Message from Jerry Dias

Over the past year, Canada, the United States and Mexico undertook a process to renegotiate the North American Free Trade Agreement (or NAFTA). Since 1994, NAFTA has proven to be a bad trade deal for working people, especially for autoworkers.

Fixing NAFTA's rules – imagining different models and outcomes for trade - has been a long-standing desire of our union. Unifor approached this renegotiation as a once-in-a-generation opportunity to expose the problems with NAFTA and similar bad trade deals. We also approached this renegotiation by putting forward new ideas and trade provisions designed to help – not hurt – workers and communities.

Our goal was to reimagine what fair trade deals could look like in the 21st century. During this renegotiation process, U.S. President Donald Trump posed an unimaginable threat: major tariffs on Canadian cars and parts exports. For reasons of both history and geography, Canada's auto industry is closely tied to the U.S. Virtually everything we export is destined for sale in the U.S. market. The mere threat of U.S. tariffs on Canada's auto sector raised serious questions over future investments and product planning in Canadian facilities.

As you know, a new continental trade deal has been struck – the United States-Mexico-Canada Agreement (or USMCA). It is not an ideal trade agreement by any stretch, nor is it a model of the sort of progressive trade we need in Canada. In fact, it includes elements that should be of concern to Canadians. Unifor will continue its work, advocating for trade policy that puts workers and communities first.

Nevertheless, in certain key areas, this new agreement is an improvement on the original NAFTA, including on rules governing auto trade, and that is in part because of the direct role our union played.

The new USMCA overhauls the rules governing auto trade in North America. Automakers are required to meet far stricter "Made in North America" rules for cars and parts, in order to sell these products tariff-free across borders. Automakers will also be required to build a portion of their cars and parts in high-wage facilities (instead of simply exploiting the wages of Mexican workers, earning as low as $1 USD per hour), a measure designed to safeguard work in US and Canadian facilities.

Most importantly, the new USMCA effectively eliminates the threat of U.S.-imposed auto tariffs on Canada. Should the United States choose to impose national security tariffs on cars and parts in the coming months, up to 2.6 million vehicles and $32 billion worth of auto parts exports, will face no penalty. To put this in perspective, Canada exported 1.8 million vehicles to the United States in 2017, and just less than 2.2 million at our peak. We feel confident to have secured protections for all existing capacity, as well as future growth in the industry. I can safely say that our union helped secure the strongest possible terms of protection against potential U.S. auto tariffs.

Let me be clear: these new trade rules, alone, will not deliver needed investments to our auto facilities, nor will they secure our wages, benefits and jobs. They are a welcome improvement, not a solution. As many analysts predict, our industry is prone for a downturn – one we hope is limited. Our job, as always, is to use our collective power and solidarity to ensure Canadian autoworkers – those inside and even those outside our union – have good jobs and a stable future within this vital industry.

More information on the USMCA will be made available in the coming weeks. For additional details about the new terms of auto trade, visit: **www.unifor.org/peoplestrade**.

Thank you for your ongoing support and solidarity.

