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**The Impact of Quebec's Accession
to Sovereignty on the Automotive Industry
in Quebec**

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RÉSUMÉ

. Au cours des 30 dernières années, le marché de l'automobile nord-américain (Canada et États-Unis) a connu une croissance importante. Toutefois, pendant les années 1990, la tendance s'inversera, avec une expansion tout au plus modérée.

. La production nord-américaine totale devrait, elle aussi, au cours des années 1990, connaître une croissance tout au plus extrêmement limitée. Cette croissance sera attribuable au montage et à la fabrication de pièces pour les constructeurs étrangers ayant implanté des usines et des entreprises au Canada et aux États-Unis. Les trois grands de l'automobile, Chrysler, Ford et GM, tenus d'améliorer à tout prix leur rentabilité, continueront à rationaliser leurs exploitations en Amérique du Nord.

. Depuis la signature de l'Accord canado-américain sur les produits de l'industrie automobile (ou Pacte de l'automobile) en 1965, l'industrie canadienne s'est développée rapidement, grâce à des coûts qui lui étaient dans l'ensemble favorables - un élément clé, fruit du Pacte de l'automobile. Cette croissance a touché tous les secteurs de l'industrie :

- montage de véhicules;
- fabrication des pièces;
- distribution et ventes de véhicules;
- distribution de pièces et entretien de véhicules.

Le rapport présente en détail l'importance de chacun de ces secteurs de l'industrie au Québec et au Canada en général.

1. Montage de véhicules

. La part canadienne du montage de véhicules en Amérique du Nord a augmenté rapidement, passant de 7,1 % en 1965 à 16,5 % en 1990. Une augmentation qui est le fruit des investissements effectués tant par Chrysler, Ford et GM que par des constructeurs établis outre-mer.

. Au Québec, les grandes usines de montage sont exploitées par General Motors, Hyundai, Kenworth, Prévost et MCI. On compte par ailleurs au Québec un certain nombre de petites usines de montage de véhicules spécialisés.

. En 1988 au Québec, ce secteur des usines de montage avait produit l'équivalent de 2,7 milliards de dollars et employait 9 200 personnes.

. La production de ces usines est surtout destinée au marché des États-Unis. Ainsi, GM Canada y exporte plus de 80 % des voitures de tourisme qu'elle monte au Québec. D'un autre côté, les pièces utilisées dans ces usines viennent en grande partie des États-Unis.

2. Fabrication des pièces

. Depuis la signature du Pacte de l'automobile, la part de l'industrie de fabrication des pièces qui revient au Canada a également augmenté, mais pas aussi rapidement que dans le secteur du montage. Au Canada, en 1988, la production de ce secteur atteignait 14,5 milliards de dollars, soit 10,5 % du total nord-américain.

. Comme pour le secteur du montage, l'industrie des pièces se concentre principalement en Ontario. On trouve cependant certains fabricants d'équipement d'origine au Québec, notamment Camoplast, Woodbridge Foam, etc. En outre, la province compte de nombreuses entreprises, généralement de taille modeste, qui fabriquent des pièces de rechange.

. En 1988 au Québec, le secteur des pièces de rechange avait produit l'équivalent de 393 millions de dollars et employait 2 800 personnes.

3. Distribution et ventes de véhicules

. En 1990, le marché québécois des ventes de nouveaux véhicules a atteint les 342 000 unités, soit une légère baisse par rapport à son sommet de 1988 qui était de 414 467. Un marché loin d'être négligeable donc, mais d'importance moyenne si on le replace dans le contexte de l'Amérique du Nord. En fait, 14 États américains ont un marché supérieur à celui du Québec.

. Notons que, au Québec, les voitures importées occupent une part plus importante du marché que dans le Canada en général. C'est au Québec et en Colombie-Britannique que General Motors obtient ses pires résultats, malgré son usine de montage à Sainte-Thérèse.

. On dénombre 1 028 concessionnaires automobiles au Québec. Dans la plupart des cas, leurs propriétaires-exploitants sont des gens d'affaires des environs.

. En 1990, 27 400 personnes travaillaient dans l'industrie de la distribution et des ventes d'automobiles au Québec. En 1990 toujours, les ventes au détail réalisées par les concessionnaires automobiles s'élevaient à 9,7 milliards de dollars.

4. Distribution de pièces et entretien de véhicules

. Au total, en 1990, la distribution de pièces et l'entretien de véhicules occupaient 48 800 personnes au Québec. Les ventes au détail, stations-service comprises, se chiffraient à environ 6 milliards de dollars en 1990.

. Fait important à noter, les deux premiers distributeurs ayant des entrepôts de pièces de rechange au Canada (UAP et Uni-Select) ont établi leur siège social au Québec.

5. Questions soulevées par l'accession à la souveraineté

. Pour savoir quelles sont les questions que soulève, pour l'industrie automobile, l'accession à la souveraineté du Québec, DesRosiers Automotive Consultants a organisé une série d'entrevues avec des représentants de l'industrie. Toutefois, les contraintes de temps nous ont forcé à en limiter le nombre. Nous avons quand même rencontré des représentants de tous les secteurs de l'industrie, pour être vraiment en mesure d'évaluer toutes les conséquences de l'accession à la souveraineté.

. Pour l'étude des questions soulevées par l'accession à la souveraineté, nous avons tenu compte tant des variables ne relevant pas de l'industrie automobile que de celles qui en relèvent. Parmi les éléments ne touchant pas uniquement l'automobile, mentionnons les questions relatives à la monnaie, au droit, à la main-d'oeuvre, etc.

. Pour ces questions ne relevant pas uniquement de l'automobile, nous avons indiqué dans le rapport les préoccupations qu'elles suscitent chez les cadres de l'industrie automobile et leurs conséquences pour l'industrie. Nous n'avons pas procédé à une étude détaillée des coûts associés à ces facteurs. Dans l'industrie automobile, on s'inquiète considérablement de l'incidence de ces questions sur les coûts d'exploitation. Toutefois, la portée de ces questions dépasse celle de la présente étude.

. En ce qui concerne les variables relevant uniquement de l'automobile, l'analyse porte sur trois éléments essentiels :

- l'Accord canado-américain sur les produits de l'industrie automobile (ou Pacte de l'automobile);
- l'Accord de libre-échange entre le Canada et les États-Unis (ALE);
- les questions de réglementation des produits.

. Le rapport aborde chaque question sous l'angle de son impact sur l'industrie automobile au Canada et au Québec.

6. Conséquences de l'accession à la souveraineté

. La dernière section du rapport porte sur les conséquences de l'accession du Québec à la souveraineté. Bien sûr, dans le cadre de ce rapport, il est impossible de prédire les dispositions exactes de l'accord de souveraineté final. En fait, étant donné le caractère dynamique de toute négociation commerciale d'envergure, l'étude isolée d'une industrie en particulier représente une démarche artificielle. Toutefois, pour illustrer les conséquences qu'auraient pour l'industrie automobile diverses versions de l'accord, nous avons étudié divers scénarios :

- un Québec régi uniquement par le GATT;
- un Québec régi uniquement par le GATT, sans barrières douanières sur les produits automobiles;
- un Québec régi par les ententes actuelles (Pacte de l'automobile et ALE).

. Nous avons aussi étudié une quatrième possibilité, qu'ont abordée certains intervenants de l'industrie : un Québec négociant ses propres accords commerciaux, selon le Pacte de l'automobile et l'ALE. Toutefois, ce cas nous a semblé peu probable. En effet, le marché québécois est de taille réduite (400 000 véhicules par an); aussi, la négociation d'accords commerciaux indépendants, avec des exigences de production ou de contenu semblables à celles du Pacte de l'automobile et de l'ALE, serait impraticable pour l'industrie automobile.

. Pour étudier les conséquences de ces possibilités, nous sommes partis de certaines données :

7. Données de départ

. Le marché nord-américain (Canada et États-Unis) a connu 30 ans de croissance soutenue, à laquelle succède aujourd'hui une période d'expansion modérée.

. La production nord-américaine totale devrait, au cours des années 1990, connaître une croissance tout au plus extrêmement limitée. Cette croissance sera attribuable aux constructeurs étrangers ayant implanté des usines et des entreprises au Canada et aux États-Unis. Les trois grands, Chrysler, Ford et GM, tenus d'améliorer à tout prix leur rentabilité, continueront à rationaliser leurs exploitations en Amérique du Nord.

. Dans ces circonstances, le marché sera impitoyable en cas de baisse de compétitivité d'une usine ou d'une région.

. L'industrie canadienne a connu une croissance rapide depuis la signature du Pacte de l'automobile en 1965, en raison de coûts intéressants, un élément clé, fruit du Pacte de l'automobile.

. En 28 ans, l'industrie automobile québécoise s'est considérablement développée. Elle compte aujourd'hui deux usines de montage de véhicules légers, diverses usines de montage de véhicules spécialisés et de poids lourds, et un certain nombre d'usines de fabrication de pièces. Cette industrie de fabrication occupe une place importante dans la province, mais sa taille et, donc, son poids dans la balance restent relativement modestes à l'échelle de l'Amérique du Nord.

. Le Québec présente un marché de l'automobile de taille modeste (340 000 ventes de véhicules neufs en 1990 et moins de 4 millions de véhicules immatriculés dans la province) et insuffisant pour soutenir une industrie de fabrication d'équipement, de pièces de rechange ou de montage autonome. La logique des économies d'échelle exige que toutes les activités de fabrication et de montage dans le secteur de l'automobile au Québec s'appuient sur les marchés d'exportation pour survivre.

8. Conséquences pour l'industrie

. Partout dans l'industrie, les conséquences de l'accession à la souveraineté du Québec ont éveillé les mêmes réactions : les répercussions générales sur l'industrie automobile dans la province seraient négatives.

. Pour chacun des accords commerciaux étudiés, nous avons énoncé les conséquences pour l'industrie du point de vue de la production (montage et fabrication de pièces) et consommation (distribution et ventes de véhicules et de pièces). Dans chaque cas, les répercussions pour les divers intervenants ou groupes d'intervenants sont exposées dans le détail. De même que sont indiquées les conséquences pour le Québec et pour le reste du Canada.

