



**CAPC  
International Trade Working Group  
May 2005**

Initiative	Action Plan Item	Lead	Timing	Status
Canadian Dollar	Monitor/Address impacts of currency appreciation on automotive investment & trade balance	AUTO; Bank of Canada	ST/MT	
Strategic Trade/ Investment Policy	Explore opportunities to use active trade policy to leverage and enhance Canadian automotive investments.	FED; AUTO	MT	



Addressed - implementation underway and on-time.



Plans, commitments and timelines not clear - attention needed.



Immediate attention.

Fed - Federal Government  
Prov - Provincial Government  
Auto - Auto Manufacturers, Suppliers

MT - Medium Term  
ST - Short Term

### Canadian Dollar

The Canadian dollar appreciated by over 30 percent against its U.S. equivalent during 2003 and 2004 – the fastest appreciation of our currency in history. This rapid appreciation increased the relative costs of Canadian-based manufacturing operations compared to competitors located elsewhere in North America, or in other regions. The impact of the stronger dollar is expected to be felt most acutely by automotive components producers (given the fiercely competitive pricing environment in which they operate, and the relatively more labour-intensive nature of their production). However, even for automotive assembly plants a higher dollar, if it persists, will ultimately make it more difficult to attain investment and production mandates for Canadian facilities; for example, the automotive assembly cost analysis commissioned for CAPC and conducted by KPMG found that Canada’s unit cost advantage in automotive assembly (relative to new facilities in the deep south of the U.S.) effectively disappears when the Canadian dollar is worth 75 cents (U.S.) or more. In recent months the Canadian dollar has softened somewhat, reflecting various influences – included the view that global commodity prices may have peaked, the Bank of Canada’s decision to hold domestic interest rates steady for the time being (contrasting with rising interest rates in the U.S.), and an evident weakening of Canada’s trade balance. The CAPC International Trade Working Group will continue to communicate the industry’s concerns regarding an overvalued dollar to the Bank of Canada.

### Strategic Trade Policy

In the past, the Canadian government effectively utilized trade policy levers (among other policy tools) to reinforce the incentive for global automotive corporations to invest in Canadian-based facilities. For example, the Canada-U.S. auto pact provided important relief from import duties to automakers which met certain Canadian-content targets; later, similar policies (such as duty remission on imported automotive components) were effective in encouraging Canadian investments by non-Auto Pact companies. The trade policy environment has evolved, however, and existing trade agreements place limits on the extent to which strategic trade policy can be used to reinforce the incentive for domestic investment (for example, the WTO overturned the Canada-U.S. Auto Pact in 2002). Nevertheless, there may still be unexplored avenues through which strategic trade policy could be utilized to reinforce the incentive for investment in Canadian facilities. One example considered by the CAPC International Trade Working Group is a duty remission policy to rebate duties collected on offshore vehicle imports to companies which exported equivalent volumes of Canadian-made vehicles to non-NAFTA markets; other possibilities are also being considered (in some cases by studying the more activist trade policies implemented by global automotive producing nations). The Working Group’s activities are guided by a “Perspective Statement” which includes the following summary of the potential relevance of strategic trade policy:

*International trade agreements constrain some of the active trade policies which government has used in the past to support the Canadian industry. But it is clear that scope continues to exist for trade policy to play an active and supporting role in strengthening the economic context facing the industry. The primary focus of these trade policy initiatives must be to strengthen and support investment in Canadian-based parts and assembly production.*

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Initiative	Action Plan Item	Lead	Timing	Status
Bilateral Automotive Trade with Asia / Other Emerging Markets	Monitor bilateral imbalances; explore/develop strategies to boost automotive exports to Asia / other emerging markets	FED; AUTO	MT	Y
Bilateral FTA with Korea	Express opposition to proposed bilateral FTA negotiations with Korea	FED; AUTO	ST	Y



Addressed - implementation underway and on-time.



Plans, commitments and timelines not clear - attention needed.



Immediate attention.

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**Bilateral Automotive Trade Deficits / Emerging Markets**

Canada enjoys an overall surplus in its international automotive trade (which totalled \$6.7 billion in 2004). However, this surplus is due entirely to our successful exports to the U.S. market. Over 98 percent of Canada's automotive exports are destined for the U.S. But with every other major automotive trading partner, Canada experiences a significant automotive trade deficit. Last year, these deficits offset about three-quarters of our \$22 billion automotive trade surplus with the U.S. With non-NAFTA trading partners, our automotive trade deficit reached \$11 billion in 2004 – the highest ever. Industry analysts are near-unanimous in expecting that (barring offsetting policy measures) our offshore automotive trade deficit is likely to grow in coming years, reflecting the rapid growth and technological evolution of competitors such as China. The CAPC International Trade Working Group is studying the dimensions and potential future evolution of these bilateral trade imbalances, and considering various potential responses.

**Canada-Korea Free Trade**

**Members of the full CAPC approved the following statement, on the recommendation of the CAPC International Trade Working Group, at their meeting on May 10 2005:**

*The members of CAPC view significant potential costs to the Canadian auto industry arising from bilateral free trade negotiations with Korea, and few if any potential benefits at this time, under current trading conditions. CAPC members are concerned with various aspects of the proposed agreement, including its asymmetrical impact on trade flows to and from Canada, the persistent effect of Korean non-tariff barriers in preventing market access for Canadian-made products (an effect which free trade negotiations alone cannot remove), and the discriminatory nature of bilateral free trade. CAPC recommends that the federal government not enter into such negotiations at this time. CAPC members are interested in expanding automotive trade with Korea (and other non-NAFTA trading partners), but demonstrated, sustained, and measurable progress in opening Korea's automotive market to Canadian-made products and reducing bilateral automotive trade deficits (including automotive-related services) must be a precondition for future liberalization initiatives.*