GOVERNMENT, FOREIGN DIRECT INVESTMENT AND THE CANADIAN AUTOMOTIVE INDUSTRY, 1977 – 1987

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Chapter Eight

Canada and the Geopolitics of Motor Vehicle Manufacturing: 1977-87

It was demonstrated in Chapter Six that after an initial wave of investment following the signing of the Auto Pact in 1965 and 1966, capital investment spending in the Canadian automotive industry tailed away, falling to a level critics felt was below that warranted by the size of the market. In 1977, the Policy and Priorities Division of the Ontario Ministry of Industry and Tourism (MIT) observed:

> The initial impetus provided by the auto pact has worn off. It no longer provides any guarantee of increased investment beyond that needed to maintain the production to sales ratio and meet incremental Canadian Value Added (CVA) requirements. In a sense, then, we are back to straight competition for investment dollars.[258]

Therefore, while it was commonly held that while the Auto Pact had served Canada well, by the late 1970s there was a need to find fresh ways of boosting investment and revitalizing the industry.

This chapter continues to explore issues around the question: "What role did governments play to facilitate the process of encouraging inward FDI during the 1980s?" It explores the formation and evolution of automotive policy in the years between 1977 and 1987. It will be shown that policy makers initially focused on parts manufacturing as the vehicle for renewed growth because they believed Canada had little chance of attracting significant FDI into final assembly. However, it will be shown that the twin goals of attracting FDI into parts manufacturing and securing access to overseas markets was misguided. Consequently, policy makers shifted back to final assembly. New evidence is presented that reveals that potential assembly investors were already displaying a willingness to invest in Canada even when the prioritization of parts was at its zenith.

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[258] Archives of Ontario, RG 9-88, Accession 17886, Box 2, File: The Automotive Industry Problems and Priorities; Notes for a Speech by M. Garland to APMA Annual Meeting, 26 April 1980, p 4.

It was only after 1980 when Edward Lumley became Minister of State for Trade that a spirited effort was made to attract foreign vehicle makers to set up in Canada. Lumley, first as Minister of Trade and then as Minister of Industry, was undoubtedly the driving force behind concerted efforts to boost the industry. Examining the role and influence of Lumley will help answer the third key question this thesis presents: "Can individual personalities and the relationships they forge influence the FDI attraction process?" It took a long while for many in the private sector to catch on to the significance of what had happened and to stop promoting the prioritization of parts manufacturing. By then, however, the foundations for new entrants had already been laid. There would be no turning back.

8.1 Public Policy and the Canadian Automotive Industry

As documented in previous chapters, the Auto Pact initiated a long period of expansion. But by the late 1970s, Canadian policy makers had begun to seek new sources of automotive growth. In light of the success achieved in the 1980s, it might be assumed that Canada was the beneficiary of farsighted public officials pursuing a disciplined and winning strategy. However, that assumption would be incorrect. Rather than pre-determined and strictly controlled, policymaking should be thought of as evolutionary. Success ensued, but the path was indirect, mildly chaotic and spontaneous with policy makers shifting attention and resources as events ensued.

8.1.i. The Shift in Focus to Parts Manufacturing

Towards the end of the 1970s, industry leaders and policy makers had come to recognize that integrating the Canadian automotive industry with that of the US had limited the country's capacity to strike an independent course. In 1978 Gordon Osbaldeston, Deputy Minister of the Federal Department of Industry wrote to his Minister, Jack Horner that a discussion with 25 major companies had shown that those with a high degree of autonomy had more vigorous growth plans than the others. He reasoned "market forces cannot operate effectively in a branch-plant industry to determine the pattern of investment. ... In this regard we have regressed rather than progressed towards the objective of making market forces effective."[259] At this stage, Osbaldeston and others concluded that rather than focusing further efforts on incremental assembly capacity, attention should be shifted to the parts sector: "The principle opportunities to expand production in Canada lie in new plants to make new components associated with lighter, more fuel-efficient vehicles ... these plants will only come to Canada if Canada offers the best economics."[260] For the next several years, this tenet – the importance of securing parts-oriented investment – dominated the thinking of automotive policy makers.

During this period, the Province of Ontario also shared the priority of securing additional parts production. Ontario's submission to the 1978 Royal Commission on the Automotive Industry, chaired by Simon Reisman, affirmed that emphasis should be placed on developing an industrial strategy that encouraged new investment in parts and components. It was recommended that discussion should commence with the vehicle assemblers to progressively increase CVA through local parts purchases.[261] At that stage, policy makers were concerned with the trade imbalance and more specifically the imbalance that existed within the captive or in-house element of the industry. A briefing note from the Ministry of Industry and Tourism (MIT) in April 1977 noted that fully $1.7 billion of a $1.9 billion deficit in automotive parts trade with the US in 1975 was due to uneven trade flow between captive or assembler-owned parts makers.[262] Budget statements released by the

[259] National Archives of Canada, RG 20, Accession 93-94/195, Volume 160, File 4958-1, PT 19, Memorandum from Gordon Osbaldeston to Minister Horner Regarding Discussion Paper for Cabinet – Special Automotive Program, 26 May 1978, p 5.

[260] Ibid, p 6.

[261] Archives of Ontario, RG 9-85, Accession 15627, Box 1, File: Auto Parts; Draft of Submission to the Reisman Commission Enquiry into the Auto Industry, 11 October 1978, p 13.

[262] Archives of Ontario, RG 9-88, Accession 17886, Box 1, File: The Auto Industry – An Update, 7 April 1977, p 3.

Note: In 1975, just $341 million in captive parts exports to the US were made to offset $2.1 billion in captive parts imports.

Treasurer of Ontario in both 1976 and 1977 made specific mention of the nagging deficit in parts trade resulting from the importation of captive parts.[263]

By 1980, Ontario had constructed a five-point plan to strengthen the auto industry and eliminate the parts deficit.[264] The strategy involved two related elements. First, it contained a target of increasing CVA to 100 per cent of sales (up from the Auto Pact minimum of 60 per cent) and second, a goal of balancing intra-corporate trade over five years.[265] In other words, the intention was to eliminate the large deficit in captive parts by compelling each automaker to meet higher thresholds. Canada's advantages in the auto parts sector were outlined in a briefing note for Premier Davis: "With a depreciated dollar, competitive wage rates, relatively secure energy supplies and access to light weight aluminums and plastic raw materials, Canada provides a competitive environment for auto parts production."[266] However, because the goals of the province could not be supported through the issue of penalties for non-compliance, they were generally ignored.

From the mid 1970s to the early 1980s, Canadian policy makers – and those influencing them – became convinced that a key plank in their strategy to increase sales by Canadian parts makers was to sell abroad. According to former parts association president Pat Lavelle: "We had spent the time from 1975 through all that period in the late '70s really traipsing all over the world as domestic parts makers trying to encourage foreign vehicle producers to actually buy Canadian parts. We were not so much interested in encouraging them to invest in Canada."[267] The federal

[263] Archives of Ontario, RG 9-88, Accession 17886, Box 2, File: Ontario and the Auto Pact, 31 May 1977, p 2.

[264] Recall, Chapter Five of this thesis explains the dangers associated with focusing on a narrow band of trade data related to parts as indicative of the strength and success of the industry overall. In Chapter Three it was explained that a deficit in parts trade could denote strength in final assembly.

[265] Archives of Ontario, RG 9-95, Accession 21520, Box 14, File: Ontario's Industrial Policy, 1980, p 21.

[266] Archives of Ontario, RG 6-121, TB 8, Box 2, File: Treasury Briefing Notes for Premier's Meeting with CEOs of Automotive Parts Manufacturing Meeting August 13 1980, August 1980, p 3.

[267] Lavelle, P. (2004). Interview with the author on 1 October, Six Mile Lake, ON.

government shared their vision. For example, in October 1980, federal Industry, Trade and Commerce Minister Gray wrote to his Ontario counterpart Larry Grossman, pledging "to pursue vigorously our interest in greater sourcing by Japanese companies of Canadian auto parts for their world production and in mutually beneficial investment in Canada by Japanese auto firms with the aim of achieving substantial Canadian content in Japanese cars sold in North America."[268] In March 1981, Minister Gray assured a constituent that, while meeting the Japanese Minister of International Trade and Industry (MITI) Rosuke Tanaka, he had "referred to the Canadian Government's goals of achieving more Canadian auto part sales to Japanese companies."[269]

Meanwhile, even though officials agreed that overseas sales should be encouraged, they also recognized that the base for the industry's continued success would be local sales. In the five-year period 1976-80, for example, when the US imported an average of $3.2 billion in shipments in motor vehicle parts and accessories from Canadian factories, just $309 million were shipped overseas (Canada, 1987). It was understood that a single-minded pursuit of overseas sales would be folly:

> Any substantial recovery for the parts industry without a major resumption of shipments to the North American facilities of the US automakers would require extremely large increases in Canadian penetration of the non-traditional markets (i.e., offshore facilities of US and non US based automakers and foreign owned facilities in the US) ... The recovery of Canadian parts manufacturing will require the industry to protect, if not increase, its share of sourcing to the North American operations of the US automakers.[270]

In hindsight, the parts makers' and the federal government's notion that the industry might sell Canadian made parts in Japan may appear somewhat naïve. Lean production principles involving such concepts as just in time delivery and reduced

[268] Archives of Ontario, RG 9-2, Accession 22205, Box 1, File: Automotive Industry – General; Letter from Herb Gray to Larry Grossman, 23 October 1980, p 4.

[269] National Archives of Canada, RG 20, Accession 93-94/195, Box 268, File 4958-1, PT 29: Letter to Mr. Martin Goldberg, 16 March 1981, p 1.

[270] Archives of Ontario, RG 9-95, Accession 21520, Box 3, File: Background Paper on the Motor Vehicle Parts and Accessories Industry in Ontario, November 1980, p 53.

lead times are incompatible with the goal espoused by Gray and others. However, the era in which such strategies were being promoted predates the general understanding and proliferation of lean production principles. Instead, policy makers interpreted the combination of creeping Japanese imports and studies of the productivity and cost advantages inherent in the Japanese environment by writers such as Abernathy et al (1981), Perry (1982) and later by Fuss and Waverman (1985), as a signal to develop relationships beyond US owned operations to include Japanese assemblers.

To the governments' credit, the partsmaker-focused policy direction of the late 1970s and early 1980s was accompanied by tangible demonstrations of support for the industry. By mid 1980, an Employment Development Fund had been established, which had provided grants to 14 auto parts firms. A further 18 loans and loan guarantees had been extended to parts companies by the province's Ontario Development Corporation (ODC).[271] Further, an Automotive Parts Technology Centre (APTC) had been announced to "assist and support the on-going technological and competitive development of the auto parts industry" through the provision of information on new trends and processes, training programs and testing services.[272] Michael Dube was working with the Ontario Research Foundation during this period and helped develop the business case and structure for the APTC. He recalls the impetus for the initiative:

> Because of the increase in energy prices and changes to the vehicle package, there had been a lot of people forecasting that cars were going to get downsized and they were going to go from rear drive to front wheel drive. The changes were going to require a lot of work done on the parts that were used to make a car ... new technologies were going to come into the auto industry and there were questions whether the Canadian parts industry had the technical expertise they needed.[273]

[271] Archives of Ontario, RG 9-2, Accession 22205, Box 1, File: Automotive Industry – General #3, Memo to E.E. Stewart, Secretary of the Cabinet from D.M. Allan, Assistant Deputy Minister, Ministry of Industry and Tourism, Re. Cabinet Meeting with United Auto Workers, 31 July 1980, p 3.

[272] Archives of Ontario, RG 9-88, Accession 18468, File: Briefing Notes, Deputy Minister's Meeting with Deputy Minister of Department of Industry, Trade and Commerce, 5 August 1981, p 1.

[273] Dube, M. (2004). Interview with the author on 26 August, Toronto.

The government clearly saw significant opportunities for growth within the parts sector, but it also recognized that considerable threats also existed. These threats were seen as coming from outside North America. Prior to a meeting with the Motor Vehicle Manufacturers Association in July 1981, Ontario Industry Minister Grossman was advised:

> To become price competitive within the next three years, the US automobile manufacturers intend to significantly increase their offshore sourcing. This strategy does not provide for a complete solution to the problems of the automotive industry. In fact, the parts sector contributes greater value to the Canadian economy than does the assembly sector.[274]

A provincial government briefing paper on the motor vehicle and parts industry in Ontario identified two main threats. First, low cost countries like Mexico and Brazil were identified alongside low wage areas of the US as being able to undercut Canadian firms. Second, the paper's author observed that: "Japanese parts makers have shared in the growth of Japan's auto industry, and have gained increasing independence from their principle customers. The Japanese independents are now looking to diversify to the North American market, both through additional exports from Japan, and direct investments in the US and elsewhere."[275]

The report noted that there were 33 Japanese parts subsidiaries operating in the US in 1980.[276] Meanwhile, Canada had received virtually no investment from Japanese parts makers. At the time, only NTN Bearings had invested in Canada (Japan Automobile Manufacturers Association of Canada, 2005, p 60). But eventually, while continuing to be seen as a threat, Canadian policy makers also started to view Japanese parts makers as potential investors. By 1983, Ontario government officials had become more sanguine about the potential of parts investment by offshore manufacturers. An Ontario government discussion paper on the automotive industry

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274 Archives of Ontario, RG 9-95, Accession 21520, Box 4, File: Auto Industry – Reports, Speeches, Background Material etc.; Minister's Briefing Notes for Meeting with Motor Vehicle Manufacturers' Association, 16 July 1981, p 3.

275 Archives of Ontario, RG 9-95, Accession 21520, Box 3, File: Background Paper on the Motor Vehicle Parts and Accessories Industry in Ontario, November 1980, p 43.

276 Ibid, p 44.

reflected the new opinion: "If foreign manufacturers, the Japanese in particular, are to be encouraged to establish facilities in Canada the logical choice is parts and components plants."[277] Shortly thereafter, Toyota announced its intention to build an aluminium wheel plant in British Columbia. An Ontario government report remarked that there would be "great interest to see if it is successful and whether other similar investment will follow."[278] However, despite the optimism, Canadian efforts to lure global parts investment proved unproductive. By 1985, only one more Japanese affiliated parts company had established operations in Canada, Waterville TG in Coaticook, Quebec in 1985.

In summary, in the early 1980s export sales by Canadian parts makers did not materialize nor did investments in Canada by offshore-based parts makers. Few non-North American investors were prepared to venture into Canada ahead of their traditional customers. By 2005, however, there were 50 joint venture and wholly owned Japanese parts, materials, tooling and sub-assembly operations providing more than 15,000 direct jobs in the country (Japan Automobile Manufacturers Association of Canada, 2005, p 60). What is critical to note at this stage is that the main predictor of parts investment is the rate of assembly investment. Japanese parts makers would not invest in Canada ahead of their traditional customers: Japanese based final assemblers.[279] It is the policy transition from attracting investment in parts to attracting investment in final assembly that we now turn.

[277] Archives of Ontario, RG 69-23, Accession 22735, Box 9, File: Ministry of Industry, Trade and Technology – Automotive Industry; Memorandum to Members of Management Committee from David Girvin on Executive Summary of Automotive Industry Report, 4 March 1983, p 26.

[278] Archives of Ontario, RG 69-23, Accession 22735, Box 9, File: Ministry of Industry, Trade and Technology – Automotive Industry; Memorandum to Members of Management Committee from David Girvin on Executive Summary of Automotive Industry Report, 4 March 1983, p 26.

[279] Today, two decades later, the same relationship persists. In 2004, for example, industry leaders noted that a strength of Canada as an automotive assembly investment location is that "a dependable, accessible supply base has evolved to support Canadian operations" (Canadian Automotive Partnership Council, 2004, p 8). However, the same group also recognized that automakers had increasingly demonstrated a willingness to build assembly plants in locations without a strong supplier base and that they were prepared to first announce investments in outlying locales and then proceed to build the supplier base (Canadian Automotive Partnership Council, 2004, p 10).

8.1.ii. Changing Prospects for Final Assembly Investment

During the late 1970s and early 1980s, the likelihood of Canada receiving final assembly investment from offshore manufacturers was considered remote. An Ontario Ministry of Industry and Tourism briefing note from 1980 predicted: "Ontario is unlikely to be the location of new assembly activity by either North American or offshore producers."[280] The prevailing view was that the Canadian market was simply too small and strategically inconsequential to attract a major foreign carmaker. Any investment in Canada would be contingent upon access to the US market and such access could be withdrawn if the US decided to play hardball and abrogate the Auto Pact.[281] Former parts association head Pat Lavelle summarizes Canadian thinking on the matter: "I don't think, at that time, that we ever countenanced the fact that the Japanese would actually assemble cars in Canada. I mean our goals were much smaller than that. We were interested in content in the basic cars that were coming into Canada."[282] According to a briefing note of May 1980 prepared by the Ontario Ministry of Industry and Tourism: "Increased US sales by overseas producers have put considerable pressure on these producers to locate in the US ... It would be good if we got in on the sourcing as an assembly plant is pretty well ruled out."[283] It was understood that if and when the offshore manufacturers entered the North American production environment, Canada was an improbable point of entry. Ontario official Mike Dube recalls the prevailing theory:

> We recognized ... no car company was going to put their first plant in Canada. There's no senator on your side up here. There's no congressman. There's no president who can point to it. You can't say I'm back in the USA. Whether the car comes from Canada or Japan, it doesn't make much difference from the Washington Beltway point of view. So we always knew

[280] Archives of Ontario, RG 6-121, Box 2, File: Issues Briefing Notes; The Auto Industry Overview, 28 October 1980, p 2.

[281] Archives of Ontario, RG 9-95, Accession 21520, Box 3, File: Background Paper on the Motor Vehicle Parts and Accessories Industry in Ontario, November 1980, p 50.

[282] Lavelle, P. (2004). Interview with the author on 1 October, Six Mile Lake, ON.

[283] Archives of Ontario, RG 9-95, Accession 21520, Box 3, File: Auto Industry: Structural Policy Recommendations, May 1980, p 1.

> that we just had to sit there on the sidelines through round one of the investments in the very early '80s.[284]

Until 1980, US interests were similar. During a meeting in mid 1980 between Herb Gray and his US counterpart, Reuben Askew, Askew was reported to have expressed doubt that the Japanese would ever invest heavily in the US and mused that some body of opinion existed in Congress that was opposed to Japanese investment regardless of any action they may have taken.[285]

Even as late as 1983, Canadians from all quarters of the industry continued to accept the wisdom that Japanese OEM investment would not come to Canada. Robert White, who led the Canadian arm of the United Autoworkers (UAW) lamented: "We do not have the same political persuasion with Japan as the United States does and all you have to do is look. Nissan, Honda, Toyota and literally dozens of parts plants are already in the United States" (White, 1983, p 55). In government circles, even as the Japanese investments in the US were being announced, Canadian policy makers, rather than viewing them as harbingers of fresh opportunities, adopted a pessimistic outlook. Following a trip to Washington, for example, Ontario Intergovernmental Affairs official David Trick reflected that the Japanese were getting the message that they should restrain exports and invest in North America. "If they do," he reflected, "they are less likely to invest in Canada."[286] The parts makers association was equally doubtful, its president, Pat Lavelle, declared: "It is unlikely that additional assembly capacity will be added in the foreseeable future. We will have difficulty holding on to what we have."[287]

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[284] Dube, M. (2004). Interview with the author on 26 August, Toronto.

[285] National Archives, RG20, Accession 93-94/195, Box 268, File 4958-6, PT 9: Telex from Washington Embassy to Department of Industry, Trade and Commerce. June 1980, p 1.

[286] Archives of Ontario, RG 9-88, Accession 18468, Box 3, File: Roger Hill; Not to File from David Trick Re Washington Trip, February 27 – March 2, 11 March 1983, p 2.

[287] Archives of Ontario, RG 9-95, Accession 21520, Box 3, File: Auto File #2; Notes for Remarks by Patrick J. Lavelle to the Annual Meeting of the Automotive Parts Manufacturers' Association of Canada, 28 April 1983, p 2.

Lost in the skepticism surrounding a potential assembly plant in Canada, and until now never recorded, were the tentative inquiries made by Honda as early as May 1979. The manager of product compliance for Honda Canada had written to the Motor Vehicles Division of the Department of Industry, requesting copies of the Auto Pact: "One copy will be forwarded to our parent company, the Honda Motor Co. Ltd. Japan, and the other retained for our reference. The agreement is required as resource material for the study of automobile manufacturing in North America."[288]

Incredibly, no other reference is made to Honda, which was then the biggest selling Japanese brand in Canada at the time.[289] Instead, policy makers were fixed primarily on building the parts side of the business. Any optimism around assembly investment in the late 1970s or the first few years of the 1980s was restricted to what most observers would consider less sought-after investors. It has not previously been recorded, but on numerous occasions, Canadian policy makers mused about the potential of Soviet builder, Lada, investing in a kit assembly operation in Canada. At one point policy makers even considered the threat of import quotas as a tool to force a decision.[290] A Lada operation in Canada, it was felt, was a possibility because the product was excluded from the US.[291] Also unrecorded until now is that in 1977 and 1978, Fiat and the Government of Canada were in discussions about building a similar operation in Nova Scotia with 90 per cent of production destined for export to the US.[292] It was envisaged that these plants would be similar in size and scope to the

[288] National Archives of Canada, RG 20, Accession 93-94/195, Box 268, File 4958-6, PT 8, Letter from R. Davidson, Manager – Product Compliance, Honda Canada to T.E. Brown, Motor Vehicles Division, Industry Canada, 28 May 1979, p 1.

[289] Long-serving Industry Canada automotive director Erech Morrison, did not recognize the name T.E. Brown (the person to whom the May 1979 Honda enquiry was directed), declaring that Mr. or Mrs. Brown was certainly not a senior person or manager within the division in 1979. Instead, Mr. Morrison speculates that he or she was a summer student; otherwise, division personnel would have paid greater heed to the enquiry from Honda's R. Davidson (Morrison, E. 2005. Interview with the author, 31 October, Cambridge, ON).

[290] Archives of Ontario, RG 9-88, Accession 22211, Box 4D, File: Minister's Briefing Book; Dumping - Lada, 24 September 1980, pp 1, 2.

[291] Archives of Ontario, RG 9-95, Accession 21520, Box 3, File: Background Paper on the Motor Vehicle Parts and Accessories Industry in Ontario, November 1980, p 51.

[292] National Archives of Canada, RG 20, Accession 93-94/195, Volume 160, File 4958-1, PT 17: Memorandum to File from A.W. Walters Re Possible Assembly of Fiat Motor Cars, 11 October 1977,

operation Volvo had built in Nova Scotia in 1963 (and which remained in operation until 1998), the one Renault had set up in Quebec in 1965 (closed in 1974), and the one that Canadian Motor Industries (Toyota) had established in Nova Scotia in 1967 (which was closed in 1975 due to a combination of labour troubles, low profitability and the fact that Canadians were reluctant to buy a made-in-Canada Japanese vehicle) (Pringsheim, 1983, p 18).

During the late 1970s and on into the early 1980s, a variety of motivations and messages were in play. Investment in the assembly industry had stalled and prospects for winning additional investments were viewed as poor. Meanwhile, even though the parts industry was experiencing its own troubles, many considered it a better bet as an attractor of significant FDI. Moreover, as earlier chapters have documented, North American automakers in the late 1970s and early 1980s were under significant threat from Japanese manufacturers. The severity of this challenge caused several North American industry participants to call for – and policy makers to accept – programs designed to provide 'breathing space' while North American manufacturers regrouped. This demand drew attention away from industry players' own competitive shortcomings. It also helped plant the seeds to expand the focus of attention in the automotive investment attraction field from the parts segment to final assembly. That transition becomes the focus of the next section of this chapter.

8.2 The Evolution of Canadian Automotive Policy

The breathing space that North American-owned assemblers sought was provided in the form of voluntary restraints on Japanese exports of completed vehicles. However, this thesis proposes that a pure protectionist play would have been too transparent. Instead, the calls for the establishment of such restraints and subsequently for their maintenance were accompanied by expressions of commitment to the North American economy by domestic companies and the suggestion that foreign

p 1. Also, National Archives of Canada, RG 20, Accession 93-94/195, Volume 160, File 4958-1, PT 17: Telex from D.W.C. McEwen of Department of Department of Industry, Trade and Commerce to Milan, 25 January 1978, p 3.

companies should demonstrate similar loyalty. The most frequently cited provocation came in the form of the expression that 'if you sell here, you must build here.' It was a message promoted by the North American assemblers as well as the labour unions. As will be seen in the section that follows, it was a message that was entirely consistent with the messages that Ed Lumley, the influential Canadian politician and cabinet minister, had also started to send.

8.2.i. The Build Here-Sell Here Anthem

In support of the push for some form of managed trade solution, starting in 1980 key industry actors began to put out the message that any auto manufacturer selling vehicles in Canada should be expected to make investments commensurate with its sales. The focus was Japan. The President of GM Canada, for example, reminded an audience (Smith, 1980, p 158):

> Now that Japan has achieved the rank of an industrialized nation, one of the world's most advanced and powerful, it no longer can conduct itself as if it were still a developing nation. It must be more sensitive to the needs of others in world trade. It must contribute more to meeting those needs.

Ford, likewise, started to make similar noises. During a speech in Canada by Henry Ford II (Ford, 1981), he reminded his audience that his company had "called on the Japanese to assume a stake in the North American market by producing some of their vehicles in the United States." Subsequently, Ford's Canadian unit promoted the same message. For example, in his company's 1981 Annual Report (Ford of Canada, 1982, p 2) Ford Canada President and CEO, Ken Harrigan suggested: "The obvious solution to the situation is to encourage the Japanese to invest in production in Canada." On another occasion he explained: "The philosophy of investing in plants and jobs where we sell our products is an historic one with Ford – worldwide. And it is the same philosophy that we believe should be applied to the Japanese manufacturers who are currently enjoying windfall sales in Canada."[293] Similarly, the UAW's Robert White railed:

[293] Archives of Ontario, RG 9-2, Accession 22206, Box 2DM, File: Ford Motors; Remarks by Kenneth W. Harrigan, President and Chief Executive Officer, Ford Motor Company of Canada, Limited at the Annual Meeting of Shareholders, 28 April 1982, p 8.

> The government sits on the sidelines and watches these multinational corporations, who really do not care where they make their money, make more and more investment decisions outside of the country. We have to put a policy in place that says, we don't care what you're called; if you're going to sell in this market, you have to make a commitment here.[294]

For North American owned automakers, this build here-sell here theme was considered to be a safe form of defensive manoeuvring. Further, earlier sections of this chapter have demonstrated that North American automotive executives did not believe such investment was likely. Additionally, former Chrysler Canada executive Mike Walker describes a second consideration:

> Even if they did invest, they were going to incur the same labour costs, they were going to incur all the rules and regulations with regards to doing business within this country and the same level of taxation and so on and so forth. They could fail and struggle on the same basis as everyone else.[295]

Harringan's message in Ford Canada's 1982 annual report (Ford of Canada, 1983, p 2) lays claim to Walker's more blunt reflection:

> Favourable exchange rate differentials and lower labour costs provide those importers with a competitive advantage over domestic producers and this situation requires appropriate government responses. The obvious solution is to invite importers who sell a large number of vehicles in Canada, to establish production and supply facilities here, which would result in Canadian investment and employment, as well as allow competition on an equitable basis.

During what was called a special emergency meeting of the Canadian automotive industry in February of 1982, Ontario Industry and Tourism Minister Larry Grossman pronounced: "Together, Canada and the United States must make it clear to the Japanese that they cannot continue to expect to sell cars and trucks – and service the aftermarket – without becoming involved through investments or parts purchasing in North America."[296] Indeed, the 1982 pronouncement was preceded by

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[294] Ohlendorf, P. (1985). Driving into a second century. *Maclean's*. 3 June, p 28.

[295] Walker, M. (2004). Interview with the author on 28 December, Windsor, ON.

[296] Archives of Ontario, RG 9-95, Accession 21520, Box 4, File: Auto Industry – Reports, Speeches, Background Material Etc.; The Honourable Larry Grossman, Ontario Minister of Industry and

other tangible supports for a North American-centric approach. In July of 1980, Ontario Premier Davis had written to Prime Minister Trudeau advocating:

> An aggressive public campaign to encourage Canadians to buy automobiles with a high North American value-added content. The United States should be encouraged to undertake a similar program. In this way we can perhaps not only get North American consumers to create jobs for their fellow citizens but also use the leverage of this demand to get more parts sourcing in Canada from offshore producers.[297]

Davis' letter set the tone for a public campaign in support of the Canadian automotive industry. A grant of $25,000 was made in August 1980 to a citizens' committee to launch a program called 'Buy a Car Your Neighbours Helped to Build.'[298] By the end of that year, the whole notion of a domestically supported and inspired economic recovery had taken hold and permeated Ontario's industrial development initiatives. According to Roger Hill, then director of program planning and analysis for the Ministry of Industry and Tourism: "To be competitive within our own market, our firms are now more than ever in need of a firm domestic market base which will generate the economies of scale necessary to meet foreign competition."[299] By December 1980 the government of Ontario was claiming to have shifted government procurement to favour Canadian owned firms, replacing imported goods with domestic products and promoting Canadian sourcing through the federally-led 'Shop Canadian' program.[300]

Tourism to the Special Emergency Meeting of the Canadian Automotive Industry Sponsored by the Automotive Parts Manufacturers' Association of Canada, 9 February 1982, p 19.

[297] Archives of Ontario, RG 9-2, Accession 22205, Box 1, File: Automotive Industry – General #3; Letter from Premier William Davis to Prime Minister Trudeau, 30 July 1980, p 5.

[298] Archives of Ontario, RG 9-2, Accession 22205, Box 1, File: Automotive Industry – General #3; Memorandum from David Prentice to Duncan Allan, Assistant Deputy Minister Re. Windsor Automotive Promotion, 6 August 1980, p 1.

[299] Archives of Ontario, RG 9-95, Accession 21520, Box 22, File: Policy and Priorities Secretariat Policy Files, Japan Canada Trade Investment; Remarks by Roger Hill, Director, Program planning and Analysis Branch to the T.A.B.E. Symposium on Ontario Manufacturing in Crisis? 1 December 1980, p 8.

[300] Ibid, pp 10, 11.

The protectionist groundswell in Canada and the US also had its counterparts in Europe. There, automotive policy makers had had a long history of taking measures to limit the proliferation of foreign competition. These included domestic content provisions, high tariff rates and physical limits on Japanese imports.[301] To bypass such measures, Hogg (1982) recommended that only European production by the Japanese could assuage local concerns. Indeed, Reingold (1999) confirms that Toyota recognized that the range of protectionist-oriented tools that existed were signalling that local production was the only sure way of gaining large-scale acceptance. Shimokawa (1994) insists, however, that just as important as the need to reduce trade frictions, Japanese investment in Europe was necessary and inevitable to combat the rising value of the yen. However, when companies like Nissan, Toyota and Honda pursued such plans, confusion and subterfuge over domestic content requirements generated doubts and delays (Gabel and Hall, 1985; Monica, 1991; Roberti, 1989[302]).

In Canada, throughout the early part of the 1980s, policy makers, labour and industry uniformly supported the build here, sell here message. Eventually, however, even though the messages from all actors remained aligned, motivations started to diverge. Private sector actors continued to press for inward FDI, even though they believed none would be forthcoming. As well, many clung to a parts-oriented focus that was clearly flawed. Meanwhile, a shift was starting to occur and a cadre of Canadian policy makers started to court inward FDI in the belief that a positive result might be possible. Identifying and seizing the emerging opportunity became the priority for a catalyzing public sector champion.

[301] Spain's Most Favoured Nation (MFN) passenger car tariff rate stood at 50 per cent while Portugal imposed tariff rates of between 60 and 120 per cent depending on vehicle engine size. Specific measures had also been taken in most European markets to thwart Japanese imports. In Italy, for example, imports of Japanese vehicles had been held to a level of 2,200 since 1955 when Japan became a signatory to the GATT (Lavelle and White, 1983, p 182). In the UK, France and West Germany, a range of VER-type arrangements held Japanese imports to pre-assigned levels ranging between three and 11 per cent of sales (Monica, 1991, p 621).

[302] Roberti, M. (1989). The high-gear drive towards globalisation. *Asian Finance*. 15 January, p 34.

8.2.ii. Protectionist Rhetoric or Negative Reinforcement? The Role of Ed Lumley

> Did I have an anti-Japan bias? Nothing could have been further from the truth. I remember explaining 'we're a trading nation. We're not protectionists. I am being forced to use protectionist tools to help open up the doors. Mr. Trudeau challenged me saying the tactics I was using – things like blocking the port – were the most protectionist things we've ever done. All I wanted was to get investment in Canada. ... So, I'm not anti-anything, I'm pro-Canada. That's what I am: pro-Canada.[303]
>
> Ed Lumley

As already demonstrated, by the early 1980s the existing Canadian vehicle makers had adopted a position that can be characterized as one of goading overseas producers. It was a position epitomized by the phrase, 'if you sell here, you must build here.' It has been established that while some participants actually believed in the concept, few strategists actually considered such investment as likely. Further, even those who did consider such investments as a possible outcome, there was an assumption that the new entrants would operate under, and conceivably suffer from, the same conditions as had bedevilled the traditional actors. When the federal government adopted a similarly provocative stance, the traditional players were largely supportive. It is proposed here that these circumstances allowed the government to take an uncharacteristically extreme position. In contrast to the traditional entrants, however, the federal government was actually desirous of offshore investment and was becoming committed to its realization.

The tone and tenor of the federal government messages became more insistent in 1980 when Ed Lumley assumed the position of Minister of State for International Trade. He would become a central figure in Canadian automotive policy circles until his government was defeated in the election of September 1984.[304] Former Canadian ambassador to Japan Barry Steers recalls Minister Lumley's contributions: "He not only had a deep interest in Canada's trade, but its continued innovation and

[303] Lumley, E. (2005). Interview with the author on 8 February, Toronto.

[304] Lumley served as Minister of State for Trade from March 1980 to December 1982, at which time he was appointed Minister of Regional and Industrial Expansion. He remained in that position until the defeat of the Liberal government in September 1984.

industrialization" (Japan Automobile Manufacturers Association of Canada, 2005, p 24). Paul Lau says, "Mr. Lumley was the hero for everyone: for the industry, for the bureaucrats and across all the provinces."[305] Further, when asked to consider if there was a single overriding factor for Canada achieving a disproportionate share of the North American investment by offshore companies during the 1980s, former Tokyo embassy official Larry Duffield's answer is very short: "Lumley."[306]

Ed Lumley was appointed Canada's Minister of State for International Trade shortly after the Liberals were returned to power in 1980. He learned very quickly that insofar as offshore automotive investment was concerned, Canada was not a priority. For example, at a G7 Trade Ministers' meeting in 1981, he found himself at dinner seated beside Toyota Motor Corporation official, Dr. Shoichiro Toyoda. "We were talking about Japanese investment in Canada and I realized very quickly that we weren't even on the radar screen for any type of investment."[307] Indeed, at no time during the 1970s did FDI from Japan into Canada even reach one per cent of total FDI into Canada (Wright, 1984, p 20). Even then, the majority was in resource industries and services (Wright, 1984, p 24). The auto industry, therefore, was not a priority. After taking up his new role in government, Minister Lumley started travelling extensively, spending two weeks of each month out of the country promoting Canadian trade. Frustrated with the then low levels of Japanese investment in Canada, he resolved to make that country a priority. Bruce Rankin, who was an old acquaintance of the Minister and Canada's ambassador to Japan, warned the Minister that his concentration could not be fleeting. Lumley recalls Ambassador Rankin warning him:

> Minister we'll give you the red carpet treatment and you'll meet everybody at dinners, but if you really want to do business in Japan, you have got to come here on a regular basis ... He said, you will have to come here ten times before you do your first deal ... Until they recognize you in the airport, until

[305] Lau, P. (2004). Interview with the author on 22 October, Cambridge, ON.

[306] Duffield, L. (2004). Interview with the author on 8 December, Windsor, ON.

[307] Lumley, E. (2005). Interview with the author on 8 February, Toronto.

> they can recognize your face, you are just a number that comes in from country X.[308]

This advice stayed with him throughout the period he was Trade Minister and then Minister of Regional and Industrial Expansion, the position he was appointed to in December 1982. During his tenure Minister Lumley made the trip to Japan never less than once per quarter.