. Du point de vue de la production, deux des trois accords commerciaux étudiés se traduiraient par l'imposition de barrières commerciales aux fabricants québécois de véhicules et de pièces. Ces coûts supplémentaires, dans le contexte actuel du marché de l'automobile, suffiraient sans doute à provoquer un déclin de l'industrie, à plus ou moins court terme, **sauf si des avantages sur le plan de la concurrence et des coûts pouvaient faire contrepoids.**

. Pour éviter tout coût supplémentaire, le Québec n'aurait qu'un choix : continuer à respecter le Pacte de l'automobile et l'ALE à titre de partie du Canada. Notons qu'un pareil accord commercial serait peut-être impossible. Dans l'industrie automobile américaine, certains, de plus en plus nombreux, souhaiteraient rétablir le protectionnisme et pourraient profiter de l'occasion pour négocier à nouveau le Pacte de l'automobile ou carrément le rompre, ce qui évidemment se répercuterait alors non seulement sur le Québec, mais aussi sur le reste du Canada.

. Du point de vue de la consommation, le Québec ici encore bénéficierait d'une reconduction des accords commerciaux actuels. D'ici la fin de la décennie, des barrières douanières seront imposées uniquement sur les véhicules et les pièces importées d'outre-mer par des constructeurs

non agréés par le Pacte de l'automobile, et sur les produits américains ne satisfaisant pas aux normes de contenu du Pacte.

Introduction

In December 1991, DesRosiers Automotive Consultants was retained to provide a discussion of the implications of Quebec's accession to sovereignty on the automotive industry in the Province. This report provides the findings of the research undertaken for this project. The report is divided into three sections.

The first chapter provides an overview of the automotive industry in Quebec and the rest of Canada, and discusses some of the key issues that the industry is facing in the 1990s. This analysis examines the full range of activities that comprise the automotive industry in Quebec including:

- . vehicle assembly
- . parts manufacturing
- . vehicle distribution and sales
- . aftermarket parts distribution and vehicle maintenance

Chapter two then focuses specifically on Quebec's accession to sovereignty, and details the key issues that this would raise for the Province's automotive industry. These issues include both non-automotive specific concerns, and automotive specific issues. The third chapter of the report provides an examination of the possible implications of Quebec's sovereignty with regard to the key automotive specific issues. This analysis is undertaken in consideration of the various sub-sectors of the industry. In conclusion, this chapter contains a discussion of some of the policy implications for the Province related to the automotive industry.

The methodologies employed for this study involved a combination of primary and secondary research. With regard to the primary research, a limited number of one-on-one interviews were undertaken with a number of representatives from different industry sub-sectors. Secondary research was gathered from a variety of information bases, developed or monitored by DesRosiers Automotive Consultants.

This study represents only an introductory discussion of the issues related to Quebec's accession to sovereignty and the automotive industry in the Province and the rest of Canada. Due to the severe time constraints under which this study was compiled, it represents only an introduction into the broad range of analyses that will have to be explored to develop a comprehensive understanding of the implications of Quebec sovereignty for the automotive industry.

1. *The Automotive Industry in Quebec*

1.1 *Introduction*

This initial section of the report outlines the size and structure of the automotive industry in Quebec, and in Canada as a whole. In order to provide this overview the report first discusses the North American industry as a whole and highlights some of the key issues that the industry is facing in the 1990s. As is explained, the automotive industry is increasingly global in its operation and focus. This international structure necessitates an understanding of some of the macro-level issues facing the industry, if the development and outlook for the Quebec automotive manufacturers are to be fully understood.

1.2 *The North American Automotive Industry*

As Quebec examines its options for sovereignty relative to the automotive sector, it will be imperative to understand the general economic situation faced by the automotive sector in North America, and especially in Canada. As a general theme in the 1990's the industry in Canada is facing the prospect of receiving a smaller share of a level of North American production that will show little growth. This situation represents a complete reversal of the general economic conditions experienced by the industry over the last 3 decades, where Canada was receiving a growing share of North American production. The forces that will cause these changes in the industry are :

- . a North American market that will experience only slow growth at best.
- . a level of production in North America that will show little, if any growth.
- . a decline in market share for the Big Three auto makers

Each of these issues is discussed below :

North American Market - Since 1960, the market for vehicles in North America has grown very rapidly. During the sixties North America purchased 102.5 million light vehicles, during the 70's they purchased 139.8 million light vehicles, an increase of 36.3 percent. The market slowed noticeably during the 1980's with 148.7 million vehicles sales, an increase of only 6.4 percent over the previous decade. There were many reasons for this rapid growth in the market including :

- positive population growth, especially of driving age
- an increase in female participation rate in the labour force
- increasing household disposable incomes
- increased competition leading to the development of niche markets and incremental sales
- improving quality of vehicles with more advanced technologies
- significant productivity increases in the auto sector which in real terms made vehicles more affordable

The prospects for further market growth in the 1990's are not favourable. Population growth is forecast to slow to less than 1 percent per year and where population is growing (35-55 year old's), most consumers already own a vehicle. Moreover, the rapid aging of our population is a severe negative on vehicle sales as the elderly require fewer vehicles than the middle aged consumers. Vehicles are also built to last longer and this lowers replacement demand (ie., scrappage rates). From a macro-economic standpoint, most economists are predicting a relatively lean decade as consumers and governments bring their debt loads down to more manageable levels.

Finally, governments in all jurisdictions in North America are increasingly viewing passenger cars and trucks as social policy targets. Issues related to the environment, fuel consumption, occupant safety and luxury in general are all highly tied to the automobile. To address these social policy goals, governments have used a varied of regulatory and tax policies which have significantly increased the price of purchasing a vehicle. The automotive market is very price sensitive and these increased costs have lowered demand for vehicles and will continue to do so during the next decade in North America.

Because of these factors, even the most optimistic forecasts indicate market growth over the next decade of less than 1 percent per year between cyclical peaks in North America. In essence, the size of the automotive sales pie will see little to no growth with consumers purchasing approximately 150 million vehicles during the 1990's. This lack of market growth is perhaps the most serious issue facing the North American automotive sector today.

North American Production - It is also very important to look at the production of vehicles in North America since it is by producing vehicles and parts that jobs with high multiplier effects in the economy are created. From an international perspective, North America has lost its prominent position in the world market declining from 34.8 percent of world production in 1978 to 24.3 percent of world production in 1990.

Percent Of Worldwide Production For Three Major Sources

Source	Years		
	1978	1986	1990
Japan	21.9%	27.1%	28.0%
North America	34.8%	29.1%	24.3%
Western Europe	38.3%	36.9%	38.7%
All Three	95.0%	93.1%	91.0%

Within North America, production was 125.9 million units in the 1970's an increase of 25.4 percent over the 1960's when production was 100.3 million units. During the past decade, however, production declined by 8.1 percent to 115.7 million units. Within this decline in production, it is important to note that significant shifts have occurred between the vehicle manufacturers. Over the 1980s, there has been a significant move into North America of traditional overseas manufacturers (the so called «transplant» producers) like Hyundai in Bromont, Quebec, Honda in Alliston, Ontario etc. A decade ago virtually all production of vehicles was controlled by GM, Ford and Chrysler. This, however, has changed significantly.

During the past year 10.7 million vehicles were produced in North America. Transplants accounted for 1.8 million units - up from a level of only 108,000 units in 1982. To put this in perspective, the Big Three produced an all time record high 14.7 million vehicles in North America in 1978. During 1991, they produced only 8.8 million vehicles. Although the market was in a cyclical trough and lower levels of production were expected, the size of the decline by the domestic producers is still rapid.

Unlike the market, the prospects for vehicle production in North America for the 1990's are not clear. Some analysts argue that production will continue to decline decade over decade while others argue that the transplant producers will offset any losses by domestic producers and therefore production will stabilize.

Big Three Market Share - Associated with the growth of transplant production has come a decline in market share held by the Big Three. During the past decade, GM lost significant market share, while Ford and Chrysler managed small gains. The outlook for the Big Three manufacturers is uncertain, however, with the three companies experiencing record financial losses during 1991. This decline in market share, along with financial difficulties, are putting intense pressure on the North American vehicle companies. The vehicle companies' response to this situation has been to launch an unprecedented effort to become «lean» companies to meet the challenges of the 1990s. This will necessitate the closing of many plants and the laying off of ten of thousands of workers with many more workers losing their jobs in parts plants and related businesses.

Notably, the decline in share of the Big Three vehicle companies has also led to an increase in protectionist pressures, from the Big Three and from the UAW. These protectionist pressures are, in the case of the UAW, also targeted against Canada. The implications of the pressures faced by the Big Three and of the growing protectionist pressures in the US are discussed in more detail later in the report.

1.3 Size and Structure of the Industry in Quebec

In considering the size and structure of the automotive industry in Quebec and in the rest of Canada (ROC), the full scope of the industry must be considered. Too often «automotive» is used to refer only to the assembly of passenger cars. Such a focus is unrealistic and dangerously

narrow in outlook. By definition, a focus only on car assembly excludes a broad range of activities associated with the manufacture, distribution, sale and maintenance of passenger cars, light trucks and heavy trucks; activities that in many cases produce significantly more economic activity than is accounted for by assembly alone.

In order to provide a broader perspective of the automotive industry in Quebec and the rest of Canada, this overview will segment the industry into four sub-sectors:

- . vehicle assembly
- . parts manufacturing
- . vehicle distribution and sales
- . aftermarket parts distribution and vehicle maintenance

The information that is provided is not intended as a comprehensive and exhaustive examination of all elements of the automotive industry in Quebec and in the ROC. Other industry variables are available that would provide additional perspectives on the industry's scope and activities. Rather, the information presented in this overview is intended to illustrate the scope of the industry in Quebec and highlight key elements of its structure.

