Capitalizing on Growth Opportunities in Canadian Auto Parts Manufacturing

Issue

Supportive federal government policies related to international trade agreements, competitive regulatory regimes, and investments into R&D can position Canada as a global leader in automotive parts manufacturing.

Background

The Canadian auto sector consists of assemblers – Ford, Chrysler, General Motors, Honda and Toyota – and a large network of parts suppliers.

Domestic parts manufacturers have been challenged over the last decade by the migration of assemblers to the southern United States and Mexico based on lower labour costs and major relocation incentives. Despite this trend, parts manufacturers emerged strongly from the recession and continue to expand as automobile sales escalate.

A 2014 report[1] from the Lawrence National Centre for Policy and Management at the Ivey School of Business at Western University analyzed the operations of three major auto parts manufacturers – Magna International, Linamar Corporation, and Martinrea International. Quality and process innovation was identified as a high priority for securing business from assemblers, along with technology and knowledge transfer to maintain low operating costs.

All three firms utilized government tax incentives and programs, including SR&ED (Magna), federal and provincial support for innovation (Linamar) and trade financing through the Export Development Corporation (Martinrea). Concern was expressed that Canada's inherent manufacturing advantages are not sufficient to overcome heavy location incentives from governments in the United States and Mexico.

Canadian taxation levels are however considered a benefit and in some corporate decisions are sufficient to overcome lower labour costs. High school and post-secondary education should provide the skills required for industry along with information on wages available in advanced manufacturing. Government funding for educational programs should relate to the demand for skills in that area. Germany has frequently been identified as the prototype for supplying manufacturers with skilled employees through apprenticeships and trade institutions.

Two primary public policy issues identified by the three manufacturers include trade agreements and overlapping regulation. More agreements are required as freer trade with Mexico and the United States has made those jurisdictions relatively more attractive for parts that are readily exported. Magna has indicated that Canada needs to develop a strategy to increase Canadian manufacturing jobs rather than buying manufactured products. The Comprehensive Economic and Trade Agreement (CETA) with the European Union will benefit the domestic auto parts sector as EU tariffs, which can reach 4.5 percent, will be eliminated. This measure will provide Canada with a major advantage over competing jurisdictions.

The requirement to reduce regulatory overlap and duplication is also a priority for parts manufacturers and particularly important when importing machinery from countries that have rigid environmental regimes such as Germany. The retesting of equipment wastes time and money and adds no value.

Martinrea has indicated that part manufacturers need to cluster around assemblers (within 50 miles) to compete on logistics and reduce supply chain risk, implying that Canada should also offer location incentives to attract assemblers. Winning the competition for assembly plants will require superior performance in three areas – government subsidies, coordinated responses across federal, provincial and local governments, and flexible, highly productive labour arrangements.

The 2015 federal Budget tabled by Finance Minister Joe Oliver committed up to $100 million, over five years, for the Automotive Supplier Innovation Program. This new initiative will assist domestic parts manufacturers in developing

[1] The Future of Canadian Manufacturing: Learning from Leading Firms. Canadian Auto-Parts Manufacturing. Lawrence National Centre for Policy and Management, Ivey Business School, Western University. 2014

new products required by assemblers. Of the total $100 million, one-half will be reallocated from the Automotive Innovation Fund and will be supplemented on a cost-shared basis by participating firms.

Recommendations:

That the federal government:

1. Expand export opportunities for Canadian auto parts manufacturers through international trade agreements;
2. Eliminate regulatory duplication and overlap particularly in relation to the importation of machinery from jurisdictions with effective environmental and safety regimes;
3. Maintain programs for assisting auto manufacturers on R&D activities to meet the changing requirements of domestic and international assemblers.
4. Direct Ray Tanguay, Canada/Ontario Auto Adviser, to advise the Canadian Chamber of Commerce of his strategic plan within 6 months.