Lumley did not approach the role with subtlety and deference. Rather, his approach to the Japanese was consistent and blunt. For example, he remembers his remarks at a dinner speech in Tokyo and the impact his words had:

> I know I'm supposed to be diplomatic, but I have got to tell you how important the automobile industry is to Canada. ... I want you there. The Americans are producing cars in Canada. They're foreign companies but they manufacture in Canada. They create jobs in Canada. So, if you don't want to invest in our country, you aren't going to be allowed to sell in our country.' In fact, I made the stupid mistake of saying, 'look, you won't have to fly on a plane from Tokyo to Vancouver. You can walk across the ships all stacked up in the Pacific.' They left. They walked out ... the whole group.[309]

In a similar vein, he recalled a speech to a group of businessmen in Japan:

> I reminded them that now that Japan was an economic powerhouse, they had to assume the responsibility that came with it. I reminded them that they weren't a developing country any more ... I basically told them that if they invested in Canada they would be welcomed ... that we would treat them the same as the Americans ... But I also told them they wouldn't be selling here, if they didn't invest. The Japanese officials were livid.[310]

Lumley's first substantive and assertive action came in 1982. The first year of VERs had expired in April and he had been trying for several months to extend them for a second year. Meanwhile, he was under considerable pressure from various quarters – Bob White of the UAW and Pat Lavelle of the parts makers association had been particularly vocal – to take the further step of legislating local content standards. The

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[308] Ibid.

[309] Ibid.

[310] Ibid.

North American assemblers were also advocating for defined content levels, as were the large Canadian steel companies: Dofasco, Algoma and Stelco. Adversaries in the House of Commons had also been applying pressure. By this time, Minister Lumley had made numerous trips to Japan and had made dozens of overtures to potential investors, but had achieved little tangible success. He was reluctant to identify a specific local content level[311] or to impose a surcharge on Japanese cars and trucks,[312] but he knew he was obliged to issue a stark warning to the Japanese.

In May 1982, Minister Lumley reacted by instructing Canadian Customs to conduct a vehicle-by-vehicle inspection of all Japanese vehicles entering Canada by way of the Vancouver ports system. It was a dramatic gesture and it gained national and international exposure.[313] John Tennant, who earlier had been stationed at the Canadian Embassy in Tokyo, describes Lumley's measure as:

> A very calculated move ... to actually throw down a very evident marker to say Canada needs to be treated relatively equivalently to the US. We need your attention in terms of investment in Canada. This kind of going along and trailing the Americans, getting by with as little as you can ... in terms of formal arrangements ... at a certain point slid away and Ed Lumley really felt he had to lay down a marker.[314]

Lumley recalls that his idea generated much discussion:

> I won't tell you what happened in Cabinet, but it wasn't easy ... Trudeau reminded me everybody was against me, which they were... They said I was destroying Canada-Japan relations; I was destroying the pulp and paper

[311] The parts makers often cited the 85 per cent domestic content level that Volkswagen had negotiated as part of its duty remission deal with the Government of Canada as a justifiable, tangible target.

[312] This was the suggestion by NDP trade critic, Derek Blackburn.

[313] At interviews, Messrs. Lavelle and Lumley expressed different views on where the motivation for the port action came from. Pat Lavelle claims he suggested the idea to Lumley after reading about France delaying port inspections for Japanese electronics (Lavelle, P. 2004. Interview with the author on 1 October, Six Mile Lake, ON). Meanwhile, Lumley insists that the idea came to him during a trip to Japan when he heard that a shipment of European-built vehicles had been stalled in a Japanese port for several months because the vehicles did not meet certain Japanese criteria (Lumley, E. 2005. Interview with the author on 8 February, Toronto).

[314] Tennant, J. (2004). Interview with the author on 17 September, Waterloo, ON.

> industry and forestry industry. I said 'sir I'm doing this strictly for what I believe is the good of the country.' He said, 'you know you are going to get hammered.' Meanwhile, my own deputy was against me. My own deputy was sending notes to the Clerk of the Privy Council and Secretary to Cabinet, Michael Pitfield,[315] to tell him how I was hurting Canada.[316]

Mr. Lumley also explains that he was made aware that former federal Finance Minister and future Prime Minister John Turner, then in private legal practice, was advising MITI that Lumley did not have the support of Cabinet and that he would be fired.[317] Turner would be proven wrong. Ultimately, Prime Minister Trudeau backed his Minister.

Once implemented, the port action had an immediate impact. Pringsheim (1983, p 9) notes that by inspecting 10 per cent of every shipment only about 10,000 cars were being landed per month instead of 20,000, and that by the end of June 1982, 13,000 vehicles sat in the bonded area. By July, sales of Japanese cars had dropped by 16.3 per cent.

During a speech to the Toronto Chamber of Commerce at the height of the action, Lumley revealed his motivation:

> As a result of the prolonged recession the government has been under extreme pressure ... to protect industries which find themselves vulnerable to the triple onslaught of economic decline, high interest rates and extreme competition from imports ... In a period of prolonged recession it is imperative that major trading countries demonstrate the sensitivity and will necessary to produce mutually satisfactory solutions. If we do not work together to alleviate these pressures the consequences could be disastrous.[318]

By August, following further meetings with Japanese MITI Minister Shintaro Abe, an agreement was reached to restrict exports to 63,000 units in the second half of

[315] The Clerk of the Privy Council and Secretary to Cabinet is Canada's highest-ranking civil servant.

[316] Lumley, E. (2005). Interview with the author on 8 February, Toronto.

[317] Ibid.

[318] Archives of Ontario, RG 9-88, Accession 18468, Box 3, File: GATT – General; Notes for a Luncheon Address by the Honourable Edward Lumley, Minister of State (International Trade) to the Chamber of Commerce, Toronto, 22 June 1982, p 2.

1982, which, along with the 90,000 vehicles shipped in the first half, would drop sales of Japanese-made vehicles in Canada to 153,000 from 204,000 the year before.[319]

Lumley's seriousness of purpose and willingness to act caused the Japanese automotive companies to pay attention. Even though many of his officials were opposed to the strident position he had adopted, he recalls the head of Nippon Steel approaching him and supporting his methods: "The Japanese should all hear about our new role in the world. You didn't do what everybody does: be nice here and then go back home and dump all over Japan. You said it right here where it should be said."[320]

Minister Lumley's direct, indeed threatening, messages were supported by a number of additional measures that, while not universally appreciated either at home or in Japan, certainly caused potential investors to take notice of Canada. One of these came only months after the Vancouver port blockage and the Japanese' subsequent acquiescence on exports. In December 1982, Minister Lumley appointed a task force to study and make recommendations regarding the Canadian vehicle and parts industry: "I was zeroing in on the auto industry because that was, in my estimation, the most important industry in Canada,"[321] he recalls. He had wanted the group to be co-chaired by a representative of one of the auto companies and one from labour. When he contacted the companies, Lumley recalls they all agreed to participate, but no one would agree to serve as co-chair. That is how Pat Lavelle from the parts makers' association defaulted to the role.[322] Next, when he contacted Canadian UAW director Bob White to request his participation, White told Lumley he would not

[319] However, because overall sales were so depressed, Japanese market share was forecast to drop by just over one per cent to 21.7 percent from 22.9 per cent in 1981 (Stewart-Patterson, D. 1982. Japanese curbs on cars lauded. *Globe and Mail.* 12 August, p B1).

[320] Lumley, E. (2005). Interview with the author on 8 February, Toronto.

[321] Ibid.

[322] Ibid.

compromise himself by sitting down with management: "We don't do that", Lumley recalls White informing him. Lumley retorted:

> Well Mr. White, you have said you want to have a say in setting auto strategy for the country. I'm giving you that chance. You can co-chair this thing or not. But, I'm telling you, there will be no coming in the back door and criticizing later if you don't help out now.[323]

That is when Bob White agreed to participate.

In announcing the task force on 30 December 1982, Minister Lumley expressed optimism that its report would "make recommendations that will assist in identifying priorities and formulating strategies and policies to support industry initiatives that will contribute to a balanced and competitive automotive manufacturing capability in Canada."[324] The task force participants were in practice more calculating in their approach. It eventually became clear that they were less concerned about advancing the fortunes of 'automotive manufacturing capability of Canada' than they were about protecting their own interests. Dennis DesRosiers was director of research for the APMA at the time and he wrote the report's first draft: "The day I finished the report, I personally had to drive ... out to Oshawa to the airport. I didn't go to GM; I went to the airport in Oshawa and gave it to a guy on the GM jet and it was jetted down to Detroit for evaluation."[325] The meddling of the Americans also frustrated Pat Lavelle:

> The report was also an eye-opener for us Canadians because while we were operating on the basis that what we were doing was in the interests of the Canadian industry, every version of our report in draft form was sent to Detroit and marked up and sent back. White and I had difficulty accepting the fact that this was happening regularly.[326]

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[323] Ibid.

[324] Archives of Ontario, RG 9-95, Accession 21520, Box 3, File: Auto File #2, News Release: Task Force Named for Automotive and Automotive Parts Industry Strategy, 30 December 1982, p 1.

[325] DesRosiers, D. (2004). Interview with the author on 24 August, Richmond Hill, ON.

Note: Oshawa is home to the headquarters for General Motors of Canada.

[326] Lavelle, P. (2004). Interview with the author on 1 October, Six Mile Lake, ON.

That participants would seek to promote and protect their own interests is unsurprising. At the time of their appointment, White and Lavelle were well known for their uncompromising views on matters related to Japanese trade and investment. Lavelle's views had been shaped by years of negotiations with potential Japanese buyers:

> All these trips that we made there in which we talked to them, I think I came to the conclusion that the only way the Japanese would ultimately move to Canada was if there was some restriction and inability for them to access the market in a way that encouraged them to develop their industry in Canada.[327]

To that end, as early as 1981, Lavelle, as parts association president, had pushed the federal government to establish a Canadian content level of 100 per cent of a company's sales in Canada, up from the 60 per cent threshold contained in the Auto Pact.[328] By January 1982, though, his association was urging the government to negotiate more realistically for an 85 per cent Canadian content level with the Japanese, thus placing Japanese manufacturers on par with Volkswagen, which had agreed to this level in December 1981.[329] Lavelle's co-chair, Mr. White, held similar views prior to his task force appointment, also calling on government to replicate the Volkswagen 85 per cent content level for Japanese producers.[330] Chrysler and Ford, which were also represented on the task force, were also on record in 1982 – before their appointment as task force members – as supportive of the 85 per cent content level.[331] Only GM stopped short of insisting on content levels equal to 85 per cent of sales, calling instead for "regulations that are no less and no more stringent than those contained in the automotive products trade agreement."[332]

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[327] Ibid.

[328] Romain, K. (1981). Auto parts sector is "at crossroads." *Globe and Mail.* 1 May, p B1.

[329] Globe and Mail. (1982). Domestic content is urged for Japanese car imports. *Globe and Mail.* 16 January, p B5.

[330] McCaffrey, G. (1982). UAW wants foreign car makers' sales tied to production. *Globe and Mail.* 25 February, p B4.

[331] Stewart-Patterson, D. (1982). Limits sought on Japanese auto imports. *Globe and Mail,* 10 March, p B20.

[332] Ibid.

Today, it would be inconceivable to appoint a task force to study the automotive industry in Canada and not involve non-North American owned organizations. However, in December 1982, when the task force was put in place, there was just one Japanese owned parts maker in the country and no assembly operations. Yet, Japanese-owned manufacturers controlled a significant portion of the market. Lavelle acknowledged: "The focus was very much Japanese oriented. It wasn't racist, but it was verging on getting to that level. It was all very negative in a sense that something had to be done that was dramatic."[333] Lumley, however, explains his motivations differently: "I didn't want to know about the retail component here, and I wasn't interested in the aftermarket. I was only interested in assembly manufacturing and I wanted to find out what we should do."[334]

When the task force released its report in May 1983 (Lavelle and White, 1983), it dealt with the local content requirement in a manner less strident than most observers anticipated. They did not call for 85 per cent CVA as most participants had been on record as supporting. Instead, they recommended a phased implementation of an Auto Pact-like content requirement (60 per cent CVA) by 1987 for manufacturers selling in significant numbers, defined as greater than 28,000 vehicles annually. Three reasons may be offered for opting for the 60 per cent CVA level. First, the task force realized that government would not agree with a CVA of 85 per cent. Former Industry Minister Gray observes: "There was a substantial number of the Canadian population that were driving, or wanted to drive, Japanese cars."[335] Second, the task force members, the Big Three, would be at risk of violating the higher threshold. The *1983 Report on the Canadian Automotive Industry* (Canada, 1984, p 76), for example, reports CVA as a percentage of cost of sales in Canada was quite unstable and on only four occasions since 1966 had the industry actually reached 85 per cent

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[333] Lavelle, P. (2004). Interview with the author on 1 October, Six Mile Lake, ON.

[334] Lumley, E. (2005). Interview with the author on 8 February, Toronto.

[335] Gray, H. (2004). Interview with the author on 2 November, Ottawa,

CVA.[336] Finally members came to understand that the 60 per cent threshold would be enough to achieve the ultimate goal: keeping Japanese imported vehicles out of Canada. According to Lavelle, most task force participants "were only interested in doing exactly what they wanted to do with as few rules and regulations as possible. But, they wanted to keep the market secure for them."[337] DesRosiers agrees:

> It was to force the government to put content measures in place that would lock the Japanese out. It was Bob White's idea that we do this. They can't meet it so we can kick them out of the marketplace. It wasn't really worked through. It was kind of thrown out as a broad parameter. The reality of it behind the scenes was that it was a pure protectionist measure to stop the Japanese.[338]

The federal government refused to respond immediately to the report. Indeed, as described in Chapter Seven, on the day following its release, Prime Minister Trudeau affirmed that as a matter of principle, his government could not accept the standard that the creation of jobs in Canada should be traded in return for access to the market.[339] However, at a more fundamental level, the task force had achieved its goal: Minister Lumley had sent a strong message to Japan. First, by appointing two well-known protectionist-oriented co-chairs, Lumley had signalled to the Japanese government and to manufacturers that they could not take access to the Canadian market for granted. Indeed, the *Nihon Keizai Shinbum* speculated on 24 April 1983 – before the release of the report – that Canada's Liberal government, preparing for an election in 1984, was expected to introduce legislation by the fall of 1983 to require specific content levels. The inference was drawn that unless Japanese automakers

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[336] For example, during the previous five year period the following CVA levels were achieved for the Canadian industry as a whole:

1978	74
1979	64
1980	53
1981	62
1982	91

[337] Lavelle, P. (2004). Interview with the author on 1 October, Six Mile Lake, ON.

[338] DesRosiers, D. (2004). Interview with the author on 24 August, Richmond Hill, ON.

[339] Right Honourable Pierre Trudeau, 20 May 1983, House of Commons Debates, First Session – Thirty-second Parliament, p 25,621.

invested in Canada, they would need to withdraw from the market.[340] Following the release of the report in May 1983, even though the Prime Minister had been uncompromising in the House of Commons, Japanese observers remained on alert. Ontario's senior representative in Japan, Doug Jure, for example, reported to the Ministry of Industry and Trade that Japanese officials and manufacturers continued to operate under the assumption that action consistent with the report was imminent.[341]

Another negotiating tactic adopted by Lumley was to bypass the powerful Japanese Ministry of International Trade and Industry (MITI) and speak directly to vehicle manufacturers. According to Paul Lau, the idea came from the new Ambassador to Japan, Barry Steers. Steers suggested that Lumley engage the chairman of the Japan Automobile Manufacturers' Association, Takashi Ishihara, also the chairman of Nissan.[342] The Minister's decision to bypass MITI and talk directly to Ishihara resulted in what Paul Lau describes as the 'cottage dialogue.' Lumley invited Ishihara to his home in the Thousand Islands area of Ontario, an area on the St. Lawrence River straddling the Canada and US border. Lumley recalls: "We were going to go fishing in the St. Lawrence and I was trying to show him we don't have any borders. When we fish, we fish in US water."[343] Ambassador Steers reminded the Minster that he should treat Ishihara as the head of JAMA and boss of Nissan, and that he should avoid engaging in bi-lateral discussions. Lumley's response was: "I'll meet him businessman to businessman. I will guarantee him nobody will know he's here, a guarantee. That's my word as a businessman, not as a politician, because he probably doesn't trust politicians."[344] Meanwhile, Ishihara, as the chairman of

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[340] Nihon Keizai Shinbum. (1983). Japan-Canada auto export dispute may rekindle: a special government committee will propose a "local content" bill to the federal government. *Nihon Keizai Shinbum.* 24 April.

[341] Archives of Ontario, RG 9-95, Accession 21520, Box 3, File: Auto File #2; Memorandum to John Blanchard from Doug Jure Re Canada-Japan Automotive Issues, 26 May 1983, p 1.

[342] Lau, P. (2004). Interview with the author on 22 October, Cambridge, ON.

[343] Lumley, E. (2005). Interview with the author on 8 February, Toronto.

[344] Ibid.

JAMA, could not direct his members that they must invest in Canada. Paul Lau recalls: "He didn't speak for himself. His was always a consensus position and JAMA's consensus position was that they had to deal with the Americans. In Canada, the position seemed to be to do as little as possible, as long as the Canadians didn't yell."[345] The former executive director of the Japan Automobile Manufacturers Association, Shigehira Yoshioka, reflects: "To those of us in the automobile industry, not to mention leaders in other business fields as well, this was a rather startling development that was extremely unusual if not unprecedented" (Japan Automobile Manufacturers Association of Canada, 2005, p 31). Despite the unconventionalities, according to Lumley, Ishihara thought the approach was completely appropriate. Lumley had just finished protracted negotiations with MITI and had been consistently rebuffed. "You didn't come to us; you should have come to the companies" [346] Lumley recalls Ishihara telling him. Most literature, particularly that published prior to the downturn in the Japanese economy in the early 1990s, portrays MITI as omnipotent (Johnson, 1982; Nielsen, 1983; Johnson, 1985; Brown, 1991). However, the view of Larry Duffield, the program manager at the Canadian embassy in Tokyo, more closely parallels the less flattering view advanced by Brown (1993), Drucker (1994) and Miwa and Ramseyer (2003), insisting that the role and influence of MITI was and is entirely overstated:

> MITI didn't do anything that JAMA didn't ask them to do. That's for sure. JAMA and the auto industry were extremely powerful. I had no respect for MITI by itself ... Every year, one-third, or half the group gets up and moves. Trying to maintain any kind of continuity with MITI was impossible ... They relied on JAMA for the numbers and for the policy direction.[347]

Two things came from the cottage dialogue. First was a heightened expectation that Nissan would eventually invest in Canada. It was perhaps unfairly anticipated that the involvement of Ishihara would translate into investment in Canada by Nissan. In Chapter Ten, it will be shown that a number of proposals were discussed and several came close to fruition, but the negotiations never resulted in investment. Second, the

[345] Lau, P. (2004). Interview with the author on 22 October, Cambridge, ON.

[346] Lumley, E. (2005). Interview with the author on 8 February, Toronto.

[347] Duffield, L. (2004). Interview with the author on 8 December, Windsor, ON.

cottage dialogue led to the formation of the Pacific Automotive Cooperation (PAC). Shigehira Yoshioka explains that following his return to Japan, Ishihara brought together the leaders of the Japanese industry to discuss his meeting with Lumley and explain the urgent need to respond to the request for cooperation (Japan Automobile Manufacturers Association of Canada, 2005, p 30). PAC was established as a liaison body to promote automotive investment in Canada and to support joint ventures and other undertakings with Canadian parts producers. It was a unique organization consisting of the 11 JAMA members and 21 Japanese auto parts companies. It came into being in 1984 and initially was greeted with a degree of skepticism. Lumley recalls being concerned that it was more gesture than substance: "This is the vehicle you want to use? I'm going to be honest with you. If this is just another con job, another stalling tactic, it's not going to work."[348] Yet while he may not have been convinced that PAC would lead to significant investment, Lumley had no choice but to rally behind it. He recalls a tense discussion with Autoparts president Lavelle who he says was livid: "Patrick, you are going to support PAC or you are not going to get in the door of the C.D. Howe building in Ottawa ... you are going to get up and you are going to support the damn thing." Lumley recalls Lavelle's admonishment: "They're just either fooling you or stalling you," to which he replied "Pat, I have Mr. Ishihara's word, which I will take."[349]

Ultimately, PAC was a success. It was staffed by representatives of each of the major Japanese vehicle manufacturers, convening seminars focused on improving plant efficiency, and serving as intermediary between potential partners in Canada and Japan. It also provided information and advice to the provincial and federal governments in Canada. These are precisely the outcomes Balasubramanyam (1994), Liu et al (2000) and Chung (2001) recommend governments should seek with inward FDI. By the time it ceased operations in 1997, at least 26 Japanese auto parts-related operations had been established in Canada (Japan Automobile Manufacturers Association of Canada, 2005, pp 59, 60). Moreover, relations between Japanese and

[348] Lumley, E. (2005). Interview with the author on 8 February, Toronto.

[349] Ibid.

Canadian actors in the automotive industry had reached a level of maturity that the organization was no longer necessary.

The establishment of PAC was the first substantive harbinger of significant FDI in the Canadian automotive industry of the Lumley era. Before his government was defeated in the September 1984 federal election, both Honda and AMC-Renault had announced their intention to invest in Canada (June 1984) and additional investments were under active consideration. By the time of the 1984 campaign, Pierre Trudeau had resigned and John Turner was back as Prime Minister and Leader of the Liberal Party. Lumley recalls that during the campaign he came under pressure to announce that he was in active discussions with potential investors. "Turner's people wanted us to meet and announce we were in negotiations with Toyota and I refused. That would kill it. They will go someplace else I told them. And, Turner said, you're right."[350]

Eventually, the negotiations by Lumley with Honda, AMC-Renault, Toyota, Hyundai and Suzuki came to fruition. Just a few years earlier no one thought that such positive outcomes were possible. However, as this section has established, through his energy, discipline and hard-hitting manner, Ed Lumley was able to draw attention to the unique and urgent expectations of Canada and Canadians. The investment Lumley was prepared to make of his own personal capital and goodwill is testament to the contribution that personalities and relationships can play in the attraction of FDI. As previously explained, until Lumley took the lead, talk of such investments, let alone actual commitments was mere rhetoric. The established players, however, greeted the impending entrance of these new actors with significant caution. It is the nature of these concerns to which we now turn.

[350] Ibid.

8.3 The Established Players Turn Negative

As overseas investors began to announce investments in final assembly operations in Canada in the mid 1980s, the stance taken by the established companies shifted from one of notional encouragement to one of resistance. The goading implicit in 'if you sell here you must build here' gave way to different public statements. One cautioned of looming overcapacity in the industry. Others suggested that the newcomers were being unfairly subsidized at the expense of the North American companies. Large-scale job losses were predicted. Allegations of dumping were calculated to unsettle potential customers and weaken a bothersome competitor.[351]

Rumblings of overcapacity began early in 1986, as the inward FDI announcements hit a peak and the first wave of operations prepared to come on stream.[352] Concerns were fuelled by studies predicting surplus capacity in North America in excess of two million units and between 12 and 15 plants. The apparent incongruity of large scale investment by offshore-based manufacturers (good news) and a looming overcapacity crisis (bad news) formed the core of a consistent message from many of the traditional North American actors. A joint letter from the existing participants, the APMA, CAW and Motor Vehicle Manufacturers' Association, to Ontario Premier Peterson characterizes the over-riding message:

> A popular perspective is that the new offshore investments from Japan and S. Korea will create jobs because they are replacing imports. In fact, even with these investments, every industry analyst recognizes that imports will still RISE [note: emphasis as in original] – and rise dramatically unless controlled. And so the real impact of these imports and investments will be to jeopardize EXISTING facilities and production.[353]

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[351] That such alarm was expressed is consistent with the literature on the "crowding out" of host industries (De Backer and Sleuwaegen, 2003; Kosova, 2004; Fotopoulos and Louri, 2004).

[352] Honda of Canada Manufacturing started in November, 1986; AMC-Renault started in Brampton, Ontario in July, 1987 (although it should be noted that the North American operations of AMC-Renault had been purchased by Chrysler in March, 1987); Toyota started operations in November, 1988; Hyundai start of production was January, 1989; and CAMI (the GM-Suzuki joint venture) commenced operations in Ingersoll, Ontario in April, 1989.

[353] Archives of Ontario, RG 69-160, Accession 35705, Box 12, File: C-USTR Trade Negotiations Issues Sector Analysis 1985 and Prior; Letter to Premier David Peterson from UAW, APMA and MVMA, 31 January 1986, p 4.

Denouncing the enticements provided by Canada and Ontario to attract overseas investment, Ford Motor president Harold Poling proclaimed in August 1986 that he was "concerned about all the incentives the Canadian government has given some of the importers to establish plants in Canada. This is just additional capacity in North America and they sure aren't gonna sell them all in Canada."[354] Later that year, his Canadian unit president Ken Harrigan, got more specific and more threatening, declaring, "If we were to take the full impact of the overcapacity ... it could result in the shutdown of the Oakville plant."[355] GM Canada's VP of finance Louis Hughes also warned, "Everyone will be under considerable pressure because of excess capacity and a probable market downturn. During the adjustment phase, there will be heavily discounted prices. Then there will be a shakeout and plants will close."[356] Chrysler Canada president Moe Closs was even blunter: "The market isn't going to grow so where the hell are those cars going to go?"[357] Closs' forecast of an overcapacity crisis was even more ominous than others: "North American overproduction could well exceed five million units by the 1990s. Take it from Moe, there's going to be a shakeout the likes of which the auto industry hasn't seen since the Depression. Plants are going to be closed and jobs are going to be lost."[358] All the North American makers warned that Canadian operations could be vulnerable. According to GM Canada's Louis Hughes: "I would think that there would be extreme pressure on all domestic manufacturers. If they had to choose between closing a plant in the United States and one in Canada, it would be the Canadian

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[354] Kidd, K. (1986). Detroiter denounces Canada on foreign carmaker incentives. *Toronto Star.* 20 August, p E1.

[355] Daw, J. (1986). Honda's a hit in Alliston, but a controversy in Canada. *Toronto Star.* 1 November, p C1.

[356] Daw, J. (1986). Japanese, Korean car plants a mixed blessing for Canada. *Toronto Star.* 27 August, p E1.

[357] Climenhaga, D. (1988). Chrysler uses axe in Sarnia; others likely to join swinging. *Globe and Mail.* 1 February, p B5.

[358] Gates, B. (1988). Foreign carmakers irked by impact of free trade deal. *Financial Post.* 22 February, p 47.

facility that would be closed."[359] Hughes attributed part of the unique pressures on Canadian operations to the greater power of unions in the US relative to those in Canada: "When the bulk of your workforce and the bulk of your plants are located in the United States, I think the pressures are rather obvious."[360] The Canadian arm of the UAW had broken away from the international union to form the Canadian Auto Workers (CAW) in 1985. The CAW's top researcher, Sam Gindin, joined the domestic automakers in foretelling of possible Canadian dislocations as a result of overcapacity: "Under some scenarios the job loss could climb to 40,000, but 15,000 is the moderate-likely scenario."[361]

Federal and provincial policy makers in Canada were under no illusion as to the potential impact their efforts to lure offshore automotive investment might have on the established Canadian industry, predicting that virtually all surplus capacity adjustments would be borne by the domestic automakers.[362] Further, they had accepted the argument of the established players that Canadian plants would be more vulnerable to closure, citing as reasons "negative corporate perception of the UAW split and major potential for political intervention on the part of the US."[363]

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[359] Daw, J. (1986). Thousands of jobs at stake as GM gears up for car wars. *Toronto Star*. 12 April, p C1.

[360] Ibid.

[361] Daw, J. (1986). Auto industry sees 15,000 jobs lost by 1990. *Toronto Star*. 20 December, p A1.

[362] The dire forecasts made by industry and government bodies undoubtedly were exaggerated. Certainly, there would be dislocations, but the basic premise upon which the warnings were issued was that every plant would be obliged to operate at full capacity, and failure to do so would inevitably translate into shuttered operations. It is argued here, however, that this scenario was never likely. Automobiles are not commodities. Production cannot rapidly be changed from one model to another and the need to maintain a full product range makes it difficult to close production lines. The ebbs and flows of the industry and regularly changing market circumstances frequently cause perturbations in production and scheduling. For example, the introduction of an updated version of a new Honda Civic might cause sales and hence production of Toyota's competitive offering, the Corolla, to dip. Similarly, rising gasoline prices might cause the production of larger vehicles to be scaled back. However, these circumstances do not mean that plant closures are inevitable. Data from the 2004 Harbour Report (2004, pp 50-53), for example, shows that 58 of 95 (61 per cent) North American final assembly plants were operating below capacity and that total capacity exceeded production by 2.5 million units. With an average capacity of approximately 250,000 units per plant, this situation translates into overcapacity equivalent to approximately 10 plants. However, these facts should not signal the imminent closure of that number of plants.

[363] Archives of Ontario, RG 69-160, Accession 35705, Box R, File: C-USTR Trade Negotiations Issues Sector Analysis 1985 and Prior; Competitiveness Profile Motor Vehicles, August 1985, p 4.

Documents show federal officials acknowledged that over-capacity could place up to 10 full-size North American assembly facilities in jeopardy with the loss of 15,000 automotive jobs in Canada, of which 6,000 would be in final assembly.[364] Ironically, Ontario Premier David Peterson, whose government had successfully presided over many of the deals that had lured overseas manufacturers to Canada, shared anxiety about the impact of the new entrants. In a letter to Prime Minister Brian Mulroney in July 1987, he observed, "Our traditional manufacturing base faces intense competitive pressure from offshore production of vehicles and parts."[365] Further, by the mid to late 1980s, policy makers were acutely aware that the Auto Pact safeguards could no longer protect Canadian facilities. A report prepared for the Province of Ontario warned that "during the 1990s, Chrysler, Ford, and General Motors could each close one assembly plant in Canada and still meet the APTA production-to-sale-value requirement."[366]

However, had governments in Canada heeded the warnings of the existing producers and suspended efforts to attract inward FDI, Canada would have been severely disadvantaged. The integrated nature of the North American industry would simply have meant that inward FDI would be channelled south of the border and producers would service the Canadian market from there, if they chose. In other words, if the existing North American producers were going to lose market share, Canadian policy makers had decided that they should lose that market share to producers who also held a Canadian manufacturing presence.

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[364] Archives of Ontario, RG 69-160, Accession 35705, Box 12, File: C-USTR Trade Negotiations Issues Sector Analysis, Manufacturing, January – June 1986; Competitiveness Profile Motor Vehicles, 11 April 1986, p 6.

[365] Archives of Ontario, RG 69-2160, Accession 35705, Box 12, File: Canada-USTR: Trade Negotiations Issue Sector Analysis – Manufacturing Auto July – December 1986; Letter from Premier David Peterson to Prime Minister Brian Mulroney, 3 July 1987, p 1.

[366] Archives of Ontario, RG 69-2, Accession 22205, Box 2DM, File: Automotive Industry General; Canada – United States Automotive Trade in the Context of a Free Trade Agreement, Prepared for Ministry of Industry, Trade and Technology by F. Pilorusso, 3 September 1987, p 28.

As the new plants began to come on stream in the second half of the 1980s, the North American manufacturers became ever more vocal in their opposition to the inducements granted to new entrants. Hyundai's plant in Bromont Quebec became a rallying point. Hyundai had entered the North American market in 1984 by way of Canada and had sold 25,000 vehicles, equal to 11 per cent of the market for imported passenger vehicles, in its first year in operation. In 1985, the company became the number one selling import, surpassing Honda, with sales of 72,000 and followed with sales of 66,000 vehicles in 1986. It may be argued that the Korean entry and success was due, in large part, to continued VERs by the Japanese. Industry analyst Dennis DesRosiers explains:

> The Japanese response to VERs was to move up-scale. The GM, Ford and Chrysler response to VERs was to move up-scale as well. They didn't want to sell the small stuff. That opened the market to the Koreans. That's why Hyundai sold so well, because there wasn't anybody down there. You go and do a product analysis in that timeframe and all they had was eight-year old Chevettes.[367]

In February 1985, Hyundai, in response to its early and unanticipated success, took the decision to announce its intention to build a $25 million electrical components plant in Newmarket Ontario (in the riding of federal Industry Minister Sinclair Stevens) employing 300 people. By the summer of that year, the federal government, alongside the provincial governments of British Columbia, Ontario and Quebec, was trying to persuade the company to go further and invest $300 million in a full-scale final assembly operation.

The response of the established companies to the rise of Hyundai and other overseas manufacturers was to go on the offensive. In July 1987, Revenue Canada launched a dumping case following complaints from General Motors and Ford that the company

[367] DesRosiers, D. (2004). Interview with the author on 24 August, Richmond Hill, ON.

Note: The DesRosiers' view was shared by the Canadian Department of Consumer and Corporate Affairs. A submission by the Department's director of investigation and research, Calvin Goldman, to an investigation of dumping by Hyundai in 1988 contended that Hyundai had filled a niche abandoned by the domestic auto producers, and that rather than competing against domestically produced vehicles, Hyundai was in fact competing against imports.

was selling vehicles in Canada below their home market prices.[368] Hyundai Canada's vice president, Tom Ciresa, described the approach as "a continuation of the North American manufacturers' apparent tactic of litigation rather than competition."[369]

In November 1987, the Revenue Ministry confirmed its belief Hyundai was dumping vehicles on the Canadian market, discounting its prices by as much as 36 per cent. However, in March 1988 The Canadian Import Tribunal (CIT) ruled that Hyundai's pricing practices had not actually damaged the Canadian operations of Ford and General Motors. The small vehicles that Hyundai was selling were not being built in Canada because the Auto Pact had established a bias towards the production of larger vehicles in Canada.[370] According to a press release by Ford coinciding with the Import Tribunal's decision, "This effectively denies rationalized industries such as ours the same level of recourse against third-country dumping that non-rationalized industries enjoy."[371] GM Canada president, George Peapples maintained, "It has been and remains our contention that unrestrained dumping by Hyundai will result in lost jobs and investment in the Canadian auto industry."[372]

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[368] The vigour with which Ford and GM pursued Hyundai starting in 1987 was in marked contrast to their previous tolerance of Lada in the early 1980s when the government was prepared to launch a dumping investigation of the company. In 1980, Lada had less than one per cent of the Canadian market, having sold less than 13,000 units in two years. Government officials grumbled that, "none of the automobile companies has been concerned enough to take the case formally to Ottawa" (Archives of Ontario, RG 9-88, Accession 22211, Box 4D, File: Minister's Briefing Book; Dumping - Lada, 24 September 1980, p 1).

[369] Daw, J. (1987). Giants claim Hyundai cars are dumped. *Toronto Star.* 16 July, p E1.

[370] The Auto Pact encouraged cross border integration, but with integration came specialization. For example, the Auto Pact defined production to sales performance standards in terms of sales value, not units. What that resulted in was that auto manufacturers tended to concentrate on the production of larger, higher cost vehicles in Canada in order to meet dollar-based production to sales ratios. A 1980 briefing note created within the Ontario Ministry of Treasury and Economics described the concern this caused: "There are no mechanisms in the Auto Pact to provide Canada with a better mix. The companies ... are accepting greater risks by using large car lines to meet their requirements under the Pact" (Archives of Ontario, RG 6-121, TB8, Box 2, File: Procedures for Preventing Unfair Foreign Competition in Autos, p 7).

[371] Daw, J. (1988). Hyundai can keep selling cheaper cars. *Toronto Star.* 23 March, p A1.

[372] Bradley, J. (1988). Industry assess impact of Hyundai victory in Canadian dumping case. *Associated Press.* 24 March.

The 1988 CIT ruling should have been no surprise. Eight years earlier, Ontario policy makers, when assessing options to deal with then surging imports of Japanese built vehicles, recognized that "injury must be established in all cases ... This could be difficult because no direct equivalents of Japanese auto models are currently made in Canada, and because the closest competing models that are made here are selling well."[373] The same situation prevailed when the Hyundai case was launched.