1.4 The Vehicle Assembly Industry

1.4.1 Capital Expenditure

Capital Expenditure - Motor Vehicle Assembly Industry All Canada (\$ Millions)

	New Capital Expenditures	Repair Expenditures	Total
1981	272.9	48.5	321.4
1982	203.1	54.2	257.3
1983	463.2	102.8	566.0
1984	256.1	174.2	430.3
1985	663.9	203.9	867.8
1986	1,908.6	188.5	2,097.1
1987	1,544.0	188.2	1,732.2
1988 Final	1,911.6	228.1	2,139.7
1989 Revised	1,437.9	242.0	1,679.9
1990 New Data	632.1	250.0	882.1

Source: Statistics Canada

The automotive industry in Canada grew rapidly through the 1980s. Reinforced by the benefits of the APTA and a generally advantageous cost structure, the industry experienced significant investments in the early and mid-1980s from the Big Three. This growth is visible in the aggregate capital investment statistics outlined above, and in the list of some of the more significant individual investments provided below:

- \$400 million for retooling of Chrysler's minivan plant
- \$750 million for the Bramalea plant (then AMC/Renault)
- Over \$500 million for re-tooling and upgrading of the Oakville and St Thomas Ford facilities.
- \$8 billion over 10 years for GM's «Autoplex» facility in Oshawa
- In Quebec, approximately \$600 million for upgrading and retooling of the Ste. Therese facility in 1991/92

The prevalent trade regime and cost structure also allowed Canada to secure a number of transplant facilities during the 1980s that further contributed to the industry's growth:

- \$500 million for CAMI (GM/Suzuki joint venture)
- \$400 million for Toyota's facility in Cambridge, ON.
- \$400 million for Honda's Alliston, ON facility
- \$420 million for the Hyundai Bromont facility.

1.4.2 Vehicle production

Year	North American Production Of Vehicles - (Units)			
	United States Total	Canada Total	North America Total	Canada % Total
1965	11,114,213	853,931	11,968,144	7.1%
1970	8,262,657	1,189,461	9,452,118	12.6%
1980	8,010,563	1,374,299	9,384,862	14.6%
1981	7,940,781	1,280,499	9,221,280	13.9%
1982	6,985,313	1,235,668	8,220,981	15.0%
1983	9,225,698	1,502,325	10,728,023	14.0%
1984	10,939,058	1,835,079	12,774,137	14.4%
1985	11,653,956	1,934,110	13,588,066	14.2%
1986	11,335,241	1,854,418	13,189,659	14.1%
1987	10,925,605	1,635,151	12,560,756	13.0%
1988	11,237,947	1,976,896	13,214,843	15.0%
1989	10,870,426	1,965,180	12,835,606	15.3%
1990	9,780,647	1,926,423	11,707,070	16.5%
1960-69	92,519,749	7,815,054	100,334,803	7.8%
1970-79	110,377,113	15,491,350	125,868,463	12.3%
1980-89	99,124,588	16,593,625	115,718,213	14.3%

Source: DesRosiers Automotive Consultants

This positive climate for the Canadian light vehicle assembly industry, resulted in a significant increase in the share of North American production that Canada captured during the decade. Canadian share of total light vehicle production grew towards 17% as the decade ended, an historic high for the industry.

This growth of the Canadian assembly industry has now halted. Pressures from protectionist elements in the US and from the UAW, the change in the regulatory environment resulting from FTA, industry overcapacity, and changes in cost competitiveness, make future new investment in Canada unlikely in the near term. As such, aside from production increases from the Chrysler Bramalea facility and from the transplants, the outlook is of relative decline. This will

be reinforced by the announced closing of two facilities (GM Scarborough, Chrysler Brampton) and by a questionable future for a number of other facilities.

1.4.3 Trade-International

All Vehicle Trade - All Countries (\$Millions)

	Total 1990	Total 1989	1990/ 1989
Domestic Exports			
Passenger Cars	16,161.9	16,470.4	-1.9%
Trucks	7,512.7	7,354.4	2.2%
Other Vehicles	690.9	681.6	1.4%
Total	24,365.5	24,506.4	-0.6%
Imports			
Passenger Cars	10,704.1	11,762.1	-9.0%
Trucks	2,526.5	2,608.3	-3.1%
Other Vehicles	913.0	851.0	7.3%
Total	14,143.6	15,221.4	-7.1%
Balance			
Passenger Cars	5,457.8	4,708.3	15.9%
Trucks	4,986.2	4,746.1	5.1%
Other Vehicles	(222.1)	(169.4)	31.1%
Total	10,221.9	9,285.0	10.1%

Source: Statistics Canada

The rapid and significant growth experienced by the automotive assembly industry in Canada has also resulted in a positive trade scenario. Exports of vehicles have climbed to \$24 billion as the industry has reaped the rewards of rationalization within a North American production system. This rationalization resulted in the great majority of the vehicles produced in Canada being exported to the United States, as plants produce a single platform for all of the North American market. The importance of this rationalization is illustrated in more detail later in this report.

1.4.4 Trade-Within Canada

Trade In Motor Vehicles, Trucks And Other Transportation Equipment - 1984

(\$ Millions)

	Atlantic	Quebec	Ontario	Prairies	B.C.	Exports To Other Countries	Total
Atlantic	289	168	136	4	10	200	807
<u>Quebec</u>	90	481	363	94	85	3,211	4,323
Ontario	271	593	3,274	766	258	26,489	31,651
Prairies	3	13	42	322	35	243	659
B.C.	1	11	23	59	289	397	780
Imports From Other Countries	1,215	5,419	18,190	3,136	1,955	0	29,914
Total	1,870	6,685	22,026	4,380	2,632	30,540	68,133

Source: Government of Quebec

From 1984 Statistics Canada data, it is possible to examine trade between the Provinces in motor vehicles, trucks and other transportation equipment. While these figures clearly contain other transportation equipment items aside from purely motor vehicles and trucks, the data does provide an indication of trade flows within Canada. With regard to product entering Quebec, product for outside Canada is clearly dominant, accounting for more than 80% of the Province's inflow. Of those vehicles from within the ROC, the majority came from Ontario.

1.4.5 Assembly Facilities in Quebec

There are a number of assembly facilities in Quebec ranging from General Motors' large facility Ste. Therese facility town to local constructors of truck bodies. The largest of these plants are briefly profiled below:

General Motors Ste. Therese - the Ste. Therese facility was established in 1965, and covers an area of 165,000 sq. metres. Over the years, production at the facility has included the Pontiac Bonneville/Grand Prix and Oldsmobile Cutlass. In more recent years the facility has served to produce the A-body cars, Chevrolet Celebrity, Pontiac 6000, and Oldsmobile Ceira. As with all Big Three facilities in Canada, the plant produces for the North American market, with the majority of its production being destined for export to the US. For example for 1990,

	Factory Sales	For Export (Units)	Remain In Canada
Ste Therese	97,423	82,850	14,573
All GM Canada Passenger Cars	422,318	379,064	43,254

Source: MVMA Canada

Over recent months, GM has undertaken a \$225 million retooling of Ste Therese for production of the redesigned F-body (Camaro/Firebird), which is expected to engage in start-up production in August 1992. In addition to the retooling of the plant, a \$350 million upgrade of the paint facility has been completed, increasing capacity to 200,000 units per year. Employment at the plant will be under 2,000 at start-up with future levels being dependent upon F-car sales.

Hyundai Bromont - Hyundai engaged in start up production of the Sonata sedan in January 1989. Although preliminary reports were quite favourable to the vehicle, production levels at this facility have not met expectations. While the production capacity of the 93,000 sq. metre plant is rated at 100,000 units per year, total production for 1991 calendar year was 28,201 units, with the majority of production being exported to the US. Employment at the plant is currently under 1,000 employees. Chrysler (which has a minority interest in Mitsubishi and the Hyundai Group) was negotiating to source a new compact sized model from the Bromont facility, however this has now been postponed.

Kenworth - the Kenworth Ste Therese facility was established in 1956, and now covers an area of 256,000 sq. feet. The plant produces a full line of long conventional Class 8 tractors and trucks, and employs a work force of approximately 600. The plant operates under the APTA with the majority of production destined for the US. For example for 1989:

Factory Sales	For US	Other Exports (Units)	Remain in Canada
4,616	2,597	4	2,015

Prevost Car - North America's second leading motorcoach manufacturer is located in Sainte-Claire, near the city of Quebec and employs approximately 700. The company produces a variety of products including articulated motorcoaches and mobile homes, with approximately 80% of production being exported to the US.

Les Autobus MCI - since August 1987, this Greyhound Canada Inc. subsidiary has been operating an assembly plant in St Eustache, purchased from General Motors. The plant manufactures urban buses for the North American market. Total employment for the MCI operation is approximately 400.

In addition to these notable players, there are a wide variety of other specialized assemblers in Quebec. Most of these companies operate under the Auto Pact, and include such players as Poudrier Freres, (ambulances), Paul Demers, and Camions Pierre Thibault (fire trucks).

1.4.6 Shipments and Value Added - Quebec

Motor Vehicle Assembly Shipments & Value Added

	(\$ Millions)		
	Canada	1988 Quebec	Ontario
Shipments	28,113.8	2,729.9	24,766.6
Value Added	4,954.2	859.9	3,886.1

Source: Statistics Canada

For 1988, the most recent year for which information is available, Statistics Canada Census of Manufacturers details the total value of shipments from Quebec's motor vehicle assembly industry as \$2.7 billion. This compares to a figure of \$28 billion for Canada as a whole, with virtually all of the other Canadian activity taking place in Ontario. Comparable figures for the truck, bus and trailer industry are not available for Quebec.

1.4.7 Employment - Quebec

Employment: Vehicles, Truck & Bus Assembly

(Thousands Of Employees)

Canada				
	Vehicle Assembly	Truck & Bus Assembly	Total Canada	
1985	50.4	13.4	63.8	
1986	49.9	14.2	64.1	
1987	50.1	17.9	68.0	
1988	53.2	20.6	73.8	
1989	53.6	21.0	74.6	
1990	50.6	18.7	69.3	

Quebec				
	Vehicle Assembly	Truck & Bus Assembly	Total Quebec	Quebec Share %
1985	5.4	1.7	7.1	11.1 %
1986	5.4	2.0	7.4	11.5 %
1987	5.2	2.8	8.0	11.8 %
1988	6.0	3.2	9.2	12.5 %
1989	6.9	2.4	9.3	12.5 %
1990	6.0	2.0	8.0	11.5 %

Ontario				
	Vehicle Assembly	Truck & Bus Assembly	Total Ontario	Ontario Share %
1985	42.6	4.8	47.4	74.3 %
1986	42.2	4.5	46.7	72.9 %
1987	42.7	5.7	48.4	71.2 %
1988	42.3	6.9	49.2	66.7 %
1989	44.4	6.8	51.2	68.6 %
1990	42.5	5.0	47.5	68.5 %

Again using data from Statistics Canada, total employment in the motor vehicle assembly industry in Quebec is estimated at 8,000 for 1990. This is comprised of employment of 6,000 in the motor vehicle assembly industry, and 2,000 in truck, bus and truck body assembly. The Quebec figure represents approximately 12% of the Canadian total.

