

# Understanding the USMCA

## And what it means for Canada's auto industry

Angelo DiCaro  
Acting Director, Research Department  
November 5, 2018  
Auto Council Meeting  
London, Ontario



**UNIFOR**

# September 30, 2018



**Donald J. Trump**   
@realDonaldTrump

Late last night, our deadline, we reached a wonderful new Trade Deal with Canada, to be added into the deal already reached with Mexico. The new name will be The United States Mexico Canada Agreement, or USMCA. It is a great deal for all three countries, solves the many.....



**Chrystia Freeland**   
@cafreeland

Tonight, Canada and the United States reached an agreement, alongside Mexico, on a new and modern trade agreement, called the United States-Mexico-Canada Agreement (#USMCA). Read the <https://www.cbc.ca/news/politics/2y277yY>

8 PM

987 Likes



**Justin Trudeau**   
@JustinTrudeau

A good day for Canada & our closest trading partners. More tomorrow...



# A good deal?

- “Modern”
- “High standard”
- “Solves the deficiencies and mistakes in NAFTA”
- “Not a great win, but a great save”
- “A good day for Canada”



# A bad deal?

- “We have a deal [but] steel and aluminum tariffs are still there”
- “The cost of medication is going to go up”
- “Does no harm, but breaks no ground”
- “More review needed”
- “Marginal benefit to... industry”



## Unifor's view

**“The USMCA has many, many flaws that must be addressed but the negative aspects cannot not be viewed in isolation. While there are areas of legitimate concern, the USMCA is an improvement over the original NAFTA with quantifiable gains for workers. We must take these advances and continue pressing for more progressive trade reform.”**

A thick, red, three-dimensional ribbon graphic that curves from the top left towards the center of the page, ending in a pointed shape.

Understanding the USMCA

# Unifor's approach to NAFTA renegotiation



UNIFOR



# Strategic considerations

- Treat NAFTA renegotiation as a **generational opportunity** to advance progressive trade policies and fix a bad deal.
- Raise the profile of **labour standards and worker rights** as part of broad trade/globalization discussions.
- **Engage Unifor members** in a more strategic discussion on trade policy.
- Build **stronger bonds of solidarity with global union allies** and workers' movements in North America.

# What we did

- Outlined set of concrete proposals to reform the NAFTA, on a range of issues;
- Developed a radically different approach to auto trade, in collaboration with UAW.

## Unifor Position Statement on the Renegotiation of the North American Free Trade Agreement

July, 2017



### FAIR TRADE AND SHARED PROSPERITY

#### Unifor-UAW Statement on Auto and the Re-negotiation of NAFTA

#### The Potential for Fair Trade in an Essential Industry

The North American auto industry remains a powerhouse of advanced manufacturing, innovation and economic activity. Directly responsible for 2 million jobs across North America, the auto industry serves as the anchor for entire supply chains including: auto parts producers, suppliers of raw materials and service providers<sup>1</sup>. The economic activity generated by the industry supports local business and public services, as each auto assembly job creates in the range of 9 to 10 other jobs across the economy<sup>2</sup>. These are often good jobs with above average wages which for generations have provided workers with stability, a strong standard of living, and hope for a better life for their families.

As one of the world's most valuable industries, global auto exports reached \$1.3 trillion last year, representing 8% of all merchandise exports<sup>3</sup>. The industry is highly influenced by trade rules which shape where, and how, the sector develops. The auto industry is highly prized as far as economic development is concerned, and nations around the world enact strong trade policies to support domestic development and production.

Our two unions represent 245,000 workers in the North American auto assembly and parts supplier sector. Combined we have more than one million auto industry retirees. Our members work hard, and are proud of their work. It is their effort and skills that built the successful world-leading industry, which is so essential to the wider economy and serves as the backbone of hundreds of communities. We would have welcomed the participation of representatives from Mexican free trade unions in the auto sector but there are none that can speak for Mexican workers - and that is at the core of the problem.