Legal challenges such as that instigated against Hyundai represented just one aspect of the strategy of resisting the progress of overseas competitors. A concerted attempt was also made to blacken the names of the new entrants. Grievances were raised about a range of issues including the quality of the new entrants' investments, the fact that North American owned players were not receiving equivalent support, that incentive packages to the new entrants were unfair, and that growing industry overcapacity was about to lead to dislocation and job losses. The established players also banded together to criticize the modest number of jobs the new entrants generated. For example, in a letter to Ontario Premier David Peterson in January 1986 they opined:

> If the nature of these new offshore investments were, from a Canadian perspective, equal to those they will replace, there would be no complaint. But, while the investments of the North American producers have averaged out to represent about 75% Canadian value added over the past two decades, these new investments from offshore will represent 20% - 40% CVA. So we are trading off more than two jobs for every one new one, and we are subsidizing the offshore investors to accomplish these jobs losses in Canada.[374]

GM Canada president George Peapples claimed that for every 1,000 cars sold by his company, 40 jobs were created, whereas the new entrants could claim just 10 – 15 jobs per 1,000 vehicles.[375] In a letter to Prime Minister Mulroney in May 1986

[373] Archives of Ontario, RG 69-121, TB8, Box 2, File: Procedures for Preventing Unfair Competition in Auto, June 1980, p 7.

[374] Archives of Ontario, RG 9-160, Accession 35705, Box 12, TB#100, File: C-USTR: Trade negotiations Issues Sector Analysis 1985 and Prior; Letter from UAW, APMA and MVMA to Premier David Peterson, 31 January 1986, p 5.

[375] Kidd, K. (1987). GM Canada says Auto Pact runs "very well." *Toronto Star*. 20 January, p D3.

signed by the leadership of the CAW, APMA and MVMA the argument was made that "if the Auto Pact producers employed Canadians in the same ratio as say Hyundai has announced, there would be 65,250 fewer direct jobs in our industry and tens of thousands fewer other indirect jobs in supplier and support industries. Certainly, that cannot be the objective of current government policy."[376] Apparently, it was an argument that the Government of Canada accepted, predicting in April 1986 that of the 15,000 jobs likely to be lost in the industry in Canada, they would be offset by just 2,900 in the new Asian-owned assembly operations.[377] The alternative, of course, was worse: that investments would be made elsewhere in North America and that Canada would receive nothing.

In addition to raising concerns about the quality of the investments of the new entrants, the established players also sent a message that their loyalty and contributions over decades seemingly counted for nothing. In a letter to Prime Minister Mulroney in May 1986 industry representatives claimed:

> We are left with a sense that our industry has no spokesman in and, therefore, no support within Cabinet for our position ... Surely, it should be taken for granted to expect our Government to give first consideration to existing Canadian industrial establishments, and not to disrupt nor impede their

[376] Archives of Ontario, RG 69-160, Accession 35705, Box 12, File: C-USTR Trade Negotiations Sector Analysis – Manufacturing Auto, January – June 1986; Letter signed by Moe Closs, Robert White and Grant Wilson to Prime Minister Brian Mulroney, 26 May 1986, p 3. The 65,250 job deficit was established as follows via Attachment II, p 6 as follows:

Hyundai has 7% of the market and is promising 1,200 direct jobs down the road.
If the Big 4 had in-house jobs in the same proportion as Hyundai their jobs would be as follows:

	Proportion re Hyundai	Actual	Difference
GM	6,000	44,000	+38,000
Ford	3,000	15,000	+12,000
Chrysler	2,500	13,000	+10,000
AMC	250	5,000*	+4,750
	11,750	77,000	65,250

* With new investment

[377] Archives of Ontario, RG 69-160, Accession 35705, Box 12, File: C-USTR Trade Negotiations Issues Sector Analysis, Manufacturing, January – June 1986; Competitiveness Profile Motor Vehicles, 11 April 1986, p 6.

> operations under commitments of longstanding such as the Auto Pact by giving newcomers preferred terms of industrial operation in this country.[378]

Former GM Canada vice president Tayce Wakefield concurs:

> When investments started to be made, it was sort of like, well at least they are doing something. I don't remember a lot of negative attitude, but what I do remember was that there were folks in government, not at the political level that I know of, but at the civil servant level – relatively senior civil servant level – that had fairly strong feelings. They had sort of decided that the traditional manufacturers were done. They were prematurely willing to write us off. So our concern was more that we weren't gaining our due respect from governments for our existing contribution to the country.[379]

It is argued here that in time, the propaganda war launched against the new entrants had the intended effect. By disparaging the quality of the new entrants' investments, by alleging unfair competition, and by raising alarms about the inevitability of plant closures, a sense of serious unease was fostered among policy makers. In addition, as Chapter Nine will demonstrate, as the seeds of discontent were sprouting in Canada, concerns were being expressed in the US about Canada's duty remission program, which was represented as an unfair and illegal form of export subsidy. The convergence of the various grievances produced an environment that opened the door during the negotiation in 1987 of a Canada-US free trade agreement involving the auto industry that resulted in significant changes in the competitive environment under which the new entrants had made their original decisions to invest.[380]

8.4 Conclusion

This chapter has contributed to understanding around two key research questions. First, it continues to respond to the question, "What role did governments play to facilitate the process of encouraging inward FDI during the 1980s?" However, it also

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[378] Archives of Ontario, RG 69-160, Accession 35705, Box 12, File: C-USTR Trade Negotiations Sector Analysis – Manufacturing Auto, January – June 1986; Letter signed by Moe Closs, Robert White and Grant Wilson to Prime Minister Brian Mulroney, 26 May 1986, pp 1, 2.

[379] Wakefield, T. (2004). Interview with the author on 18 October, Cambridge ON.

[380] The specific conditions of the free trade agreement, including those aspects relating to the automotive industry, have been explored in detail by others (e.g. Ritchie, 1997; Wonnacott, 1987; Wonnacott, 1988; Roberts, 2000; and Kumar and Holmes, 1998) and are not analyzed further here.

opens up the third key question, that being, "Can individual personalities and the relationships they forge influence the FDI attraction process?" It does so by tracking the motivations and messages of the various actors within the Canadian automotive industry during the ten years from the latter half of the 1970s. It was a remarkable period, not merely because of the transformative effect of the investments made by the new entrants, but because the goals and messages that supported (or detracted from) those actions evolved in such a dramatic fashion.

Initially, industry leaders held the relatively modest goal of improving the viability of the Canadian automotive parts industry. This chapter has exposed the flawed assumptions upon which that strategy was based. Eventually, however, various actors expanded their ambitions to re-establish the primacy of final assembly investment. Although not everyone approved of the objective, it has been shown that all players initially sent messages of agreement and support. It has been demonstrated that for a narrow and critical period of time, the messages from the established participants in the automotive assembly industry in Canada were aligned with those of Canadian governments and policy makers. However, while messages may have been aligned, objectives most certainly were not. In other words, industry actors were sending similar messages for very different reasons. In so doing, an environment was created that allowed players to send extreme and forthright messages, all with relative immunity. It was a unique and peculiar period, the incongruities of which have not been considered previously.

This chapter has also established and explored the critical role played by Ed Lumley in creating a positive climate and policy framework to support final assembly investment. His contribution to first identify then pursue Canadian policy makers' expanded ambitions warrants special emphasis. His motivation, style and interactions with contemporaries have been reviewed and assessed in this light.

Finally, this chapter has shown that as the efforts of Lumley and others began to bear fruit, the motivations and messages of the established industry participants became less supportive. They became more discordant, less compliant and increasingly critical of government policy. What this research uniquely offers is an account of how the messages the traditional private sector actors started to transmit from around 1986 helped in laying the groundwork for the negotiations between Canada and the US culminating in the Canada-US free trade agreement of 1987. It was through those negotiations that the traditional private sector actors were successful in impairing the new entrants' competitiveness in the longer term by curtailing many of the tools Canadian policy makers had created to attract offshore automotive FDI. By then, however, the foundations of their success had been laid. The new entrants were on their way to being securely established in Canada.

Thus, this chapter has documented the changing goals, messages and motivations of the various actors involved in the Canadian automotive manufacturing industry during the period 1977-87. Chapter Nine further advances understanding by explaining how the changing landscape was reflected in the specific policy tools developed to support key goals.

Chapter Nine

Canadian Incentives for Foreign Direct Investment in Automotive Manufacturing: Evolution, Operation and Evaluation

In the preceding chapter it was demonstrated that the motivations and goals of the various actors in the Canadian automotive industry evolved and expanded between 1977 and 1987. It was shown that the policy and practical adjustments made during the period caused overseas investors to take the prospect of investing in Canada much more seriously. By the end of the 1980s, a profound and positive expansion of Canada's automotive manufacturing base had resulted.

This chapter considers and evaluates the tools and techniques used by Canadian policy makers to attract foreign direct investment on a substantial scale. It continues to build our capability to understand the role governments played to facilitate the process of encouraging inward FDI during the 1980s. The influence of direct, cash-oriented incentives to support automotive investment will be discussed. These represented the publicly announced commitments on which previous commentators have tended to dwell. This research is original, however, in that it traces the origins, machinations and intrigue associated with introducing such methods in Canada. The chapter also provides an account of the introduction of various unique to Canada tools and techniques. These will be referred to as near cash elements involving a series of duty remission schemes, Auto Pact liability waivers, manipulations of the Foreign Investment Review Agency (FIRA), adjustments to the Voluntary Export Restraint (VER) system, and deferred tariff implementation. Each was under the purview of the Canadian federal government. The origins of these near cash tools is traced and, as in the case of direct incentives, it will be shown that they were rarely designed for the purposes to which they were applied. It will be shown that the role played by the federal government in Canada was essential. Further, it will be argued that had a more detached approach been adopted, in other words, one similar to that of the US federal government, significantly less impressive results would have been achieved.

The central argument and findings of the chapter are supported in two main ways. First, a fresh perspective is offered by way of two case studies highlighting the progression of events culminating in the decisions made by two companies to make final assembly investments in Canada. In these case studies, the role of both direct and near cash tools is profiled. Second, a quantitative, present value estimate is offered of the impact of the direct and indirect elements for all five new offshore-owned final assembly investments made in Canada during the 1980s: Honda, AMC-Renault, Toyota, Hyundai and CAMI. The words of David Girvin, a senior government official of the period captures the essence of the period: "A window existed – part of which we created, part of which was just there – and we took full advantage of it."[381] Precisely how that window was opened is the subject matter of this chapter.

9.1 The Genesis of Direct Incentives to Automakers in Canada

It was with more than a little trepidation that Canada embarked on the path of offering investment incentives in the mid to late 1970s. How much would it cost? Would costs escalate? How would the US respond? How would one-off incentives to individual companies align with the overriding goals of the government? Could Canada incentivize potential investors without spending cash directly? And perhaps most fundamentally, to what degree might investor decision-making truly be influenced by the existence of financial incentives? As the Auto Pact entered its teenage years, these were the questions with which Canadian automotive policy makers grappled. By tracing the evolution of incentives in Canada from the late 1970s through to the late 1980s, this section provides answers to these questions. The genesis of Canada's engagement with international competition to attract automotive FDI will be documented for the first time.

By the second half of the 1970s, Canadian policy makers had concluded that the boost to the industry resulting from the Auto Pact had begun to wane. This

[381] Girvin, D. (2005). Interview with the author on 19 January, Toronto.

perception drove policy makers to contemplate the offer of financial incentives to attract FDI. A precedent had been set in the US with the provision in September 1976 of a package worth US$51.7 million to encourage Volkswagen to build an assembly plant in Pennsylvania. A subsequent agreement between Ford and Ohio for the provision of US$45.2 million to build a transmission plant further intensified the debate. Significantly, neither deal directly involved the US federal government. Both schemes were supported exclusively by state and local governments.

In Canada, anxiety about the new trend was first raised in January 1977 in an Ontario Government cabinet discussion paper. Concerns included the direct costs of incentives, sensitivities surrounding the use of taxpayer funds to assist foreign companies, and "the maturity of the industry and the likelihood of a relative decline in its importance in the long term."[382] An intense debate raged in government about the role of the public sector in industrial strategy. One side, which included Treasurer Darcy McKeough, railed against any form of intervention, instead supporting tariff reductions under the Tokyo round of GATT and fighting federal proposals to limit the power of large Canadian banks. Brock Smith of the Ministry of Industry and Tourism (MIT)[383] described McKeough's attitude in a 1980 internal government document: "If our gang was to slug it out with the big boys of international commerce, there was no room for losers." He observed, "McKeough's unequivocal embrace of the free trade option clearly threatened MIT's clientele and it undermined the whole notion of a government department geared to the care and feeding of industry."[384] The other side, including those associated with the MIT, held a different view. David Girvin reveals that the industrial strategy camp was led by Cabinet Secretary (and later MIT Deputy) Jim Fleck. Brock Smith's assessment of this group's position was: "With a limited amount of new investment to go around,

[382] Archives of Ontario, RG 9-88, Box 3C, Binder: Proposals to Increase Ontario's Share of North American Employment and Investment in the Automotive Sector, 11 January 1977, p 44.

[383] Brock Smith would later become Deputy Minister of Treasury and Economics.

[384] Archives of Ontario, RG 9-88, Accession 18468, Box 3, File: Industrial Development Ontario; Economic and Industrial Policy in Ontario During the 1970's: How We Got Where We're At, 14 July 1980, p 15.

governments simply had to ante up ... climate was simply not enough. This was the dawn of a new era of active government involvement in investment decisions."[385]

The debate in Ontario intensified early in 1978. It was shortly after the Pennsylvania and Ohio investments when, according to both David Girvin and Michael Dube, Ford of Canada president Roy Bennett revealed to the Province that Ford had been offered large incentives to build a new engine plant in the US. He believed, however, that with a big government effort in Canada he might be able to persuade the Ford board to build in Canada, specifically in Essex County near Windsor, Ontario. Michael Dube recalls:

> When he came to us, we were not dressed up to do these kinds of deals. We had the ODC [Ontario Development Corporation] only, which were lenders of last resort. We were not used to doing big stuff like what Ford was proposing and all of a sudden we got a positive client, not one who was on a deathbed.[386]

David Girvin confirms the point:

> At that point in time, we only had the Ontario Development Corporations, which were quite limited and focused on regional economic development issues. It wasn't set up to deal with projects in southern Ontario or projects of the scale or scope we were talking about when the Ford opportunity came along.[387]

Meanwhile, Bennett's revelation prompted further debate in Canadian federal circles. The federal government recognized that action was necessary, but that the consequences of involvement were unpredictable. A briefing note of June 1978 for federal ministers warned that US interests might call for countervailing duties on imports. However, the same document advised that if it could be shown that the Canadian incentives did no more than offset those offered by US states and

[385] Ibid, p 19.

[386] Dube, M. (2004). Interview with the author on 26 August, Toronto.

[387] Girvin, D. (2005). Interview with the author on 19 January, Toronto.

municipalities, no injury would be found and no duties could be assessed.[388] Apparently oblivious to the Ford offer to invest in Essex – in the riding adjoining his own – future federal Industry Minister and then backbench Member of Parliament from Windsor Herb Gray, was pressuring his own government to take action against the US for allowing financial incentives in return for investments, claiming they were contrary to the stated intent of the Auto Pact. In the House of Commons Question Period on 18 April 1978 he raised the issue with the Prime Minister:

> The bidding contest ... in which cities and states there are offering excessive incentives to get automotive plants to locate in them rather than Canada, appears to be contrary to that agreement. Therefore, will the government move immediately to have the United States government bring this conduct in this country into line with the agreement, if necessary, take appropriate measures which are open to it to deal with this situation, as well as generally, to ensure that Canada gets and keeps its fair share of automotive employment, investment and production?[389]

The following day, Gray wrote to Industry Minister Horner again claiming that inducements offered by US states were contrary to the Auto Pact.[390] Gray's letter prompted a series of hypocritical and discomforting exchanges. On 26 May 1978, some three months after his department had made an independent offer to Ford, Horner responded to Gray that there was very little that the federal government could do: "These incentives are being offered by states and municipalities and not by the

[388] National Archives of Canada, RG 20, Accession 93-94/195, Box 160, File 4958-1, PT 20, Memorandum to Ministers on Automotive Investment Incentives: Canada / US Relations, 6 June 1978, pp 1, 2.

[389] Herb Gray, 18 April 1978, House of Commons Debates, Third Session – Thirtieth Parliament, Volume V, 1978, Queen's Printer for Canada, p 4,062.

[390] National Archives of Canada, RG 20, Accession 93-94/195, Box 160, File 4958-1, PT 18, Letter from Herb Gray to Honourable Jack Horner Re. Canada – US Auto Pact – Possible non-compliance with it by the United States, 19 April 1978, p 1. Although Gray's letter specifically cited Article II of the Auto Pact, Article II merely lays out the groundwork and expectations regarding the timing and implementation of enabling legislation in both signatory countries. It does not appear to consider or preclude the types of activities his letter and his previous day's remarks in Question Period raised. Instead, what Mr. Gray was more likely referencing was the second key element contained in the Auto Pact's preamble. That passage more closely approximates actions that could potentially distort trade, stating that the two countries recognize, "that an expansion of trade can best be achieved through the reduction or elimination of tariff and all other barriers to trade operating to impede or distort the full and efficient development of each country's trade and industrial potential."

United States administration. In that the Administration is not offering incentives it is not in violation of the terms of the Agreement."[391]

Eventually, in late June 1978, the federal government shared with Ontario government officials the extent to which it was prepared to support the Ford engine plant investment. Ontario Industry Minister John Rhodes had telexed Horner on 29 June 1978 stating: "the Ontario Government is extremely concerned about the possible loss to Canada of 2,600 potential new jobs ... if our respective governments do not act promptly."[392] Horner responded by acknowledging that the federal government had offered Ford a $30 million inducement four months previously. He also indicated that his officials would be prepared to meet the next day to develop a joint proposal.[393] Within days, the two sides put together an incentive package worth $68 million, with the federal government providing $40 million and Ontario $28 million.

However, even once that milestone decision had been made, the political manoeuvring continued. Canada and the US had previously agreed to consult closely with each other on any measures taken with respect to the automotive sector. However, rather than consulting with US federal officials (who had never offered direct incentives to automakers), Horner's office was advised by the Canadian embassy in Washington to desist:

> Premature passing of details to him [Assistant Secretary of State, Katz] may make him feel obliged to take action or leave him open to domestic criticism if he does not move. Best time might be in conjunction with meeting of USA Board of Directors of Ford next week, either just before or at the same time.[394]

[391] National Archives of Canada, RG 20, Accession 93-94/195, Box 160, File 4958-1, PT 18, Letter from Honourable Jack Horner to Herb Gray, 26 May 1978, p 1.

[392] National Archives of Canada, RG 20, Accession 93-94/195, Box 160, File 4958-1, PT 19, Telex from Honourable John Rhodes to Honourable Jack Horner, 29 June 1978, p 1.

[393] National Archives of Canada, RG 20, Accession 93-94/195, Box 160, File 4958-1, PT 19, Telex from Honourable Jack Horner to Honourable John Rhodes, 29 June 1978, p 1.

[394] National Archives of Canada, RG 20, Accession 93-94/195, Box 160, File 4958-1, PT 20, Telex from Canadian Embassy in Washington to Department of Industry, Trade and Commerce, 13 July 1978, p 1.

In other words, the advice was to defer contacting the US Administration until the deal was signed and sealed.

Once they had secured one large-scale investment, officials were eager to obtain more. Ontario Premier Davis followed up with a letter to Prime Minister Trudeau in July 1978 recommending further collaborative ventures: "I had hoped that it would not be necessary to become involved in any "bidding war" with states ... On the other hand ... Canada could be overlooked unless some incentives or offsets to supposed financial disadvantages are employed."[395] However, going forward, the capacity of the federal government to positively engage would be tested. This situation emerged because the US Administration reacted to the Ford deal in the way many Canadian officials had feared. Assistant Treasury Secretary Fred Bergsten and Assistant Secretary of State Julius Katz were dispatched to Ottawa to protest.[396] A series of bilateral meetings were held and at a meeting in Washington on 22 September 1978 the US side proposed that company-specific, tailor-made incentive packages should be avoided, suggesting that any support that governments might extend to private corporations should be limited to infrastructure and support in designated geographic areas only. It was also acknowledged that the discussion could, at some future point be extended to a multilateral forum.[397]

In the midst of these discussions, Simon Reisman, the original architect of the 1965 Auto Pact, released his Royal Commission Report on the automotive industry. Paul Lau was a principle researcher for the Commission. He describes the automotive investment incentive milieu as "a dog's breakfast in a way because the Americans were getting into the subsidies in a big way. We didn't have a program for

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[395] National Archives of Canada, RG 20, Accession 93-94/195, Box 160, File 4958-1, PT 20, Letter from Premier William G. Davis to Prime Minister Trudeau, 5 July 1978, p 4.

[396] Wall Street Journal. (1978). Ford to build engine plant in Ontario, recalls some 1978 cars and light trucks. *Wall Street Journal.* 4 August.

[397] National Archives of Canada, RG 20, Accession 93-94/195, File 4958-1, PT 24, Telex from Department of External Affairs to Canadian Embassy in Washington, Subject: Exchange of Info on Industrial Assistance Programs Meeting of September 22, 27 September 1978, p 5.

automotive subsidies. We dealt with it on a case-by-case basis."[398] When the report was released, Reisman (Canada, 1978, p 245) supported the American position, concluding that, "adhoc grants to auto manufacturers to locate in prime industrial areas seriously undermine Canada's regional development objectives." However, despite the US pressure and the admonition of Simon Reisman, Canadian governments held firm. Ontario's position, expressed in a briefing note dealing with the Reisman report was that "financial incentives do not necessarily conflict with regional development activities. A moderate incentive to neutralize or offset incentives offered by competing jurisdictions outside of Canada may be needed from time to time."[399] Despite Reisman's warning and more like the Province of Ontario, the Government of Canada likewise was not deterred. A briefing note of March 1979 to the Assistant Deputy Minister of Industry, A.M. Guerin, affirmed:

> The government will not stand by and see investment lost to Canada because of subsidies available in the US ... Special federal government assistance will be considered in those cases which do not meet the criteria of existing federal government programs ... when the project would otherwise be lost to Canada.[400]

Eventually, the Canada-US discussions prompted by the Ford Essex package led to mutual understanding. The Canadians were able to convince US officials that, by means of state level tax deferrals, infrastructure support, training grants, site acquisition assistance and railway construction, the granting of incentives was just as prevalent in the US as in Canada.[401]

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[398] Lau, P. (2004). Interview with the author on 22 October, Cambridge, ON.

[399] Archives of Ontario, RG 9-88, Accession 18468, Box 4, File: Industrial Strategy – Reports, Speeches; Subject: The Canadian Automotive Industry – Reisman Commission Enquiry, March 79, p 2.

[400] National Archives of Canada, RG 20, Accession 93-94/195, Box 175, File 4958-1, PT 22; Memo from W.V. Turner, Vehicle Policy Group, Transportation Industries Branch to A.M. Guerin, Assistant Deputy Minister, Industry and Commerce Department, Subject Automotive Policy, 12 March 1979, p 2.

[401] National Archives of Canada, RG 20, Accession 93-94/195, Box 13, File 4958-1, PT 22; Memo to A.R.A. Gherson, Director General, Department of Foreign Affairs, from D.W.C. McEwan, Chief, Motor Vehicles Division, Transportation Industries Branch, Department of Industry, Trade and Commerce, Re. Working Group on U.S. – Canada Incentives, 18 April 1979, pp 2, 3.

A second factor working to ease tensions between the two countries was the shock wave caused by the second oil crisis in 1979. In the ensuing recession, the automotive industry was badly hit. Demand for the large vehicles North American automakers were offering declined, while that for smaller, more fuel efficient, generally overseas-built vehicles held up. This confluence of factors led to a deterioration in auto industry profitability and falling levels of automotive employment. Again, as was demonstrated in Chapter Seven, the situation was particularly acute in the US, although Canada was not immune. Within months, the downturn prompted the US federal government to become directly involved in the provision of support to an individual automaker. This turn of events, it is presented here, extinguished the US' claim against the Canadian federal government, effectively shielding Canada from US criticism for much of the 1980s.

The challenges confounding the North American automotive industry were most acute at Chrysler. As the company teetered on the brink of bankruptcy, the resolve of the US federal government to avoid support for individual companies dissolved. For the first time, the US federal government became directly involved. Over the second half of the 1970s, Chrysler had seen its North American production steadily decline from 1.6 million vehicles in 1976 to just 700,000 in 1980 (Motor Vehicle Manufacturers Association of the United States, 1982, p 5).[402] The purpose of this research is not to delve into the detailed negotiations that saved Chrysler. These have been documented at length elsewhere (Iacocca, 1984; Iacocca, 1988; White, 1987; Gindin, 1995). What ultimately resulted was a complex multi-jurisdiction package that provided the wherewithal for Chrysler to survive. It involved the federal governments of Canada and the US as well as the Province of Ontario and several US states. After the bailout, no longer would governments in Canada feel inhibited about inserting themselves into negotiations if their involvement could bolster FDI. Further, no longer could the US federal government wave the stick of non-

[402] Chrysler's North American production declined every year between 1976 and 1980, from 1.6 million vehicles in 1976, to 1.5 million in 1977 (Motor Vehicle Manufacturers Association of the United States, 1979, p 8), to 1.3 million in 1978 (Motor Vehicle Manufacturers Association of the United States, 1982, p 5), and 1.1 million in 1979. By 1980, when the full impact of the North American recession took hold, it made only 700,000 vehicles in North America (Motor Vehicle Manufacturers Association of the United States, 1982, p 5).

intervention at the government of Canada. As well, it was during this period that David Peterson, the future Ontario Premier[403] pledged his party's backing for automotive incentives:

> We realize the Government can no longer afford to play a passive role, watching from the sidelines. Government must get involved, must assist the private sector, must intervene directly to help create jobs, to allocate scarce resources selectively to those sectors with the greatest potential to contribute for the benefit of all Ontarians. We are prepared to make those decisions.[404]

However, while ideological resistance to intervention melted away, the prospects for significant FDI in Canada from outside the US seemed a distant prospect. Certainly, the 1980s were a period of substantial investment spending by the traditional players. Governments projected that automotive companies in North America would invest US$70 billion between 1978 and 1985 to meet the changing standards of the industry.[405] But this spending was projected to occur almost exclusively at existing sites. Between 1978 and 1982, North American auto sales dropped by more than 5 million units. The creation of additional capacity by established producers could not be justified. Moreover, Canada, at first sight, seemed an unlikely point of entry into North America for overseas automotive companies and the country was effectively sidelined during the early 1980s. Offshore-based auto companies consistently announced investments in the US prior to venturing north of the border. These included Honda,[406] Nissan,[407] Mazda[408] and Toyota.[409]

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[403] David Peterson was an Opposition Member of Provincial Parliament in 1980. He would become Premier in June of 1985. Many of the negotiations for final assembly investments concluded under his Administration, which was in place from 1985-90.

[404] Winsor, H. (1980). Unopposed question on cars. *Globe and Mail*. 1 May, p 7.

[405] Archives of Ontario, RG 6-121, Box 2, File: Issues Briefing Notes, April 3, 1979 Meeting with Auto Parts Producers in Detroit, April 1979, p 1.

[406] Honda had commenced motorcycle production in Marysville, Ohio in 1979. Its first North American automotive assembly investment was announced in 1980 and started production in Marysville, Ohio in November 1982. Between 1977 and 1988 Honda received US$27 million in direct financial incentives from the State of Ohio. Meanwhile, another US$64 million was spent to improve the interstate highway in the Marysville area (Automotive News. 2004. Ohio says Honda incentives were a great investment. 25 Years of American Manufacturing. *Automotive News*. 13 September, p H17).

[407] In November 1980, Nissan announced the construction of an assembly plant in Smyrna, Tennessee for pick-up trucks. The plant entered production in May 1983 and was supported by a commitment from the State of Tennessee to spend US$40 million on a four-lane expressway to the plant.

As explained in Chapter Eight, into the mid 1980s, Canadian policy makers had self-limiting ambitions due to their prioritization of the parts industry. However, they had come to see themselves as important actors in a global game. For example, an Ontario MIT briefing note from August 1980 declared: "Canada should clearly signal its readiness to match any US incentives for foreign automotive investment."[410] Thus, once possibilities for significant assembly investments began to emerge, they were prepared. Incentive packages supported each major automotive investment that landed in Canada in the 1980s. What this section has revealed is that the groundwork had been laid starting in the mid 1970s. Before the president of Ford of Canada presented officials in Canada with a direct opportunity to get involved, neither the Canadian nor Ontario governments were motivated to act. Even then, there was considerable reluctance and division within government to get involved. This section has explained the way these reservations dissolved. Fresh opportunities did not emerge for six years after the Ford intervention and four years after the rescue of Chrysler, but the scene had been set for a major policy departure. Canadian governments, both federal and Ontario, were now ready to emerge as active and generous supporters of automotive FDI.

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[408] Mazda entered the North American manufacturing environment in November 1984 with the announcement of a 240,000 vehicle capacity final assembly plant in Flat Rock, Michigan. The plant represented an investment of US$450 million and was scheduled to enter production in September 1987. It was supported by a US$120 million incentive package (Edid, M., Treece, W. and Weiner, E. 1985. Why Mazda is settling in the heart of union territory. *Business Week*. 9 September, p 94).

[409] The announcement of Toyota's first final assembly facility in Canada was preceded by just one day by the announcement of a 200,000 vehicle capacity plant in Georgetown, Kentucky. The Georgetown, Kentucky plant was supported by state and local incentives valued at between US$125 and $150 million, including land acquisition, site preparation, training, highway improvements, gas lines and a wastewater facility. In addition to Haywood (1994), this was compiled from:

- PR Newswire. (1985). Kentucky offers Toyota incentives to build in state. *PR Newswire*, 18 December. (Press release issued by the office of Kentucky Governor Martha Layne Collins.)
- Bartlett, D. and Steele, J. (1998). Corporate welfare. *New York Times*. 9 November, p 36.
- Behr, Peter. (1995). Strategic job creation or a handout. *Washington Post National Weekly Edition*. 28 August - 5 September, p 24.

[410] Archives of Ontario, RG 9-95, Accession 21520, Box 21, File: Ontario-Japan Trade and Investment Issues, August 1980, p 9.

9.2 'Near Cash' in Canada's Automotive Assembly Attraction Process

In the early 1980s the US represented more than 90 per cent of the North American automotive market and was a magnet for overseas producers wishing to increase their sales and profitability. At the time, many offshore-based automakers had begun to appease American power brokers by investing in the country. Once traction had been gained in the US, Canada was the next port of call. The analysis presented here differs from conventional wisdom by emphasizing the importance of less tangible, less visible tools in securing the future of automotive manufacturing in Canada. It is argued that success was realized because in Canada, unlike the situation in the US, the Canadian federal government became actively involved. It did so by offering a combination of hard financial incentives and softer inducements, including such measures as adjustments to FIRA requirements, Auto Pact liability waivers, the extension of duty remission benefits and gaining adjustments to VERs. Indeed, it will be seen that a particular strength of the Canadian approach to attracting FDI, as it evolved during the 1980s, was the partnership forged between the provinces and the federal government.

9.2. i. Conflicting Perspectives on the Role of Incentives in Attracting Final Assembly Investment

Of the major automotive investments announced for Canada in the 1980s, Honda was the only one that did not attract a generous package of direct financial incentives. The AMC-Renault announcement, made just a week after the Honda announcement in June 1984 was secured by an incentive package with an announced value of $121 million. When in 1985 Hyundai announced a $300 million investment in Bromont, Quebec, incentives valued at $111.5 million were declared. Likewise, when the Toyota investment in Cambridge, Ontario was announced later in 1985, a government support package of $50 million was revealed, consisting of a $15 million training grant and a $35 million interest free loan to be paid off over seven years from the start of production. Finally, the $500 million GM-Suzuki investment

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(CAMI) announced in August 1986 was seen to have been secured through the issue of a $45 million government loan and a $40 million training grant.

The incentive figures announced at the time have tended to be accepted at face value. It will be demonstrated here, however, that none of the figures initially released provide a full account of the inducements offered by the government. One reason this understatement has occurred is because plans changed as projects developed. However, it will be demonstrated that cost discrepancies cannot be accounted for solely in this way. The gap between the true and announced positions was due in no small measure to the peculiarities of the political situation in Canada.

Until now, accurate comparisons about government intervention in the FDI attraction process in the US and Canada has been difficult due to a lack of full understanding of the depth of involvement by Canadian authorities. In the US, direct negotiations with potential investors were left to individual states and municipalities, which typically offered cash inducements to investors in the form of loan guarantees, municipal bonds, grants and local property tax deferrals. These are forms of assistance to which a present financial value may be assigned. Meanwhile, the Province of Ontario mandated a somewhat different approach. The Ontario Municipal Act states: "A municipality shall not assist directly or indirectly any manufacturing business or other industrial or commercial enterprise through the granting of bonuses for that purpose."[411] As a result, the Province of Ontario and the Government of Canada became the principal actors in the process.

The Government of Canada did from time to time assist with direct, cash-oriented incentives, but the greatest lever of the federal government derived from its authority to apply pressure on potential investors and offer other, less conspicuous forms of inducement. Moreover, the distinguishing characteristic is that the Canadian federal government was fully prepared to use the tools at its disposal. The financial value of what the federal government could do through the provision of duty remission, waiving Auto Pact requirements, or applying the weight of the Foreign Investment

[411] Section 106(1) Ontario Municipal Act, 2001.

Review Agency (FIRA) was much less visible and therefore difficult to quantify. During the 1970s and 1980s Dennis DesRosiers worked with both the Province of Ontario and the APMA. He recalls the role of what he terms 'near cash' played in attracting automotive investment to Canada:

> We never played that game through the '70s, '80's and '90s with cash; we played it with near cash. For example, how much did Japanese-owned companies get out of eliminating the parts duties? Millions and millions of dollars. So, how much did others get out of eliminating FIRA? How much did Chrysler save by eliminating or changing the Auto Pact? Ford by changing the Auto Pact? How much did they save ... or cost their competitor ... by putting in restrictive rules under FTA and NAFTA? So we always had these other tools that we were able to use that were cash equivalents. We can't give you the $100 million or $200 million, but here's what we can do for you.[412]

Comparing automotive incentive packages is difficult because projects vary considerably in terms of size, site complexities, specifications and training requirements. The division of benefits from infrastructure investments between companies and local communities presents a further computational problem. Larry Duffield, for example, who was with the Canadian Embassy in Japan during the period when Japanese firms started investing in Canada, claims infrastructure support was not even viewed by the Japanese as an incentive: "They saw it as, how the heck do you expect us to get from our plant to the highway? We're not in the road building business."[413] In the same vein, Mike Dube of the Ontario government observes: "Everyone thinks they are being paid to ... subsidize industry when what is really happening is that they are using those funds to help bring them up to scratch."[414] Jack Delaney, the now retired manager of site selection for the Province of Ontario in the 1980s, concurs: "The companies often came to the realization themselves that things like the distance to market or shortages of skilled labour sometimes made incentives a false offer."[415]

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412 DesRosiers, D. (2004). Interview with the author on 24 August, Richmond Hill, ON.

413 Duffield, L. (2004). Interview with the author on 8 December, Windsor, ON.

414 Dube, M. (2004). Interview with the author on 26 August, Toronto.

415 Delaney, J. (2004). Interview with the author on 3 December, Peterborough, ON.

In addition to questions about what actually constitutes an incentive, disputes rage about their relative importance. Some insist that incentives were crucial in attracting FDI, while others are more ambivalent. Skeptics include David Worts of the Japan Automobile Manufacturers Association of Canada (JAMA Canada) who observes: "My sense is that incentives were really never a big lure. They were really more concerned about the long-term business case."[416] Similarly, Larry Duffield considers incentives to have been of marginal significance: "It was icing and incidental to the actual decision process because most often an incentive was a temporary, one-off kind of deal."[417] By contrast, the traditional North American owned assemblers sought and received incentives that were more directly financial and these were considered to be crucial. Tayce Wakefield, who was with General Motors of Canada when the future of its Ste. Therese site in Quebec hung in the balance in 1987, describes the support her company received from federal and provincial sources as "essential."[418] The cash injection enabled the plant to be saved and re-equipped despite its "checkered past,"[419] Likewise, if the governments of Canada and Ontario had not extended a $68 million package of direct financial support to Ford in 1978 to build the Essex engine plant, the facility would have surely been built in Ohio.