1.5 The Automotive Parts Manufacturing Industry

1.5.1 Capital Expenditure - Canada

Capital Expenditure - Motor Vehicle Parts & Accessories

	(\$Millions)		
	New Capital Expenditures	Repair Expenditures	Total
1981	666.5	187.2	853.7
1982	188.5	154.1	342.6
1983	140.5	197.5	338.0
1984	171.1	247.2	418.3
1985	339.4	287.7	627.1
1986	452.3	285.9	738.2
1987	753.2	345.8	1,099.0
1988 Final	646.3	360.7	1,007.0
1989 Revised	584.4	378.7	963.1
1990 New Data	599.2	357.4	956.6

Source: Statistics Canada

The Canadian parts industry also experienced dramatic growth during the 1980s. This growth was, however, less widespread than seen in the assembly sector and was concentrated primarily in the in-house operations of the vehicle manufacturers and in the rapid growth of a number of independent Canadian producers. These Canadian manufacturers included such companies as Magna International, Woodbridge Foam, and AG Simpson.

1.5.2 Shipments - Canada

Value of Shipments: Parts & Accessories (\$ Cdn Millions)

	1982	1986	1987	1988
North America				
United States (Cdn. \$Millions)				
Motor Vehicle Parts & Accessories	44,789.3	79,743.1	82,302.7	84,991.8
Automotive Stampings	10,832.2	20,599.9	20,223.6	19,539.9
Carburetors, Pistons, Rings	2,745.3	3,915.6	3,033.1	2,964.7
Vehicular Lighting Equipment	1,250.9	2,403.2	2,611.7	2,525.3
Engine Electrical Equipment	4,275.3	8,435.2	9,930.8	10,451.1
Auto, Apparel Trimmings	2,628.9	4,484.0	6,052.5	5,618.6
Total Parts & Accessories:	66,521.9	119,581.0	124,154.4	126,091.4
Canada (Cdn. \$Millions)				
Engine & Engine Parts	1,729.7	3,363.6	3,406.6	3,752.6
Wiring Assemblies	160.0	398.1	383.9	368.0
Stampings	862.1	2,103.2	2,103.1	2,311.5
Steering & Suspension	350.4	662.9	670.2	857.5
Wheel & Brake Parts	553.9	924.7	1,022.7	1,057.6
Plastic Components	319.2	1,263.9	1,227.1	1,349.0
Fabric & Accessories	479.2	958.8	876.9	1,019.6
Miscellaneous Components	1,422.0	3,246.6	3,313.6	3,823.5
Total Parts & Accessories:	5,876.5	12,921.8	13,004.1	14,539.3
Total North American Parts & Accessories Industry	72,398.4	132,502.8	137,158.5	140,630.7
Canada as percentage of N. America:	8.1%	9.8%	9.5%	10.3%

Source: Statistics Canada

As with the vehicle assembly industry, the growth in share of the Canadian parts industry in the mid-1980s was strong, although at a slower rate. However, in the period 1989-91 this growth appears to have halted. While quantitative data is not yet available it appears that changes in the competitive situation, have led to declines in the Canadian industry, in the period 1989-91.

The areas of strength of the Canadian parts industry remain clearly established, despite the recent industry performance. The Canadian industry is heavily focused on engines and engine parts, stampings, and accessories. However the plastics subsector has experienced the greatest rate of growth in the 1980s.

1.5.3 Trade - Canada

All Automotive Parts & Accessories

(\$Millions)

	Total 1990	Total 1989	1990/ 1989
Domestic Exports			
Engine & Engine Parts	2,003.5	2,259.3	-11.3%
Parts & Accessories	7,358.9	7,918.7	-7.1%
Total	9,362.4	10,178.0	-8.0%
Imports			
Engines	2,653.9	2,509.3	5.8%
Engine & Engine Parts	1,008.1	937.5	7.5%
Parts & Accessories	12,685.3	13,591.5	-6.7%
Total	16,347.3	17,038.3	-4.1%
Balance			
Engines	(1,658.5)	(1,187.5)	39.7%
Parts & Accessories	(5,326.4)	(5,672.8)	-6.1%
Total	(6,984.9)	(6,860.3)	(1.8%)

Source: Statistics Canada

Despite the strong performance of the Canadian parts industry in the 1980s, Canada maintains a deficit in trade of automotive parts. This deficit is due, however, to the rationalized

production system in the automotive industry that has resulted from the Auto Pact rather than to a weakness in the Canadian parts industry.

Specifically, due to the free trade in original equipment parts and vehicles that the APTA allowed, the majority (in excess of 70%) of the parts produced in Canada are exported to assembly facilities in the US. Similarly, the majority of the parts used in Canadian assembled vehicles are imported from the US. Obviously, this free flow of product allows the industry to operate at high levels of efficiency. Due to the disproportionate strength of the Canadian assembly industry, it has also resulted in Canada experiencing a significant trade deficit in automotive parts and corresponding surplus in assembled vehicles.

1.5.4 Facilities - Quebec

As is discussed on the following page, the majority of the automotive parts industry in Canada is located in Ontario. There are, however, a number of significant plants within Quebec including:

Major Original Parts Suppliers in Quebec

<u>Company</u>	<u>Product</u>	<u>Location</u>
Camoplast	plastic components	Richmond
	fibreglass components	Roxton Falls
Circo Craft	printed circuit boards	Kirkland
Collins & Aikman	carpets	Farnham
	molded & diecut carpets	Lacolle
Dynacast	zinc die castings	Lachine
DBM Reflex	tail light moldings	Ste Laurent
Firestone/Bridgestone	tires	Joliette
Goodyear	tires	Valleyfield
	rubber parts	Quebec City
Hayes-Dana	drive shaft components	Magog
	hydraulic parts	Ste Wenceslas
IPL	plastic components	Ste Damien
Metcor	heat treatment	Montreal
Montupet	cylinder heads	Riv. Beaudette
Rehau Industries	plastic extrusion	Montreal
Sabag Inc. (TRW/CIL)	air bag propellants	MC Masterville
Torrington	bearings	Bedford
Waterville TG	weatherstripping	Waterville
WBF Technologie	seats	Ste Jerome

Source: MICT, Government of Quebec

This list is by no means comprehensive, but represents some of the most significant original equipment (OE) players located within Quebec. In addition to these major OE facilities, it should be noted that there are also a large number of aftermarket parts manufacturers in Quebec.

These companies, produce a wide variety of components and range in size from small companies of under 10 employees to large facilities, comparable in size to an OE parts manufacturer.

1.5.5 Shipments - Quebec

Automotive Parts & Accessories Shipments

(\$Millions)

	Canada	Quebec	Share %	Ontario	Share %
1987	13,004	314	2.4%	12,544	96.5%
1988	14,539	393	2.7%	13,943	95.9%
1989	14,718	415	2.8%	14,212	96.6%
1990 *	13,496	335	2.5%	12,569	93.1%

* Estimates

Source: Statistics Canada

Quebec's share of shipments from the automotive parts industry in Canada is low - consistently running at under 5% of the industry total. It is likely that these figures somewhat understate the full level of shipments from the industry, due to the incorporation of many smaller aftermarket players whose business is more diverse than just automotive, into other industrial categories. While a detailed breakdown is not available for all sub-sectors of the industry in Quebec, Statistics Canada Census of Manufacturers Data (1988) shows that the largest subsectors are plastic parts (approximately 50% of Quebec shipments) and miscellaneous parts and accessories (approximately 20% of shipments).

1.5.6 Employment - Quebec

Employment: Parts & Accessories

	('000 Of Employees)				
	Canada	Quebec	Share %	Ontario	Share %
1985	60.3	1.7	2.8%	57.2	94.9%
1986	63.7	2.0	3.1%	60.3	94.7%
1987	70.6	2.4	3.4%	66.4	94.1%
1988	74.0	2.8	3.8%	69.6	94.1%
1989	73.6	3.1	4.2%	68.8	93.5%
1990	67.7	2.7	4.0%	63.2	93.4%

Source: Statistics Canada

Employment in the automotive parts industry in Quebec is estimated by Statistics Canada at 2,700 in 1990. This employment showed significant growth in the period 1985-89. Again, we would note that this level may be somewhat conservative, understating the full dimension of the industry in the Province.

1.6 Vehicle Distribution and Sales

1.6.1 Retail Sales

Retail Sales Of Light Vehicles: Quebec & Canada

Quebec	North American Built		Overseas Built		Total	
	units	\$ (000s)	units	\$ (000s)	units	\$ (000s)
1986	275,242	3,794,726	120,867	1,640,014	396,109	5,434,740
1987	271,133	4,236,302	142,618	2,099,856	413,751	6,336,158
1988	281,163	4,665,743	133,304	2,077,878	414,467	6,743,621
1989	250,930	4,396,806	135,775	2,216,211	386,705	6,613,017
1990	212,227	3,825,908	130,089	2,204,341	342,316	6,030,249

Ontario	North American Built		Overseas Built		Total	
	units	\$ (000s)	units	\$ (000s)	units	\$ (000s)
1986	475,005	6,986,430	134,283	2,054,023	609,288	9,040,453
1987	478,736	7,622,235	139,691	2,381,019	618,427	10,003,254
1988	512,366	8,903,673	131,862	2,431,942	644,228	11,335,615
1989	466,056	8,634,510	127,474	2,506,410	593,530	11,140,920
1990	379,942	7,307,224	121,997	2,412,505	501,939	9,719,729

Canada	North American Built		Overseas Built		Total	
	units	\$ (000s)	units	\$ (000s)	units	\$ (000s)
1986	1,129,592	16,298,511	386,328	5,543,039	1,515,920	21,841,550
1987	1,112,932	17,534,532	415,172	6,501,990	1,528,104	24,036,522
1988	1,184,510	20,450,396	380,991	6,414,938	1,565,501	26,865,334
1989	1,097,738	20,094,174	386,137	6,865,210	1,483,875	26,959,384
1990	940,592	17,973,505	377,028	6,904,522	1,317,620	24,878,027
1990	940,592	17,973,505	377,028	6,904,522	1,317,620	24,878,027

Source: Statistics Canada

The market for new motor vehicles in Quebec is substantial, totalling over \$6 billion. This market represents approximately 25% of the total Canadian market. The implications of this market size with regard to tax generation and to the impact on overall spending is significant. From a North American perspective, 14 U.S. states and the Province of Ontario have larger new vehicle markets than Quebec.