#### Time for Meaningful Change

Supporters of the status quo try to explain away the simple fact that NAFTA has failed workers in all three countries. While overall trade volumes and corporate profits are up, wages in all three countries have remained largely stagnant<sup>4</sup>. Too often workers are not compensated fairly for their work<sup>5</sup>. The fundamental right to collectively bargain is under regular attack in the U.S., threatened in Canada, and essentially non-existent in Mexico; resulting in falling union density falling and rising economic inequality across North America<sup>6</sup>.



JOINT UNIFOR AND UAW STATEMENT 1



# Public actions



No #NAFTA without respect for the rights of Indigenous people.  
[unifor.org/NAFTA](http://unifor.org/NAFTA)



No #NAFTA without re-balancing auto trade between North America and the world.  
[unifor.org/NAFTA](http://unifor.org/NAFTA)



No #NAFTA without protection from investor-state dispute and other unfair corporate privileges.  
[unifor.org/NAFTA](http://unifor.org/NAFTA)







# Solidarity





# Work with officials





# Member engagement



**UNIFOR**  
theUnion | lesyndicat

Imagining a Fair Trade Future  
Unifor's People's Trade Agenda

LOCAL REMEDIES  
Putting Workers First  
SOCIAL EQUITY  
PROGRESS  
Mutual Benefit  
PRINCIPLES  
The Equ



A thick, red, three-dimensional ribbon graphic that curves from the top left towards the center of the slide.

Understanding the USMCA

# What's in the USMCA?



UNIFOR



# A lot of the same...

- The “free trade agreement” template is intact;
- Market access for goods, with few conditions;
- Limits on how government manages cross-border commercial trade;
- Limits on “buy local” conditions;
- Focus on regulatory cooperation, harmonization.



# ...Plus some new concerns.

- **Expanded market access for U.S. dairy**
  - Import allowances very high; made worse by Europe and Trans-Pacific trade deals.
- **Intellectual property reforms, extension of patent terms**
  - Market exclusivity extends from 8 to 10 years;
  - Includes “biologics” (cancer drugs, Crohn’s disease).



# New USMCA holds on to some very important provisions...

- **Special mechanism to fight softwood lumber and other U.S. tariffs**
  - Referred to as “Chapter 19” dispute settlement
- **Cultural protections**
  - Culture-related policies and regulations fully exempt from the deal
- **No changes to temp entry of workers**
  - Limited occupations, status quo





# ... and made some very important improvements.

- **No more investor-state dispute (ISDS)**
  - A game-changer for progressive trade advocates
- **No more “energy proportionality”**
  - Canada reclaims sovereign control over resources
- **New exemption for Indigenous rights**
- **Labour rights, expanded and enforceable**
  - Provisions on gender, worker violence
  - Special annex focused on Mexican union rights
- **Ground-breaking changes to auto trade and other industry protections.**

A thick, red, three-dimensional ribbon graphic that curves from the top left towards the center of the page, ending in a pointed shape.

Understanding the USMCA

# Changes to auto trade rules



UNIFOR



# Two key objectives, for Unifor, in auto trade talks

1. Fixing a broken trade model that has contributed to the steady decline of Canada's auto industry;
2. Protecting Canada's auto industry against the threat of U.S. "national security" tariffs.



# Fixing a broken model

## What's broken?

- Deep and growing imbalances in North American auto production..
- **FACT:** Nine of the last 11 new auto factories in North America located in Mexico. Since 2009, Canada has closed 2 facilities (Ford, St. Thomas in 2011; GM Windsor Transmission in 2010).



# Fixing a broken model

## What's broken?

- Deep and growing imbalances in North American auto production..
- **FACT:** 4 million more vehicles being built in North America today than when NAFTA was signed.
  - 2/3 = Mexico
  - 1/3 = U.S.
  - 0 = Canada



# Fixing a broken model

	Canada	U.S.	Mexico
Share of N.A. auto mfg jobs	6%	49%	45%
Share of N.A. auto sales	9%	83%	8%



# Fixing a broken model

## What's broken?

- Structural and intentional exploitation of Mexican auto workers
- **FACT:** Autoworker wages in Mexico are lower today in real terms (inflation adjusted) than before NAFTA.