To the Big Three, indirect or near cash incentives were much less important. In the context of already integrated North American operations, only direct incentives made a difference. The Big Three's status under the Auto Pact meant that they already paid no duties. Further, the FIRA held no sway with established foreign-owned businesses operating in Canada. Hence, the range of 'near cash' incentives available to influence Big Three investment decisions was far more limited.

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[416] Worts, D. (2004). Interview with the author on 24 August, Toronto.

[417] Duffield, L. (2004). Interview with the author on 8 December, Windsor, ON.

[418] Wakefield, T. (2004). Interview with the author on 18 October, Cambridge, ON.

[419] Ibid. Additionally, the Ste. Therese plant had the worst attendance record in the General Motors family (English, R. 1986. Number-one GM pushing into 21st century. *Financial Post*. 24 May, p 19).

In order to fully assess the importance of incentive packages the effort must be made to compute the financial value of both direct and indirect incentives. That means the present value of grants and interest free loans must be calculated rather than simply presenting headline figures. Most importantly, the value of indirect incentives must be factored into the equation. In the next section, we will look more closely at the role near cash tools played in attracting offshore FDI. The tools used included duty remission and FIRA waivers. Two case studies will then be used to clarify how near cash tools in combination with direct incentives were applied in support of the investment attraction process. Following that, a present value assessment for each of the incentive packages that accompanied the five offshore-owned investments that were announced between 1984 and 1987 will be presented. Both cash and near cash elements will be incorporated.

9.2. ii. The Emergence and Evolution of Duty Remission as a Foreign Investment Attraction Tool

One of the key weapons in the Canadian federal government's automotive investment attraction arsenal was an expanded duty remission scheme. Initially designed to assist parts makers make global sales, it was later adapted to become a primary tool in efforts to lure offshore-based assemblers to Canada. This section traces the origins and evolution of the scheme and provides an explanation for its prominence and value.

As demonstrated, by the late 1970s, Canadian policy makers had resolved to focus on the expansion of the parts industry. At the time, the Canadian Government had in place a General Remission Order, which was designed to stimulate parts sales to overseas producers. If, for example, a part was exported to Japan and it eventually found its way back into Canada in a completed vehicle, the remission order allowed the importer of the vehicle to receive a rebate equal to the duty value of the part. However, because Canadian parts makers sold virtually nothing to Japanese carmakers, the General Remission Order was almost meaningless. The APMA was anxious to see an expansion of the program whereby the manufacturer would receive a reduction in value for duty on vehicles imported into Canada to the full extent of that company's purchases of Canadian-made original equipment, not just on vehicles imported to Canada incorporating Canadian made parts. In other words, the actual Canadian-made parts would not have to return to Canada as they did under the General Remission Order. Former APMA president Pat Lavelle recalls:

> We were trying to encourage the growth of the domestic parts industry whichever way we could. There was always the criticism, of course, that we were not competitive, that we were solely focussed on the US market. ... But we didn't have any vehicle really to encourage or to incentivize anybody outside the country to buy parts from Canada. That was the difficulty ... so remission orders were seen as a way that that could be done.[420]

Lavelle recalls receiving a less than enthusiastic initial response from the federal government for the expanded remission system: "Everything was a tough sell with the federal government because the so-called domestic producers were consistently negative on doing anything that would alter their preferred position in the Canadian market."[421] Indeed, a Cabinet document of 1977 from the Province of Ontario warned that an expanded remission plan would make "imports of assembled vehicles more competitive with our own production."[422] Dennis DesRosiers, who covered the auto industry for the Ontario Ministry of Treasury, Economics and Intergovernmental Affairs, reflects on the dilemma:

> Canada had to change its auto policy from being one that was totally biased to the American industry and quite deliberately move to an auto policy that was more international, more focused on the global arena. That was very difficult, but that's what we started to do in the late '70s.[423]

Despite its reservations, the Province of Ontario eventually backed the proposal and started to lobby the federal government to adopt it. Progress was made when then Ontario Minister of Treasury, Economics and Intergovernmental Affairs, Darcy

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[420] Lavelle, P. (2004). Interview with the author on 1 October, Six Mile Lake, ON.

[421] Ibid.

[422] Archives of Ontario, RG 9-88, Box 3C, Binder: Proposals to Increase Ontario's Share of North American Employment and Investment in the Automotive Sector, p 28.

[423] DesRosiers, D. (2004). Interview with the author on 24 August, Richmond Hill, ON.

McKeough, caught the attention of his federal counterpart, the powerful Finance Minister Donald Macdonald. In 1976, Volkswagen had announced its intention to build a 200,000 capacity assembly facility in Pennsylvania. McKeough wrote to Macdonald in February 1977 recommending "the Canadian government should approach Volkswagen with some firm proposals ... to see if they are interested in rationalizing their vehicle market and parts production in North America." He specifically recommended that: "Expanding the Duty Remission Order would be an excellent first step towards obtaining a share of this market."[424] McKeough's overture prompted a positive response from Macdonald and a subsequent request by Macdonald to his colleague, then federal Industry Minister Jean Chretien, to give serious consideration to the matter. In June 1977, Chretien reported to Macdonald that his officials had met with Volkswagen and were "seeking to develop, in detail, a tariff remission program along the lines of that suggested by the Automotive Parts Manufacturers' Association."[425]

The new program was ready for implementation in January 1978. Pat Lavelle, as the parts association head, greeted it by forecasting increased parts exports of more than $100 million annually and the creation of 3,000 jobs over the next three to five years.[426] Remission orders had to be negotiated with individual companies and reflect the circumstances of those companies. It was envisaged that a core feature would be requirements to achieve minimum levels of CVA.[427] In the case of Toyota, for example, Industry Department officials suggested a tiered program that required a minimum CVA of $4.7 million before any duties would be remitted, and then only at a rate of 25 per cent of the paid amount, climbing to 75 per cent when CVA reached

[424] National Archives of Canada, RG 20, Accession 93-94/195, Vol. 160, File 4958-1, PT 16, Letter from W. Darcy McKeough, Treasurer of Ontario to Honourable Donald Macdonald, Minister of Finance, 18 February 1977, p 2.

[425] National Archives of Canada, RG 20, Accession 93-94/195, Vol. 160, File 4958-1, PT 16, Letter from Honourable Jean Chretien, Minister of Industry, Trade and Commerce to Honourable Donald Macdonald, Minister of Finance, 14 June 1977, p 1.

[426] Romain, K. (1978). Car parts sales rise remission plan's aim. *Globe and Mail.* 10 January, p B5.

[427] National Archives of Canada, RG 20, Accession 93-94/195, Volume 160, File 4958-1, PT 17, Telex from D.W.C. McEwen of Department of Department of Industry, Trade and Commerce to Milan, 25 January 1978, p 1.

12 per cent of sales. Toyota was reluctant to accept the proposal, protesting that the process of qualifying new suppliers was slow and that adjusting relationships with existing Japanese suppliers would be difficult.[428]

Several firms eventually agreed to join the scheme, but initial enrolment was low. Indeed, in early 1979, a full year after Cabinet had approved the program, most companies had yet to gain expanded remission agreements. The position of both Nissan and Toyota was that the minimum threshold levels were too high.[429] As late as December 1980, only Volkswagen had taken full advantage of the scheme, purchasing $80 million worth of Canadian parts in that year. Nissan and Honda signed agreements, but purchased just $6.7 million from Canadian producers in 1980, equal to 1.5 per cent of the value of their sales in Canada that year.[430]

In spite of the modest take up rate, the North American assemblers were highly critical. In March 1980, GM Canada president Alan Smith charged: "It is an unnecessary program. It provides favourable treatment to overseas manufacturers and thus provides a competitive advantage, without any obligation to invest in Canada as a condition of the program."[431] In fact, some claimed the program actually discouraged Canadian investment. For example, shortly after Volkswagen announced its intention to build a second assembly plant in the US in 1980,[432] the Canadian Motor Vehicle Manufacturers' Association president, James Dykes, speculated that Canada's duty remission program could have been a factor in that plant not coming to Canada. His rationale was that, through duty remission, offshore-based carmakers

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[428] National Archives of Canada, RG 20, Accession 93-94/195, Volume 160, File 4958-1, PT 18, Letter from Don McArthur, Senior Vice President to C.J. Kelly, Assistant Director, Department of Industry, Trade and Commerce, 6 April 1978, p 1.

[429] National Archives of Canada, RG 20, Accession 93-94/215, Volume 48, Box 31, File 73/116 – 7 – 78 – 43617; Canadian Automotive Parts Exhibition in Tokyo World Import Mart, 5 March 1979.

[430] Archives of Ontario, RG 9-95, Accession 21520, Box 4, File: Auto Industry – Reports, Speeches, Background Material etc.; Briefing Notes for the Treasurer on Auto Industry Policy, 7 July 1981, p 4.

[431] Romain, K. (1980). GM president cites negative effect of auto parts duty remission plan. *Globe and Mail*. 12 March, p B7.

[432] Volkswagen abandoned that plan and plant in 1982 and sold it to Chrysler.

could gain many of the benefits of tariff reduction without making the same production guarantees to which Auto Pact members had to commit.[433]

The aggravation of the North American automakers over the expanded remission program was soon transmitted to US policy makers. The US administration's agitation coincided with discussions initiated by new Canadian Industry, Trade and Commerce Minister Herb Gray. Gray's Liberal Party had vowed during the 1980 election campaign to re-open the Auto Pact, an option the original 1965 agreement had afforded.[434] Thus, Canada had offered the US and its automakers a forum to elevate the issue. US Special Trade Representative Reuben Askew first raised concerns about duty remissions during a meeting with Minister Gray in Ottawa in April 1980 and further representations were made in Washington in June. In a press briefing following the Washington meeting, Minister Gray took the opportunity to defend the program, reminding reporters that it was "designed to encourage third country manufacturers, not from any specific country ... to increase their purchase of parts from Canada ... This program is quite acceptable within the existing scheme of international trading rules and, in that sense, acceptable in terms of the North American auto industry."[435] Not all Canadian policy makers, however, were as confident that the program was beyond reproach. A briefing note prepared within the Ontario Ministry of Treasury, Economics and Intergovernmental Affairs in June 1980 observed: "The Tokyo Round ... includes a flat prohibition on export subsidies on all non-primary products, while production subsidies are permitted provided that the governments using them "seek to avoid" causing injury to other countries."[436] Reflecting on the Canadian situation more than two decades later, JAMA Canada

[433] Cheveldayoff, W. (1980). Duty remission plan for foreign car imports could become Canadian-U.S. trade irritant. *Globe and Mail.* 3 May, p B3.

[434] Minister Gray's opening was afforded by way of Article IV a. of the Automotive Products Trade Agreement of 1965 (Auto Pact), which stated, "At any time, at the request of either Government, the two Governments shall consult with respect to any mater relating to this Agreement."

[435] National Archives of Canada, RG 20, Accession 93-94/175, File 4958-1, PT 24, Press Briefing by The Honourable Herb Gray, Minister of Industry, Trade and Commerce, 27 June 1980, pp 5, 6.

[436] Archives of Ontario, RG 69-121, TB8, Box 2, File: Procedures for Preventing Unfair Competition in Auto, June 1980, p 3.

executive director David Worts mused: "At what point do they cross the line? When do they stop being simply export-based remission programs and when do they become actual subsidies?"[437] A memorandum issued in 1981 to Ontario Industry Minister Larry Grossman by Rodney Grey, a former Canadian negotiator during the Tokyo Round of GATT, advised unambiguously that "the duty remission scheme is an export subsidy which we long ago agreed to prohibit under the GATT, and reaffirmed in the Tokyo Round."[438] In addition to potential problems with GATT, policy makers were also cognizant of the fact that under Section 301 of the 1974 US Trade Act, the US government could challenge any policy of a foreign government that resulted in a reduction in US exports.[439]

Eventually, though, the industry-wide recession effectively shifted attention from cross-border trade irritations to more global concerns and threats. Canadian policy makers abandoned any attempt to review the Auto Pact and US opposition to the duty remission program effectively subsided under the weight of external pressures. For the next few years, rather than tussling with each other over obscure trade policy rules, policy makers on both sides of the border were fixed on combating the challenges of overseas manufacturers. In this environment, Canada was able to maintain its duty remission program without serious objections from the US. Further, as the policy priority shifted back to luring final assembly, the program expanded its remit to entice overseas assemblers to invest in Canada. John Tennant, who was in the Canadian embassy in Tokyo at the time recalls:

> The mindset, I think, of those in automotive policy and in trade policy was that Canada needed to create a set of incentives. The duty remission scheme was to be a key element that would interest the Japanese in increasing procurement and setting up production ... Public servants were able to devise quite creative ways in which the duty remissions could be aligned to work for

[437] Worts, D. (2004). Interview with the author on 24 August. Toronto.

[438] Archives of Ontario, RG 9-95, Accession 21520, Box 11, File: Rodney Grey; Memorandum to the Honourable Larry Gross from Rodney C. Grey, Special Advisor, Re: The Canadian/US Automotive Products Agreement and the Canadian Industry, 3 September 1981, p 6.

[439] Archives of Ontario, RG 9-2, Accession 22206, Box 2DM, File: Automotive Industry – General; Joint MIT and Treasury Response to the Task Force on the Canadian Automotive Industry, 19 May 1983, p 4.

> the companies ... All of this occurred in an environment where there wasn't a lot of political scrutiny by committees in the House of Commons or the public.[440]

Commencing in 1984, Canada's remission scheme assumed a new form.[441] There would be two types of benefits on offer. The first was a 70 cent reduction in the duty value of automobile imports for every dollar of CVA in automotive parts exported anywhere in the world. For that, no direct investment in Canada was required. The second benefit was the reduction of the duty value to 100 per cent if a substantial direct investment was made in the Canadian industry. This second benefit would be offered on a case-by-case basis. Former Chrysler Canada executive, Mike Walker, explains the government's motivations:

> From the federal government's perspective, they looked at all of these as trying to be fair and trying to help new investment grow ... They expected that at some point in time that everybody would achieve ... Auto Pact status; that the new entrants would build one vehicle for every one they sold in Canada. The government wanted a commitment by these companies to strive to increase their Canadian content. The remission orders were giving them stepping-stones to get to that status.[442]

In some respects, the requirement to achieve $1.00 of CVA to gain $1.00 of duty remission was a significantly higher hurdle than Auto Pact members were required to meet. By comparison, to import completed vehicles and parts duty free, Auto Pact members needed to achieve a CVA to Cost of Sales ratio of just 60 per cent. However, member companies were also required to produce one vehicle in Canada for every vehicle the company sold in Canada. Accessing the duty remission

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440 Tennant, J. (2004). Interview with the author on 17 September, Waterloo, ON.

441 The following Remission Orders were obtained:

> Volkswagen: 5 April 1984; revoking the Remission Order of 19 May 1983.
> Jaguar: 14 March 1985; revoking the Remission Order of 19 August 1981.
> Mazda: 14 March 1985; revoking the Remission Order of 6 May 1982.
> Mercedes Benz: 14 March 1985; revoking the Remission Order of 8 February 1980.
> Nissan: 14 March 1985; revoking the Remission Order of 8 February 1980.
> Peugeot: 14 March 1985; revoking the Remission Order of 17 March 1983.
> Subaru: 14 March 1985; revoking the Remission Order of 29 July 1982.
> Toyota: 14 March 1985; revoking the Remission Order of 19 August 1981.
> BMW: 14 March 1985; revoking the Remission Order of 8 February 1980.
> Honda: 13 March 1986; revoking the Remission Order of 14 March 1984.

442 Walker, M. (2004). Interview with the author on 28 December, Windsor, ON.

program, though, did provide an additional degree of flexibility not available to Auto Pact members. While Auto Pact members could be expected to pay all duties avoided in a given year should they fail to meet either of the Canadian safeguards, non-Auto Pact members simply received a rebate proportionate to their contributions with respect to CVA. Dennis DesRosiers quite neatly characterizes the duty remission program vis-à-vis the Auto Pact as "all or something versus all or nothing."[443]

Remission orders under the 1984 system became a necessary and common element in each new Canadian manufacturing facility negotiated. Those companies prepared to invest in Canada were rewarded with the more generous or enriched benefits. Volkswagen, for example, agreed to invest $40 million in Canada to gain such benefits, a significant reduction from earlier commitments.[444] Honda, in return for similar benefits agreed to "the purchase of a site of 300 acres, more or less, and the construction of a factory thereon by the Company to produce automobiles and the installation of machinery, equipment and apparatus at a total cost of not less than

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[443] DesRosiers, D. (2004). Interview with the author on 24 August, Richmond Hill, ON.

The "all or nothing" component of the Auto Pact provided Canada's federal government with an added degree of leverage in terms of negotiating automotive investments. The Canadian federal government used it to leverage additional final assembly investment throughout the 1970s. These included investments by Ford and Chrysler. This thesis will also show that the 1984 AMC-Renault investment in Bramalea, Ontario also hinged on resolution of a much earlier AMC Auto Pact shortfall.

[444] The $40 million investment by Volkswagen was a significant step down from the company's earlier agreement – a $102 million investment accompanied by 500 jobs. The new plan included a guarantee of just 184 jobs. Whereas the earlier plan was also accompanied by a $9.2 million grant from the Province of Ontario, the new plan would see that scaled back to $6.3 million. The scaled back plan was necessitated when Volkswagen abandoned its plans for a second plant in the US in 1982. Despite the less ambitious nature of the new plan, Ontario officials greeted it with some sense of optimism because rather than simply be a source of local supply (to Volkswagen's Pennsylvania plant) the new plant would be handed a worldwide mandate as well as the authority to secure contracts from other automakers. This material from:

- Archives of Ontario, RG 9-2, Accession 22206, Box 2DM, File: Auto Industry – General; Volkswagen Canada Inc. Default Under $9,200,000 Agreement, Michael Desrosiers, Special Services Branch, 18 October 1983.
- Archives of Ontario, RG 9-2, Accession 22206, Box 2DM, File: Auto Industry – General; Memorandum to D.S. Burrows, Director, Industrial Policy and Analysis, Ministry of Industry and Trade, from M.J. Dube, Re. Revised Volkswagen Plan for the Barrie Plant, 19 October 1983.

\$100,000,000."[445] The remission scheme that accompanied Toyota's eventual decision to invest directly in Canada contained similar commitments.

Later in this chapter, it will be shown that the value of the new entrants' remission orders was no less than \$50 million each. Yet the precise impact of these orders remains open to question. It is not clear if the company-specific arrangements actually resonated with the intended audience: the offshore automotive companies. The evidence points to them being of secondary consequence to the decision making process.[446] Mike Dube recalls the Honda negotiations: "Later, we got involved in extensive negotiations ... but Honda just showed up and told us they were building a plant here."[447] Dube's recollection is consistent with the perspective of former Industry Canada official, Paul Lau who recalls: "There was not much consultation because that's the way Honda does things."[448] Lau's former colleague, Larry Duffield, who served in the Canadian embassy in Tokyo from 1981-87, concurs: "The duty remissions always became important after the decision. It was a crossing the t's, dotting i's type of thing. It wasn't critical to the investment decision."[449] Likewise, former Ontario Assistant Deputy Minister David Girvin admits that he never found remission duties to be pivotal to negotiations: "I didn't detect an exaggerated level of interest or concern about items like the Auto Pact or duty remission ... I think they assumed that they would be in place for them and didn't consider them to be particularly interesting or controversial."[450] Volkswagen Canada's president Bruno Rubess acknowledged in 1986 that even though his company was a major beneficiary, it never considered the existence of duty

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[445] From the Honda Remission Order of 13 March 1986; revoking the Remission Order of 14 March 1984.

[446] Remission orders issued to Honda and Toyota were made well after the companies' announced their investments. The order for Honda's Alliston, Ontario assembly plant was issued in March 1986, almost two years after the company decided to invest. In other words, investment location decisions tended to precede the conclusion of the process.

[447] Dube, M. (2004). Interview with the author on 26 August, Toronto.

[448] Lau, P. (2004). Interview with the author on 22 October, Cambridge, ON.

[449] Duffield, L. (2004). Interview with the author on 8 December, Windsor, ON.

[450] Girvin, D. (2004). Interview with the author on 19 January, Toronto.

remission to justify buying or making a part in Canada. Each decision needed to be defensible independent of duty remission. That way, it was felt that, should the program ever disappear, Volkswagen Canada would be free from damaging repercussions.[451]

Subsequent events confirm the conclusion that duty remission orders were of secondary consequence. The Canada US free trade agreement of 1987 stipulated they would end in 1996. At the time of the free trade negotiations, Ontario Premier David Peterson was advised that their loss would have a major impact on Honda, Toyota, and Hyundai ... that a "US location is now (for them) more advantageous to serve the US market" and that their loss "will make Canada less attractive for possible future investment by Japanese and other offshore producers in the Canadian market"[452] But despite the dire warnings, cataclysmic consequences did not ensue. Honda built a new stamping facility in 1989 and proceeded with plans to build two new models in Canada. Toyota, meanwhile, added a second shift in 1989, announced an engine assembly operation in 1993, and decided to more than double its capacity in 1994. These investments were made in full knowledge that the elimination of production based duty remission was imminent. Marc Santucci, who headed the State of Michigan's international investment attraction bureau during the late 1980s considers that Canadian policy makers were mistaken in believing that remission orders were material in the battle for inward automotive FDI: "I think it was more like an inferiority complex; that they felt that they needed these things in order to compete or to succeed. I think, in many ways, it causes you to be less competitive."[453]

Although remission orders may have been, at best, supportive of the drive to attract FDI, they attracted significant opposition from policy makers south of the border.

[451] Daw, J. (1986). Car wars: Windsor vs. Detroit in bid to lure Japanese firms. Some Canadians say Michigan officials have been using intimidation tactics to gain parts plants. *Toronto Star.* 12 July, p C1.

[452] Archives of Ontario, RG 9-23, Accession 22575, Box 3, File: Information – Public Policy Auto Industry; Briefing Notes for the Premier's Briefing with Simon Reisman, 20 October 1987, p 12.

[453] Santucci, M. (2005). Interview with the author on 11 January, Lansing, MI.

The opposition peaked during the run-up to discussions about the future Canada-US free trade agreement in the period 1986-87. Former Tokyo embassy official, John Tennant recalls, "the US was watching very closely."[454] He also reflects:

> When it came down to the free trade negotiations, the US clearly had an agenda to do away with the duty remission schemes. As long as the US saw there was a free trade negotiation coming – so long as they saw there would be an opportunity to put remission within the broader context of free trade negotiations – they weren't going to get too preoccupied ... But any time that you are seen as taking undue advantage, of course, the Americans would be unhappy.[455]

Marc Santucci was particularly vocal in his opposition. He had been hired by the State of Michigan from the US Trade Representative's office (USTR) in Washington in 1983 and earlier had been involved in complaints the USTR had regarding Canada's FIRA: "Because of my experience with the USTR, I was familiar with who to complain to in Canada, how to complain and the like."[456] Santucci's opposition coincided with the culmination of the free trade agreement negotiations, and was played out in support of Mazda, which had already invested in Michigan. The State was concerned that Canada's duty remission program would encourage potential Mazda suppliers to locate in Ontario to the detriment of Michigan. Santucci recollects:

> We in Michigan felt it was very likely that ... because we were the closest industrial auto parts producing state to Ontario, where the Canadian industry is located, that we were going to be the most significantly affected. We thought our supplier base would be impacted by what was going on in Ontario, much more so than anyone who was in Kentucky or North Carolina.[457]

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[454] Tennant, J. (2004). Interview with the author on 17 September, Waterloo, ON.

[455] Ibid.

[456] Santucci, M. (2005). Interview with the author on 11 January, Lansing, MI.

[457] Ibid.

As it turned out, Santucci's concerns about competition for parts investment from Ontario proved unfounded, but certainly not for lack of effort on Canada's behalf. Former Canadian embassy official Larry Duffield recalls being told early that, because of the Mazda tie-in with Ford, and because of Ford's intention to grow in Michigan, Canada's aspiration for a Mazda assembly plant would not materialize. However, what made Duffield persist was the company's recognition that Canada was "serious about if you want to sell in Canada, you have to produce in Canada. We knew enough about

The opposition to Canada's duty remission program eventually involved a variety of powerful US interests. Foremost amongst them were Michigan Congressman John Dingell, Michigan Governor James Blanchard and US Trade Representative Clayton Yeutter. Yeutter charged that the program was inconsistent with the objectives of the Auto Pact; specifically Article I c, which committed both countries to "the development of conditions in which market forces may operate effectively to attain the most economic pattern of investment, production and trade."[458] A staff memorandum prepared for Yeutter advised that the practice appeared to be an export subsidy,[459] a position which was subsequently endorsed and pursued by House Banking Subcommittee chairman John LaFalce:

> These schemes are currently being used as investment incentives by the Canadian government with non-auto Pact countries such as Japan and Korea and are eroding the benefits of pact membership for US firms. In addition, they may be encouraging auto parts suppliers to locate in Canada and encouraging Japanese plants in the US to source their parts from Canada.[460]

Meanwhile, in Canada, the North American owned manufacturers had also renewed their fight against duty remission. Whereas Canadian-based opposition to duty remission in 1980 had focused on an appeal to policy makers' sense of fairness, the opposition that was offered in the run up to the free trade deal more closely approximated the GATT-based threats coming from the US. The Canadian Motor Vehicle Manufacturers' Association's Norm Clark, for example, in a newspaper article in October 1986, warned that, "Duty remission will be viewed by the US as a

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Japan to know the strength of the keiretsu. What they said they would undertake to do was to meet with their keiretsu and encourage them to look at Canada as a location" (Duffield, L. 2004. Interview with the author on 8 December, Windsor, ON). In fact, an eight-member Mazda delegation toured several Ontario parts plants and met with federal and Ontario officials in November 1984 (Waddell, C. 1984. Canadian auto parts makers see hope in U.S. Mazda plant. *Globe and Mail.* 1 December, p B3). Nothing came of the initiative with one potential investor reporting that the process of crossing the border took too much time and added a degree of risk his company was unwilling to accept (Duffield, L. 2004. Interview with the author on 8 December, Windsor, ON).

[458] San Franciso Chronicle. (1986). Canada Assailed on Auto Part Exports 'Subsidy.' *San Francisco Chronicle.* 22 August.

[459] Ibid.

[460] Benac, N. (1986). Michigan official lambasts Canada duty remission program. *Associated Press.* 23 September.

subsidy and therefore subject to countervail duty."[461] However, despite the threats, Canadian policy makers remained determined to maintain their advantage. Ontario Premier Peterson implored Canadian Prime Minister Mulroney by letter in September 1986 to join the fray:

> Action should be taken now to counter this threat to Canada's automotive policies and programs ... the duty remission programs are the only mechanisms which currently exist to enable and encourage foreign manufacturers to buy Canadian-made parts in Canada ... they do not take existing business away from United States companies and they do not provide a subsidy for those who wish to export from Canada to the United States.[462]

Several months later, Prime Minister Mulroney responded, assuring Premier Peterson that he shared his concerns. He went on to describe the various measures he and his officials had undertaken to clarify the issue in both Washington and Michigan. He acknowledged that duty remission and related issues would be discussed as part of the free trade negotiations, "given the interest the US side has expressed in these issues," but he also requested the support of Ontario:

> One of the key objectives of our trade negotiations with the United States is to gain relief from the harassment we have experienced ... Canadians speaking with one voice for an agreement that disciplines our bilateral trade and commerce will be more effective in securing the real solution against US protectionism.[463]

The Michigan-led offensive persisted throughout the period leading to the agreement reached in October 1987 on Canada-US free trade. In September 1987, as the negotiations were reaching their climax, Michigan Governor Blanchard orchestrated the governors of seven mid-west states to collectively urge the US government to overhaul the Auto Pact, including removing the Canadian safeguards, limiting Auto

[461] Clark, N. (1986). Our auto industry at risk. *Financial Post.* 4 October, p 8.

[462] Archives of Ontario, RG 69-160, Accession 35705, Box 12, File: C-USTR Trade Negotiations Issues Sector Analysis – Manufacturing Auto, January – June 1986; Letter from Premier David Peterson Right Honourable Brian Mulroney, 25 September 1986, pp 1, 2.

[463] Archives of Ontario, RG 69-160, Accession 35705, Box 12, File: C-USTR Trade Negotiations Issues Sector Analysis – Manufacturing Auto, January – June 1986; Letter from Right Honourable Brian Mulroney to Premier David Peterson, 14 January 1987, p 2.

Pact benefits to US-owned manufacturers only, and eliminating Canada's duty remission program.

The fact that duty remission was sacrificed as part of the 1987 agreement was to many observers an inevitable outcome. "If it wasn't removed in the free trade agreement, duty remission almost definitely would have been the subject of a US trade action"[464] reflected Julius Katz, former Carter Administration Assistant Secretary of State. In this regard, the Canada-US free trade negotiations of 1986-87 had played out in a manner that very closely paralleled those culminating in the Canada-US Auto Pact of 1965. The program initiated by then Canadian Industry Minister Drury in 1963 was a form of duty remission that American interests found objectionable. In much the same way that insistent pressures and threats led to a new framework in 1965, similar circumstances and tactics contributed to the creation of a new automotive framework in 1987.

It was only after the duty remission program's cancellation was announced that Slawek Skorupinski, then director of the automotive branch of the federal Department of Industry, revealed an estimate of the remission program's actual value. He forecast that by the time the program died in 1996, Honda, Toyota and Hyundai would have gained benefits of $227 million.[465] Based on production estimates available to Mr. Skorupinski in 1989 when his assessment was offered, it can be calculated that the duty remissions were worth $140.12 per vehicle. This estimate is calculated as follows:

[464] Gherson, G. (1987). The free trade fight: the big 3 win with trade deal. *Financial Post.* 9 November, p 3.

[465] Hallman, M. (1989). Asian auto "transplants" rejected by ailing big three, parts makers. *Financial Post.* 15 December, p 6.

Estimated Per Vehicle Value of Duty Remission Program

$$= \frac{\text{Total Announced Estimated Value of Duty Remission Program: 1 January 1989 – 1 January 1996}}{\text{Total Publicly Available Information Re. Production Volume Pre Duty Remission Cessation}}$$

$$= \frac{\$227{,}000{,}000}{1{,}620{,}000^{466}}$$

$$= \$140.12$$

Based on an average per vehicle sales price in 1990 of $16,863,[467] duty remission can be estimated to have had a value of less than one per cent of the value of each vehicle. It should be noted, however, that even though the program's value was less than one per cent of the retail value of a vehicle, such matters are not inconsequential to manufacturers. Perspective is gained by placing the program in the context of value added. In 1990, value added in final assembly in Canada was $4.7 billion[468] and total vehicle production in the country was 1.95 million (DesRosiers, 2005, p 120). Therefore, value added per vehicle in 1990 can be estimated as $2,410 per vehicle. On that basis Canada's duty remission program could be estimated to have a value equivalent to 5.8 per cent of final assembly value added, which is far from inconsequential. The fact that at least two of the new entrants committed to major investments following the signing of the Canada-US free trade deal speaks to the

[466] Calculated as follows:

	Honda	Toyota	Hyundai	
1987	80,000			
1988	80,000			
1989	80,000			
1990	80,000	50,000	100,000	
1991	80,000	50,000	100,000	
1992	80,000	50,000	100,000	
1993	80,000	50,000	100,000	
1994	80,000	50,000	100,000	
1995	80,000	50,000	100,000	
TOTAL	720,000	300,000	600,000	*1,620,000*

[467] From Statistics Canada *CANSIM* Table 079-0002 - Other Estimates of New Motor Vehicle Sales, Canada, Provinces and Territories, Computed Annual Average.

[468] From Statistics Canada *CANSIM* Table 379-0001 - Gross Domestic Product (GDP) at Factor Cost, System of National Accounts Benchmark Values, by Industry, Computed Annual Average.

relative advantage Canada had provided automotive manufacturers within the North American production environment.

Numerous writers have explored the behind the scenes intrigue leading to the Canada-US free trade agreement of October 1987. These include Ritchie (1997), Hart (1998) and Roberts (1992). Others have analysed the impact of the agreement on Canada's automotive industry, including MacDonald (1989), Wonnacott (1987 and 1988), Holmes (1993 and 2004) and Johnson (1993). What this section has added is a new perspective on the motivations of various industry actors regarding Canada's duty remission program. It has demonstrated how motivations and goals evolved over the years from a focus on supporting parts investment to an attempt to attract and anchor investments by assemblers. An assessment of the tangible value of the program has also been offered. Despite the rancour and debate, it has shown that the general level of understanding and relevance of the program to the automotive assemblers themselves was less than complete. Even though the program eventually disappeared as per the Canada-US free trade agreement of 1987, the response of the participants in the free trade era (such as the additional investments made by Honda and Toyota) calls into question the true effectiveness of the duty remission scheme in attracting FDI. Clearly, it was just one factor in attracting and retaining significant automotive investments.

9.2.iii. Contrary View: The Foreign Investment Review Agency as an Indispensable Tool for the Attraction of FDI

Another near cash tool the Canadian government used in its bid to attract overseas investors was the Foreign Investment Review Agency (FIRA). The purpose of the agency was to advise and assist the federal Minister of Industry in assessing the value of specific investments by foreign-owned organizations. Over the years, much has been written about FIRA. The purpose of this section is to add to what has been written by explaining the role the agency played in bringing overseas automotive companies to invest in Canada. It dispels some of the myths surrounding the Agency by describing its impact on automotive FDI attraction.

Concerns over the challenge to Canadian economic sovereignty posed by American firms became the subject of two formal inquiries in the late 1960s and early 1970s (Canada, 1968; Canada, 1972). The second report, by then backbench Liberal Member of Parliament Herb Gray, recommended a monitoring agency to review the FDI process, a proposal that ultimately led to the creation of FIRA in 1974. Canada asserted that the fact it had a higher proportion of its economy controlled by foreign interests than any other member of the Organization for Economic Cooperation and Development (OECD) made it necessary to issue guidelines to potential investors.[469] Throughout its 11-year existence, the agency was perceived to be a mechanism for turning away potential foreign investors in order to reduce the influence of foreign interests over the Canadian economy.

FIRA's enabling legislation covered both the acquisition of existing firms and the formation of foreign owned subsidiaries. Section 2(1) of the Act declared that foreign corporations' participation in Canada would only be allowed if the government determined that they would provide a "significant benefit to Canada." However, the means of deciding what constituted a significant benefit was never explicitly specified, and this fact bedevilled the agency throughout its existence. Even during committee hearings on the legislation that created FIRA in 1973, Industry, Trade and Commerce Minister Alistair Gillespie was forced to admit: "At this stage, precise standards for measuring acceptability cannot be spelled out ... [Doing so] will depend upon experience with specific cases; particular decisions will lead to a body of guidelines."[470] By 1981, however, eight years after Minister Gillespie's admission, the Agency continued to struggle with definitional issues. In a background note to its foreign missions, the Government of Canada defended its imprecision:

> The great diversity of industries, investors and regions involved means that no two investment proposals are the same or lend themselves to precisely the

[469] Archives of Ontario, RG 9-88, Accession 18468, Box 1, File: Briefing Book General, Briefing Notes for Meeting with Great Lakes Governors, 24 February 1981, p 2.

[470] Alastair Gillespie, "Statement before the Standing Committee on Finance, Trade and Economic Affairs of the House of Commons, (5 June 1973), p 7.

> same treatment. The application of the assessment criteria is thus flexible in that the weight attached to each of the criteria depends on the nature of the investment proposal.[471]

The main factor guiding FIRA was its assessment of the economic benefits of an investment. Each year, its annual report presented the alleged benefits of each approved investment. These included, for example, benefits related to employment, resource processing, exports, Canadian participation in management, enhanced technological developments, potential beneficial impacts on competition, and compatibility with industrial and economic policies (Canada, 1982). These are the same types of benefits covered in the literature review of this thesis. However, a general lack of transparency on the part of FIRA did not inspire confidence, either in the Canadian provinces or the investor community. The Province of Ontario, in which about 40 percent of the approximately 800 FIRA applications made each year were located, on several occasion raised concerns over administrative ambiguity. These included issues relating to the number of categories in which benefits should be documented, a lack of consistent treatment across industries and provinces, and variations in the speed and depth of the assessments conducted.[472]

International investors and their home countries shared these concerns. Because of its proximity, the US was particularly aggrieved, charging that FIRA's procedures were in conflict with the provisions of the GATT. The imposition of requirements on foreign investors was said to give an unfair advantage to domestic producers.[473] Even though other countries followed approaches similar to Canada the attack launched by the US was seen as singling out Canada. Canada's former negotiator through the Tokyo round of GATT, Rodney Grey, who was then serving as Special Trade Advisor to Ontario's Minister of Industry and Tourism Gordon Walker, felt

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[471] Archives of Ontario, RG 9-88, Box 1, File: Canadian Investment Policies: Background Information of Canadian Investment and Energy Policies, 29 September 1981, p 3.