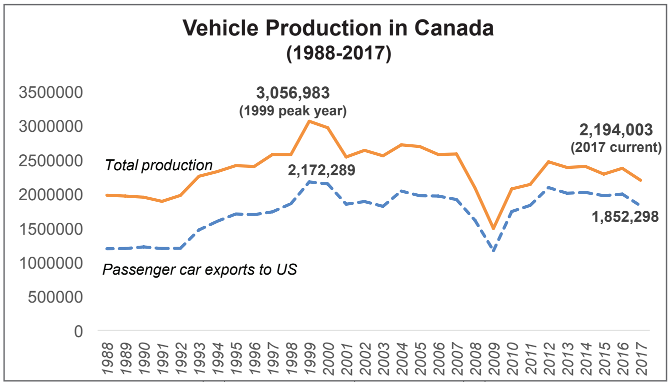
Jerry Dias

Jerry Dias,
Unifor National President

The need for fairer North American auto trade

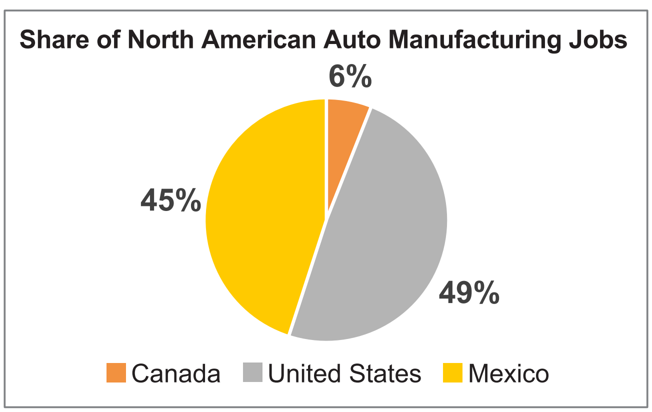
Since 1994, the North American Free Trade Agreement (NAFTA) laid out the ground rules for auto trade across the continent. It enabled auto companies to sell vehicles and parts tariff-free across Canadian, U.S. and Mexican borders. These rules also enabled auto companies to reorient their supply chains and, in some cases, relocate production. Often, lucrative investments were made in areas of the continent (most notably throughout Mexico) where wages and other production costs were lowest. These NAFTA rules imposed modest requirements on the automakers, including loose "Made in North America" content rules – but contained no guarantees of investment or future production in Canada.

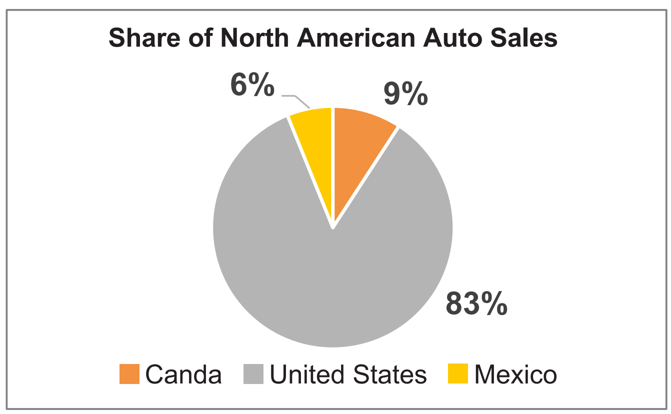
It is no surprise that under NAFTA, Canada's auto production declined. After an immediate jump in production and exports between 1994 and 1999 (driven partly by a low Canadian dollar and local production demands of the previous Canada-US Auto Pact agreement) Canadian auto assembly and parts production took a downward turn.



Canada today has 45,000 fewer auto assembly and parts jobs than in 1999. Our output of vehicles has declined, dropping from a historic high of over 3 million to just over 2 million per year. What's worse, there has been a series of devastating auto plant closures in communities, including Ste. Therese (General Motors), St. Thomas (Ford), Windsor (GM Transmission), Oshawa (GM Truck), Kitchener (Kitchener Frame) and elsewhere.

In fact, nine of the last 11 new North American auto assembly plants were located in Mexico – where many workers lack access to an independent union, and where wages are as low as $1 USD per hour.





New rules for auto trade under the USMCA

At the onset of NAFTA talks, Unifor put forward a set of recommendations to restructure the terms of auto trade in North America. Our vision was to create a trade model that not only expanded "Made in North America" rules (set at 62.5%, or two-thirds, of car content in NAFTA) but also prevented auto companies from freely shifting production to jurisdictions with poor labour standards and low-wages, without consequence.

In various ways, the new USMCA reflects both of these objectives.

For starters, "Made in North America" content rules have been raised from 62.5% to 75%. This means that any car shipped tariff-free between Canada, the U.S. or Mexico must contain three-quarters of North American content. Non-North American parts content (e.g. from Korea or China) are not counted toward this 75%.

Additionally, "Made in North America" rules will apply to an expanded list of individual component parts categories – including engines, transmissions, brakes, steering wheels – rules that are far more comprehensive than the previous NAFTA. These content rules will range between 50-75%, depending on the type of component part and will now include requirements on the use of North American steel and aluminum in car production.