1.6.2 Number of Dealerships

Number Of Dealerships In Canada - 1991

Manufacturer	Canada	Quebec	Quebec Share %	Ontario	Ontario Share %
Acura	44	13	29.5%	18	40.9%
BMW	42	7	16.7%	19	45.2%
Chrysler/Jeep/Eagle	636	166	26.1%	220	34.6%
Ford	649	144	22.2%	217	33.4%
GM	943	205	21.7%	334	35.4%
Honda	218	60	27.5%	77	35.3%
Hyundai	151	54	35.8%	46	30.5%
Jaguar	23	3	13.0%	11	47.8%
Lada	68	20	29.4%	25	36.8%
Mazda	176	56	31.8%	56	31.8%
Mercedes-Benz	56	11	19.6%	21	37.5%
Nissan	178	57	32.0%	53	29.8%
Passport	70	20	28.6%	27	38.6%
Skoda	31	5	16.1%	11	35.5%
Subaru	88	31	35.2%	25	28.4%
Suzuki	104	37	35.6%	35	33.7%
Toyota	238	68	28.6%	74	31.1%
Volkswagen	183	57	31.1%	60	32.8%
Volvo	59	14	23.7%	22	37.3%
Total	3,957	1,028	26.0%	1,351	34.1%

Source: FADA

The number of dealerships in Quebec is illustrated above from figures provided from the Federation of Automobile Dealers Associations. The great majority of these dealerships are independent locally owned businesses. The number of dealerships across Canada and in Quebec has increased substantially in the 1980s as competition has increased the number of makes in the market.

1.6.3 Employment

Employment: Vehicle Distribution & Sales (Thousands Of Employees)				
Canada				
	Motor Vehicle Dealers	Auto/ Truck Rental	Total Canada	
1985	79.2	8.1	87.3	
1986	93.7	13.8	107.5	
1987	97.7	10.3	108.0	
1988	90.0	11.0	101.0	
1989	97.2	13.0	110.2	
1990	95.2	13.2	108.4	
Quebec				
	Motor Vehicle Dealers	Auto/ Truck Rental	Total Quebec	Quebec Share %
1985	18.4	1.9	20.3	23.3 %
1986	23.8	NA	NA	NA
1987	26.0	2.8	28.8	26.7 %
1988	22.9	2.1	25.0	24.8 %
1989	26.3	2.2	28.5	25.9 %
1990	25.8	1.6	27.4	25.3 %
Ontario				
	Motor Vehicle Dealers	Auto/ Truck Rental	Total Ontario	Ontario Share %
1985	27.1	3.7	30.8	35.3 %
1986	35.0	5.7	40.7	37.9 %
1987	35.0	5.2	40.2	37.2 %
1988	30.5	6.3	36.8	36.4 %
1989	35.4	7.1	42.5	38.6 %
1990	34.1	8.0	42.1	38.8 %

Employment in the vehicle distribution industry is substantial. Total employment in this industry reached 27,400 in 1990, up substantially from the level of 20,300 in 1985. The majority of this employment is in car dealerships, and is thus widely distributed across the Province.

1.7 Parts Distribution and Sales

1.7.1 Retail Sales

	Canada		Quebec (\$ Millions)		Ontario	
	1989	1990	1989	1990	1989	1990
Vehicle Dealers	41,745	40,932	10,310	9,782	15,775	14,901
Gas Serv. Stats	14,303	15,350	3,383	3,799	5,184	5,263
Auto Parts & Serv *	12,033	12,353	2888*	2965*	4452*	4324*
Auto Total	68,081	68,635	16,581*	16,546*	25,411*	24488*

* Estimates

Source: Statistics Canada

The importance and scope of the automotive industry to the economy of Canada is outlined in the table above. Total sales at car dealerships reach a level of approximately \$10 billion in the Province. This includes the \$6 billion in sales of new vehicles discussed in Section 1.6.1, and \$4 billion in other products and services supplied by car dealers. Sales at service stations and at auto parts and service outlets totalled approximately \$3 billion each in Quebec.

1.7.2 Employment

Employment: Parts, Service Station & Repair

	Canada	Quebec	Quebec Share %	Ontario	Ontario Share %
1985	215.6	49.1	22.8%	81.4	37.8%
1986	213.8	45.6	21.3%	84.0	39.3%
1987	227.3	48.5	21.3%	92.6	40.7%
1988	233.7	48.8	20.9%	89.7	38.4%
1989	245.7	54.5	22.2%	92.0	37.4%
1990	233.8	48.8	20.9%	92.5	39.6%

Source: Statistics Canada

Employment in the vehicle maintenance and parts distribution industry represents the most significant group within the automotive industry as a whole. This employment was close to 49,000 in 1990, and includes a broad variety of different services located across the Province.

1.7.3 Major Players

It should be noted that in addition to servicing the vehicles in Quebec, the auto parts distribution industry in the Province also contains the headquarters of the two largest distributors of automotive parts to the «traditional aftermarket» in Canada:

- UAP
- Uni-Select

Each company is briefly profiled below:

UAP - the largest warehouse distributor in Canada, UAP had sales in 1989 in excess of \$400 million. The company operates fully across Canada through a number of regional warehouses, from which it distributes product to corporate stores and associate members. Through its association with Genuine Auto Parts (NAPA), UAP is well positioned to continue to grow its share of the traditional automotive aftermarket in Canada. UAP's current employment level is 3,200, of which 1,400 are in Quebec.

Uni-Select - the second largest distributor of automotive parts to the traditional aftermarket in Canada, Uni-Select has sales in excess of \$200 million. Headquartered in Boucherville, the company has grown rapidly and operates in all 10 Provinces. The company operates a number

of regional warehouses across the country, selling product primarily to its member wholesalers. Uni-Select does not operate any corporate stores. Employment in Canada is approximately 500, of which 200 are in Quebec.

2. Quebec's Accession to Sovereignty: Issues for the Automotive Industry

2.1 Introduction

To determine the issues for the automotive sector of Quebec's accession to sovereignty, DesRosiers Automotive Consultants undertook a number of interviews with industry representatives. Due to the time restraints on the project, the number of interviews undertaken was limited. The interviewees were chosen, however, to fully reflect all sub-sectors of the industry. However the overall response from all aspects of the industry was consistent, that the implications of sovereignty for the industry would be negative.

The specific issues that will be faced by the automotive industry in Canada, should Quebec secede to sovereignty are wide ranging. Many of these issues (such as concerns related to a separate Quebec currency, or human resource concerns) will be shared in broad terms by other industries, although the specific details of their implications may vary. Other issues, are specific to the automotive industry.

In order to fully express the concerns of the automotive sector related to sovereignty, it is necessary to cover both the general issues and those automotive specific areas. The former group are discussed first in this chapter. Significant and more detailed discussion of these wide ranging concerns has taken place in other reports, that provide detailed analysis of their macro-level implications. The aim of this report is not to provide such detailed analysis, but rather to reflect the concerns of the automotive community in Canada related to each topic. The views expressed in this report are those of the automotive executives we interviewed during the preparation of this report. As such they reflect a qualitative sample of the industry's perceptions of these general issues rather than the result of analysis by DesRosiers Automotive Consultants or other analysts.

With regard to the automotive specific issues, a more detailed discussion is obviously presented. This analysis draws on the concerns expressed by the industry, but also includes further analysis by DesRosiers Automotive Consultants. As detailed in the preceding chapter, the automotive industry is a significant force within the Canadian and indeed North American economy. This importance, combined with the high profile of the industry has led to the development of a distinct and complex trade and regulatory environment specific to the industry. The issues that will emerge with regard to this automotive specific environment should Quebec secede to sovereignty are discussed in this chapter

2.2 Non-Auto Specific Issues

Discussions with representatives from the automotive industry, produced concerns related to a range of non-automotive specific issues related to Quebec's accession to sovereignty. While these issues are not a focus of this study, it was felt necessary to note these issues, as they are perceived from an automotive perspective. **The issues raised below are a sample of concerns raised by industry representatives rather than the results of analysis by DesRosiers Automotive Consultants.**

Economic Performance

The primary concern of respondents was the short term outlook for economic performance in the Province. Without a positive economic outlook, the likelihood is low of auto-related companies in and outside Quebec of making a major investment or capital expenditure in Quebec. The current instability with regard to the future of Quebec and the ROC was seen as greatly contributing to the uncertain economic outlook for the Province, that is held by the industry.

Cost of Capital

Closely related to this issue of the general economic performance of the Quebec economy, is the cost of capital.

A number of industry representatives raised concerns as to the ability of a sovereign Quebec to raise capital at reasonable interest rates. Short term uncertainty, it was felt, would create pressures that would inevitably result in high interest rates in Quebec and in the rest of Canada.

Currency

The introduction of a separate Quebec currency was viewed with concern. Currency fluctuations are already viewed as problematic in the automotive industry. Any further complication of this area would be viewed as adding additional costs to the industry.

Training/Education/Labour Pool

The Federal and Quebec governments are actively involved in educational and skills development programs in Quebec to meet the industry's needs. Auto and auto-related companies are concerned that these programs are continued by the Quebec government to ensure an adequate base of skilled labour is available.

Companies also expressed concern as to possible net loss in the Quebec labour pool resulting from sovereignty, as to the type of immigration policy Quebec may adopt. Vehicle manufacturers and parts manufacturers currently «import» into Quebec a number of employees with unique skills, which are essential to their manufacturing operations. The ability to continue this free immigration and to continue to attract employees were both questioned.

Government Grants - Federal Funding

To-date a number of auto-related companies in Quebec have received Government funding and assistance. Some of these government grants have also been jointly sponsored by the Quebec and Federal governments.