[472] Archives of Ontario, RG 6-121, Box 7, File: The Foreign Investment Review Act, October 1981, pp 2-4.

[473] Archives of Ontario, RG 9-88, Accession 18468, Box 3, File: Foreign Investment Review Act (1982), Memo from Rodney Grey to Bernard Ostry, Deputy Minister Re: The Canada/US Dispute About FIRA, 19 April 1982, p 4.

that the US had singled out Canada as an easy target. "It is Canada that US businessmen complain about, and therefore they are acting against Canada."[474] Canada's FIRA symbolized the concern that many nations had over FDI. In fact, the Department of Foreign Affairs instructed its officers to defend its approach declaring: "The great majority of countries use administrative mechanisms of one kind or another such as exchange controls, land-use regulations, controls over capital markets or a fixed rules approach for dealing with foreign investment."[475]

Canada could rightfully respond to criticisms of FIRA by pointing out that 93 percent of all applications were eventually approved. However, as Globerman and Shapiro (1999) note, the rejection rate of seven per cent was a lower bound estimate of the deterrent effect of FIRA on FDI. Ontario Minister of Treasury and Economics Frank Miller expressed similar concern during a speech about FIRA in 1981:

> Regulation can lead to unforeseen consequences and FIRA, in my view, may have inadvertently withdrawn a powerful incentive to create a new business ... It is indicative of a temptation that government far too often succumbs to – over regulating: the feeling that if only we have legislation, then an agency, and finally, a bureaucracy, we will be able to control this awful thing called foreign ownership.[476]

Over the years, antipathy to FIRA grew. One of the most common criticisms was that the agency limited foreign investment and hence economic growth (Crookell, 1983; Rugman, 1983 and 1990). Indeed, the new Progressive Conservative Government of Prime Minister Brian Mulroney justified its replacement of FIRA with a new agency known as Investment Canada in 1985 largely on the grounds that FIRA impaired much-needed FDI.[477] However, insofar as the automotive industry is concerned, this research rejects any such claims. The antipathy of academic critics and the statistical

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[474] Ibid.

[475] Archives of Ontario, RG 9-88, Box 1, File: Canadian Investment Policies: Background Information of Canadian Investment and Energy Policies, 29 September 1981, p 3.

[476] Archives of Ontario, RG 9-88, Accession 18468, Box 3, File: Foreign Investment Review Act (1982), Notes for Address by the Honourable Frank Miller on the Foreign Investment Review Act to the German-Canadian Business and Professional Association, 4 November 1981, p 5.

[477] Despite the dismantling of FIRA in the mid 1985, the OECD (2003) has shown that Canada continues to maintain more restrictions on FDI than all other members with the exception of Iceland.

evidence brought forward (Globerman and Shapiro, 1999) has masked what was happening behind the scenes. Deigan (1991) reminds us that successive ministers consistently utilized the legislation to exact requirements from investors and potential investors that in the words of the legislation represented a "significant benefit to Canada." Before a case could be disallowed, an applicant had a number of options. One was to withdraw. Alternatively, the applicant might accept undertakings to satisfy government aspirations. Herb Gray, who crafted the original report which led to the creation of FIRA in 1974, observes: "The idea was never to ban investment; it was to get a better deal and in effect prevent takeovers resulting in the Canadian entities being reduced to warehouses ... so a better deal was involved in such things as R&D and head offices."[478]

It is proposed here that FIRA may have been a hurdle for foreign investors, but not a barrier. As far as the automotive industry is concerned, the agency served as a positive force in bringing overseas manufacturers to Canada. Academics and politicians who disparage FIRA ignore the stimulative effect it had through the requirement that potential investors demonstrate significant benefit to Canada. They overlook the likelihood that some investors would have either adjusted their business plans at the point of their submission to FIRA or during subsequent discussions and negotiations with FIRA administrators. Of course, it is difficult to quantify the upside effect. Based on Globerman and Shapiro's (1999) contention that FIRA's rejection rate of seven per cent represented prima facie evidence of its discouraging effect, the main question is "did the investors who gained approval increase their investment by more than the seven percent lost by those failing the significant benefit test?" That question, of course, is impossible to definitively answer. However, as far as the automotive industry is concerned, there is significant evidence to suggest that FIRA played a major role in generating additional offshore investment.

It is contended here that had the agency not existed, the largest of the new automotive assembly investments that came to Canada in the 1980s may not have happened. This situation was emphatically the case with the $764 million AMC-

[478] Gray, H. (2004). Interview with the author on 2 November, Ottawa.

Renault plant announced for Brampton, Ontario in June 1984. Had FIRA's replacement, the new Investment Canada been installed just a few months earlier, the AMC-Renault investment would have been much less likely. It will be seen that FIRA also loomed large in Hyundai's Bromont, Quebec investment in 1985. The role of FIRA and other 'near cash' elements is given emphasis through case studies of these two investments.

9.3 Case Study: AMC-Renault and the Use of Near Cash as an Incentive Tool

The AMC-Renault investment (now occupied by DaimlerChrysler Corporation) in Bramalea, Ontario was announced just one week after Honda had announced its investment for Alliston, Ontario in June 1984. The confluence of factors leading to the decision by AMC-Renault to invest in Canada provides a telling case study of how near cash levers, including FIRA, were utilized to attract FDI.

The genesis of the Bramalea project was in 1978 when AMC recognized that the quickest, most effective method of gaining the technological capabilities it required was the formation of an alliance with a strong overseas competitor (American Motors Corporation, 1982). AMC entered discussions with Renault in March 1978. By January 1979, Renault took its first equity stake in AMC and AMC became the exclusive importer and distributor of Renault vehicles in North America. Throughout 1979 and 1980 Renault increased its interest in AMC. A FIRA review was prompted in December 1980 when Renault had gained effective control of AMC with 46.4 per cent of its common stock. But as the FIRA process commenced, the new AMC-Renault organization found itself tackling a range of added problems related to production, distribution and the regulatory environment. Ultimately, this situation created the conditions from which the Bramalea investment emerged.

At the beginning of the 1980s, the North American auto industry was under serious threat from the combination of a rising import market share and a sharp drop in overall demand. AMC-Renault had seen its North American sales drop from 360,428 in 1979 to 243,050 in 1981, a decline of 32.5 per cent (American Motors Corporation, 1982). After earning a profit of US$61.1 million in 1979, the company lost US$200.1 million in 1980 and another US$136.6 million in 1981 (American Motors Corporation, 1982). In Canada, the AMC-Renault experience was similar to that of others in that its sales did not decline as precipitously as in the US: by 22.6 per cent between 1979 and 1981, from 38,381 to 29,710 (American Motors Corporation, 1982). However, Canadian production plunged: from 51,598 in 1979 to 30,043 vehicles in 1980 and 20,790 in 1981. Falling production in Canada meant that the company failed to meet the Auto Pact's production to sales ratio of 1:1 in both 1980 and 1981. In other words, AMC-Renault was selling more cars in Canada than it was making. Default of its Auto Pact commitments meant that the company could be liable to pay tariffs on all vehicles and parts imported into Canada in 1980 and 1981. Furthermore, documents from the Province of Ontario reveal that AMC-Renault also anticipated missing its Auto Pact commitments in 1984 and 1985.[479]

Against this situation, rumours also started to swirl that the president of AMC-Renault in the US, Jose Dedeurwaerder, had become critical of the company's Canadian labour force,[480] which in the opinion of this author can be traced to November 1981 when the company requested its union branches in both Canada and the US to forego 10 per cent of annual wages and benefits until 1984, at which time they would be repaid in full and receive a 10 per cent bonus.[481]

The AMC approach to its labour union was not without precedent. In 1979 and 1980, the UAW at Chrysler had given up US$662 million (White, 1987, p 168) when Lee Iacocca (1984, p 232,) warned the UAW: "I've got thousands of jobs available at seventeen bucks an hour. I've got none at twenty. So you better come to your

[479] Archives of Ontario, RG 9-2, Accession 22206, Box 2DM, File: American Motors Canada Limited; Briefing Notes for Minister's Meeting with Officials from American Motors (Canada) Ltd., 6 May 1982, p 1.

[480] Archives of Ontario, RG 9-2, Accession 21618, Box 1, File: American Can Canada Ltd.; Briefing Notes on American Motors (Canada) Ltd., 23 February 1983, p 3.

[481] Until AMC turned a profit in last quarter of 1983, the company had accumulated a string of 14 consecutive quarterly losses.

senses." After workers at Chrysler had succumbed to the pressure to freeze wages and pensions and reduce paid holidays, the union was deluged with requests for concessions from other employers. These conditions convinced Canadian UAW head Robert White to take action: "If we gave out major concessions, it wouldn't stop until workers in every union in the country were stripped of the gains that had taken fifty years to achieve" (White, 1987, p 171). At a council meeting of the Canadian UAW in 1980, White sought and received unanimous approval for a Canadian UAW wide "no concessions" policy.[482] Then, on 15 December 1981, the Canadian Labor Congress (CLC) called on all its affiliates to hold the line against concessions with CLC president Dennis McDermott declaring: "Submitting to such blackmail would open a dangerous door leading to a general lowering of standards of living and reduced purchasing power."[483]

The policy established by the Canadian arm of the UAW in 1980 held firm and no further concessions were accepted. Meanwhile, though, US unions were moving in a different, more conciliatory direction. On 21 December 1981, the UAW in the US agreed that its General Motors and Ford councils should be prepared to revise contracts prior to expiry in September 1982. Owen Bieber, head of the union's General Motors department, observed: "Indefinite layoffs at G.M. right now are at their highest level in months, and the prospects for the immediate future don't look optimistic. The time has come to meet as a council and talk about these difficulties."[484] The divergence between the Canadian and American arms of the UAW widened in February 1982 when the Canadian UAW's governing council endorsed an alliance with critics of the American UAW leadership and reaffirmed its no concessions policy. On 1 March 1982, Ford workers in the US moved in the opposite direction from the Canadians and ratified a new contract that saw them give

[482] The Canadian Auto Workers would resurrect its no concessions policy in 2005 when, in response to significant challenges at automotive parts firms, the union endorsed a resolution indicating it would "not accept concessions in wages, pensions or benefits in its auto assembly or auto parts contracts."

[483] List, W. (1981). Labour told to hold line against wage cutbacks. *Globe and Mail.* 15 December, p 4.

[484] Holusha, J. (1981). Auto groups agree to consider reopening pacts. *New York Times (Late Edition).* 22 December, p A1.

up the equivalent of two weeks pay per year and forego annual three per cent raises. Over the two and a half year life of the agreement, the concessions were expected to save Ford US$1 billion.[485] Later that month, US GM workers also agreed to a new contract, foregoing annual pay raises, giving up vacation days and deferring cost-of-living increases,[486] a package of concessions valued at US$2.5 billion over the same 30 month period.[487]

When AMC-Renault tested the resolve of Canadian labour in November 1981, the US UAW councils had not yet formally considered reopening contracts and Canadian labour remained firmly entrenched in a no concessions mindset. A company spokesperson described the scheme as not being a concession, but rather, "a kind of savings plan that pays dividends at the end of a 22 month period."[488] But the AMC UAW leadership in Canada was not inclined to agree. Joseph Maloney, the AMC UAW representative, confirmed the policy: "We have no intention of opening up contract talks until the contract expires."[489] Eventually, however, AMC locals in Kenosha and Milwaukee, Wisconsin and Toledo, Ohio did agree to negotiate and in April 1982, just weeks after the American Ford and GM packages had been ratified, US-based AMC workers accepted a package very similar to that put forward the previous November, resulting in cost savings for the company of US$150 million.[490] According to AMC president Dedeurwaerder, the continued rigidity of Canadian labour threatened the company's ongoing operations in Canada, charging that it was

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[485] Holusha, John. (1982). Auto union nears accord with G.M. on new contract. *New York Times (Late Edition).* 20 March, Section 1, p 1.

[486] Rhoden, W., Wright, M. and Rand Herron, C. (1982). The nation in summary; seal of approval for G.M. contract. *New York Times.* 28 March, Section 1, p 4.

[487] Globe and Mail. (1982). GM union backs deal: pay traded for security, *Globe and Mail.* 10 April, p B1.

[488] Hunter, N. (1981). AMC asks workers to approve wage and benefit deferment. *Globe and Mail.* 19 November 1981, p B2.

[489] Hunter, J. (1982). AMC facing UAW reluctance, FIRA rules. *Globe and Mail.* 7 June, p R10.

[490] Wall Street Journal. (1982). UAW, American Motors agree on tentative concessions accord. *Wall Street Journal.* 19 April 1982.

"difficult to work in Canada [and] ... the attitude of the union in Canada is not as constructive as the union in the US."[491]

In the early 1980s, therefore, the structural challenges facing AMC-Renault in Canada were considerable. They operated a small, inefficient plant in Brampton, Ontario that was tooled to make vehicles that the North American market was turning against, and they were doing so with a labour force the company's leadership had labelled inflexible. Meanwhile, although AMC and Renault continued to operate as a single company, the Government of Canada delayed approval of its FIRA application for endorsement of the 1980 takeover of AMC by Renault. The FIRA process had become tangled with another manifestation of AMC's marketplace woes: Auto Pact insufficiencies.

AMC-Renault met with FIRA officials in January 1981 with the intention of finding out what would be necessary to demonstrate "significant benefit to Canada" and gain approval. Company officials described initial meetings as cold, unfriendly and disappointing.[492] Renault officials consistently thought their agreement to become involved in AMC should have been sufficient to satisfy the regulator, a spokesperson declaring: "There would be no AMC Canada if it had not been for Renault's involvement."[493] Rudolphe Lambert, director of Renault's North American division, was quoted as saying: "We are saying just by the fact that we are here Canada will benefit."[494] Clearly, the officials' proclamations proved insufficient and by April 1981 the company had formulated a detailed set of proposals in return for the agency's approval. These included ensuring continued production at Brampton, provision of a North American mandate for two Brampton made vehicles, the promise of a new Renault vehicle for Brampton in 1985, a commitment to maintain

[491] Hunter, J. (1982). American Motors chief decries operating climate in Canada. *Globe and Mail.* 25 August, p B7.

[492] Archives of Ontario, RG 9-95, Accession 21520, Box 5, File: Renault/AMC; FIRA – AMC/Renault, Developments at Renault, France Following their Visit to Canada, 11 February 1981, p 1, 2.

[493] Hunter, N. (1982). AMC-Renault deal still held up. *Globe and Mail.* 1 February, p B4.

[494] Duncan, A. (1981). Renault disputes demands of FIRA. *Globe and Mail.* 5 March, p B1.

operations at the company's CANFAB (Stratford, Ontario) and Holmes Foundry (Sarnia, Ontario) subsidiaries, pledges regarding Canadian hiring and board members,[495] a guarantee of new capital investments totalling $82 million and the building of a cold weather testing facility in Ontario.[496] A response to the proposals from the Deputy Commissioner of FIRA, J.J. Tennier, provides a glimpse into the motivations and tactics of the agency. In May 1981, Tennier advised AMC Canada president Maurice Fertey to "include as undertakings all the items included in the April 14 draft letter ... but, in addition, we would urge you to include any other undertakings/plans which you can identify."[497] Tennier's response also suggested both sides should refrain from discussing matters in public.[498] Following Tennier's reproach, media attention regarding the AMC-Renault FIRA application virtually disappeared.

Given the paucity of publicly available information, the steps leading to the AMC-Renault announcement can only be retraced through interviews with participants and the archival record. Ontario industry ministry documents reveal that AMC-Renault was insistent that its FIRA application and Auto Pact shortfall negotiations be conducted concurrently.[499] The company believed it might be at a disadvantage if it allowed the two issues to become separated. For its part, the Canadian Government was reluctant to accede to the AMC-Renault request that its Auto Pact commitments should be treated on a rolling multi-year basis for fear of establishing a precedent that would lead to claims from other manufacturers.[500] Prior shortfalls by Chrysler

[495] Former Canadian Minister, Ed Lumley would join the Board of AMC in June, 1986.

[496] Archives of Ontario, RG 9-95, Accession 21520, Box 5, File: Renault/AMC; FIRA – AMC/Renault, Schedule "B" to the Letter of Regie Nationale des Usines Renault, April 1981, pp 1-5.

[497] Archives of Ontario, RG 9-95, Accession 21520, Box 5, File: Renault/AMC; Letter from J.J. Tennier, Deputy Commissioner of Foreign Investment Review Agency to American Motors (Canada) President, Maurice Fertey, 15 May 1981, p 1.

[498] Ibid.

[499] Archives of Ontario, RG 9-2, Accession 21618, Box 1, File: American Can Canada Ltd.; Briefing Notes on American Motors (Canada) Ltd., 23 February 1983, p 1.

[500] Archives of Ontario, RG 9-2, Accession 22206, Box 2DM, File: American Motors Canada Limited; Briefing Notes for the Minister's meeting with Officials from American Motors (Canada) Limited., 6 May 1982, p 1.

Canada and Ford of Canada had been handled after the fact on a quid pro quo basis,[501] and the federal government was content to handle the AMC situation in a similar manner. So committed was AMC to a prospective agreement on Auto Pact shortfalls that Government documents show that in January 1983 when Industry Minister Lumley signalled his intention to absolve AMC-Renault of its Auto Pact debts because the company had over-performed in 1982, AMC-Renault declined, continuing to insist that its performance be assessed on a controlled five to six year moving average basis. The company also wanted to know what penalty it would incur should it miss its Auto Pact commitments again.[502] The fact that AMC operated just one assembly facility in Canada with very limited capacity meant that it had virtually no room to manoeuvre. Each time the plant was shut down for a model changeover it was likely to default on its Auto Pact commitment, and would become liable for financial penalties. For example, based on the average sales price of new passenger cars and light and heavy duty trucks in 1984 (the year the Brampton investment decision was announced) of $11,292,[503] the company's shortcomings might reach $51 million on imported vehicles sales,[504] enough to finance a new, world scale assembly operation.

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[501] As explained in Chapter Five, Chrysler Canada failed to meet the production to sales ratio for trucks in 1973, 1974 and 1975. However, rather than pay duties the federal government estimated at $17 million, Chrysler agreed to invest $40 million to construct a new van plant in Windsor, Ontario. Chrysler failed to meet CVA standards in 1980 and 1981 and $245 million in unpaid duties loomed. However, a report prepared for the Ontario Ministry of Industry, Trade and Technology acknowledged that no serious attempt was made to collect the $245 million owing since the company was in dire financial straits at the time and it would have likely driven Chrysler into bankruptcy if it was forced to pay the penalty. (From: Archives of Ontario, RG 69-2, Accession 22205, Box 2DM, File: Automotive Industry General; Canada – United States Automotive Trade in the Context of a Free Trade Agreement, Prepared for Ministry of Industry, Trade and Technology by F. Pilorusso, 3 September 1987, p 28.)

[502] Archives of Ontario, RG 9-2, Accession 21618, Box 1, File: American Can Canada Ltd.; Briefing Notes on American Motors (Canada) Ltd., 23 February 1983, p 2.

[503] From Statistics Canada *CANSIM* Table 079-0002 - Other Estimates of New Motor Vehicle Sales, Canada, Provinces and Territories, Computed Annual Average.

[504] The annual liability estimated as follows:

(average vehicle price x annual imported units) x tariff rate
= ($11,292 x 40,000) x 11.4%
= $51,491,520

Before such a commitment was made, however, both sides engaged in posturing. On one hand, AMC-Renault was seeking from the Government of Canada a release from past Auto Pact shortfalls, some degree of certainty regarding a formula for potential future Auto Pact deficiencies and, through FIRA, assurance that it could operate lawfully in Canada. Meanwhile, even though it was aware of the power it held over AMC-Renault, the Government of Canada recognized that any lack of sympathy on its part might severely damage AMC-Renault and hasten its exit from Canada. The Government of Ontario anticipated that AMC-Renault might suspend production at Brampton altogether and negotiate a duty remission scheme similar to that for which Volkswagen had bargained.[505] In any event, both sides negotiated aggressively and at times, this research holds, disingenuously. For example, AMC Canada president Maurice Fertey took the unusual step of writing to Ontario Minister of Industry and Trade Gordon Walker on 5 November 1982 to repudiate rumours of the possible closure of the Brampton operations: "Let me go on record by saying that there is absolutely no basis whatsoever for this gossip and any such rumours are completely unfounded."[506] Despite the letter, one month later AMC-Renault announced that the Brampton facility's 1400 employees would be placed on indefinite layoff by April 1983. Today, former AMC official Jim Miller acknowledges that the December announcement was a ploy by the company to extract more favourable conditions from government.[507]

Meanwhile, AMC-Renault was negotiating with Chrysler to use the Brampton facility to augment production of Chrysler's rear wheel drive New Yorker, a scheme

[505] Archives of Ontario, RG 9-2, Accession 21618, Box 1, File: American Can Canada Ltd.; Briefing Notes on American Motors (Canada) Ltd., 23 February 1983, p 2.

The potential for a Volkswagen-like agreement was high given that AMC had extensive operations through two large subsidiaries: the Holmes Foundry in Sarnia (employment of 301) and CANFAB in Stratford (employment of 610) (from Archives of Ontario, RG 9-2, Accession 22206, Box 2DM, File: American Motors Canada Limited; Letter from Maurice Fertey to Honourable Gord Walker, 5 November 1982, p 1.)

[506] Archives of Ontario, RG 9-2, Accession 22206, Box 2DM, File: American Motors Canada Limited; Briefing Notes for Minister's Meeting with Officials from American Motors (Canada) Ltd., 6 May 1982, p 1.

[507] Miller, J. (2004). Interview with the author on 28 September, Toronto.

that could have increased AMC-Renault's Auto Pact credits and improved its bargaining position with government.[508] Eventually on 27 January 1983, AMC-Renault backed away from its threat of large-scale layoffs and announced its intention to move a product line from an AMC-Renault facility in Wisconsin to Brampton. Chrysler responded by announcing it would move production of rear-wheel drive large sized passenger cars to a Chrysler factory in Missouri.[509]

None of these moves forced the government's hand. It was not until AMC-Renault saw the need for additional capacity for North American production of a new line of intermediate sized passenger cars[510] that the two parties could be reconciled. Recognizing that an opportunity existed for Canada to secure the new investment, federal Industry Minister Ed Lumley approached AMC-Renault officials directly:

> I said, 'When you commit yourself to Canada, then I'll consider approving the FIRA application. Now, I hear that you're thinking of building a new plant. It's just a rumour, but I want you to build it in Canada' ... In the meantime, Bill [Ontario Premier, Bill Davis] said: 'You've got to approve it; you can't let them swing.' I said, 'Billy, you asked me to negotiate . . . you gave me free reign to negotiate on your behalf as well as ours. Let me do what I do best.'[511]

Davis was anxious to secure the investment. The plant would be located in his home constituency and he had been courting Renault for years. Indeed, Pat Lavelle allows

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[508] Discussions regarding the Brampton plant would be revived in May 1986 when AMC-Renault disclosed it was negotiating to build vehicles under contract for Chrysler. By then, the need to increase production to satisfy Auto Pact safeguards had passed as AMC-Renault had already committed to constructing the new Bramalea, Ontario plant. The 1986 discussions therefore, were driven by an interest in increasing revenue and filling otherwise idle capacity. Eventually, though, the work was awarded to AMC's Kenosha, Wisconsin plant rather than the under-utilized Brampton operation.

In September, 1986, it was disclosed that Nissan had also explored entering an arrangement with AMC-Renault to utilize the small Brampton assembly facility. AMC-Renault, under its Auto Pact status, could bring parts from Japan duty-free, even if those parts were destined for Nissan-badged products. By then, AMC-Renault had secured its long-term Auto Pact production requirements via its June 1984 announcement of a new 150,000 capacity facility in Bramalea, Ontario.

[509] Dow Jones Newswire. (1983). AMC to move production to Brampton from US. *Dow Jones Newswire*. 28 January.

[510] AMC had concentrated on smaller cars and had discontinued sales of intermediate and larger cars in 1978.

[511] Lumley, E. (2005). Interview with the author on 8 February, Toronto.

that one of the primary reasons for his appointment as the province's Agent General to Paris in 1980 was to work with Renault. As the negotiations progressed, Davis pressed Lumley to enhance the package to AMC-Renault, suggesting he offer Renault $200M to seal the investment. Lumley recalls telling Premier Davis: "Bill, I'm going to get this for $100 million split 50/50 with you and I. Never mind your $200 million, Bill. You don't need to do this."[512] Lumley was concerned about the precedent a large package might set for other negotiations he was then conducting. As shall be seen, Lumley and his team found other, less visible and potentially more generous ways to entice AMC-Renault.

When the $764 million, 150,000 unit capacity plant was announced in June 1984, government incentives for the Bramalea investment were announced as $121 million, split equally between the federal and provincial governments. The package, however, was not a straightforward grant. Through a royalty payment system, the company agreed to repay a government loan over 7.5 years.[513] When the assets of AMC were sold to Chrysler in 1987 just before the new plant commenced production,[514] Chrysler assumed responsibility under terms and conditions substantially the same.[515]

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[512] Ibid.

[513] Partridge, J. (1984). New AMC auto plant to create 1,800 jobs. *Globe and Mail.* 12 June, p B1.

[514] The new Bramalea facility struggled for several years to find a product the marketplace would accept. In 1989, the plant built just 34,000 vehicles, about 20 per cent of its capacity (Romain, K. 1990. Chrysler revives Bramalea plant, new LH models will more that double plant's work force *Globe and Mail.* 26 July, p B1) and its 1,100 employees were laid off 21 weeks in total (Daw, J. 1990. Chrysler considering expansion of Bramalea car assembly plant. *Toronto Star.* 10 March, p C1).

Around the time the loan was due for repayment, Chrysler was yet again in a perilous financial condition. Former Chrysler executive Mike Walker had detected that some in government did not actually expect his company to repay: "My sense always was that in Ontario they had already written that loan off ... as a bad debt; that from the very beginning they knew it would be virtually impossible for American Motors and Renault to meet their obligation. I didn't get that same sense out of the federal government at all, but I did get that sense out of the provincial government" (Walker, M. 2004. Interview with the author on 28 December, Windsor, ON). Erech Morrison from the Canadian Industry Department agrees. He confirms that Chrysler did in fact repay the loan on time. However, he also allows: "The fact that Chrysler repaid the Bramalea contribution on schedule and at present values represented a rare example where one of our repayment agreements worked out better than expected" (Morrison, E. 2006. Interview with the author on 16 February, Cambridge, ON).

[515] Milner, B. (1987). Ontario to approve Chrysler-AMC loan. *Globe and Mail.* 8 August, p B1

What the official figures do not reveal, and what has never been disclosed or probed previously, is that the Bramalea investment was also accompanied by assurances that the federal government would forego expectations that AMC-Renault would make good on tariffs owing due to Auto Pact shortfalls in 1980 and 1981, an amount estimated at $68.5 million, calculated as follows:

Auto Pact Liability = Tariff Rate x Value of Imported Sales in 1980 and 1981 = Tariff Rate x {(1980 and 1981 AMC-Renault Sales in Canada x Average Price of Passenger Car in Canada in 1981) x Estimated Percent of Imported Vehicle Sales} = .141 x {(65,031[516] x $9,334[517]) x .8)} = $68,469,527

Besides waiving these financial penalties as an inducement to invest, the ongoing saga of the FIRA application ended in approval without fanfare. No connection between FIRA and the Brampton investment has ever been publicly acknowledged. However, exactly one week after the 11 June 1984 announcement, FIRA quietly released a list of 27 investment proposals, 26 of which were accepted, including that of AMC-Renault.[518]

The meaning and significance of the AMC-Renault process has been generally under-appreciated. That itself makes the case presented here illuminating. Certainly, the direct and publicly announced incentives were important ingredients enticing AMC-Renault to make a substantial commitment to Canada. However, as has been demonstrated, there were other matters at play that make an examination of the transaction of even greater value. These concerned the Canadian federal governments' management of a range of indirect, near cash tools that were obscured

[516] 1980 and 1981 AMC-Renault Sales in Canada from American Motors Annual Report 1981, Supplement American Motors (Canada) Inc. Sales by Calendar Year.

[517] Average Price of Passenger Cars in 1981 from Statistics Canada *CANSIM* Table 079-0002 - Other Estimates of New Motor Vehicle Sales, Canada, Provinces and Territories, Computed Annual Average.

[518] Globe and Mail. (1984). Cabinet accepts 26 proposals, rejects one after FIRA review. *Globe and Mail.* 19 June, p B2.

at the time and have never been exposed since. Other reasons for the lack of research into the AMC-Renault deal may include the fact that within just a few years, AMC-Renault had sold the operation to Chrysler, at which time the facility joined the ranks of the traditional Big Three and became less conspicuous within the Canadian automotive landscape. The AMC-Renault deal was groundbreaking. It reveals how the Government of Canada was far more willing than the federal government in the US to engage in the FDI attraction process, using near cash tools to help in securing its objectives.

9.4 Case Study: Hyundai and the Use of Near Cash as an Incentive Tool

The entry of Korea's Hyundai into Canada provides another example of how near cash incentives, in tandem with direct financial support were used to secure significant automotive FDI. In 1985, Hyundai was anxious to expand its global manufacturing base, even though the company was small by world standards with an annual manufacturing capacity of just 300,000 vehicles.[519] The company, moreover, had little experience in the North American market and some feared that its entry into Canada was premature. According to Ontario's Mike Dube: "The guys who were running Hyundai were making pronouncements and commitments that no rational person in their right mind would make. But, they were being aggressive and I guess their aggressiveness would help the company."[520] David Girvin, who was then the Assistant Deputy Minister in Ontario's Ministry of Industry, Trade and Technology with responsibility for coordinating the process of bringing industrial investment to Ontario, met with Hyundai to discuss the company's intentions. He too was skeptical:

> I wanted solid answers to some fundamental questions and when I put specific questions to them I was not happy with the responses I received ... Suffice is to say that they didn't seem to have a strong business case. If we had thought that Hyundai was offering a bonafide business case we might have been able to get it for Ontario. Certainly, there seemed to be a sense in

[519] Burgess, J. (1984). South Korea eyes US auto market: quality, protection among obstacles. *Washington Post*. 7 October, p F1.

[520] Dube, M. (2004). Interview with the author on 26 August, Toronto.

> Ottawa from [then Assistant Deputy Minister in the federal Industry Department] Bob Brown and others that perhaps it was Quebec's turn, but had we pushed harder; had we really wanted it, we probably could have made a pretty compelling case for Hyundai to locate in Ontario. We just didn't have a good feeling about their long-term success and unfortunately the Quebec operation was not successful.[521]

Hyundai eventually announced a 100,000-unit, $300 million plant for Bromont, Quebec on 15 November 1985. The announcement was made just two weeks ahead of the Quebec provincial election, which saw the separatist Premier Pierre Marc Johnson lose his government's nine-year grip on power to the Liberals. In selecting a Quebec location, 18 sites were rejected in Ontario and four in British Columbia.[522] The announcement was accompanied by disclosure that a direct incentive package would accompany the investment consisting of a five-year, $200 million interest free loan valued at $110 million,[523] free land (with an announced value of $1.5 million), reduced electricity rates, exceptions to the provincial language laws over the use of the French language at the plant, and a training grant of $7.3 million from the Quebec Department of Labour (Yanarella and Green, 1993). In announcing the investment, then Quebec Industry Minister Rodrigue Biron boasted: "We have finally broken the vicious circle in tearing away a car assembly plant from Ontario."[524]

What was not acknowledged were two other near cash incentives. The first of these was not a part of official negotiations, but nonetheless raised the ire of many of the Canadian auto industry's established participants. Within weeks of the Bromont announcement, Hyundai came under fire from the combined forces of labour, parts makers, and the North American owned final assemblers for its tariff free status (in place due to Korea's classification as a developing nation). In a joint letter to

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[521] Girvin, D. (2005). Interview with the author on 19 January, Toronto.

[522] McKenzie, R. (1985). Hyundai plant set for Quebec Premier confirms. *Toronto Star.* 15 November, p E1.

[523] Toronto Star. (1985). $110 million pledged to aid Hyundai's Quebec plant. *Toronto Star.* 22 November, p E1.

[524] Ibid.

Canadian Prime Minister Mulroney in January 1986 they charged: "By the time the Hyundai plant comes on stream, the company will have realized a 3-year period of duty-free vehicle imports into Canada and with substantial grants and other financial incentives will in effect have been provided with an almost free $300 million facility."[525] Within months, the same group declared: "By the end of 1986, custom duties of some $80 million dollars will have been foregone by Ottawa and realized by Hyundai in the form of either additional profits or increased prices."[526]

Hyundai's favourable treatment helped it build a strong sales base in Canada. However, a second incentive – analogous to a near cash element – can be more directly connected to the company's investment decision. As in the AMC-Renault case 18 months earlier, the Hyundai investment process also contained a significant FIRA component. In the AMC-Renault investment, the FIRA role was never publicly acknowledged. However, with respect to Hyundai, when the reduced role of FIRA was disclosed in May 1986, several months after the investment announcement, it helped feed a political frenzy.

The origins of the uproar can be traced to 1983, immediately prior to Hyundai's entry into the Canadian market in January 1984. In 1983, Hyundai sought and received approval from FIRA to enter into the automotive distribution business in Canada. However, as part of the FIRA deal, Hyundai pledged to purchase and export Canadian products valued at 50 per cent of the company's imports, at least 20 per cent of which were agreed to be manufactured goods.[527] When Hyundai received FIRA approval to operate a sales organization in 1983, it anticipated that its sales

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[525] Archives of Ontario, RG 69-160, Accession 35705, Box 12, File: C-USTR Trade Negotiations Issues Sector Analysis 1985 and Prior; Letter to Premier David Peterson from CAW, APMA and MVMA, 31 January 1986, p 5.

[526] Archives of Ontario, RG 69-160, Accession 35705, Box 12, File: C-USTR Trade Negotiations Issues Sector Analysis – Manufacturing Auto January – June 1986; Letter to Honourable Brian Mulroney from CAW, APMA and MVMA, 26 May 1986, p 3. The $80 million figure was derived by reviewing landed costs, sales volumes and MFN duty rates for Hyundai's Pony and Stellar vehicles for each of 1984, 85 and 86.

[527] Daw, J. (1986). Stevens gives break to Korean car firm. *Toronto Star*. 3 May, p A1.

would be approximately 5,000 units per year.[528] Problems arose, however, when sales exploded. In 1985 and 1986, Hyundai imported 138,000 of its Pony and Stellar models into Canada, which at an average cost of approximately $6,500 amounted to sales of $897 million. Under the FIRA agreement then, Hyundai should have exported $225 million worth of goods annually, including manufactured goods valued at $45 million. Hyundai's Canadian vice president, Norm Gibbons, stated that his company had purchased $39 million worth of parts and accessories in 1985,[529] but his information was not enough to quell the storm that erupted in the House of Commons in May 1986. At the time, Federal Industry Minister Sinclair Stevens was already under attack and facing allegations that his family's private firm had received a $3.6 million loan from a Korean Bank partly owned by Hyundai. It was alleged that Stevens had negotiated generous incentives and other near cash deals with Hyundai at the same time his private company had dealings with the Hyundai-associated bank.

The apparent abandonment of the FIRA requirements provided another piece of ammunition for the parliamentary opposition. Liberal Member of Parliament Lloyd Axworthy raised the following awkward questions:

> By allowing the Korean auto company to break a commitment, it cost a minimum of 10,000 jobs to the Canadian economy last year ... Was this done with the knowledge of the Prime Minister, was it done with the knowledge of the Cabinet, or was it his own private negotiation for his own purpose? Why was that broken agreement not made public at the time? Why did you keep it secret? What were you trying to hide?[530]

"We still have a commitment under the FIRA obligation," countered Mr. Gibbons on 5 May 1986, "but the total commitment is not going to be enforced as strongly."[531] Noteworthy for this research, Mr. Gibbons disclosed that the agreement to waive the

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[528] Winsor, H. (1986). Nielsen switches strategies in deflecting Stevens affair. *Globe and Mail.* 7 May, p A3.

