government Policy


- Absolute neutrality between corporate players since nobody can predict who the winners and losers are going to be!
- A global approach to development since the industry itself is becoming very global
- A focus on promoting efficiency where-ever possible since only the lowest cost jurisdictions will thrive
 - Investment promotion to get latest technologies for Canada
 - Infrastructure development
 - Taxation and regulation
 - Human Resource Policy

61 



Rules of Engagement for Government Policy

- Extreme Caution on approach to social policy agenda items since they put Canada into a very negative light in a global race for investment ... Canada can't go off on its own agenda since our market is a fly speck in the global automotive arena!
- No amount of positive industrial policy initiatives are enough to offset even the smallest policy mistake on these social policy agenda items. (The Federal Feebates, the Ontario EFFI tax, the BC luxury tax are all sore points for OEMs in Canada)
- And these social policy initiatives are increasingly becoming visible in corporate board rooms and are problematic on the investment front.


62 




**The Future of the Canadian Automotive Sector is the
“Six Inches Between our Ears”**

- Wages and jobs are increasingly being linked to skill/intellectual capability
- N.A. Automotive sector annually spends about \$30-35 Billion in Research, Design, Development and Testing of Vehicles and Parts and Canada gets very little of this so there appears to be an up-side opportunity and available \$\$'s.
- In essence there are four possible scenarios for Canada
 - Low wage – Low skill (currently China, Korea ...)
 - Low wage – High skill (currently India ...)
 - High wage – Low skill (Historically in Canada, U.S.)
 - High wage – High skill (The Future for Canada, U.S.???)

63 



Governments at all levels in Canada need to use policy tools available to them to help the Canadian automotive sector embrace higher skills and to move up the intellectual curve. The other options are not palatable to most in the sector

64 



Conclusions

- The Automotive Sector remains Canada's most important industry and across all value chains employ's over 700,000 Canadians
- But many aspects of the Automotive Sector have Globalized and this has resulted in a major restructuring of the sector across North America ... Canada is not immune from this trend.
- Fierce competitive environment is fostering **innovation** with billions being invested in Technology and the 'Green' agenda will trigger even more innovation
- The Canadian Auto Sector is well positioned to survive the industry's current re-structuring The degree of Government help required is uncertain but there likely is a need for some sort of 'action plan'
- Focusing on innovation and efficiency is key to any success

65

desrosiers
AUTOMOTIVE CONSULTANTS INC.



Questions?

www.desrosiers.ca

Dennis DesRosiers

*DesRosiers Automotive Consultants Inc.
80 Fulton Way, Suite 101
Richmond Hill, Ontario
t: 905.881.0400
f: 905.881.7456
e: dennis@desrosiers.ca*

66

desrosiers
AUTOMOTIVE CONSULTANTS INC.