If Quebec secedes from Canada, companies who are currently operating under funding programs with Quebec and the Federal government are concerned that no adverse reactions will occur. As well, the extent of support that will be available to auto-related companies from the Quebec government is questioned.

St Lawrence Seaway

A number of companies are concerned as to what restrictions and delays would occur in accessing the Ste Lawrence Seaway for the incoming and outgoing flow of raw materials and finished product.

The main issue appears to be who would have jurisdiction over the various parts of the waterway system and what complications would arise that may impede traffic flow? A number of sectors of the automotive industry in Quebec import product from offshore via the seaway. For example, Hyundai imports components for their Bromont manufacturing facility ... and imports of European cars come into Canada via the East coast.

Duplication

Groups within the automotive industry are concerned with the duplication of activities and resources that may be required to effectively operate in Quebec. For example, will new administration, sales and distribution facilities be required for a sovereign Quebec ... down to the establishment of new trade associations or affiliations with new rules and regulations.

Duplication of activities and resources was seen as adding additional costs to operating a business within Quebec ... and, in turn, impacting «cost competitiveness» and one's ability to compete against companies located outside of Quebec.

Regulatory Standards

What changes to regulatory standards will Quebec introduce that will be unique to Quebec ... and, in turn, what impact will these changes have on automotive related companies in Quebec or companies wishing to sell into Quebec?

Regulations standards can relate to areas such as safety standard requirements for automobiles being sold in Quebec down to the regulations affecting factory workers on the shop floor. Concern was expressed as to whether changes to existing standards would add an additional cost burden to companies operating inside Quebec and impact the cost competitiveness of these businesses.

Border Problems/Paperwork

One of the major concerns to vehicle manufacturers and parts manufacturers in Quebec is the potential delays that could be experienced in crossing the «border» and the additional paperwork problems.

Vehicle assembly operations and parts manufacturers are operating on «Just-in-Time» (JIT) manufacturing and delivery systems. Any serious risk to the delay or blockage of product was viewed as having the potential to jeopardize the operations of these businesses in Quebec.

Legal Issues/System

Within Canada, the legal system is «interwoven» on a Provincial and Federal basis. With accession to sovereignty by Quebec, there are questions in the automotive industry as to the complexities that will result in defining and implementing a legal system for Quebec.

Language

There is concern with Quebec becoming «unilingual» and the impact this will have on communications with Quebec and labelling and packaging legislation.

There were perceptions in the industry that Quebec accession to sovereignty may introduce additional language requirements and add additional costs for companies currently operating in Quebec or wishing to do business with Quebec.

Dealer Distribution Network

Car dealers in Quebec are continually shifting new and used cars between dealers and with other provinces to get the right balance in vehicle types, colour etc.

Dealers are concerned that with accession to sovereignty by Quebec, restrictions will be imposed on their ability to move product between provinces to meet the needs of their customers and, in turn, impact on the overall performance and profitability of their operations.

Advertising And Promotion

It was perceived that a number of auto-related companies in Quebec take advantage of national advertising programs and rates.

Under sovereignty, companies are concerned that their advertising and promotional costs will increase. The low national advertising rates will no longer apply and additional costs will be incurred.

Unions/Associations

Within the automotive industry in Quebec, companies belong to associations such as the Automotive Parts Manufacturers Association, Canadian Association of Japanese Auto Dealers, etc. as well as the employees of these businesses being affiliated with unions such as the Canadian Auto Workers.

There was a perception that the benefits of these associations may be lost should Quebec secede to sovereignty.

Social Policy

Many auto-related companies view Quebec as being «pro-consumer». There was concern expressed as to what changes would be made to the social legislation and labour laws in Quebec should the Province secede to sovereignty.

Any changes to social legislation and labour laws (ie., job security, unemployment insurance, welfare) is viewed as leading to additional indirect taxes and costs that business will have to absorb.

Intervention/Nationalization

A number of respondents expressed concern over what was seen as the «interventionist» nature of the Quebec Government. It was perceived by some respondents that with accession to sovereignty there may be more of a tendency by the Quebec Government to be involved in key industry segments including the automotive sector.

2.3 Automotive Specific Issues

In addition to the concerns over these general economic issues, representatives from the automotive sector also expressed concerns about a number of automotive specific variables that may be impacted by Quebec's accession to sovereignty. These issues related to the specific nature of the automotive trade and regulatory environment, and are grouped below into the following issues :

- . The Canada-US Automotive Products Trade Agreement (the Auto Pact)
- . The automotive sections of the Free Trade Agreement
- . The automotive regulatory environment - government compliance

Each of these issues is outlined in the following sections. In each case, an overview analysis of the issue by DesRosiers Automotive Consultants is presented.

2.4 The Canada-U.S. Automotive Products Trade Agreement (Auto Pact)

The Auto Pact is a very complex document which is too broad to explain in detail within this report. Instead this section will discuss a general overview of the Agreement focusing on key issues relevant to Quebec.

Production by the Big Three in Canada as discussed earlier in this report has increased rapidly in the last two decades. This increase in production has come about due to the trade regime established by the Auto Pact and to the cost competitiveness of the Canadian manufacturing environment for automobiles over this period.

Since 1965, when the Auto Pact was signed, the Canadian motor vehicle and automotive parts industries have operated as part of an integrated North American production and market system. The prime motivation behind the signing of the Auto Pact was the potential for achievement of an efficient production base in North America and in the process, the development of the market in both countries. Elimination of duties allowed efficiencies to be obtained through the rationalization of production of both vehicles and parts. This was very important for an industry dependant on high volume for profits. Today, a production facility is given a full North American mandate for the vehicle it produces. Similarly, the supply of original equipment parts is rationalized, with parts manufacturers producing product at one plant for shipment to assembly plants in both Canada and the US.

In addition to the removal of tariffs, the Auto Pact also reduced the «administration burden» caused by the border as vehicles and parts cross the border with minimum paper work. Vehicle manufacturing is very complex and involves the cross border shipping of thousands of components some of which cross the border a number of times before final assembly into a vehicle. The Auto Pact eliminated the complicated tracking of these sub-components for duty and duty drawback purposes.

The Auto Pact allows for duty-free entry of new vehicles and original equipment parts, provided certain conditions are met. The qualifications for duty-free status differ in Canada from those in the United States. In the U.S., a minimum 50 percent North American (Canada & U.S.) content requirement has to be met. The U.S. also made the agreement bilateral and only accorded duty-free privileges to Canada.

Canada stipulates that only «qualified manufacturers» are eligible to import vehicles and original equipment (OEM) parts duty free. To be classified as a «qualified manufacturer», each vehicle company has to meet certain criteria:

- they must have been a manufacturer in Canada in the base year (1965) and in each subsequent year;
- they have to meet a production-to-sales ratio for passenger cars separate from trucks equal to that achieved in the base year, or a minimum of 75 percent, whichever is greater. In effect, this means each of the Big Three has to achieve a production-to-sales ratio (in dollars) of 1:1 for each class of vehicle; and
- the level of Canadian Value Added achieved in the base year has to be maintained. Inflation has made this safeguard insignificant.

Canada, in contrast to the U.S., made the agreement multilateral and accorded duty-free status to the imports of vehicles and OEM parts from any country provided the importing company complied with Auto Pact safeguards. Aftermarket repair parts remained subject to duty in both Canada and the United States. The United States has always maintained that the «safeguards» were temporary and not binding after 1968. The Canadian Government has always viewed them as permanent and have vigorously enforced the safeguards over the life of the Agreement.

In addition to these legally binding requirements, the vehicle manufacturers agreed to submit «letters of understanding» to the Canadian government. In these, each company «promised» to maintain a level of Canadian Value Added (CVA) of 60 percent for passenger cars, 50 percent for specified commercial vehicles and 40 percent for buses and heavy-duty trucks. These value-added commitments are calculated at a company level and are determined with regard to the increase in the company's sales in Canada over the base year. For example, the value added a heavy truck assembler generates in Canada must be equal to at least 40 percent of the value of the company's Canadian sales of trucks. The legality of these safeguards have never been

tested by the Government of Canada or the vehicle companies. Each vehicle company however operates as if they are binding and the Government regularly collects data to monitor performance. There has been instances where this safeguard was not achieved by certain companies in a specific year. In these instances the Canadian Government negotiated further investments in Canada, or further Canadian purchases which would bring the company into compliance.

The penalty in Canada for non-performance of the production to sales ratio safeguard is severe. For instance, if a vehicle company misses their production to sales ratio they have to pay duty on **all** that class of vehicles. Duty rates when the Auto Pact was signed were 17.5 percent and are currently 9.2 percent. Even with a reduced duty rate the penalty would amount to millions of dollars. This is one of the reasons that each vehicle company maintains a production base in Canada out of proportion with their market size in Canada.

The Auto Pact safeguards essentially guaranteed a minimum level of production in Canada. The duty penalty, and «lumpy» nature of capital investment in the automotive sector (historically a Big Three car assembly plant has capacity of more than 200,000 units to operate efficiently), motivated them to put sufficient capacity in place so that their P/S ratio would always be achieved. This was reinforced by a competitive manufacturing environment driven by favourable exchange rates, low health costs for manufacturers, and a high quality workforce. Together these factors contributed to increased Big Three investments in Canada and increased employment. This issue of the penalties associated with non-compliance with the Auto Pact safeguards is important and is discussed in more detail in the following section regarding the FTA.

Of particular importance to Canada is the fact that both the production and value added safeguards in the Auto Pact are tied to market performance. As sales grew rapidly over the Auto Pact years, the vehicle companies had to increase their production of vehicles in Canada and their value added in Canada, primarily through the purchase of Canadian automotive parts. This growth pattern no longer holds true today. With little or no market growth and a declining domestic share of that market, the Auto Pact producers may have the latitude to decrease their commitment to Canada. Thus the renewed emphasis on competitiveness in their Canadian facilities.

The Quebec consumer has created a very ironic situation with GM relative to their P/S ratio requirement. The only North American light vehicle producer with an assembly facility in Quebec is General Motors which, concurrent with the signing the Auto Pact, built a plant in Ste Therese outside Montreal. Yet, Quebec has the second highest market share of import vehicles in Canada and in Quebec GM has their lowest market penetration of any province in Canada tied with British Columbia.