# Fixing a broken model



## Case study: BMW San Luis Potosi...

- New plant to open 2019.
- Series 3: start at about \$50,000 (up to \$80,000)
- Signed deal with “union” in 2014 when no workers even hired.
- So-called “protection contract” with CTM labour federation.
- Starting wages \$1.10/hr, grow to \$2.50/hr.
- Average starting rate for autoworkers, \$2.04 USD/hr.





# Fixing a broken model

## What's broken?

- Industry says “NAFTA is great!”
  - Cheap labour keeps us globally competitive
  - We're too integrated to change anything
  - Supply chain too complex to change
  - Any adjustments will break the whole industry
  - NAFTA auto rules already too onerous, costly



# What were the old NAFTA rules?

## Current system...

- Free trade access to Canada, US, Mexico if two-thirds of a vehicle (62.5%) is built in North America.
- Not the whole vehicle, but a list of select parts within a vehicle.
- Select individual parts must be 60% made in North America.
- No other conditions.

# Unifor's proposal



## Imagining a different model – 4 parts

- **Stronger labour standards**
  - Higher wages and union rights
- **Real “Made in North America” rules**
  - Higher “rules of origin”
- **Fair shares of production in North America**
  - Stop the bleeding of jobs
- **Balanced trade with the rest of the world**
  - Meaningful price of entry for foreign exporters

# The U.S. position



## The U.S. proposal

- **Stronger “Made in North America” rules**
  - Aligned with Unifor, UAW
- **Demand U.S.-only rules for all vehicles**
  - Require half of all production done in the USA, beggar thy neighbour
  - Canada would be the biggest loser



**Donald J. Trump** ✓

@realDonaldTrump

Follow



There will be big news coming soon for our great American Autoworkers. After many decades of losing your jobs to other countries, you have waited long enough!

6:18 AM - 23 May 2018

18,870 Retweets 87,339 Likes



11K 19K 87K



**damarisoquendo** @mara1169 · May 23



Replying to @realDonaldTrump

Psst u lied yet again more broken promises



**GM cutting 1,500 jobs at Ohio plant amid falling demand for small cars**  
GM cutting 1,500 jobs at Ohio plant as it eliminates one of two remaining shifts due to weak demand for small cars.

money.cnn.com



# U.S. launches “Section 232” investigation

- Aims to “*determine whether imports of automobiles, including SUVs, vans and light trucks, and automotive parts into the United States **threaten to impair the national security as defined in Section 232 (of the U.S. Trade Expansion Act).***”
- Ruling expected in late 2018/early 2019.
- Sources suggest a 25% tariffs on cars (already happened with steel and aluminum)

# Tackling tariff threat is critical

U.S. imports as share (%) of total domestic auto production

<i>Passenger Car Class.</i>	<i>Exports to United States (2017 units)</i>
Small compact	899
Small-mid sized	238,056
Mid-sized	766,361
Large	814,502
<u>Total</u>	<u>1,819,818</u>
Domestic production*	2,175,443
<u>Export share</u>	<u>83.7%</u>

*\*Includes: FCA, Ford, GM, Honda and Toyota passenger vehicle production:  
sources Ward's Automotive; Cdn Int'l Merchandise Trade Database, Statistics Canada*

# Tackling tariff threat is critical

U.S. imports as share (%) of total Canadian auto industry export value – YTD 2018

	<b>Motor Vehicles</b>	<b>Bodies/ Trailers</b>	<b>Parts</b>	<b>Total</b>
Exports (US)	\$22.8 B	\$740 M	\$6.7 B	\$30.2 B
Imports (US)	\$16.3 B	\$1.9 B	\$12.3 B	\$30.5 B
		<b>Exports (Rest of World)</b>		\$1.9 B
		<b>US share of Cdn Exports</b>		<b><u>94%</u></b>

Source: Industry Canada, Trade Data Online accessed July 24, 2018



# Trump's trade leverage



- Tariffs a convenient trade chip in ongoing talks with:
  - **Canada/Mexico**
  - **Europe**
  - **South Korea**
  - **China**
  - **WTO**

A thick, red, three-dimensional ribbon graphic that curves from the top left towards the center of the page, ending in a rounded, arrow-like shape pointing towards the text.