Finally, and for the first time in any Canadian trade agreement, car companies must demonstrate that 40% of a car's content (45% for trucks) contains products sourced from high-wage facilities in North America. Front-line workers (excluding management) must be paid an average of $16 USD per hour (this equates to over $20 per hour in Canadian dollars, at the current exchange rate). Car companies can earn credits for up to 15% on this new 'Labour Value Content' for both existing research, development and information technology work as well as high volume powertrain facilities.

In addition, new labour standards embedded in the USMCA Labour Chapter aim to frustrate the use of so-called "protection contracts" in Mexico – collective agreements negotiated undemocratically between companies and fake labour unions, without the approval of workers.

It is too early to tell how effective these new rules will be in growing Canada's auto and parts production footprint. It is also not clear if these terms will discourage firms from relocating work to low-wage jurisdictions (and maintaining work in Canada). However, these provisions mark an unprecedented shift in the terms of auto trade.

Securing our trade relations with the United States

The threat of U.S.-imposed trade penalties on Canada hovered over the NAFTA talks like a dark cloud. The possibility that Canadian car and parts exports to the U.S. could be subject to national security tariffs (reportedly as high as 25%) was a clear and present danger to the future of Canada's auto industry, and auto-dependent communities in Southern Ontario. Multiple studies projected an economic disaster scenario for Canada and Ontario, involving major production slowdowns, massive direct and indirect job losses, and uncertainty over future investment decisions.

It was imperative for Unifor that any trade deal struck include protections for Canada's auto industry against any tariffs the U.S. may impose. Canada received this protection in the form of a side letter, exempting Canadian cars, trucks and parts exports to the U.S. from these potential tariffs.

Canadian exports of trucks will receive a full exemption from tariffs, whereas cars and parts will be exempt up to a pre-determined threshold. For parts, the threshold is set at $32.4 billion USD per year and for passenger vehicles, the threshold is 2.6 million units.

To understand these figures, it is important to consider:

- The U.S. has not yet imposed tariffs on cars and parts, and still may not. This USMCA side letter serves as an "insurance policy" for Canada, in the event that tariffs are imposed;
- Should tariffs be imposed, the threshold for Canadian vehicle exports is set at a level far higher than Canada has ever exported to the U.S. in a single year (at peak production years in 1999, Canada exported slightly less than 2.2 million vehicles to the U.S. Today we export approximately 1.8 million);
- Similarly, the threshold for parts is far in excess of what Canada currently ships to the U.S.

A full and permanent exemption would have been the ideal scenario for Canada, but the terms of this side letter are sufficient to ensure that not only will no Canadian vehicle or part export be subject to tariffs, but that our industry can continue to grow (and capacity can expand) without fear or concern.

That said, a stronger and more vibrant auto industry won't just happen on its own. The terms of the USMCA are an improvement, not a total solution. We must be keenly aware that nothing in the USMCA guarantees our future. After years of steady growth, the North American auto industry is bracing for a slowdown – as the market cools and production levels decline. Our union has to remain vigilant in defending this critical industry, demanding a comprehensive jobs and industrial strategy designed to grow our production footprint, and to defend the interests of all autoworkers and auto communities in Canada.

Next steps

Signing the new USMCA trade pact would set in place radically different rules governing auto trade and other provisions – far different from the trade agreements Canada currently has in place. Our union has committed to building a fairer, more progressive and just model for trade – and that means overhauling not just auto rules, but all rules. The new USMCA contains provisions that should be applied in other trade deals.

However, there are other outcomes of the USMCA that are of major concern. For instance, new intellectual property rules threaten to drive up the cost of medicines for Canadians. Expanded import quotas for dairy products will create significant competitive challenges for farmers. Ongoing U.S. tariffs applied to Canadian steel and aluminum exports continue to harm workers and communities.

Unifor must continue its work, advocating for a radically different, progressive, just and development-centred trade model. Unifor must ensure that all workers benefit equally from trade. We can do this by advancing our national People's Trade campaign, by campaigning to stop bad trade agreements like the soon-to-be-introduced Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and building bridges of active solidarity with our sisters and brothers in the United States, Mexico and elsewhere.

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