Vehicle Sales in Canada - Units - 1990

	Total Sales All Companies			General Motors Sales			General Motors - Market Share -		
	Cars	Trucks	Total	Cars	Trucks	Total	Cars	Trucks	Total
B.C.	95915	63990	159905	27624	18217	45841	28.8%	28.5%	28.7%
Alberta	71779	63349	135128	25961	23063	49024	36.2%	36.4%	36.3%
Saskatchewan	19491	15904	35395	8354	6492	14846	42.9%	40.8%	41.9%
Manitoba	23459	16460	39919	9059	5214	14273	38.6%	31.7%	35.8%
Ontario	343828	155914	499742	130546	57095	187641	38.0%	36.6%	37.5%
Quebec	261159	80180	341339	72841	25255	98096	27.9%	31.5%	28.7%
NB	22393	11628	34021	7705	3695	11400	34.4%	31.8%	33.5%
NS	28346	11769	40115	10526	4226	14752	37.1%	35.9%	36.8%
PEI	3347	1678	5025	1209	562	1771	36.1%	33.5%	35.2%
Newfoundland	14788	7386	22174	6168	3054	9222	41.7%	41.3%	41.6%
All Canada	884505	428258	1312763	299993	146873	446866	33.9%	34.3%	34.0%

Consumers in Quebec have certainly not rewarded General Motors in any way for maintaining a production base in the province. If Quebec consumers had simply purchased GM vehicles at the same level as GM's national market share, then GM's minimum production requirements in Canada under the Auto Pact would be approximately 55,000 units higher.

The Auto Pact governed Canadian trade in automotive products since 1965. This trade regime was changed, however, with the introduction of the Canada - US Free Trade Agreement. This agreement is detailed below in Section 2.5.

2.5 The Canada-U.S. Free Trade Agreement (FTA)

The Canada - U.S. Free Trade Agreement (FTA) fundamentally changed the nature of automotive policy in Canada by establishing a two tiered trade structure. The existing Auto Pact producers together with CAMI (a joint venture between Suzuki and GM) were given permanent Auto Pact membership. All the other vehicle companies including the three new assemblers in Canada - Toyota, Honda and Hyundai - were permanently excluded from operating under the rules of the Auto Pact. Moreover, existing duty remission schemes which had been negotiated with the new producers were rescinded by the FTA over a set period of time. The duty remission schemes allowed the new producers to lower the duties paid on their imported components in exchange for the creation of Canadian value added.

The FTA allows all producers in North America to eventually operate duty free between Canada and the U.S. provided a new 50 percent North American content rule is achieved. This new «content» requirement is very different from the Canadian value added requirements in the Auto Pact. First, it is legally binding and will be vigorously enforced, where as the CVA requirement was only in a «letter of understanding». Second it is North American based instead of Canadian. All content generated in both Canada and the U.S. counts toward the commitment. Third it is based on production levels rather than the «market» based safeguards in the Auto Pact. Fourth, what counts as «content» for FTA purposes is very narrowly defined. This occurs through the elements that are allowed to be included as content, and through the specific level at which it is measured (the individual plant). The CVA definition in the Auto Pact was very broadly defined, in terms of those elements that can be included and, as it was measured at the company level. The 50 percent content rule is more difficult for the new entrants to achieve than for the existing players who have fully integrated assembly facilities.

This tariff removal, combined with the expected reductions in Canadian import tariffs for automotive goods from overseas (through the GATT) will serve to somewhat reduce the importance of the Auto Pact. In effect, these changes will reduce the benefits offered to the vehicle companies by the Auto Pact and reduce the ability of the Canadian Government to enforce the Auto Pact requirements. This change in trade regime is of importance because of the potential implications for Canadian plants.

As discussed earlier, at the current time, the Big Three are forced to maintain certain assembly levels in Canada to meet Auto Pact requirements, and receive the subsequent benefits. As such, the operations of a base number of plants have been relatively secure. As the benefits of the Auto Pact are reduced by the FTA and GATT, the possibility is opened to the Big Three of closing or relocating their Canadian facilities over the coming decade. It is by no means certain that such a scenario will occur. The changes in trade regime, however, open the possibilities to the Big Three of determining the future of its Canadian assembly operations solely on issues of competitiveness.

To be sure, the Auto Pact still provides benefits for its current members. The Auto Pact is multilateral in Canada and thus the Big Three are able to import components and vehicles duty free from anywhere in the world. It is estimated that this benefit is worth several hundred million dollars to the domestic industry per year. Therefore the Auto Pact is still a very powerful policy tool and will remain a central element of Canada's auto policy as long as external tariffs (currently 9.2%) remain significant.

A further element of the FTA that is of note is that tariffs on automotive aftermarket parts, which were not covered under the Auto Pact, were removed on a fast track 5-year schedule, provided the 50% North American content level is achieved.

2.6 *Government Compliance*

The automotive sector is a highly regulated industry with complex rules in North America governing environmental standards, fuel efficiency standards, occupant safety and inspection programs. Differences in Government compliance standards between countries can lead to substantially high consumer costs. These programs can be expensive to implement and costly to the consumer of vehicles. In the area of safety legislation for instance, there are hundreds of safety standards in place in North America governing such items as child restraint systems, bumper standards, braking systems, tire selection etc. Canadian and U.S. legislation is very similar but in some instances Canadian legislation is unique from U.S. legislation. Canada, for instance, has a daylight running lights requirement which does not exist in the U.S.

Federal standards have been in place for over 2 decades governing exhaust emissions from motor vehicles. The U.S. government has mandated strictly defined emission levels in motor vehicles and today over 90 percent of vehicles in operation are equipped with catalytic converters. Canadian emission standards are essentially the same as the U.S. 49 state standard which allow the vehicle companies to sell vehicles in Canada with the same pollution control equipment that is available in the U.S.

The U.S. government also has implemented regulations mandating certain corporate average fuel economy (CAFE) standards. Canada has taken a voluntary approach to fuel economy and have issued targets for the vehicle companies to meet which allow more flexibility than what currently exist in the U.S.

Government compliance issues will be a major concern for the auto industry as Quebec examines its options regarding sovereignty. In this regard, it should be noted that the vehicle companies already have issues related to competitiveness as a result of differences which currently exist between U.S. and Canadian standards.

3. *Quebec's Accession to Sovereignty: Implications for the Automotive Industry & Policy Issues*

3.1 *Introduction*

Before considering the issues for the automotive industry of a possible accession to sovereignty by Quebec it is important to bear a number of general points in mind:

- the broad range of activities encompassed by the automotive industry in the Province, and variety of different players and different perspectives within each industry sub-sector.

- the uncertain nature of the form that sovereignty may take. Many different options have been advanced for Quebec sovereignty including full economic union, customs union, a common market, dual FTA, incorporated FTA, etc. The number and scope of definitions as to what these scenarios will entail is considerably more limited, however.

Obviously the exact nature of Quebec sovereignty will not be determined until the negotiation process is complete, between Quebec, the ROC, and the US. Moreover, it would appear likely that during the negotiation process significant give and take will occur on various issues. **The dynamic nature of any negotiation makes the consideration of one industry in isolation an artificial one.**

- Many arguments have been put forward as to the ability of Quebec to negotiate a trading arrangement with the US. Given growing protectionist pressures in the US, the emphasis on the current Mexico negotiations, and the small size of the Quebec market, some analysts have questioned the extent of US interest in a Quebec trading arrangement. While this debate is not the focus of this report, a parallel set of arguments can be developed with regard to the automotive specific trade regulations. Moreover, we would point out that the automotive industry is the focus of many of the growing protectionist pressures in the US, as witnessed by recent discussions with Japan. As have been discussed earlier in this report, the protectionist groups in the US would, in many cases, like to see the Auto Pact renegotiated or removed, and would appear unlikely to broaden the scope of US automotive trade agreements.

3.2 The Automotive Environment

Before discussing the detailed implications of Quebec's accession to sovereignty, it is important to restate the key automotive variables that will be shaping the North American industry as a whole in the 1990s. As was discussed in the first section of this report, the automotive industry in the 1990s will encounter a very different environment from that which it has historically experienced. This environment is being governed by a number of key variables :

- The North American market as a whole for new vehicles will exhibit slow growth at best.
- The path to competitiveness for the Big Three will result in plant closings for these manufacturers, with the transplants also unlikely to construct further new facilities beyond those already announced. This trend will be paralleled in the parts industry in North America.
- The Canadian share of North American production of parts and vehicles will likely decrease in the 1990s.

Together these broad considerations will produce an environment within the automotive industry in which competitiveness is key. Any action that is seen to reduce the competitiveness of an

individual plant or region will significantly increase the pressures for reduced or discontinued investment.

Due to these broad environmental forces, Quebec could not have chosen a worse environment to try to negotiate an automotive trade policy with the rest of Canada and/or the U.S. The auto sector and the governments affected will be unforgiving in their points of view since the current competitive situation of the industry allows no room for error or inefficiency.

3.3 Policy Alternatives

Bearing these macro-level considerations in mind, the implications of Quebec's accession to sovereignty are outlined below and policy issues discussed. These implications are outlined from a number of different policy alternatives :

- . Quebec operating only under the GATT
- . Quebec operating under the GATT but with no import tariffs on automotive products
- . Quebec continuing to operate as part of Canada with regard to APTA/FTA

A fourth policy alternative that has been raised by some industry participants was also considered; - that of Quebec negotiating a separate APTA/FTA trade regime. However, this option was considered impractical. The limited size of the Quebec market (less than 400,000 units a year) would make the negotiation of a separate trade regime containing any form of production or content requirements unworkable within the automotive industry.

It is recognized that these policy alternatives do not represent the full range of alternatives, open to Quebec. They are presented as extremes, however, to illustrate the issues the industry will face and the implications that will follow.

For the three policy alternatives that were considered, the implications for the industry are outlined first from a **production** perspective (vehicle assembly and parts manufacturing) and then from a **consumption** perspective (vehicle sales and service, and parts sales and distribution). In each case, the implications for different players, or groups of players are detailed where the need arises. Similarly the implications for Quebec and for the industry in the ROC are also noted.