Understanding the USMCA

# The Final Deal



UNIFOR

# The final deal



unifor.org

## Higher North American content in cars and parts

- 62.5% raised to 75% North American content in cars
  - Total car counted, not a short list of parts
- Parts content rises too, from 60% to as high as 75%
- 4 new categories, each with specific rules
  - CORE (engines, transmissions, lithium-ion bat.) – 75%
  - PRINCIPLE (brakes, seats, wheels) – 70%
  - COMPLEMENTARY (electronics, speakers) – 65%
  - OTHER (current/future parts) – 50%

# The final deal



[unifor.org](http://unifor.org)

## Rebalancing trade through higher wages

- New: Labour Value Content rules
  - 40% of the content in a passenger vehicle (45% for trucks) must be made in facilities that pay \$16 per hour (USD) on average, ~\$20 per hour CAD.
  - Credits (up to 10%) to automakers for R&D wages
  - Credits (up to 5%) for high volume/high-wage transmission work.

# The final deal



[unifor.org](http://unifor.org)

## Rebalancing trade through higher labour standards

- Free and fair collective bargaining; breaking down “protection contracts” will help to correct wage imbalances, push Mexican wages higher.
- Greater union independence could mean no more free ride for OEMs in Mexico.

# The final deal



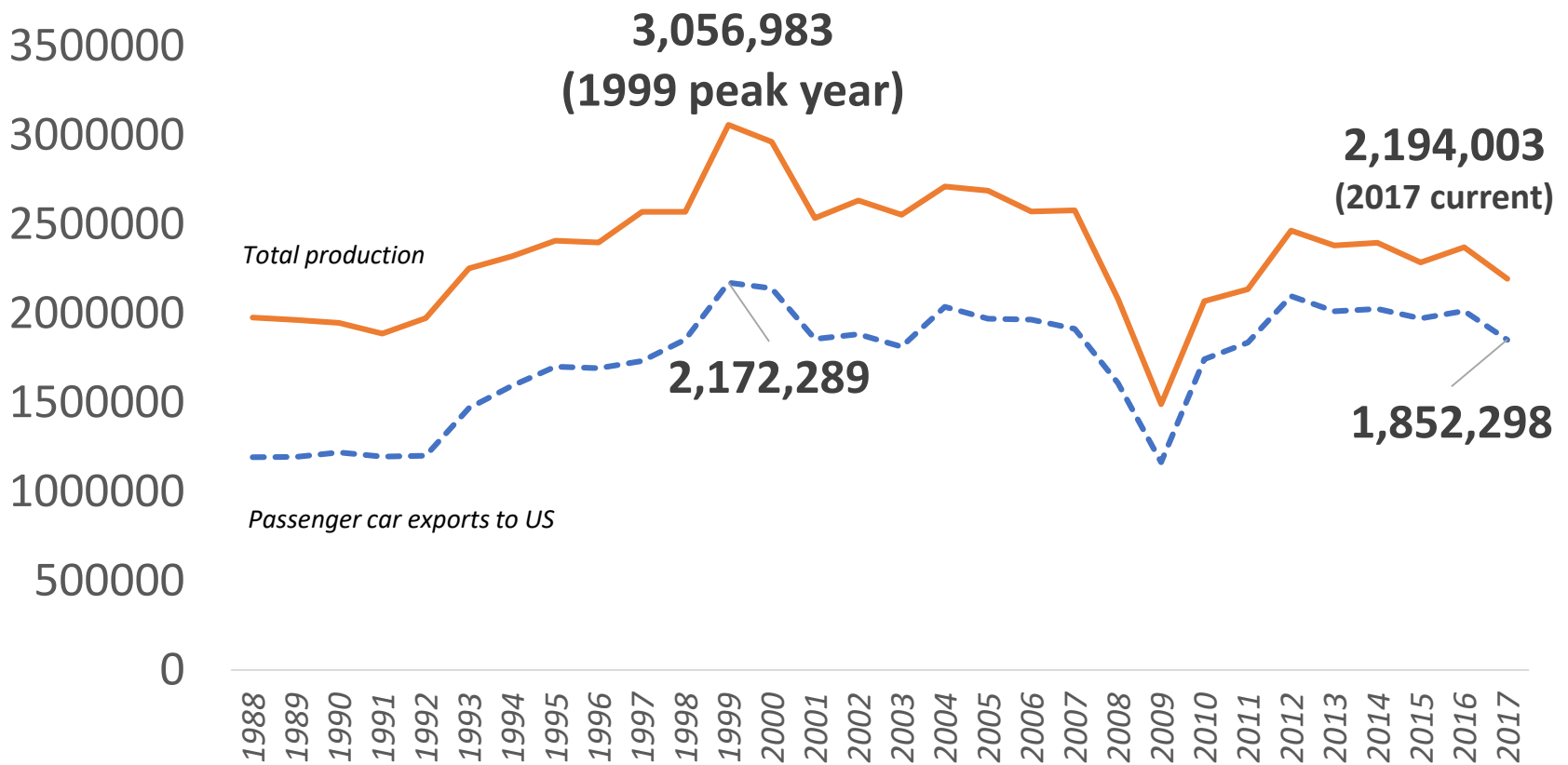
[unifor.org](http://unifor.org)