[529] Daw, J. (1986). Stevens gives break to Korean car firm. *Toronto Star.* 3 May, p A1.

[530] Lloyd Axworthy, 5 May 1986, House of Commons Debates, First Session – Thirty-Third Parliament, Volume IX, 1986, Queen's Printer for Canada, p 12,938.

[531] Harris, M. and Waddell, C. (1986). Stevens defends $300 million break for Hyundai. *Globe and Mail.* 6 May, p A1.

FIRA provision was made at the time of the negotiations leading to the November 1985 Bromont announcement, a fact that was verified by documents released at a subsequent inquiry into Mr. Stevens conduct. A memorandum from Investment Canada president Paul Labbe advised: "We believe that this continued commitment to develop Canadian exports, along with the capital investment program is an equitable substitution for the existing import-export undertaking." On 20 August 1985 Stevens replied saying, "I agree with your recommendation."[532]

It is difficult to place an accurate monetary value on abandoning Hyundai's liabilities under its 1983 commitments. However, by considering a range of data, it is possible to place an estimate of the upper range cost. The formula below attaches an annual cost to government by considering the costs associated with its Employment Insurance program. It is acknowledged that accuracy is limited by two factors: First, the formula is premised on the assumption that any sales made as a result of the Hyundai FIRA undertaking were incremental; that is, Hyundai exports would not have replaced sales that might have been made to other customers. Second, it attaches no formula for spin-off or indirect employment that may have resulted from any incremental exports Hyundai's FIRA commitments might have generated. With those caveats, assuming lost sales of $225 million annually, it is estimated that the direct jobs lost as a result of abandoning the 1983 FIRA deal were 1,663, which, with a weekly employment insurance payout rate of $154.29 (in 1984), would translate into $13.3 million annually. The discounted cash flow, then, would have a value of $120.6 million using the same 11 per cent discount rate the government attached to Hyundai's interest free loan.

[532] Bird, H. (1986). Stevens steered clear of discussions with Hyundai officials, probe told. *Toronto Star.* 16 October, p A2.

Annual Cost of FIRA Abandonment
= Annual Cost of Incremental Employment Insurance Benefits
= Total Foregone Jobs* x Annual Employment Insurance Benefits per Person Drawing Benefits**
= 1663 x $8023.08
= $13,342,382

*Total Foregone Jobs
= Annual Hyundai Export Commitment ÷ Average Goods Produced per Employee in Manufacturing
= ($225 million) ÷ ($230 billion[533] / 1.7 million[534])
= 1663

**Annual Employment Insurance Benefits per person Drawing Benefits
= (Weekly Employment Insurance Benefits) x 52
= $154.29[535] x 52
= $8023.08

Present Value of $13,342,382 for an indefinite period
= $13.342,382 x 9.0417***
= $120,637,815

*** Utilizes an 11% cost of capital rate, which was the figure government assigned to the Hyundai deal in 1985. (Note: Present Value Table sourced from Boudreaux (1997, Appendix 1, p 4)

In addition, Korea was considered a developing nation. As a result, Hyundai vehicles were not subject to duty when the company originally entered the Canadian marketplace. Even though it was not directly attached to the negotiations associated with the Bromont plant decision, it can be estimated that the Canadian Government's decision to defer the collection of the tariff on Korean automotive imports until 1 January 1987, had a value of $81.2 million[536]

[533] Statistics Canada *CANSIM* Table 301-0001 Manufacturing Activities by Standard Industrial Classification 1980 Annual. (The data is for 1984.)

[534] Ibid.

[535] Statistics Canada *CANSIM* Table 276-0013 Employment Insurance Program (E.I.) by Province, Type of Benefit, Period and Sex. (The data is for 1984.)

[536] These figures were offered by the CVMA, APMA and CAW in a joint letter to Prime Minister Mulroney (Archives of Ontario, RG 69-160, Accession 35705, Box 12, File: C-USTR Trade Negotiations Issues Sector Analysis – Manufacturing Auto January – June 1986; Letter to Honourable Brian Mulroney from CAW, APMA and MVMA, 26 May 1986, p 3.)

Value of foregone duty on imported vehicles (C$000,000s)	1984:	8.6	
	1985:	33.2	
	1986:	39.4	
TOTAL			$81.2 million

Clearly, then, when the combined effect of the direct incentives and the FIRA waiver are considered, Hyundai received a very favourable deal. In fact, the Bromont arrangement was so generous that the combined contributions of the Governments of Canada and the Province of Quebec nearly paid for the investment.

Eventually, in 1993, Hyundai's Bromont facility closed, the only one of the 1980s era offshore assembly investments to fail. It would be unfair, though, to conclude that because the company had so little invested it had little to lose in simply abandoning the project. The reality is that by 1995, two years after the Canadian production facility was shut down, a Hyundai prospectus revealed accumulated losses in Canada since the mid 1980s of $607 million, the majority being related to the Bromont shutdown.[537] Instead, it is more likely that government largesse helped accelerate Hyundai's original decision to invest at a time when they were ill equipped to succeed. At the time of the 1985 announcement, Hyundai had capacity of only 300,000 in South Korea and virtually no presence in the US. It may be argued that in 1985 the company did not have the capabilities to build and operate a large production facility overseas.

9.5 Assigning Tangible Value to Near Cash Incentives

It is evident that the values of the incentive packages used to attract automotive FDI to Canada significantly exceeded the publicly announced figures revealed at the time. There are several reasons for this inconsistency. First and foremost was the desire of officials to operate outside the glare of potential US detractors. Second, both

[537] Plant. (1995). Cheque really was in the mail (Hyundai repays government loans). *Plant*. 20 November, p 4.

governments and companies wished not to be seen as being overly generous in the application of public funds. Third, the fact that Canada's federal government was prepared to immerse itself into individual projects meant that many arrangements could be orchestrated without the direct outlay of cash and could therefore operate beyond public scrutiny.

While the fact that many elements of the investment attraction packages were not publicized and therefore cause packages to be understated, other elements were more modest than first presented. For example, in 1984, a federal-provincial royalty payback scheme prepared to accommodate the AMC-Renault investment in Bramalea, Ontario was represented as a $121 million grant to the company, when in fact it more closely approximated an interest free loan worth with a net present value in foregone interest of approximately $36.5 million. Similarly, a $35 million incentive to Toyota in 1985 was merely an interest free loan with a present value of $22.4 million.[538]

Yet, while the value of some individual items may have been exaggerated, the research results presented here demonstrate that the true size of each package, when all components are considered, was invariably much larger than that portrayed. This discrepancy stems from the inclusion of disguised 'near cash' aspects that were part and parcel of every deal. For example, earlier in this chapter it was revealed that, when AMC-Renault announced its intention to invest $764 million in a new manufacturing facility in Bramalea, Ontario in 1984, the Government of Canada suspended its threat to collect Auto Pact liabilities from the years 1980 and 1981. Outstanding liabilities of approximately $68.5 million were swept away. By 1984, with compound interest for three years at 11 per cent, this liability would have grown to $93.7 million. Therefore, even though the royalty payback scheme was generally misrepresented as a grant and was therefore worth less than reported, Table 9.1 shows that the effect of adding the release from AMC-Renault's previous Auto Pact liabilities means that the total package had a value more than $9 million higher than reported when the company announced its decision to invest.

[538] Derived utilizing the same 11 per cent cost of capital the governments applied when the Hyundai incentive package was constructed in 1985.

Table 9.1
AMC-Renault Incentives

Amount Announced as Incentive	Funds advanced to AMC-Renault	$121 million
True Value of Incentive	One must assume that the federal and provincial governments, each of which pledged $60.5 million, would receive payment at the rate anticipated as per the announced capacity rate of 150,000. The royalty payback scheme was based on $50 per vehicle plus 1.5% of factory receipts[539]	$36.5 million
	Compounded value of the waiver of AMC's estimated $68.5 million Auto Pact liability	$93.7 million
	Total	$130.2 million

Similarly, as Table 9.2 below indicates, the incentives offered to Hyundai in 1985 were also seriously understated. Although, as indicated earlier in this chapter, traditional Canadian automotive actors charged that foregone duties on imported Hyundai vehicles for the years 1984-86 represented a total advantage to Hyundai of $81.2 million (on 1 January 1987 a duty rate of 6.0 per cent became applicable), that figure has not been incorporated in the assessment provided below. The reason is because Korea's duty free status was established well before the commencement of

[539] Annual Payback
= Per Vehicle Royalty Payback + Royalty Payback Rate x (Estimated Factory Price of Vehicle x Assumed Annual Production)
= ($50 x 150,000) + .015 ($10,000 x 150,000)
= $30,000,000

Assuming funds from the federal and provincial government flowed during height of construction (1985), it would have been assumed that the annual repayments of $30 million would have commenced in 1987 and continued until such time as the $121 million was repaid. Therefore, assuming an 11 per cent cost of capital (see note below), the net present value of the government assistance would have been equal to the present value of the interest avoided. Thus,

The true value of the incentive
= Present value of interest on $121,000,000 that would have otherwise been paid after year one
+ Present value of interest on $121,000,000 that would have otherwise been paid after year two
+ Present value of interest on $91,000,000 that would have otherwise been paid after year three
+ Present value of interest on $61,000,000 that would have otherwise been paid after year four
+ Present value of interest on $31,000,000 that would have otherwise been paid after year five
+ Present value of interest on $1,000,000 that would have otherwise been paid after year six
= ($121m x .11) x .9009 + ($121m x .11) x .8116 + ($91m x .11) x .7312 + ($61m x .11) x .6587 + ($31m x .11) x .5935 + ($1m x .11) x .5346
= $11.99m + $10.80m + $7.32m + $4.42m + $1.82m + $59,000
= $36.51m

Note: The 11% figures is utilized here and in subsequent calculations because that is the figure government assigned to the Hyundai deal in 1985. Present Value Table sourced from Boudreaux (1997, Appendix 1, p 4) negotiations between Hyundai and Canadian officials regarding a final assembly investment. Even so, as Table 9.2 reveals, the total package provided to Hyundai was under-represented by $120.6 million, the main discrepancy relating to the estimated cost to government of Industry Minister Sinclair Stevens' decision to disregard the FIRA commitment made by Hyundai two years prior regarding the export of Canadian goods.

Table 9.2
Hyundai Incentives

Amount Announced as Incentive	Interest free loan of $200 million for five years	$110 million
	Free land	$1.5 million
	Training Grant	$7.3 million
	Total	$118.8 million
True Value of Incentive	Interest free loan of $200 million for five years	$110 million
	Free Land	$1.5 million
	Training Grant	$7.3 million
	Present value of FIRA waiver ($13.342,382 annually for an indefinite period)[540]	$120.6 million
	Total	$239.4 million

In like fashion, the negotiated levels of assistance to Toyota and Honda have hitherto been understated. As explained earlier, no acknowledgement was made at the time of the Toyota and Honda investment announcements of the favourable duty remission schemes granted to both companies by the Government of Canada. Present values that might have been forecast at the time of the announcements are reflected in Tables 9.3 and 9.4 and demonstrate the incentive packages that accompanied their Canadian investments were understated by at least $50 million each. It is worth noting that the ultimate value of duty remission schemes for both companies were in practice much higher than estimated because production ran ahead of initial estimates in both cases. Between the times their duty remission schemes were negotiated and when the program ended in 1996, both companies significantly outperformed initial

540 Present Value of $13,342,382 annually for an indefinite period
= $13.342,382 x 9.0417
= $120,637,815

Note: Utilizes an 11% cost of capital rate, which was the figure government assigned to the Hyundai deal in 1985. Present Value Table sourced from Boudreaux (1997, Appendix 1, p 4) estimates.[541] Honda, for example, increased its capacity to 80,000 from the 40,000 level announced in 1984 and actually built 108,000 vehicles in 1994.[542] By 1995, Toyota, which had announced capacity for its Cambridge facility as 50,000, had increased production to 90,000 units.[543]

Table 9.3
Toyota Incentives

Amount Announced as Incentive	Interest Free Loan of $35 million for five years	$35 million
	Training Grant	$15 million
	Total	$50 million
True Value of Incentive	Present value of interest free loan of $35 million to be paid back over seven years commencing seven years after start of production[544]	$22.4 million
	Training Grant	$15 million
	Present Value of Duty Remission (based on $140.12 per vehicle x 50,000 vehicles per year for an indefinite period)[545]	$63.3 million
	Total	$100.7 million

[541] The fact that Honda and Toyota significantly outperformed came as little surprise to Ontario's David Girvin who reflects: "In the case of the Japanese we learned that they certainly didn't overstate their intentions ... That being said, the documents that went to Cabinet went there at the lower levels. We were confident they would eventually be much higher, but we never indicated or promised that that would happen (Girvin, D. 2005. Interview with the author on 19 January, Toronto).

[542] Available from: http://www.jama.ca/jamastats/annual/index.asp?t=0. (Accessed on 28 February 2006.)

[543] Ibid.

[544] Present value of interest free loan of $35 million to be paid back over seven years commencing seven years after start of production utilizing present value tables and 11% cost of capital (see note below)
= $5 million (1-.4817) + $5 million (1-.4339) + $5 million (1-.3909) + $5 million (1-.3522) + $5 million (1-.3173) + $5 million (1-.2858) + $5 million (1-.2575)
= $2,591,000 + $2,830,500 + $3,045,500 + $3,239,000 + $3,413,500 + $3571,000 + $3,712,500
= $22,403,000

Note: Utilizes an 11% cost of capital rate, which was the figure government assigned to the Hyundai deal in 1985. Present Value Table sourced from Boudreaux (1997, Appendix 1, p 1)

[545] Present Value of $140.12 per vehicle on 50,000 vehicles annually for an indefinite period
= (140.12 x 50,000) x 9.0417
= $63,346,150
Notes:
- Utilizes an 11% cost of capital rate, which was the figure government assigned to the Hyundai deal in 1985.
- Present Value Table sourced from Boudreaux (1997, Appendix 1, p 4)

Table 9.4
Honda Incentives

Amount announced as incentive	No incentive acknowledged	0
True Value of Incentive	Present Value of Duty Remission (based on $140.12 per vehicle x 40,000 vehicles per year for an indefinite period)[546]	$50.7 million

The last offshore-based final assembly operation announced during the period came on 26 August 1986 when General Motors and Suzuki declared their intention to invest in a $500 million facility in Ingersoll, Ontario. As explained in Chapter Seven, General Motors Canada, which was coordinating the project on behalf of the General Motors Corporation, had threatened to pull out of the project less than one month prior to the eventual announcement unless Suzuki was allowed to increase its annual export allocation under the Voluntary Export Restraint (VER) program to more than 3,000 units. "It's a deal breaker. It's absolutely essential to the transaction," declared General Motors of Canada vice president of finance Louis Hughes.[547] The facility, known as CAMI, was announced only after Japanese authorities decided to provide Suzuki with an export allocation of 17,000 units annually, up from 3,000 previously. It is estimated that the profit from the allocation of the 14,000 additional vehicles had a present value of approximately $23.3 million for an indefinite period. This amount is not insignificant and no doubt justified the verbal jousting and pressure that General Motors' Hughes employed during the spring and summer of 1986 to affect the deal. However, when expressed within the context of a $500 million project, it is unlikely that this incentive was crucial to the decision taken.

[546] Present Value of $140.12 per vehicle on 40,000 vehicles annually for an indefinite period
= (140.12 x 40,000) x 9.0417
= $50,676,920
Notes:
- A production level of 40,000 was used as that was the number Honda indicated when the investment was announced in June 1984. Honda's intention to increase production to 80,000 was not expressed until later.
- Utilizes an 11% cost of capital rate, which was the figure government assigned to the Hyundai deal in 1985.
- Present Value Table sourced from Boudreaux (1997, Appendix 1, p 4)

[547] Daw, J. (1986). Talks to resume with Japanese on auto curbs. *Toronto Star.* 31 July, p C3.

Table 9.5
CAMI Incentives

Amount Announced as Incentive	Forgivable Loan (if production, investment and job targets met)	$45 million
	Training Grant	$40 million
	Total	$85 million
True Value of Incentive	Forgivable Loan (if production, investment and job targets met)	$45 million
	Training Grant	$40 million
	Present value of incremental profits on 14,000 additional imported vehicles per year indefinitely (earned by pressuring Japan to increase quota to GM under Voluntary Export Restraints)[548]	$23.3 million
	Total	$108.3 million

This point is confirmed when set against the much more compelling factor of the rising value of the yen against the Canadian and US dollars, which depreciated in value by 40.6 percent and 37.4 per cent respectively against the yen between 1984 and 1986.[549] As CAMI pledged to comply with the provisions of the Auto Pact, it can be assumed that the value of the North American content within the vehicle would be a minimum of 50 per cent. Therefore, if the vehicle had a value of $8,000, North American content would amount to at least $4,000. Therefore, assuming comparable levels of efficiency and cost structures – an assumption that, it is acknowledged, other researchers from the era such as Abernathy et al (1981), Perry (1982) and Fuss and Waverman, (1985) might dispute – on a per vehicle basis, it can be estimated that the relative cost of the North American-produced portion of the vehicle declined by 40 per cent vis-à-vis the Japanese equivalent. Therefore, on

[548] Present value of incremental profit for an indefinite period
= Annual Incremental Profit x 9.0417
= $2,576,000 x 9.0417
= $23,291,419

Annual Incremental Profit
= (Return on Sales x Sales Price for each Vehicle) x (Number of Incremental Vehicles Allocated to Suzuki / GM)
= (.023 x $8,000) x (14,000)
= $2,576,000

Notes:
- Per vehicle profit margins are not available, nor for that matter are profits for Canadian vehicle manufacturers in 1986, the year the CAMI investment was announced. (Statistics Canada combines motor vehicles and parts so as not to betray confidentialities with respect to individual company balance sheets.) As a proxy, therefore, Return on Sales for the motor vehicle and parts industry for the year 1988 is utilized. Figures are derived from Statistic Canada *CANSIM* Table 180-0002 - Financial Statistics, Detailed Balance Sheet and Income and Retained Earnings, by Industry Based on the Standard Industrial Classification, 1960 (SIC), Annual.
- Present Value Table sourced from Boudreaux (1997, Appendix 1, p 1)

[549] Available from: http://fx.sauder.ubc.ca/cgi/fxdata. (Accessed 1 March 2006.)

$4,000 of content, the cost competitiveness of North American production would have been enhanced by as much as $1,600 per vehicle. Consequently, the relative importance of incremental Canadian profits with a present value of $23.3 million would appear to be of limited significance.

This section has demonstrated the extent to which the Canadian message to potential automotive manufacturers in the 1980s was amplified by near cash levers. Further, by assigning tangible value to these near cash aspects, the critical role of the Canadian federal government has been brought more sharply into focus.

9.6 Conclusion

In this chapter, the origins and evolution of a variety of systems and schemes governments utilized to attract FDI to Canada have been traced. It has been confirmed that the offers of direct incentives to automakers played a part in the process. However, where this thesis makes a fresh contribution is in demonstrating that near cash schemes were, in many cases, more influential. These included Auto Pact liability waivers, duty remission plans, VER manoeuvrings and FIRA manipulations. It completes the examination of the question "What role did governments play in facilitating the process of encouraging inward FDI during the 1980s?"

Near cash tools were predominantly under the management of Canada's federal government. Through the mechanisms at its disposal, the Canadian federal government was far more proactive than its US counterpart. In the US, the key architects of individual investment attraction efforts were states and local municipalities. In Canada, it has been shown that the federal government provided additional leverage, which in turn resulted in greater relative success. Unlike US states or Canadian provinces, federal governments can attract FDI by a wide variety of means. The fact that the Canadian government, unlike its US counterpart, was prepared to utilize such tools proved indispensable to the Canadian effort. It has been shown that near cash tools were applied subtly and with less visibility than the direct incentives offered by lower levels of government in either Canada or the US. The effect was that the Canadian government was able to operate with limited scrutiny for a considerable period. As a result, from the standpoint of the academic researcher, important transactions resulted that hitherto have received little attention.

Many of the tools used by the governments of Canada and Ontario in the 1980s to attract FDI no longer exist. Canada's FIRA was dismantled in 1985, the justification for VERs dissolved in 1987, duty remission disappeared in 1996, duties on automotive parts dropped to zero in 1996, and the Auto Pact was struck down by the World Trade Organization in 1999. Observes Dennis DesRosiers: "Now all of those things are spent and the government has to go elsewhere. Now they've got to play the cash game."[550]

[550] DesRosiers, D. (2004). Interview with the author on 24 August, Richmond Hill, ON.

Chapter Ten

Balancing Success Against Frustration and Failure

The relative success Canada enjoyed in winning automotive assembly FDI might cause one to assume that the process was guided by a clear and disciplined strategy. However, it has been argued that what was achieved emerged mainly from circumstances and conditions to which policy makers and other actors responded in the moment. What previous chapters have not examined in detail are potential investments pursued by Canadian governments that did not ultimately come to fruition. In many ways, these unreciprocated overtures provide valuable context and richer insight into the period under study as they better speak to the challenges and hurdles that actors confronted.

There are many reasons why business histories avoid the study of failure. For example, with the passage of time, a natural tendency exists to focus on what is – or was – tangible or real. A factory that never existed does not normally stimulate research about why it was never built. Second, many of the unfulfilled investments that were considered during the period under study did not generate significant attention at the time. Investors then, as now, are much more comfortable announcing tangible plans than vague prospects. Third, investments that were considered but rejected can in many cases be considered failures and actors are reluctant to discuss these. Fourth, with the passage of time, awareness of these unanswered propositions becomes less visible. Finally, on a very practical level, the fact that these investments were never made means that access to informants is inherently difficult.

In previous pages, reference has been made from time to time to unsuccessful negotiations. In Chapter Eight, for example, it was revealed that Honda made enquiries as early as 1979 about a major assembly investment. However, at the time, policy makers were fixated on the parts industry as a catalyst for inward FDI at the cost of final assembly. Also, the individual to whom the enquiry was made failed to recognize the scale of the potential opportunity. It was also revealed in Chapter Eight that while Canadian officials were considering a possible investment by Soviet carmaker Lada, they also saw the company as a prospective target for anti-dumping action. In a similar vein, the chapter records the unsuccessful attempts made by Canadian companies to become suppliers to Mazda's new plant in Michigan. Besides these episodes, the research supporting this thesis uncovered several other schemes that never came to fruition. This chapter examines more closely the range of proposals that emerged in order to place the automotive FDI processes and outcomes in proper context. In doing so, valuable lessons are provided about decision making in crowded markets and the factors that can build or dissolve investor confidence.

10.1 European Overtures

At various points, European manufacturers were drawn to consider investing in Canada. For example, Government of Canada archives reveal the possibility of a Fiat investment in Halifax, Nova Scotia. This prospect first materialized in September 1977 when an Economic Development Officer from Nova Scotia contacted the federal Department of Industry, Trade and Commerce to explore the production to sales ratio and CVA requirements of the Auto Pact.[551] The records reveal that extensive discussions with Fiat ensued, but they ultimately led to nothing. The collapse could be a result of the fact that the company's overture came when the Government of Canada was about to launch its expanded duty remission program. It is likely that the company decided that it would be able to avoid duties by increasing parts purchases from Canadian companies for its global operations through the expanded duty remission scheme Canada was introducing at the same time. Indeed, government archives show that by early 1978 Fiat was demonstrating considerable interest in the program.[552] Of greater importance, however, was the fact that Fiat's sales growth in North America in the mid 1970s turned out to be illusory. Italian exports of passenger cars to the US declined rapidly from 55,000 in 1977 (Motor

[551] National Archives of Canada, RG 20, Accession 93-94/195, Volume 160, File 4958-1, PT 17, Memorandum to File from A.W. Walters Re Possible Assembly of Fiat Motor Cars, 11 October 1977, p 1.

[552] National Archives of Canada, RG 20, Accession 93-94/195, Volume 160, File 4958-1, PT 17, Telex from D.W.C. McEwen of Department of Department of Industry, Trade and Commerce to Milan, 25 January 1978, p 3.

Vehicle Manufacturers Association of the United States, 1982, p 71) to less than 10,000 in 1981 (Motor Vehicle Manufacturers Association of the United States, 1986, p 30), rendering a major capital investment in North America uneconomic.

In addition to Fiat, two British based firms also generated interest from Canadian policy makers. Ontario government records show that in 1983, British Leyland expressed interest in investing in Canadian assembly operations, a prospect that would seem to have been speculative rather than well planned. A joint paper by the Ontario Ministry of Treasury and Economics and the Ministry of Industry and Trade concluded that the CVA content requirements were too high and that a kit assembly operation of the kind under consideration would not allow British Leyland to reach the necessary CVA thresholds.[553] Moreover, British Leyland sales in the US, where the majority of any Canadian produced vehicles would be destined, were simply too low to make such an operation viable. After British Leyland sales in the US peaked at 48,000 in 1978, sales trended downward and by 1983 sales were just 16,000 (Ward's Automotive Yearbook, 1990, p 219). By then, the company had recorded losses for four consecutive years.[554] It could only have rendered investment in Canada a diversion from the difficulties besetting British Leyland at home.

The UK's Lotus sports car maker was also mulling over international expansion plans in the mid 1980s. The engineering and manufacturing organization, headquartered in Norfolk, England, had plans to increase production from 1,000 units annually to 3,000 through the launch of a new car, the X-100.[555] Norfolk, though, was designated a 'non-development area' by the UK government and as such

[553] Archives of Ontario, RG 9-2, Accession 22206, Box 2DM, File: Automotive Industry - General; Summary Briefing on the Automotive Task Force Report, Joint Report by Office of Economic Policy of the Ministry of Treasury and economics and Industrial policy Branch, Industry Division of the Ministry of Industry and Trade, 8 June 1983, p 10.

[554] The long death march of British Leyland has been well documented by Lewchuk (1987), Williams et al (1994), Church (1995), and McLaughlin et al (1996).

[555] Griffiths, J. (1985). Cars operation may shift with Lotus. *Financial Times*. 11 November p 7, Section 1 p 7.

Lotus could not gain government assistance to support its expansion plans.[556] The search for a new manufacturing location spread far and wide. Sites were considered in Holland,[557] Ireland,[558] Austria,[559] and the US, where the majority of the vehicles would be sold.[560] Local union leaders had also sought to convince the company to take over a Vauxhall facility operating under capacity in Bedfordshire.[561] Michael Kimberley, the managing director of Lotus, suggested Canada as a potential location because of its proximity to the US market.[562] However, despite the apparently exhaustive search for a new location, and the refusal of the UK government's Department of Trade and Industry to extend financial support to an investment in Norfolk, the company ultimately decided to expand its existing facility.[563] Media reports aside, it is doubtful whether Canada was a real contender. Canadian officials contacted in the course of this research were not aware of a possible Lotus project in Canada. It is possible that Canada was raised as a potential location simply as a bargaining tactic in negotiations with the British government.

10.2 On Again, Off Again: The Saga of Chrysler

A more serious prospect, again with a British connection, involved Perkins Diesel and the Chrysler Corporation in a potential joint venture in Windsor, Ontario. The Chrysler-Perkins diesel engine project would be just one of several projects to be

[556] Simpson, D. (1986). Lotus threatens to expand abroad. Government refuses to help increase capacity of UK sports car plant. *The Guardian*. 24 May.

[557] The Guardian. (1986). Lotus "will not quit Britain." *The Guardian*. 1 September.

[558] Hetherington, P. (1986). Lotus plays the field, car company plans for a new plant. *The Guardian*. 17 September.

[559] Griffiths, J. (1986). Lotus more likely build plant overseas. *Financial Times*. 16 October, p 10.

[560] Hetherington, P. (1986). Hope for 1,000 new jobs as Lotus gets ready to rev up, the sports car manufacturer's hunt for a new production plant. *The Guardian*. 25 September.

[561] Griffiths, J. (1986). Lotus cool on union plant plans. *Financial Times*. 3 October, p 10.

Note: Lotus was a subsidiary of General Motors Corporation, having been purchased in early 1986.

[562] Griffiths, J. (1986). Lotus more likely build plant overseas. *Financial Times*. 16 October, p 10.

[563] Griffiths, J. (1987). Car makers to recruit 1,800, Financial Times. 6 March. Section 1 p 1.

abandoned by Chrysler during the 1980s. The diesel engine project emerged months after a series of government loan guarantees extended by governments in Canada and the US staved off Chrysler's bankruptcy. Perkins' main shareholder, one-time Canadian industrial icon Massey Ferguson, had likewise averted collapse by securing loan guarantees from the governments of Canada and Ontario. Negotiations commenced in April 1981. Government records show that company executives met with senior officials from Ontario and the government of Canada in Ottawa. Those present included Chrysler Canada president Moe Closs, Perkins Engine president Bill Winesmaster and Massey-Ferguson vice-president Roger Clarke. The companies were planning to form a joint venture to produce diesel engines for passenger cars in a dormant engine plant owned by Chrysler in Windsor, Ontario, which had closed in 1980. Chrysler would be the primary customer, but it was anticipated that General Motors, Ford and American Motors might also become customers.[564] As discussions progressed, government officials became convinced that diesel engines would eventually become a mainstay of the North American automotive industry. By 1985, for example, the Ontario government estimated that between nine and 25 per cent of the US car market would be diesel powered,[565] even though diesel had just 4.3 per cent of the passenger car market in 1980 (Ward's Automotive Yearbook, 1990, p 44).

Chrysler-Perkins initially pressed for $160 million to support the project, $120 million of which was to come from Canadian governments, divided equally between grants and loans.[566] This demand was ridiculed by Ontario's Deputy Treasurer in a memo to his counterpart at Industry and Tourism, Red Wilson: "This is yet another proposal for massive government assistance before we have any assurance as to the

[564] Archives of Ontario, RG 9-2, Accession 22206, Box 2DM, File: Chrysler Canada Ltd; Memorandum to A.D. Wilson, Director Evaluation and Assessment Branch from J.M. Mitchell, Re Chrysler Canada/Perkins Diesel Engine Project -- Windsor, 6 April 1981, p 1.

[565] Archives of Ontario, RG 9-2, Accession 22206, Box 2DM, File: Chrysler Canada Ltd; Application for Financial Assistance to Diesel Engine Project, 30 September 1981, p 1.

[566] Archives of Ontario, RG 9-2, Accession 22206, Box 2DM, File: Chrysler Canada Ltd; Memorandum to A.D. Wilson, Director Evaluation and Assessment Branch from J.M. Mitchell, Re Chrysler Canada/Perkins Diesel Engine Project -- Windsor, 6 April 1981, p 1.

viability of the partners' operations in their existing areas."[567] Eventually, despite the Ontario Treasury Deputy's misgivings, governments offered a package worth $105 million, including $22 million in loans and a further $83 million in loan guarantees.[568] No grant funding was offered.

Chrysler's conduct during and after the negotiations followed a pattern that was typical of its approach during the 1980s. On 23 December 1982, the company unilaterally abandoned its deal with Perkins, announcing that, should the program ever be resuscitated, it would produce six cylinder diesel engines at its Trenton, Michigan facility instead.[569] Clearly, the announcement came as a surprise to its partner, Perkins, which in a press release the day before regarding a joint venture deal to produce diesel engines with British Leyland, had indicated that the joint venture with Chrysler was moving forward as scheduled.[570] Meanwhile, Automotive News reported that tooling companies that had contracts to supply equipment to the Chrysler-Perkins Windsor facility had no prior knowledge of Chrysler's change of plans.[571]

Chrysler's withdrawal prompted a crisis. A memo to Ontario Assistant Deputy Minister of Treasury and Economics Bryan Davies reveals that federal Department of Industry, Trade and Commerce officials felt aggrieved for a number of reasons, not least of which was the lack of prior notice.[572] Following the announcement, the

[567] Archives of Ontario, RG 9-2, Accession 22206, Box 2DM, File: Chrysler Canada Ltd; Memorandum to L.R. Wilson, Esq., Deputy Minister, Ministry of Industry & Tourism Re Chrysler/Perkins Windsor Diesel Proposal from A. Randall Dick, Deputy Minister, Ministry of Treasury and Economics, 16 April 1981, p 1.

[568] Archives of Ontario, RG 9-2, Accession 22206, Box 2DM, File: Chrysler Canada Ltd; Memorandum to Bryan Davies, Assistant Deputy Minister, Ministry of Treasury and Economics from Kevin Jackson Re Chrysler Update, 31 December 1982, p 1.

[569] Globe and Mail. (1982). Chrysler delays plans to build diesel engines. *Globe and Mail*. 24 December, p 9.

[570] Archives of Ontario, RG 9-2, Accession 22206, Box 2DM, File: Chrysler Canada Ltd; Memorandum to Bryan Davies, Assistant Deputy Minister, Ministry of Treasury and Economics from Kevin Jackson Re Chrysler Update, 31 December 1982, p 2.

[571] Ibid, p 3.

[572] Ibid.

federal government decided to place on hold an Order-in-Council (OIC) forsaking the duty owed by Chrysler on its 1980 and 1981 Auto Pact shortfalls, an amount estimated at $245 million.[573] Several reasons can be offered for Chrysler's about-turn. First, chairman Lee Iacocca had been angered by the Canadian Chrysler workers' five-week strike in November and December of 1982. American UAW members had taken the unusual step of rejecting the company's contract offer in November 1982 but did not issue a strike notice. When the Canadian UAW unit did set a deadline, Iacocca was provoked to issue a letter to Chrysler workers stating that a stoppage would "cripple the company and, perhaps, ruin it. We will take a strike if we must, even though we are aware it could put us out of business."[574] Second, at the time of the project's abandonment, Chrysler officials may have either overlooked the tariff shortfall and therefore ignored the implications or considered the federal OIC already complete.[575] Third, by December 1982, Chrysler sales had started to recover and Chrysler had not yet accessed its Canadian or Ontario loan guarantees (nor would they ever), rendering governments in Canada less valued as strategic partners. An Ontario Treasury and Economics briefing note speculated, "Chrysler's behaviour ... and the degree to which it has angered the feds, almost suggests that Chrysler is willing to forego the assistance. Chrysler's financial position has turned around sharply since a year ago when the loan guarantees were drafted."[576] Finally, it

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[573] Daw, J. and Hepburn, R. (1982). Ottawa, Chrysler in tough talks, U.S. automaker faces $250 million in unpaid duties, sources say. *Toronto Star*. 31 December.

Note: Although the Order in Council was withdrawn and sabres were rattled, no serious attempt was ever made to collect the duties.

[574] New York Times. (1982). Chrysler's talks in Canada stalled. *New York Times*. 5 November, p 2.

[575] Auto Pact provisions regarding production to sales ratios and CVA stipulation were audited on an annual basis by the Department of National Revenue. Violations of the requirements were subsequently reported to the Department of Industry, Trade and Commerce, which could either request the Department of National Revenue to collect the duty payable on all vehicles and parts imported into Canada by the offending company or submit an Order in Council, along with Departments of National Revenue and Finance absolving the company of the duty owed. Generally, such remission orders would be conditional upon performance guarantees. This explanation from: Archives of Ontario, RG 6-121, TB8, Box 2, File: Procedures for Preventing Unfair Competition in Autos, June 1980, p 6.

[576] Archives of Ontario, RG 9-2, Accession 22206, Box 2DM, File: Chrysler Canada Ltd; Memorandum to Bryan Davies, Assistant Deputy Minister, Ministry of Treasury and Economics from Kevin Jackson Re Chrysler Update, 31 December 1982, p 1.

is possible that Chrysler had recognized that future demand for diesel engines would not materialize as projected. Indeed, the share of the US engine market claimed by diesel dropped from 6.1 percent in 1981 to 4.4 per cent in 1982. By 1985 diesel engine market share had sunk to below one percent in the US and remained at that level for the rest of the decade (Ward's Automotive Yearbook, 1990, p 44).