3.4 Quebec Operating only under the GATT

The implications of a trade regime in which Quebec, as a separate nation, operated its automotive industry only under the GATT are considered below. Such a trade regime would involve Quebec imposing import tariffs on all parts and vehicles and for Quebec's exports being subject to import tariffs into the US and into the ROC (apart from exports to qualified Auto Pact manufacturers in Canada who, because of Canada's multilateral operation of the Auto Pact, are able to import vehicles and original parts duty free from any country. It should be noted on this

point that should Quebec withdraw from the Auto Pact there would likely be considerable pressure from certain groups in the US to renegotiate or remove the agreement entirely - an issue that would have obvious implications for Ontario). In addition to the issue of tariffs, this scenario would also likely involve an increase in «border paperwork». While it is not possible to forecast the extent of such paperwork it is considered inherent in the implications whenever tariffs are discussed.

. Production:

Heavy Duty Truck and Bus Manufacturers - the operation of a trade regime in which the industry in Quebec operated purely under the GATT would create severe difficulties for the existing manufacturers of these products in the Province. These companies would be forced to pay duties, and incur the related additional administrative costs on their imported components (the majority of componentry), and their products would be subject to tariffs in their primary markets - the US and the ROC. Currently, the standard Canadian tariffs for trucks is 9.2%, while US tariffs range from 2% to 25%, depending upon the truck type. In this scenario, it is likely that these companies would face immediate pressures to relocate to the ROC or to the United States. If the ROC was able to maintain an Auto Pact agreement, then the agreement may provide some incentive to relocate to the ROC rather than the US, due to the multi-lateral benefits the agreement accords in Canada.

Given the competitive situation of the heavy duty truck and bus markets it is unlikely that under this scenario, Quebec would be able to maintain its assemblers of trucks/buses over the long term without creating substantial offsetting competitive advantages.

GM Ste. Therese - as with the truck manufacturers GM would face Quebec import duties on its components of parts (90+ % of total parts). GM product would also face tariffs when exported to the US (2.5%), but not to Canada, assuming the APTA remains in place. Again under this scenario, it is unlikely that this plant would remain active beyond its current mandate unless substantial other competitive advantages were created.

Hyundai - under this scenario, Hyundai's tariffs on its imported tariffs would change little. Similarly, the tariffs paid on exports to the US would be similar at the current time. As Hyundai moves to FTA compliance, these tariffs will be removed under the current trade environment. Under the GATT scenario, the tariffs would obviously remain. Moreover, under this scenario, Hyundai would face tariffs on exports of its Quebec product into the ROC. Again, unless other competitive advantages were realized, these issues would threaten the long term competitiveness of the Bromont facility.

Original Equipment Parts Manufacturers - under this scenario, OE parts manufacturers in Quebec would face import tariffs on raw materials and sub-componentry. Moreover, all their exports to the US (the majority of production for most manufacturers) would face tariffs. US tariffs on parts vary according to the component, with the majority of goods being subject to a

tariff of 2% - 3%. Exports to Canada, would also face tariffs (currently 9.2%), aside from those to Auto Pact manufacturers.

A further, and equally serious, problem that would be faced by these companies would be the fact that under this arrangement, their product would likely not be counted toward Canadian value added (for APTA purposes) or North American content (for FTA). This factor would place a significant disincentive for assemblers to purchase from Quebec suppliers. Given the tariff and content disincentives, it would require significant improvements in the competitive environment in Quebec to prevent OE parts manufacturers vacating the Province, in the short term.

Aftermarket Parts Producers - producers of aftermarket parts would also face severe competitive pressures under this environment. Their imports of raw materials and sub-componentry would face Quebec tariffs, and their exports of product to the US and to the ROC would face tariffs in both countries. Given the dependence of the Quebec producers on these markets, the increase in competitiveness that would be required to offset these barriers, and maintain the industry in Quebec, would be large.

Consumption :

Under this trade scenario, consumers would incur additional cost on North American product, as Quebec imposed import tariffs on vehicles and parts. Currently the goods purchased by Quebec consumers are subject to no tariffs for vehicles from Auto Pact manufacturers, and limited and declining tariffs for non APTA vehicles and parts built in North America which qualify under the FTA. All these items would increase in cost to the consumer in Quebec under the GATT only trade scenario. The cost of overseas vehicles and parts imported by non-APTA manufacturers would remain similar, assuming tariff levels close to Canadian levels are adopted.

3.5 Quebec Operating only under the GATT, without Import Tariffs

The implications of a trade regime in which Quebec, as a separate nation, operated its automotive industry only under the GATT, although without import tariffs are considered below. Such a trade regime would clearly still involve Quebec's exports being subject to import tariffs into the US and into the ROC, as discussed in Section 3.4.

. Production:

The implications of a tariff regime which operated only under the GATT, but did not impose any import tariffs, will be similar to those outlined above. The lack of import tariffs and associated administration/paperwork costs would, provide a cost advantage to all manufacturers, over the scenario outlined in section 3.4. However, the other cost barriers created by a loss of APTA and FTA benefits would still exist. Given the competitive nature of the automotive industry in the 1990s, these costs would still raise significant and short term questions as to the

viability of all automotive manufacturing groups in Quebec. As such while this scenario may delay the decline of the industry in Quebec, the fundamental problems in competitiveness, caused by US and ROC tariffs, and by Quebec produced product not being counted as CVA or North American content, would remain.

Consumption:

A trade environment in which Quebec operated under the GATT but removed import tariffs on automotive products would provide some benefits to the consumer. These would be most clearly seen on those products which do not currently qualify for APTA or FTA treatment (imports of parts and vehicles by non APTA manufacturers from overseas). Some limited and short term benefits would also be realized on non-APTA products, that are covered by the FTA. This relative benefit would last only until the end of the decade, however, by which time these products will be imported duty-free into Canada, under the current trade environment.

3.6 Quebec Operating as Part of Canada with Respect to the APTA/FTA

The final trade regime that is considered here is one in which Quebec operates, for the purpose of automotive trade, as part of the Canadian APTA/FTA agreements. As such, this scenario represents a continuation of the status quo in which tariff levels and border paperwork are determined by the present agreements.

It should be noted that there will likely be pressure in the US against such a scenario, should Quebec secede to sovereignty. As has been discussed, protectionist elements in the US would welcome the opportunity to renegotiate or remove the Auto Pact. Such a removal of the Auto Pact would obviously have implications for Ontario and the ROC as a whole.

It should also be realized that for this scenario to be continued, Quebec will have to continue to negotiate «under the Canadian banner» in future trade agreements that will affect the automotive industry such as the proposed North American Free Trade Agreement (NAFTA).

Production:

Under this scenario, the outlook for producers of automotive parts and vehicles in Quebec would remain the same as it is at the current time. This outlook, while significantly more positive than under the previous scenarios, is by no means secure. Over the past 28 years since the signing of the APTA, the Canadian industry has grown rapidly, due to its positive cost environment - a key element of which was provided by the Auto Pact. Over this period, an industry in Quebec has developed that, while notable within the Province, is still relatively small, and lacking critical mass, on a North American basis.

In the 1990s, the automotive environment will be very different from that experienced previously. With a flat total market, and the Big Three facing severe pressures to improve

profitability, the outlook generally is for plant closures and rationalization in the Canadian industry. This environment will place pressures on all automotive facilities in North America. While the outlook for Quebec does have some positive elements (increasing use of aluminum in vehicles for example), the industry in the Province will have to continue to improve its competitiveness if it is to survive and grow.

. Consumption:

As with production, the outlook for consumers of automotive products in Quebec, will remain essentially the same as it is at the present time. Benefiting from the APTA and the FTA, consumers will by the end of the decade, face tariffs only on those vehicles and parts that are imported from overseas by non-APTA manufacturers, and on products from the US that do not meet FTA content requirements.

3.7 Conclusions & Policy Issues

In ensuring the future for the automotive industry in Quebec, it is important to note a number of key elements that have been discussed in this report. These «givens» will play a significant role in shaping the implications of Quebec's accession to sovereignty:

- . The automotive market in North America (Canada and the US) grew significantly in the previous three decades. In the 1990s, the market outlook will be very different, with slow growth at best.
- . From a production standpoint, total North American production is again likely to show very limited growth at best in the 1990s. What growth will occur in the 1990s will be from the so-called «transplants». The Big Three, facing extreme pressures regarding profitability, will be further rationalizing their operations in North America.
- . **In this environment, the market will not tolerate any action that reduces the cost competitiveness of a plant or region.**
- . The Canadian industry has grown rapidly since the signing of the APTA in 1965. This growth has been due to a positive cost environment - a key element of which was provided by the Auto Pact.
- . Over the past 28 years, the automotive production industry in Quebec has developed that while notable within the Province, is still relatively small, and lacking critical mass, on a North American basis.
- . The automotive market in Quebec is small (340,000 new vehicle sales in 1990, less than 4 million units in operation) - and not large enough to support an indigenous original equipment, aftermarket or vehicle assembly industry. Economies of scale necessitate that any

automotive manufacturing within the Province will have to rely on export markets if it is to survive.

Taking these points into account, a number of conclusions are apparent with regard to the trade regimes considered :

- . Of the various trade regimes considered, all but one would provide significant competitive barriers to Quebec manufacturers of vehicles and parts. These additional costs would, in the current automotive environment, likely be sufficient to lead to a relatively short term decline of the industry, **unless offsetting competitive and cost advantages are found.**
- . The only trade regime that would not provide additional costs to the Quebec industry, is one where Quebec would continue as part of Canada for APTA/FTA purposes. It should be noted that it is questionable whether such a trade regime is possible. There are growing protectionist elements in the US automotive industry, that would welcome the opportunity to renegotiate or remove the Auto Pact. Such a removal would obviously have implications not only for Quebec, but also for the ROC.
- . From a consumption perspective, the benefits of a continuation of the current regime are also positive. Under the current regime, by the end of the decade, tariffs will remain only on those vehicles and parts imported from overseas by non-APTA qualified manufacturers and on products from the US that do not meet FTA content requirements.
- . It should also be noted that a number of non-automotive specific variables were also considered, such as currency issues, labour issues etc. While there is much concern at this time in the automotive industry as to how these issues will impact the cost structure of undertaking business in Quebec, their scope is beyond the mandate of this study.