**An “effective exemption” from cars and parts tariffs, should they be applied**

- On Unifor’s insistence (and with some creative arguments), the “insurance” quota extended far beyond existing export levels:
  - On cars: 2.6 million units
  - On parts: 138% of existing export value



# CDN vehicle production and U.S. exports (1988-2017)





# A ringing endorsement from the Fraser Institute!

“Clearly, for the auto sector, the USMCA is a step backwards to the managed trade days of the 1960s,” said Steven Globberman, study co-author and ***Fraser Institute*** senior fellow.

“This new free trade deal is much more about protecting domestic producers than about benefiting consumers or liberalizing trade across the continent.”

A thick, red, three-dimensional ribbon graphic that curves from the top left towards the center of the slide.

Understanding the USMCA

# What comes next?



UNIFOR



## Next steps

- Signing ceremony, late November/early December
- Final text received by Congress in January or February
- Implementing legislation by April
- Final vote in July

\*Canada and Mexico will also spell out their own ratification processes over this time period, but unclear at this point.



# Outstanding questions

- **US steel and aluminum tariffs still being applied**
  - *Will that disrupt/delay the final deal?*
- **How will the new Mexican administration, under Pres. Obrador, approach USMCA labour reforms?**
  - *Mexico entry conditional on labour reforms*
- **How will automakers adjust to new USMCA rules?**
  - *5 year transition period (2023), time will tell*
- **How will USMCA rules impact Unifor bargaining, Unifor organizing?**
  - *Important opportunities to consider*



# Outstanding questions

- **Will automakers be enticed to follow new USMCA auto rules, or simply pay the tariff?**
  - 2.5% for cars into the U.S.
  - 6.1% for cars into Canada
- **Will foreign automakers be enticed to invest in North America, or simply pay the tariff?**
- **Long overdue discussion needed about North American/WTO auto tariffs... the final piece of the puzzle.**





# For Unifor...

- Celebrate some historic gains in the USMCA... and closely monitor ongoing developments.
- Leverage these gains to challenge other free trade agreements, continue to work to disrupt the model
- Carry on Unifor's People's Trade campaign, building an alternative vision for progressive trade
- Work, in solidarity, with our global allies (especially in Mexico) to use new tools at our disposal to win justice for workers.

# Understanding the USMCA

## And what it means for Canada's auto industry

Angelo DiCaro  
Acting Director, Research Department  
November 5, 2018  
Auto Council Meeting  
London, Ontario



**UNIFOR**