As indicated, Chrysler's abandonment of its deal with Perkins was not the only time the company went back on deals in Canada during the 1980s. In Chapter Six, it was explained that an R&D centre for Ontario, granted as part of the May 1980 agreement to extend loan guarantees to the company, was never built. Additionally, a revamped Chrysler operating plan, which was released in January 1981 contained significant changes from what the company committed during the May 1980 deal to avert bankruptcy. Planned investments in Canada were to be reduced by 40 per cent, from $1 billion to $600 million and Canadian employment commitments were likewise cut back, from 14,000 to 12,000.[577] The 1981 operating plan also confirmed that small cars would not be built in Canada. Instead, Canada was allocated a small van. As signatory to the loan agreements, Canadian government approval was needed before the new plan could proceed. However, before he would consent, former Minister Gray consulted the Canadian UAW. Recalls Gray: "the union said no, this won't work; we've got to have a real car."[578] Upon the Canadian UAW's rejection of the plan, Gray insisted that Chrysler should return to its original proposal and Chrysler acquiesced, agreeing to place a new small car in Canada (White, 1987, p 173). Eventually, though, Chrysler once more reneged on its commitment and stuck with its plan to locate the small van project in Canada.[579]

Setbacks involving Chrysler, while unsettling, were just one source of anxiety for public policy officials during the period under study. Indeed, the visible and

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[577] Archives of Ontario, RG 9-2, Accession 22206, Box 2DM, File: Chrysler Canada Ltd; Memorandum to L.R. Wilson, Deputy Minister, Ministry of Industry and Tourism from A. Croll Re Chrysler Canada - Update, 19 January 1981, p 2.

[578] Gray, H. 2004. Interview with the author on 2 November, Ottawa, Ontario.

[579] Despite Canadian UAW head White's reservations, the small van project proved very successful. "A solid seller, it has been providing jobs six days a week ever since" (White, 1987, p 173).

potentially costly collapse of the company in the early 1980s propelled policy makers to seek alternative sources of FDI. Nissan was an early target. However, as the next section will relate, actions by Chrysler also tarnished Canada in the eyes of Nissan as a potential location for significant manufacturing operations.

10.3 The Protracted and Frustrating Case of Nissan

In many respects, the failure to lure Nissan to Canada was the most prolonged and disappointing of all because of the high hopes raised that Nissan would create a production base in Canada. Nissan had been building cars in Mexico since 1966 (Shimokawa, 1994, p 110) and was the first Japanese manufacturer to commit to building vehicles in the US with the announcement in April 1980 of a pickup truck facility in Tennessee. It was believed that a Canadian facility was the next logical step. As chairman of JAMA, Nissan's president Ishihara had been continually exposed to international opportunities and threats and during his eight years as president of Nissan, he had developed a wide network of overseas ventures across Latin America, North America, Europe and Southeast Asia. A Canadian investment was consistent with the pattern of internationalization Ishihara had promoted. Also, Nissan was Japan's second largest automaker, and with this status came increased pressures and expectations. As well, the rising value of the yen over the 1980s had placed increasing pressure on companies like Nissan to localize production. Moreover, many Canadian officials had developed strong relationships with Nissan representatives. Ontario Premier Peterson, for example, had led the way in cultivating relationships with the Nissan leadership team. Canadian embassy official Larry Duffield later recalled "you could never go to Japan and talk to a producer without talking to Nissan. Lumley had an extremely good relationship with Ishihara, who was a particularly strong CEO in Nissan ... There was a sense of failure, I think, felt by both sides."[580]

Probably the greatest source of frustration over the failure to attract Nissan came from the fact that several seemingly viable options were considered. For example,

[580] Duffield, L. (2004). Interview with the author on 8 December, Windsor, ON.

three years after Nissan's Smyrna Tennessee facility was operational, the company was still not exporting vehicles to Canada. Nissan Canada president, Roy Hoshino went so far as to declare, "Imports from Smyrna should not happen until an investment in Canada."[581] Evidence uncovered during the course of this research suggests that over the years, no fewer than five schemes came under consideration. These included a small, independent assembly plant, a joint venture with Magna to produce car roofs and a joint venture facility with Ford. Additionally, prolonged talks were held with Chrysler on two occasions. These too ended in a manner similar to that experienced by Perkins. The first was in 1984 when a potential engine facility, utilizing the Chrysler plant that had been closed in 1980, came under discussion. This experience proved particularly frustrating. Former Canadian Industry Minister Lumley explained that then Nissan president Ishihara had originally wanted his company to make the first significant Japanese automotive investment in Canada. That did not happen, but he had later agreed to enter discussions with Chrysler. Lumley recalls:

> Iacocca called me and asked if I would intercede for them; help them make something work with Nissan in Canada. I never should have done it. But I did. They were going to place Nissan six cylinder engines in the K-car ... Kume, who was later made president, was flying from New York on his way to Ottawa to make the announcement.
>
> Meanwhile, Iacocca made a deal with Mitsubishi and cut the price by 40%. They announced it without telling Kume or me. Kume got to Toronto ... and went right back to Tokyo and blamed me. I was furious with Iacocca. 'You used me, you lied to get a better deal from Mitsubishi,' I said. 'But we got a 40% discount from Mitsubishi,' he said. 'That's not the way to handle the Japanese. That's not the way to handle anybody. You lied to them and you used me. I find that disgusting. Don't come to see me for anything, because I'll tattoo you to the top of Parliament Hill.'

The experience damaged Nissan's relationship with Canada. Erech Morrison joined the automotive branch of Industry Canada in 1984 and was assigned responsibility for the Japan file: "All I heard in the margins and in the corridors of Japan over the period 1984-85 was that Nissan had a hard spot for Canada."[582]

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[581] Daw, J. (1986). Nissan eyes major plant in Canada. *Toronto Star.* 18 February, D1.
[582] Morrison, E. (2006). Interview with the author, 16 February, Cambridge, ON.

However, by 1986, Nissan was again considering plans for a major investment in Canada. Nissan Canada president Roy Hoshino acknowledged in a media interview that Nissan was talking to Ottawa about a plant that would produce parts, that the investment would be between $200 and $500 million and that a decision was expected by the end of the year.[583] The *Toronto Star* reported during a trade mission to Japan by Ontario Premier David Peterson that Nissan was preparing plans to build automatic transaxles – a transmission and axle combination used in front-wheel drive vehicles – in Windsor, Ontario and that Chrysler would be the principle customer.[584] Following a meeting with Peterson, Nissan president Kume confirmed that his company had "almost decided" to build an auto plant in Ontario.[585] When the investment had still not been announced by the end of 1986, Nissan officials in Canada remained optimistic: "Our head office in Tokyo is studying an investment in Canada very seriously," said Nissan Canada president Hoshino in January 1987, "but we haven't decided yet."[586] By March of that year, following a trip to Japan, the Quebec Industry Minister was still optimistic, confirming that his province was a candidate for the investment. Almost a full year passed and the Nissan - Chrysler deal once again dissolved, but in February 1988, Nissan Research and Development president Takeshi Tanuma stated that the company was still anxious to build engines and transmissions in North America to reach a goal of 75 per cent North American content and that Canada was a candidate for such an investment.[587] In the meantime, attention turned to securing Canada as a location for a joint venture with Ford to produce vans. Hoshino and Canadian Ford president Harrigan both attempted to

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[583] Toronto Star. (1986). Nissan Canada looking at a 'solid investment'. *Toronto Star.* 15 August, E3

[584] Daw, J. (1986). Nissan seen eyeing huge new parts plant. *Toronto Star.* 3 October, p E3.

[585] Gibson, D. (1986). Peterson brings out heavyweights. *Toronto Star.* 11 October, p 12.

[586] Toronto Star. (1987). Nissan is considering building $200 million plant, officials say. *Toronto Star.* 15 January, p A3.

[587] Eisenstein, P. (1988). How $1 billion investment could yield 'all-American' Japanese car. *Christian Science Monitor.* 2 February, p 10.

Note: It took almost one decade for such an investment to occur. Nissan's North American engine and transmission facility did not open until 1997; not in Canada, but in Decherd, Tennessee.

secure the mandate,[588] but it was ultimately awarded to Avon Lake, Ohio in September 1988.

While there was much justification for Canada to have believed it was well positioned to secure an investment from Nissan, this thesis suggests why one never materialized. By 1986, when rumours of an impending Nissan investment were at their most intense, Nissan sales, unlike other Japanese-brands in North America, had stalled, and its market share had actually declined (Ward's Automotive Yearbook, 1992, p 213). Nissan was alone among the Japanese automotive brands in offering low interest-rate financing to sell its vehicles.[589] In addition, during the first half of the fiscal year – the period 1 April 1986 to 30 September – Nissan reported an operating loss.[590] Most importantly, individual company allocations under the VRA system in the US were based on 1980 sales levels. In 1986, Nissan was producing 65,000 cars (Ward's Automotive Yearbook, 1990, p 190) and 108,000 trucks (Ward's Automotive Yearbook, 1990, p 195) at its Smyrna Tennessee facility. However, with company sales stuck at essentially the same levels in the mid 1980s as they were in 1980, Nissan would have had unused quota available, making it far less compelling to expand into Canada. In this regard, Nissan was alone among the Japanese producers. Larry Duffield reflects upon the overall failure: "Nissan was just a disappointment from both sides. It didn't happen because someone made a mistake; it just couldn't come together properly ... That was one of the great tragedies of our auto program."[591]

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[588] From two articles:

- Daw, J. (1987). Ford, Nissan in joint study of new vehicle. *Toronto Star.* 1 May, p E5.
- Daw, J. (1987). Ford still mum on site for new plant. *Toronto Star.* 24 May, p F2.

[589] Daw, J. (1986). Nissan eyes further local projects but firm refutes rumors of plans to use AMC's Brampton plant. *Toronto Star.* 27 September, p S2.

[590] Milner, B. (1987). Nissan, with its habitual caution, seeks domestic-based profitability. *Globe and Mail.* 23 November, p B4.

[591] Duffield, L. (2004). Interview with the author on 8 December, Windsor, ON.

10.4 Daihatsu-Bombardier: A Canadian Car?

The final setback in Canada's efforts to secure automotive FDI during the 1980s involved Daihatsu Motors, the smallest of Japan's nine automakers. Given its connection to Canadian industrial giant Bombardier, it represents the closest Canada ever came to producing a genuinely Canadian car since McLaughlin was sold to General Motors in 1918. Between 1985 and 1987, when the feasibility program was shut down, Daihatsu's potential Canadian partner, Bombardier, spent approximately $15 million, about two-thirds of which was government funded,[592] researching the efficacy of building and marketing small cars utilizing imported Daihatsu drive trains. The appeal for Bombardier, the recreational products, railcar and aircraft producer, was an opportunity to fill what it perceived to be an under-explored niche within the North American market. "We're not looking at cars to compete with Chrysler or GM," commented Bombardier chairman Laurent Beaudoin in June 1986. He observed: "Big producers have difficulty in this market. A small company like ours could fit into a niche like that."[593] For Daihatsu, which was not importing cars into North America in 1981 when the VRA system was established in the US, localized production offered a means by which to enter the market. Plans had been devised to launch in a two-wave strategy. The first would see production of a derivative of a small four-wheel drive vehicle at a level of 20,000 units annually in a plant adjacent to one of Bombardier's existing facilities in Valcourt, Quebec. In the second stage, a new factory would be constructed to build 200,000 vehicles, half of which would be Daihatsu passenger cars, the other half a Bombardier small car utilizing a Daihatsu drive train.[594]

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[592] Gibbens, R. (1986). Bombardier gets $8.7 million to study feasibility of minicar. *Globe and Mail*. 7 June, p B5.

[593] Toronto Star. (1986). Car plant talks at critical stage, Bombardier says. *Toronto Star*. 17 June, p D3.

[594] Nihon Keizai Shimbun. (1987). Last of Japan's Automakers to Locate in North America; Daihatsu to tie up with Canada's Bombardier to produce 4WD vehicles, subcompact cars. *Nihon Keizai Shimbun*. 24 January, p 19.

The Daihatsu project was suspended in June 1987, a turn of events for which several reasons may be discerned. First, in March 1987, Daihatsu had finally been allocated an export quota by the Japanese Ministry of International Trade and Industry, at the expense of other makers. Daihatsu received approval to ship enough vehicles to the US to start a marketing program on the west coast.[595] The allocation may have contributed to Daihatsu feeling less pressure to proceed with the investment. Second, Daihatsu had misgivings about Bombardier's insistence on using its large dealer network originally set up to distribute snowmobiles.[596] Third, Daihatsu had reservations about building in the province of Quebec.[597] Quebecers had only recently rejected the separatist Parti Quebecois government, but the perception of political uncertainty persisted. Fourth, between October 1985, when news of a potential Bombardier-Daihatsu arrangement first leaked to the press[598] and June 1987 when the project was abandoned, the value of the yen appreciated by 30.6 per cent against the Canadian dollar.[599] The high Japanese content of the vehicles, including engines and transmissions, would have severely limited potential profits. Fifth, the two companies were preparing to compete with a small-car-only strategy, a segment of the market in which profits are traditionally very low. With no larger, higher profit vehicles to complement the range, the companies may have concluded that the risks of going ahead were too high. Sixth, in 1985, when the seeds of the Bombardier-Daihatsu plan were planted, the participants anticipated the opportunity to exploit an under-explored niche in the North American market. By 1987, however, as explained in Chapter Eight, various actors had issued repeated warnings of industry overcapacity. In a 1988 interview, Bombardier president Raymond Boyer allowed: "It became evident that world auto plant capacity was 30, 40 or 50 per cent unused, which meant that ... people would try to beat us in the niche where we would try to

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[595] Globe and Mail. (1987). Daihatsu goes to U.S. *Globe and Mail.* 11 March, p B23.

[596] Enchin, H. (1987). Bombardier, Daihatsu abandon Venus project. *Globe and Mail.* 24 June, p B4.

[597] Milner, B. (1987). Daihatsu plans for North America still in force. *Globe and Mail.* 24 June, p B4.

[598] From: Asia: Japan. International State of the Industry. *Ward's Auto World.* January 1986. Available from: http://www..findarticles.com/p/articles/mi_m3165/is_v22/ai_4083062. (Accessed 22 April 2006.)

[599] Available from: http://fx.sauder.ubc.ca/cgi/fxdata. (Accessed 22 April 2006.)

go."[600] Indeed, after the two companies launched their feasibility study in 1985, several other low cost manufacturers announced their intention to establish marketing or manufacturing operations in North America. These included Skoda from Yugoslavia; Hyundai, Daewoo and Kia from Korea; and Volkswagen's Brazilian subsidiary. Additionally, North America's traditional Big Three were also preparing to import offshore vehicles from low cost countries like Taiwan and Korea and badge them as Ford and GM products in North America. Finally, there is some question about how serious, sincere and committed the participants truly were. Former Canadian Embassy official Larry Duffield reflects:

> I never took it seriously. I never saw the Bombardier people expressing themselves and the Quebec people were far too intermittent in my model for investment promotion or economic development. They needed to be there ... Investment promotion is a lot of detail, a lot of work over periods of months. I didn't see that pattern with Daihatsu or Bombardier. To me, you're not going to invest millions of dollars unless you engage in the details.[601]

Ultimately, the potential partners heeded the warning signs and shelved their investment plans. Although Daihatsu did enter the market, it struggled from the start. The company sold just 15,000 vehicles in the US in 1990, slumping to 9,000 in 1991 (Ward's Automotive Yearbook, 1992, p 167). By February 1992, the company announced it would no longer develop products for the North American market,[602] thus validating the caution that led to the abandonment of its Canadian joint venture five years earlier.

10.5 Conclusion

Clearly, the path that Canada and its provinces took to secure offshore automotive investment in the 1980s was not without setbacks and failures. This chapter has demonstrated that some of the factors that helped attract some companies to Canada actually deterred others. In at least one case, that of Lotus, it has been suggested that

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[600] Valpy, M. (1988). Project Venus failed to take off. *Globe and Mail.* 22 February, p A8.

[601] Duffield, L. (2004). Interview with the author on 8 December, Windsor, ON.

[602] Globe and Mail. (1992). Daihatsu pulls back. *Globe and Mail.* 15 February, p B7.

Canada's success in attracting FDI and the attention it received in doing so, was used as a lever in the company's negotiations with its own government.

The setbacks experienced by Canadian officials in their investment attraction efforts also advance broader lessons about FDI and decision-making. For example, it has been demonstrated that regardless of the efforts made by both government and industry actors to secure investments, external factors can simply be overwhelming. Additionally, it has been shown that investors need to be capable of not simply financing the investment, but sustaining the market necessary to support it. This chapter has also illustrated how decisions may be made in uncertainty and in crowded markets. It has also provided further perspective on the role and influence of personalities. It has been seen that actors may or may not act rationally and their bias and influence should be neither discounted nor presumed. These are important observations, adding balance, context and texture to the research reported. As will be seen in the next chapter, these cases also help advance knowledge of broader factors influencing the FDI attraction process.

Chapter Eleven

Conclusion: Findings, Interpretation and Implications

Had new sources of FDI not flowed into Canada during the 1980s, the country's automotive industry would be different today: smaller, less dynamic and more exposed to the changes and challenges that have rocked US-owned makers in recent years. Yet, despite the profundity of these changes, little effort has hitherto been made to document the origins of the transformation. This thesis has explored the motivations of the actors, the methods they employed to attract FDI, and the problems they encountered. The result is an original contribution to the business history of Canada, focused on the intersection between its largest manufacturing industry and government policy.

Because the issues explored in this thesis have not been adequately considered previously, it may be considered groundbreaking in certain respects. The research questions established in Chapter One have guided the examination of why and how Canada set out to compete for large scale automotive investments, the role of governments in facilitating inward FDI during the 1980s, and an assessment of the contributions made by individuals in securing projects for Canada. The answers to the research questions have important implications for various stakeholders, including governments, companies and employees. The implications extend beyond the automotive field. In broad terms, the thesis might increase understanding of the effects of inward FDI, the capacity of a jurisdiction to attract FDI, and the role of personalities and relationships in the FDI attraction process. This chapter puts forward a number of key interpretative points and from these, an original model of the inward FDI attraction process is derived.

11.1 Research Revisited

This thesis has demonstrated that the investments made during the 1980s have had a significant impact on the size and shape of the Canadian automotive industry as it exists today. Over the years, final assembly has declined in importance relative to parts manufacturing. However, it has been demonstrated that compared to the US, final assembly continues to be very important in Canada. One of the major reasons for final assembly concentrating in Canada is that labour costs per unit are significantly lower than in the US. Indeed, in every five-year period other than one between 1960 and 2005, final assembly growth in Canada has exceeded that in the US.

Within this context, three fundamental questions have been considered. These questions relate to the conditions, circumstances, motivations and policy instruments facilitating and surrounding the introduction of new entrants to the Canadian automotive industry during the 1980s.

1. How did Canada set the preconditions to compete so effectively for offshore investment?
2. What role did governments play to facilitate the process of encouraging inward FDI during the 1980s?
3. Can individual personalities and the relationships they forge influence the FDI attraction process?

1. <u>How did Canada set the preconditions to compete so effectively for offshore investment?</u>

For Canada to win investment during the period under study, governments needed to have the right policy tools in place and legislative frameworks established. The essential conditions had their roots, not in the specific circumstances of the late 1970s and early 1980s, but in much earlier times. Indeed, it has been shown that the seeds were planted in 1854, fifty years before the first volume manufacturer even established operations in Canada. It was then that Canada's tariff regime created the foundations for manufacturing in the early decades of the twentieth century. The Auto Pact of 1965, which formed the blueprint for Canada's automotive manufacturing during the modern era, rested on these earlier foundations. This thesis has offered new perspectives regarding the circumstances leading to the Auto Pact following the establishment of the Bladen Royal Commission in 1960. It is contended that Bladen's work instigated paradigmatic change, causing a shift in mindset from insularity towards integration within a North American automotive commonwealth. It has been argued that the shift to which Bladen gave rise was prompted by a perception of impending crisis. Previous studies have contended that the perception of crisis was propagated by a surge in British imports into Canada in the period just prior to Bladen's work, correctly concluding that the surge was at least partially caused by a 1932 provision that authorized duty free trade with the UK. In this thesis, however, it has been argued that such explanation is insufficient. The surge in British automotive imports commenced, not in the late 1950s as most have suggested, but a decade earlier following the devaluation of the pound sterling. Further, the proliferation of UK made vehicles was abetted by the fact that key industry players in Canada – the actors that might have been expected to conspire against it – had benefited from relationships with European manufacturers. Therefore, they were unwilling to complain. It has also been shown that import growth was subsequently arrested, not as a result of the implementation of the Bladen recommendations, but because Finance Minister Fleming devalued the Canadian dollar, following his budget address in 1961.

The research reported here confirms that policy action stemmed most often and most decisively from a rapid increase in market share by foreign producers. It happened first in the late 1920s, again in the 1950s, then once more in the late 1970s, each time refining the preconditions for the FDI that arrived in the 1980s. In both the 1950s and 1970s industry actors tolerated rising import market shares when firms manufacturing in Canada were also experiencing steady or increasing sales. In other words, both absolute and relative growth of offshore-owned participants' sales could occur. However, when offshore automakers' growth occurred concurrent to absolute sales declines by indigenous actors, protectionist alarms would be raised.

The mindset of key actors and the policy framework in which they operated continued to evolve in the years following the implementation of the Auto Pact in

1965. As a result, the preconditions for Canada winning a disproportionate share of automotive FDI in the 1980s continued to be formed. It has been shown that in the years following the signing of the Auto Pact strong growth occurred in automotive employment, value added and shipments compared to the US. These trends were a consequence of strong growth in final assembly in Canada. It was understood that assembly investments could secure the Auto Pact production to sales stipulation and in so doing satisfy associated CVA requirements. In 1966, for the first time since 1952, the balance of trade in completed vehicles tipped from deficit to surplus, a structural shift that has not been reversed to date. However, following an initial flurry of investment to seal Auto Pact requirements, investment spending stagnated. Canada became identified with more labour intensive final assembly production. As a result, growth in employment and total shipments in Canada outstripped that of its Auto Pact partner, the US, but it lagged, relatively speaking, in terms of investment spending.

Therefore, by the late 1970s, an assortment of policy instruments had enabled Canada to secure and retain large-scale investments in labour intensive final assembly production. Yet, tariffs obliging Canadian subsidiaries to make in Canada most of the cars they sold in Canada no longer existed. As a result, the Canadian industry had become specialized and truncated. Increasingly, concerns were being expressed about the implications for the Canadian economy of having an automotive industry consisting mainly of branch plant operations. Meanwhile, a series of events conspired to increase the market share of Japanese producers at the same time as existing producers were experiencing absolute declines in production and sales. It was the ensuing perception of crisis that gave rise to a new round of policy measures aimed at boosting the Canadian automotive industry.

2. What role did governments play to facilitate the process of encouraging inward FDI during the 1980s?

In response to surging market shares by non North American owned manufacturers in the US and the perception of similar pressures in Canada, a system of export restraints on Japanese vehicles was secured by the US starting in 1981 and subsequently by Canada. This thesis has explored for the first time the Canadian experience regarding Voluntary Export Restraints (VERs). Researchers have hitherto tended to assume that because the US and Canadian automotive industries were closely integrated that there was little special about the Canadian situation. It has been demonstrated, however, that the Canadian economic and political environment was substantively different from the US. For example, the Canadian industry never experienced the same depths of decline as experienced in the US. As well, the favourable balance of trade between Canada and Japan constrained the Canadian government, causing it to express its concerns over rising Japanese automotive imports less vociferously than did the US. More importantly, it has been established that the premise upon which the system of VERs was based in Canada was deeply flawed. It has been confirmed that no relationship exists in Canada between import market share and automotive profits nor does any relationship exist between import market share and new capital investment. The fact that no relationship can be found refutes Christodoulos' (1998) assertion that protecting domestic industries provides firms with increased economies of scale, allowing them to compete more successfully in domestic and international markets while forcing potential competitors to retreat to less desirable ones. Consistent with those who argue for a positive relationship between vigorous competition and capital investment (Porter, 1990; Hejazi and Safarian, 1999; Tomohara, 2004), this thesis suggests North American owned automakers became committed to substantial new capital investment as competitive forces intensified, well prior to the implementation of export restraints.

Additionally, it has been shown that the intellectual foundations upon which the system of VERs was promoted – that restricting Japanese imports to Canada could help revive the Canadian manufacturing base – were insecure. In an integrated North American automotive industry, limiting imports to Canada from Japan could only have a negligible effect on Canadian manufacturing. However, despite the minor impact VERs had in terms of their capacity to revive the industry in Canada and provide breathing space to traditional participants – the primary features that were advocated by those promoting their introduction – it has been demonstrated that the system led to profound adjustments in the Canadian automotive industry. Because restraints were established on the basis of units rather than value, Japanese manufacturers moved upmarket. This phenomenon was greeted with yet more new entrants from lesser-developed countries moving into the lower end of the market. Moreover, while restraints were not originally envisaged as a tool to encourage investment from Japanese manufacturers, it was shown that they served as a stimulus, thereby instigating a fundamental shift in the direction and composition of the Canadian industry. Had these consequences been foreshadowed, it is likely that advocates of VERs would have sought a different course.

Additional policy tools were soon developed to further support automotive FDI. It has been revealed that the incentives and tools utilized to support the drive for inward FDI evolved progressively over the years. In the late 1970s, the parts industry was the centre of Canadian policy makers' attention. It was thought that a more successful parts industry would decrease the automotive parts trade imbalance. At that stage, policy makers assessed the potential for Canada to receive additional final assembly investment as low. Domestic industry actors insisted that offshore-based investors – primarily Japanese – should take steps to invest in Canada. They did so because they did not regard the possibility of such investment as likely. It also gave them the chance to reinforce with public policy makers and consumers that their companies had already made substantive commitments to Canada. Finally, they were confident that, in the unlikely event that offshore-based manufacturers actually invested in Canada, they would be confounded by the same unfavourable conditions that bedevilled the traditional players. Eventually, however, public policy makers became increasingly convinced that securing offshore investment was possible. While traditional private sector participants continued to goad and challenge offshore-based firms and discount the risk or likelihood of such investment, public policy makers started adjusting their messages, sharpening their tools and becoming increasingly committed to attracting fresh assembly investments to Canada. Therefore, even though the messages from practically all actors within the Canadian automotive industry were aligned in terms of encouraging inward FDI, this thesis has demonstrated that the motivations and underlying goals were at odds with one another. The result was the development of an environment of uncharacteristically forthright, straightforward messages from Canadian politicians.

The conditions surrounding the attraction of automotive FDI during the period under study in many ways challenges or refutes existing literature. For example, this research shows that during the early 1980s private sector actors were publicly encouraging inward FDI. Their motivation was to support their own competitiveness by damaging that of others, a circumstance that previous research on FDI has not considered. Indeed, some research predicts exactly the opposite: that inward FDI crowds out existing participants either temporarily or permanently (Caves, 1996; Aitken and Harrison, 1999; De Backer and Sleuwaegen, 2003; Kosova, 2004), thereby providing incentive for participants to oppose new entrants. As well, many predict that new entrants force existing actors to improve their competitiveness (Caves, 1974; Globerman, 1979; Blomstrom and Sjoholm, 1999; Grosse 1988; Harris and Robinson, 2003; Chung et al, 2003), forecasts that subsequent trends in the North American automotive industry have borne out. In the early 1980s, however, domestic actors would have challenged those assumptions, declaring that they either did not need new entrants to boost their competitiveness or that North American manufacturing would challenge offshore-owned manufacturers to the extent that the competitive atmosphere would actually be reduced. As well, even though Canadian public sector participants' actions would seem to be consistent with proponents of inward FDI, it has been shown that their motivations were based less on engendering the technology spillovers some research predicts (Cantwell, 1989; Balasubramanyam, 1994; Blomstrom and Sjoholm, 1999; Catherin, 2000; Liu et al, 2000; Chung, 2001; De Backer and Sleuwaegen, 2003) or boosting the competitive spirits of existing actors, but more on buttressing employment levels within the industry.

This thesis has argued that one of the ways Canada distinguished itself in the estimation of potential investors was through the positive actions of Canada's federal government. Whereas jurisdictions in the US competing for such investment during the 1970s and 1980s did so primarily through the combined efforts of lower tier levels of government (local municipalities and state governments), Canadian jurisdictions did so with the support of an active and engaged federal government. Certainly in Canada the provinces played an important and necessary role, but their position and the tools they had at their disposal were not dissimilar to those of their American competitors. It has been argued that it was the influence and engagement of the federal government in Canada that were differentiating features. The circumstances that first prompted Canadian governments to offer direct incentives to automakers and then the conditions that allowed them to do so relatively unencumbered of US interference have been explained. Certainly, the participation of the federal government meant increased wherewithal to offer competitive direct, cash-oriented support of the type offered by lower tier jurisdictions in the US. However, the true power of the Canadian federal government's involvement resided in its authority, and more importantly, its willingness to provide less visible and, in many cases, more valuable inducements that have been referred to here as 'near cash' incentives. The process of developing the federal government's policy instruments to attract investment has been described. It was revealed that only rarely were the tools used by the Canadian federal government originally conceived for such purposes. Duty remission, for example, was originally envisaged as a means by which to assist Canadian parts makers sell products overseas. Moreover, even though the Foreign Investment Review Agency (FIRA) has been much derided as an anti-FDI relic, it was argued that, insofar as the development of the Canadian automotive assembly industry in the 1980s was concerned, it played an influential role in the attraction of at least two large-scale assembly facilities. By assigning tangible values to the less visible 'near cash' elements of Canada's investment attraction effort, a more accurate assessment of the actual size of the packages offered to offshore investors has been made. The result is greater clarity in understanding why Canada performed so well in terms of winning final assembly FDI in the 1980s.

3. Can individual personalities and the relationships they forge influence the FDI attraction process?

Permeating all of these experiences is people: the commitment and passion they bring to the task, and the social capital they accumulate and exploit. Canadian politician Ed Lumley's role in attracting automotive investment to Canada during the 1980s is illustrative of the pervasive influence that strong, committed leadership can provide. It has been demonstrated that Lumley was the catalyst. He was committed to the FDI attraction process and unwavering in his devotion to developing the relationships needed for Canada to be taken seriously abroad. Canada was easy to ignore at the time. It was of middling importance as a market for exports and largely ignored as a possible outlet for FDI. By forging relationships – sometimes through unconventional means – Lumley helped Canada shift perceptions and elevate its profile. When he entered the role the right climate for significant inflows of capital had yet to be established. A strong, catalyzing personality was needed to draw attention to the benefits of FDI and to inject a sense of urgency to the process. Lumley knocked down barriers, devised a coherent strategy, won over opponents, and created the tools needed to do the job. Many actors contributed to the attraction of automotive FDI to Canada in the 1980s. However, the process needed a catalytic force and Lumley provided it.

This thesis has drawn attention to the role of political leadership in attracting inward FDI, but there was also a concomitant need for astute corporate leadership. Investments of the magnitude described required approval at the most senior levels within the investing companies. Chief executives in particular were lobbied aggressively. What this research has demonstrated, however, is that successful projects invariably had the support of a corporate champion, someone senior enough to recognize the strategic opportunity and stay with it to the point of delivery. Such people are more than project coordinators – individuals to whom an assignment is given – but rather are advocates who energize and illuminate the process within and without the investing organization. Ed Lumley, for example, might appear in Japan on a quarterly basis, but it was the corporate champion who single-mindedly pursued the cause. These people knew who to lobby and how. Only rarely is an FDI champion a CEO. More often the role falls to the country head. Roy Bennett performed the role with the Ford Essex engine plant in the late 1970s, and George Peapples was the GM catalyst for its CAMI investment. Takashi Ishihara may have been the voice of the Japanese automotive community, but it was Yuki Togo, as head of Toyota Canada during the early 1980s, who kept alive interest in Canada at the head office in Japan. These people were far more than internal gatekeepers; they were network partners and FDI champions.

11.2 Key Interpretative Points and the Derivation of an Inward FDI Attraction Model

Even though the Canadian auto industry has been the subject of much research in the past, the issues considered in this thesis have not. As a result, fresh insights have been offered concerning the evolution of Canada's most important manufacturing industry. In addition, the research presents an opportunity to reflect on a number of broader themes. There are implications for various constituencies, including governments, companies and trade unions. Some of these more general findings are captured in the inward FDI attraction model presented in Figure 11.1 below.

Over the course of this thesis, several important conclusions have been drawn that may be summarized as follows:

- Had offshore-based firms not invested in the Canadian automotive assembly industry in the 1980s, the size and shape of the industry in Canada would be substantively different today.

- The establishment of Voluntary Export Restraints had profound consequences, the impact of which was not anticipated at the time of their introduction.

- Throughout the history of the Canadian automotive industry, only when rising import sales are accompanied by declining absolute sales on the part of North American owned companies have protectionist pressures mounted.

- The development of public policy with respect to the Canadian automotive assembly industry has been far less orderly than the results would suggest.

- The processes and tools associated with the attraction of offshore-based automotive assembly investment evolved in response to similar messages from different stakeholders whose motivations, paradoxically, were very different.

- The federal government used its power and authority to provide not very visible, but nonetheless substantive support to foreign companies, enabling Canada to earn a disproportionate share of automotive FDI during the 1980s.

- Catalyzing personalities in both governments and the investing organizations played critical roles in the process of attracting large-scale FDI to Canada.

- Even though significant success was achieved, the process was accompanied by numerous disappointments, and on occasion, by frustration and failure.

The decade 1977-87 was one of transformation and renewal. There was a complex interplay between various actors and events that ultimately played out very much in favour of the Canadian economy. The model presented in Figure 11.1 below indicates how the FDI attraction process unfolded during the period.

Figure 11:1: Inward FDI Attraction Model

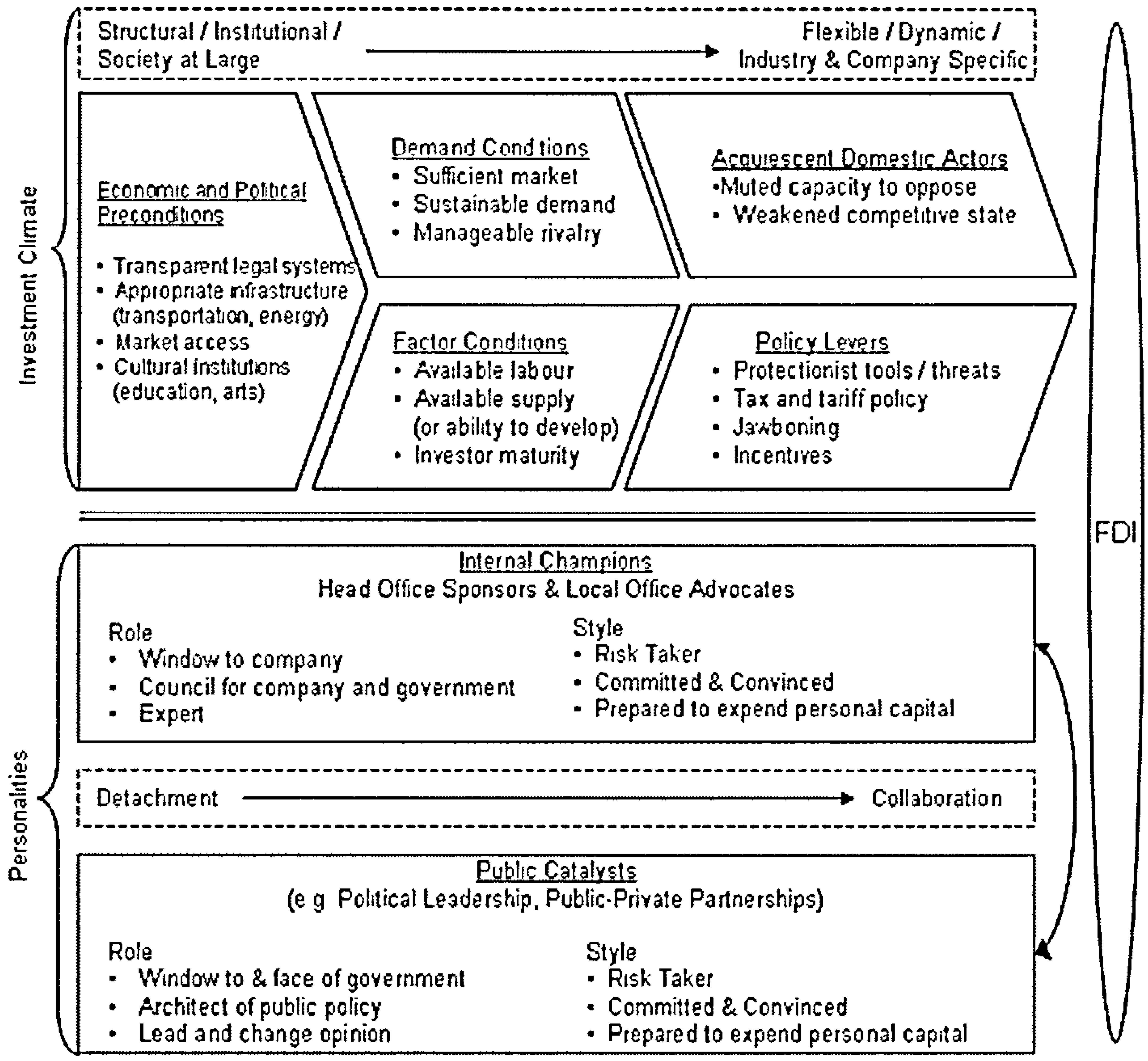


Figure 11.1 suggests that the attraction of inward FDI is comprised of two components. The first is the investment climate, consisting of the range of economic, social and political factors that must be developed and understood to a level appropriate to the investment being contemplated. The second component is personalities, comprising the sponsors and advocates within the investing organization and the corresponding leaders and catalysts within the host jurisdiction.

The model suggests that creating the right investment climate necessarily takes time. Structural and institutional arrangements can only be put in place incrementally, but they tend to be robust once established. At the other end of the continuum are those factors that are more flexible and dynamic in nature. These are not woven into the prevailing institutional fabric of the country and are susceptible to change and negotiation. They reflect the interest and ability of existing players to oppose new entrants and the influence of specific policy levers employed by local and national governments to attract inward FDI. The investment climate is also conditioned by more specific issues, such as existing and potential levels of demand as well as factor conditions, including the supply, price and quality of labour. Factor conditions also encompass the maturity of the investing organization and its ability to properly support a new and fledgling overseas operation.

The second component of the model relates to individual personalities. Large scale investment decisions are not made based on the data alone, but by individuals with insights and agendas that extend beyond the here and now. There needs to be goal congruence between actors in a visionary long-term sense. Here we are interested less in officials and functionaries and more in leaders: individuals who identify an opportunity and make a point of generating and sustaining interest. They encompass both the public leaders and corporate champions. These are the people who become committed to the process and convinced of its value. They are prepared to expend or risk their personal capital to advance the cause they are fighting for. Public catalysts and internal champions may be involved for a considerable period of time and need to demonstrate energy and commitment at crucial times. Insofar as specific investments are concerned, the influence of personalities increases as the final decision or announcement approaches. The model suggests a transition from separation and detachment between internal champions and public catalysts in early stages or phases, towards much closer collaboration as final decisions approach.

11.3 Implications

The analysis presented in this thesis, summarized in the model presented in the previous section, has implications for various parties. These fall into two groups. The first group is government, not just Canadian, but any government or public agency seeking to attract large scale FDI. The second group encompasses those seeking to oppose FDI, the most important of which are the indigenous industry (including representative associations) and trade unions.

Clearly, for any investment to proceed, the political and economic preconditions must be supportive. Governments, therefore, play a pivotal role. This thesis has demonstrated that the conditions for Canada's success in establishing itself as a destination for automotive FDI were formed over several decades. In Chapters Five and Six, for example, it was shown how tariff policy supported the establishment of an automotive manufacturing base in the early twentieth century. It was also explained how preferential international relationships were leveraged to open markets for Canadian manufacturers, thereby solidifying the foundation. Subsequent policy initiatives paved the way for the Canada-US Auto Pact. For Canada, the Auto Pact led to specialization and triggered automakers operating in Canada to focus on final assembly manufacturing. Hence, governments seeking large scale FDI of the nature Canada won in the 1980s must understand the particularities of the investment climate their jurisdiction provides prior to embarking on a targeted investment attraction program. Conditions evolve over generations; they are not manufactured overnight.

Investors also weigh a spectrum of social and economic factors when assessing the efficacy of investment locations. These include tangible items like transparent or compatible legal systems as well as infrastructure elements like energy availability and transportation systems. Additionally, those seeking FDI or those considering investment should not overlook less tangible aspects such as perceptions of cultural affinity. Investors ask themselves: 'would home office employees want to live here?' These are implicit criteria for investors and should be explicitly considered by economic development officials.

Those seeking to attract inward FDI must be cognizant of the fact that the process unfolds slowly. Economic and political preconditions are formed cumulatively. It is unlikely that deficient economic and political settings can be remedied by provision of generous short-term incentives alone. This thesis has demonstrated that shorterterm policy levers can help smooth rough edges or make already attractive investment destinations even more appealing. Generally, however, they have limited long-term bearing on the economic fundamentals of the investment in question. Rather, they serve as a form of 'price of admission' for those wishing to be considered a potential investment location. They put potential investors on notice. The lesson for those seeking to attract investment is that short-term policy levers may have a role in engendering investor interest and providing internal champions with tangible affirmation or recognition of his or her support. However, short of exceedingly generous incentives or the promulgation of outrageous threats, these tools are generally not decisive. A business case must succeed or fail based on its long-term economic merits. It is possible to speculate that Hyundai, for example, was transfixed by the largesse of the Canada-Quebec offer to the detriment of long-term business fundamentals. Certainly, the political and economic preconditions in Canada were similar for Hyundai as they were for others. However, it can be argued that both demand and market conditions were not. On the demand side, Hyundai had not been in North America long enough to understand if sustainable demand existed for the products it offered. It also learned that the level of rivalry in North America was more intense than anticipated, a fact they experienced in both the marketplace and the corridors of power. In terms of factor conditions, Hyundai proved itself to have insufficient maturity in the mid 1980s to manage a large foreign manufacturing organization operating in three languages. It is instructive that when confronted with similar opportunities, Nissan, Daihatsu, Bombardier and others consistently rejected them. It can be argued that they may have been able to negotiate similarly generous incentives, but these firms were more attuned to the challenges of the prevailing investment climate. Thus, inward FDI must be supported by attractive economic and political preconditions, coupled with sufficient demand and factor conditions. Noise from domestic actors and threats or incentives from government agencies should be considered as flexible, dynamic and ultimately short-term in nature.

Obviously, each investment decision is different and the weight of each factor varies. Figure 11.1, for example, suggests that political and economic stability are essential. However, a lack of such does not necessarily preclude a jurisdiction from consideration. For example, investors that do not abandon opportunities in unstable jurisdictions may accept the risk in the face of the potential rewards, taking steps to protect themselves and accepting additional incentives to compensate for the increased level of risk. Canada is generally perceived as economically and politically stable, but during the 1980s, threats of Quebec separation added a layer of complexity and risk for potential investors. Investors with assets in Quebec could reasonably question, for example, how their long-term accessibility to the integrated North American market might be affected by a subsequent move to independent nationhood. In the case of Hyundai, it is possible to speculate that because the total value of the incentive package they received was so high they perceived their exposure to risk as sufficiently compensated.

Another lesson is that those opposing inward FDI should avoid ambiguity in their messages. It can be argued that during the period under study the established players lacked goal clarity. They were reluctant to express hostility towards new entrants as doing so might be interpreted as an admission of weakness. However, they were loath to simply invite them to compete. Their strategy, therefore, was to goad non-North American competitors to invest in North America, assuming they would not rise to the challenge. Not only did their weakened competitive state make them susceptible to immediate threats to their market, it also caused them to make pronouncements that ultimately exacerbated the level of competition they faced. Their public pronouncements made it much easier for Canadian governments to actively seek automotive FDI. Government was able to do so relatively free of censure because the only potential opponents to the strategy appeared to be indifferent to the initiative. In the long-term, such posturing proved disadvantageous to the industry incumbents.

The discussion in this thesis of the role of personalities in the attraction of FDI provides further important lessons. It has been demonstrated repeatedly that the roles played by public leaders and corporate champions are crucial to success or failure. This fact has important implications for stakeholders. For government it is not sufficient simply to identify or assign an individual the task of making representations to target organizations. An individual must make the process his or her passion. This thesis has made much of the catalyzing role played by federal Industry Minister Ed Lumley during the period under study. By contrast, it was shown that no public sector champion was evident in the case of Daihatsu-Bombardier. Twenty years earlier, Simon Reisman's role in the negotiations of the Auto Pact was of similar importance. More recently, Ontario's Economic Development and Trade Minister Joe Cordiano devoted similar energy between 2004 and 2006 in successfully leveraging a $500 million fund to secure automotive investments of more than $7 billion by DaimlerChrysler, Ford, General Motors, Toyota and Honda.[603] In both periods, success followed a long period of apparent quiet. Yet, key public sector actors made automotive manufacturing FDI their number one priority, encouraging other levels of government to become engaged.

It has also been shown that corporate champions are often pivotal in the FDI attraction process. This thesis has identified several influential people of this type. Like their public sector counterparts, they consistently put their energy and reputations behind securing major investments for Canada. Governments and public bodies invariably are well served when they can identify and work with internal champions, supporting them and nurturing the relationship.

Clearly, the investment environment is dynamic. Options are diverse and competition for attention is intense. If investment decisions were made purely on the basis of dispassionate economic analysis, an understanding of economic and political preconditions, along with various demand and factor conditions would suffice. However, such is not the case. Both the successful and failed cases analyzed in this thesis bear out this view. The model offered in Figure 11.1 suggests that additional factors are at work. An understanding of the role and influence of persuasive personalities and the relationships they forge is necessary to any interpretation of the FDI attraction process. Catalyzing personalities exist within investing organizations as well as the jurisdictions seeking investments. Such persons elevate the discussion, instil urgency to the process, interpret advice, provide feedback to stakeholders, and

[603] Keenan, G. and Howlett, K. (2006). Ontario gets set to court Nissan. *Globe and Mail*. 18 May, p A1.

provide a conduit to decision makers. Identifying these individuals and understanding their influence is critical. This thesis and the model presented here have sought to highlight their role and explain how their personalities and actions animate the FDI attraction process.

11.4 Future Research

This research has helped fill a gap in the recent history of the Canadian automotive industry. However, it remains fertile ground for further study of specific events and issues shaping the Canadian economy. A footnote in Chapter Five, for example, refers to the fact that when the McLaughlin Carriage Company burned to the ground in 1899, several Ontario municipalities approached the company requesting it to consider rebuilding within their boundaries. The role of local municipalities in economic development in the early part of the previous century merits additional study. The province of Ontario evolved in a manner quite unlike that of the US, where the practice of bonusing and incentivizing at the local level never became subject to sanction. What were the conditions that resulted in Ontario taking a different path? How did that curtail the efforts of local groups? What pressures did the practice place upon more senior levels of government? How does that impact economic development today?

The opportunity also exists to increase understanding of the role and influence of financial incentives in securing automotive FDI. By providing a fuller and more accurate analysis of the packages offered in Canada in the 1980s, this thesis has made a contribution to knowledge on the subject. However, in light of the fact that governments within North America continue to commit hundreds of millions of dollars each year to attract automotive investment, there remains a need for further research. There are accounts of the results of negotiations (Yanarella and Green, 1993; Haywood, 1994), but these almost invariably are from the perspective of those seeking to attract FDI. The perspectives and concerns of investing companies are often sidelined. Yu and Ito (1990) demonstrated that in oligopolistic industries, companies follow the leader, raising the possibility that incentives become inconsequential after the leader commits. However, little subsequent research has been conducted. To what extent do incentives really influence potential investors? Is the impact more a function of perceptions than realities? How often do requests or negotiations concerning incentives occur after the decision to invest has in principle been made?

Despite extensive research having been conducted into the auto industry and the outcomes of the Canada-US Free Trade Agreement (CUSFTA), there remain developments about which little is known. One of the results of the CUSFTA was that membership in the Auto Pact would be restricted to firms that committed to its provisions at the time of implementation, effectively limiting Auto Pact access to the Big Three, CAMI and Volvo. We do not know who was included and who was excluded from the negotiations nor the negotiating positions adopted. Neither do we know the extent to which the new entrants were consulted nor the undertakings they were prepared to make.

More generally, the Canadian automotive industry represents a potentially valuable base for research on the impact of globalization, as well as inward and outward FDI and its influence on both developed and developing economies. The dismantling of tariffs and other trade distorting barriers has altered the landscape for economic development and lesser-developed countries now have much greater access to developed economies. Further, trade is developing at a faster rate within regions than the pace at which it is developing between regions (Giddens, 1999; Chortareas and Pelagadis, 2004). The experience of Canada within NAFTA bears that out, both overall and within industries like automotive manufacturing. In consequence, the Canadian auto industry, like the rest of the Canadian economy, is becoming increasingly reliant on the health of the US economy, a trend documented by Chortareas and Pelagadis (2004) and Emerij (1992). Is this condition sustainable? What are the implications for the Canadian automotive industry in a globalizing environment? Is the Canadian situation different from that in other jurisdictions? Such questions about the long-term sustainability of the automotive industry in developed economies warrant rigorous study. While it is possible that low cost jurisdictions will consume much of the product they are producing themselves, questions about the vulnerability of the industry in the developed world merits examination. Where do industry actors perceive the competitive strengths of the automotive industry in developed countries to reside? Is there a relationship between the complexity of the products they are making and perceptions of long-term success?

Research on inward FDI and its impact on domestic firms indicate that a positive correlation exists with productivity (Caves, 1974; Globerman, 1979; Harris and Robinson, 2003; Chung et al, 2003; Javorcik, 2004, Helpman et al, 2004). However, when an industry is already comprised exclusively of foreign companies, is the effect the same? Do foreign subsidiaries respond to inward FDI in the same way as indigenous firms? Is there a point at which the impact of additional FDI ebbs? As well, existing research has tended to treat the geographic source of FDI as a passive factor. However, a good case can be made for a more differentiated approach in order to assess the consequences of inward FDI from different countries. It is plausible that a country of origin effect is significant.

Further research on Canadian automotive manufacturing might also focus on the relationship between FDI and industry clusters, considering such matters as low skilled labour, productivity, and related and supporting industries. The opportunity to develop and draw from a pool of skilled labour, for example, is often cited as an attraction of clusters (Garnsey and Heffernan, 2005).[604] A countervailing effect, however, is that increased activity has been found to result in higher labour costs (Maskell, 2001, Martin and Sunley, 2003; Combes and Duranton, 2005). A deficiency of existing research on labour and labour costs in clusters is that it has tended to focus on high skilled, technologically sophisticated employment. It has overlooked the effects on lesser skilled employment, which despite the fixation of cluster literature is prevalent in both developing and developed economies. This thesis demonstrates that it is less skilled labour that typifies the Canadian automotive assembly industry. This situation makes it ideal as a site for the study of clustering

[604] Although, Yamawaki's (2002) study of Japanese clusters says that access to skilled labour was not considered a benefit.

on lower skilled labour costs. One possibility would be to analyze gaps between automotive manufacturing wages in Ontario and those in non-clustered jurisdictions.

One of the most proclaimed benefits of clustering is higher productivity (Porter, 1990; Martin and Sunley, 2003). Yet this advantage is less easy to demonstrate than to proclaim. In Chapter Four, panel data was used to show that labour's share of value added is less in Canada than in the US, even though American workers generate more value added per paid hour. While value added is an effective measure of the intensity of economic activity, it is a less than satisfying means by which to gauge productivity within industries, between firms, and at different locations. Gaining access to productivity data, even among publicly traded corporations, is difficult. However, the North American auto industry provides an opportunity to gauge the effects of clustering on productivity. The private consulting firm Harbour and Associates[605] has spent more than two decades developing a formula to assess and compare the productivity of one automotive assembly plant to another. Some of those plants are located in areas that can be defined as automotive clusters, while others are not. In addition to assessing the relationship between the productivity of an automotive assembly plant and the existence of a cluster, the data might also be utilized in other ways. For example, it is possible that a link might be proved between the productivity of individual plants and ownership.

Research synthesizing current understanding of clusters and inward FDI might also be generated. For example, if the relationship between productivity and plant ownership is proven to be stronger than that between productivity and clustering, it throws up the possibility that firms are attracted to a locale less because of the dynamic effects of clustering and more because of factor costs. It might then be inferred that organizational capabilities are more important as a source of competitive advantage than the advantages of clustering. Several questions emerge. Are firms – at least foreign-based automotive manufacturers – consciously attracted to clusters? Are the potential advantages of agglomeration an unanticipated

[605] The "Harbour" in Harbour and Associates refers to James Harbour who founded the firm following a lengthy career in the automotive industry. James Harbour was also co-author of the influential Abernathy, Harbour and Henn (1981) study of the productivity of the US auto industry.

outcome? Are clusters more important to policy makers than they are to the firms themselves?

The role in clustering of related and supporting businesses – those providing advanced and specialized services to participating industries – might also be better understood through further research on the Canadian automotive industry. Porter's Diamond Model (1990) suggests that the existence of related and supporting industries is essential to the clustering process. However, this research has demonstrated that the capacity of the Canadian automotive cluster to facilitate and encourage information flows is minimal. Consistent with the findings of McCann (1995), linkages and interdependencies between firms and related organizations are relatively unimportant. This research has suggested that many industry participants are attracted to particular geographic locations for reasons other than the advantages cluster advocates promote. Market access and the availability of basic factor inputs are far more powerful than proximity to specialized factor inputs and technological expertise. Public policy professionals and economic developers often suggest that one of the advantages of doing business in Ontario is the proximity of the supply base. However, these arguments have not been decisive in terms of attracting inward automotive FDI. Japanese OEMs, for example, have demonstrated that they are quite prepared to bring the supply base to them (Florida & Kenney, 1991; Banerji & Rakesh, 1996; Parker et al, 2001). It is proposed that future research should consider the decisions reached by investors from other jurisdictions and other industries. Such research could lead to better understanding of power and the exercise of authority in supply chains.

Finally, the FDI Attraction Model presented in this chapter is a synthesis of some of the more important findings presented in this thesis. It is proposed that these findings have much broader application beyond the Canadian automotive industry. Further research might test and evaluate the model within different sectors, countries and contexts.

11.5 Conclusion

The research reported in this thesis has questioned, corroborated and advanced knowledge of the Canadian automotive industry. In this chapter, the findings and implications of the previous ten chapters have been brought together, and an original interpretation of the FDI attraction process has been advanced. The three central research questions put forward in Chapter One have also been answered. It has been suggested that the research has much broader application. The model derived from the research neatly captures the forces involved in the FDI attraction process and shows how they interplay. The model proposes that a suitable investment climate – economic, political, demand and factor preconditions – must exist. At the same time, it highlights the role and influence of personalities: public catalysts within government and internal champions within the investing organizations. In conclusion, several potential avenues for future research encompassing a variety of themes have been suggested.

The thesis has documented the extent to which the Canadian automotive industry was transformed by the arrival of new entrants during the 1980s. It has identified and described the key programs, tools, actors and events that enabled this transformation to occur. The specific actions and events of the period 1977-87 have been explained. It has been demonstrated that the events of the decade under study were the culmination of measures, motivations and policies laid down and refined over generations. Although many of the events and issues covered have been considered in previous accounts of the Canadian automotive manufacturing industry, this thesis has offered fresh perspectives and interpretations of key events. The result is that a significant gap has been filled in our understanding of the business history of the Canadian automotive manufacturing industry.

Appendix A:

Trade Balance Trends (C$000,000s)

	Exports						Imports						Balance	
	Motor Vehicles			Parts			Motor Vehicles			Parts				
	Shipments: Exports	CDN Value Added Rate (%): 2001	Value Added Generated from Exports	Shipments: Exports	CDN Value Added Rate (%): 2001	Value Added from Exports	Shipments: Imports	US Value Added Rate (%): 2001	Value Added Generated from Imports	Shipments: Imports	US Value Added Rate (%): 2001	Value Added from Imports	Shipments Balance of Trade	Value Added Surplus / (Deficit)
1970	2268	27.95	634	1,244	40.26	501	1,174	25.07	294	2,280	39.89	909	58	-69
1971	2650	27.95	741	1,593	40.26	641	1,695	25.07	425	2,681	39.89	1,069	-133	-112
1972	2869	27.95	802	1,892	40.26	762	2,015	25.07	505	3,190	39.89	1,272	-444	-214
1973	3186	27.95	890	2,364	40.26	952	2,459	25.07	616	3,889	39.89	1,551	-798	-326
1974	3612	27.95	1,010	2,174	40.26	875	2,967	25.07	744	4,440	39.89	1,771	-1,621	-630
1975	4211	27.95	1,177	2,298	40.26	925	3,535	25.07	886	4,887	39.89	1,949	-1,913	-733
1976	5201	27.95	1,454	3,284	40.26	1,322	3,809	25.07	955	5,898	39.89	2,353	-1,222	-532
1977	6610	27.95	1,847	4,067	40.26	1,637	4,544	25.07	1,139	7,346	39.89	2,930	-1,213	-585
1978	7759	27.95	2,169	5,269	40.26	2,121	5,254	25.07	1,317	8,630	39.89	3,443	-856	-470
1979	7267	27.95	2,031	5,179	40.26	2,085	6,426	25.07	1,611	9,388	39.89	3,745	-3,368	-1,240
1980	7304	27.95	2,041	4,087	40.26	1,645	5,764	25.07	1,445	8,309	39.89	3,314	-2,682	-1,073
1981	8943	27.95	2,500	5,038	40.26	2,028	6,665	25.07	1,671	9,924	39.89	3,959	-2,608	-1,102
1982	11556	27.95	3,230	5,738	40.26	2,310	5,161	25.07	1,294	10,317	39.89	4,115	1,816	131
1983	13691	27.95	3,827	7,747	40.26	3,119	7,641	25.07	1,916	12,325	39.89	4,916	1,472	114
1984	19311	27.95	5,397	11,189	40.26	4,505	10,300	25.07	2,582	17,326	39.89	6,911	2,874	409
1985	21915	27.95	6,125	12,456	40.26	5,015	13,659	25.07	3,424	19,418	39.89	7,746	1,294	-30
1986	22454	27.95	6,276	12,712	40.26	5,118	15,406	25.07	3,862	19,843	39.89	7,915	-83	-384
1987	20530	27.95	5,738	12,654	40.26	5,095	16,053	25.07	4,024	18,799	39.89	7,499	-1,668	-691
1988	23992	27.95	6,706	12,651	40.26	5,093	15,617	25.07	3,915	22,180	39.89	8,848	-1,154	-964
1989	23882	27.95	6,675	12,499	40.26	5,032	14,866	25.07	3,727	20,558	39.89	8,201	957	-220
1990	24395	27.95	6,818	11,201	40.26	4,510	13,725	25.07	3,441	19,850	39.89	7,918	2,021	-31
1991	24273	27.95	6,784	9,909	40.26	3,989	14,886	25.07	3,732	19,196	39.89	7,657	100	-616
1992	27956	27.95	7,814	11,289	40.26	4,545	14,842	25.07	3,721	22,468	39.89	8,962	1,935	-325
1993	36006	27.95	10,064	12,454	40.26	5,014	16,483	25.07	4,132	23,375	39.89	9,324	8,602	1,621
1994	44173	27.95	12,346	14,278	40.26	5,748	19,808	25.07	4,966	28,008	39.89	11,172	10,635	1,956
1995	48468	27.95	13,547	14,664	40.26	5,904	20,110	25.07	5,042	30,266	39.89	12,073	12,756	2,336
1996	47932	27.95	13,397	15,937	40.26	6,416	21,071	25.07	5,282	30,394	39.89	12,124	12,404	2,407
1997	50280	27.95	14,053	17,726	40.26	7,136	26,287	25.07	6,590	34,539	39.89	13,778	7,180	822
1998	55907	27.95	15,626	19,992	40.26	8,049	27,283	25.07	6,840	39,506	39.89	15,759	9,110	1,076
1999	70541	27.95	19,716	23,319	40.26	9,388	30,249	25.07	7,583	45,690	39.89	18,226	17,921	3,295
2000	69712	27.95	19,485	24,595	40.26	9,902	32,479	25.07	8,142	44,911	39.89	17,915	16,917	3,329
2001	65870	27.95	18,411	23,102	40.26	9,301	31,825	25.07	7,979	40,753	39.89	16,256	16,394	3,477
2002	67498	27.95	18,866	25,296	40.26	10,184	38,003	25.07	9,527	43,463	39.89	17,337	11,328	2,185
2003	59577	27.95	16,652	24,670	40.26	9,932	37,544	25.07	9,412	38,814	39.89	15,483	7,889	1,689

Source:

Shipments data from *DesRosiers Automotive Yearbook: 2004 Edition*, p 180.
Value Added rates for 2001 from Table 4.4.
Value Added assumptions for imports from all other countries assessed at rate of US value added rate as per Table 4.4.

Appendix B

Order in Council

P.C. 1960-1047

Certified to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Administrator on the 2nd August, 1960.

The Committee of the Privy Council, on the recommendation of the Prime Minister, advise that Vincent Wheeler Bladen, of Toronto, Ontario be appointed a Commissioner under Part 1 of the Inquiries Act to inquire into and report upon the situation of an prospects for the industries in Canada producing motor Vehicles and parts therefore, and, without limiting the generality of the foregoing to consider and report upon:

(a) the present and prospective competitive position of the Canadian automotive industry, in Canadian and export markets, as compared with automotive industries in other countries;

(b) the relations between the companies producing motor vehicles and parts in Canada and parent, subsidiary or affiliated companies in other countries and the effect of such relations upon production in Canada;

(c) the special problems and competitive position of the industries in Canada producing parts for motor vehicles, and the effects thereof upon production of vehicles in Canada;

(d) the ability of the Canadian industry to produce and distribute economically the various types of motor vehicles demanded or likely to be demanded by the Canadian consumers; and

(e) measures that could be taken by those in control of the industries producing motor vehicles and parts therefore in Canada, by the labor unions concerned, and by Parliament and the Government, to improve the ability of such industries to provide increased employment in the economic production of vehicles for the Canadian market and export markets

The committee further advise:

1. That the Commissioner be authorized to exercise all the powers conferred upon him by section 11 of the Inquiries Act;

2. That the Commissioner adopt such procedures and methods as he may from time to time deem expedient for the proper conduct of the inquiry and sit at such times and at such places as me may decided from time to time;

3. That the Commissioner be authorized to engage the services of such counsel, staff and technical advisers as he may require at rates of remuneration and reimbursement approved by the Treasury Board; and

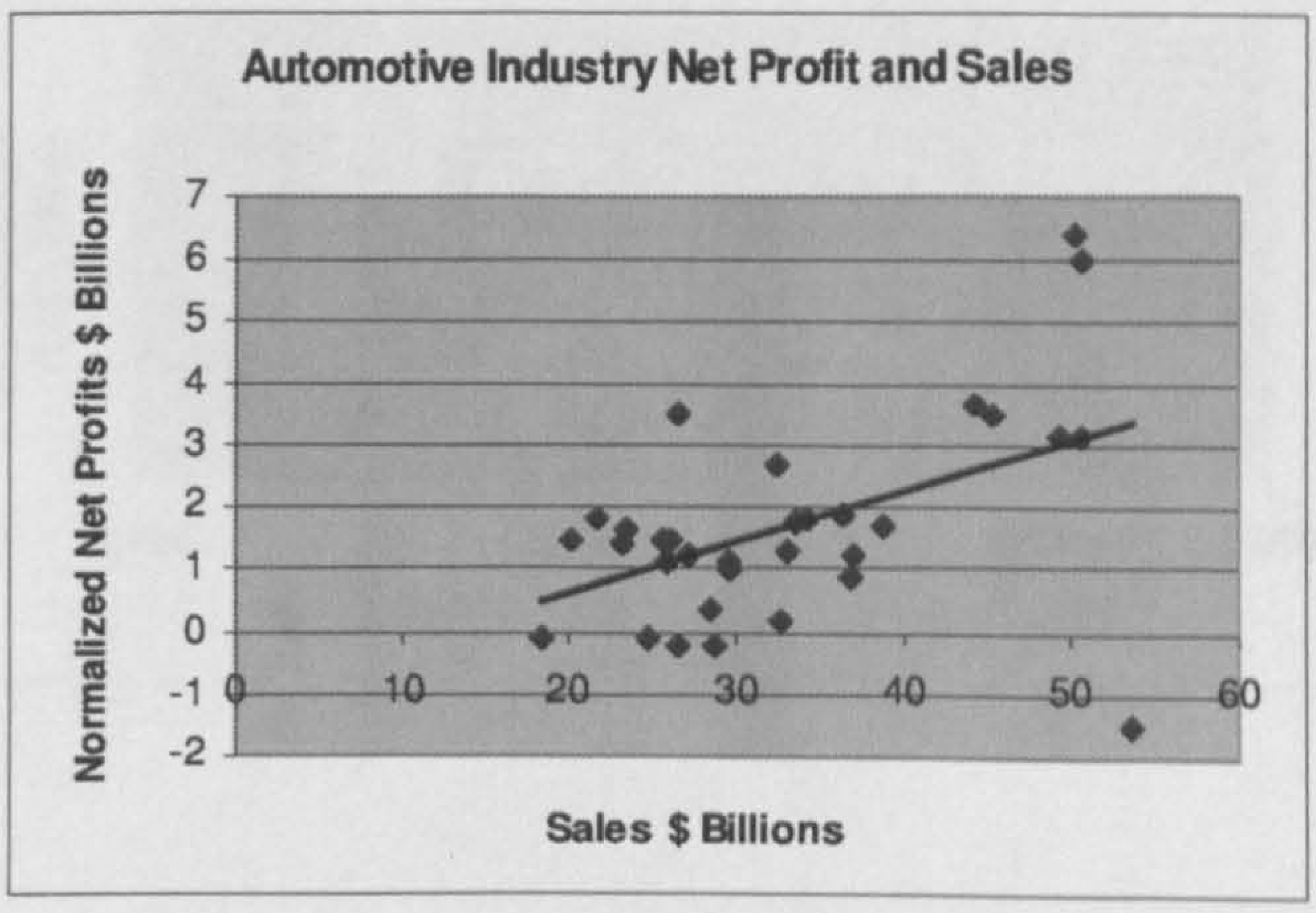
4. That the Commissioner report to the Governor in Council with all reasonable dispatch, and file with the Dominion Archivist the papers and records of the Commission as soon s reasonably may be after the conclusion of the inquiry

(Sgd.) R.B. Bryce
Clerk of the Privy Council.

Appendix C

Hypothesis 1: Sales and Profits

	Sales (Normalized to 2003 $s)	Net Profits after axes (Normalized to 2003 $s)
1972	20,210,234	1,458
1973	23,373,549	1,657
1974	23,268,401	1,401
1975	25,739,747	1,125
1976	25,561,320	1,484
1977	26,129,068	1,472
1978	27,067,363	1,271
1979	29,500,975	1,139
1980	26,557,314	-200
1981	24,747,363	-78
1982	18,399,260	-113
1983	21,586,262	1,853
1984	26,596,874	3,541
1985	32,434,154	2,681
1986	34,202,581	1,840
1987	36,722,641	876
1988	38,745,631	1,692
1989	37,046,426	1,242
1990	32,624,804	223
1991	28,378,102	390
1992	28,721,486	-223
1993	29,590,314	994
1994	33,445,207	1,771
1995	33,061,852	1,318
1996	36,361,761	1,881
1997	44,312,409	3,670
1998	45,334,084	3,525
1999	50,157,293	6,405
2000	50,569,179	5,988
2001	49,262,789	3,196
2002	53,675,825	-1,506
2003	50,493,308	3,154

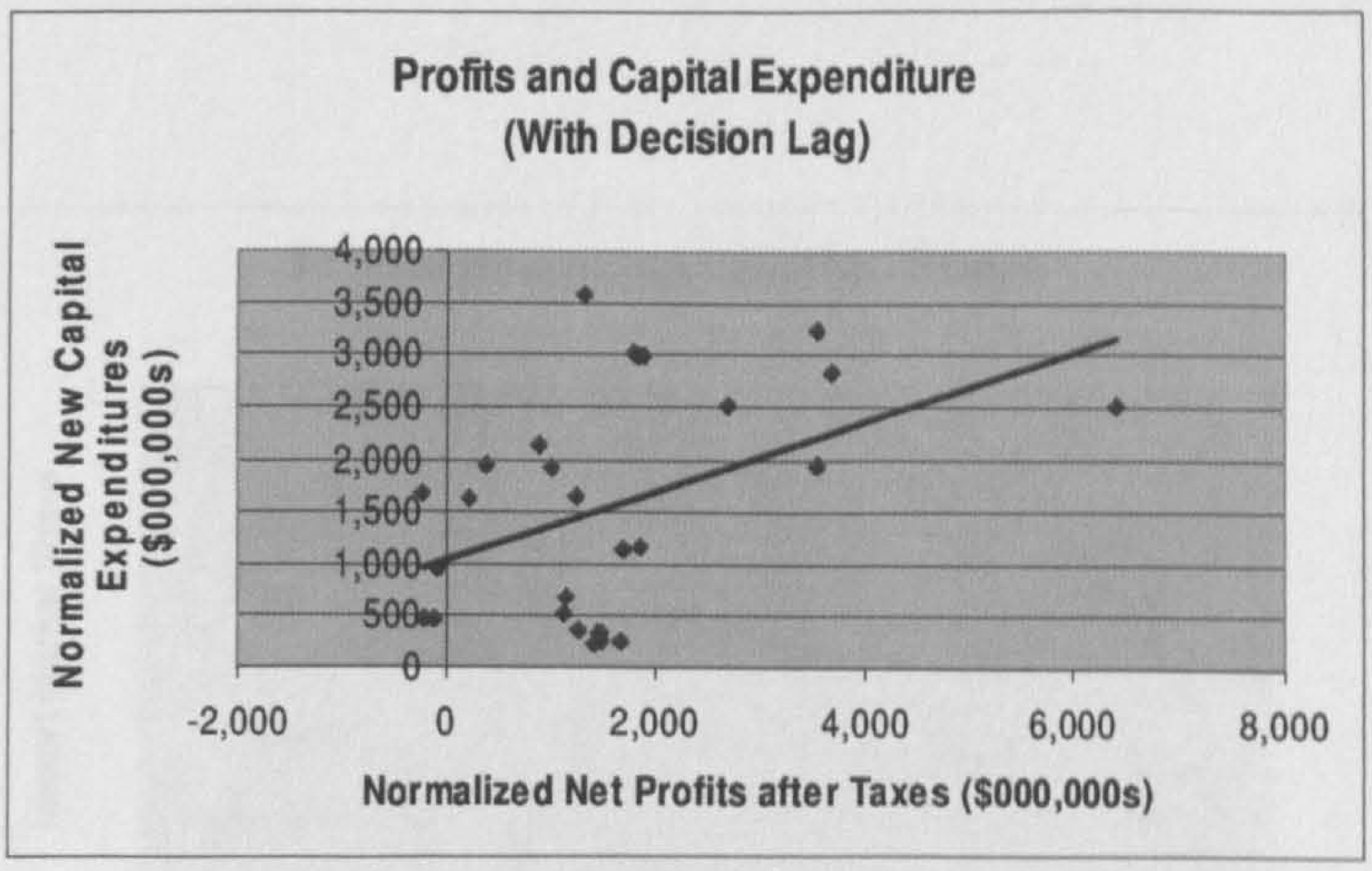


Sources:

- Sales and profit data for the period 1972-87 derived from Statistics Canada *CANSIM* Table 180-0002 - Financial Statistics, Detailed Balance Sheet and Income and Retained Earnings, by Industry based on the Standard Industrial Classification.
- Sales and profit data for the period 1988 – 2003 from unpublished Statistics Canada data.
- Data was normalized to 2003 on the basis of Statistics Canada *CANSIM* Table 326-0002 - Consumer Price Index (CPI), 2001 Basket Content, Computed Annual Total.

Hypothesis 2: Profits and New Capital Expenditure

	Net Profits after Taxes (Normalized to 2003 $s)	New Capital Expenditure Decision (Normalized to 2003 $s)
1972	1,458.2	345.8
1973	1,657.4	265.5
1974	1,400.7	234.4
1975	1,125.2	543.8
1976	1,483.8	275.6
1977	1,472.2	340.6
1978	1,270.7	382.6
1979	1,139.5	701.2
1980	-199.6	474.0
1981	-77.9	961.8
1982	-112.7	479.6
1983	1,852.7	1,175.0
1984	3,540.6	3,237.5
1985	2,680.7	2,517.7
1986	1,840.5	2,993.5
1987	875.8	2,134.9
1988	1,691.7	1,150.2
1989	1,242.2	1,677.7
1990	222.8	1,633.9
1991	389.9	1,963.3
1992	-222.6	1,685.4
1993	993.5	1,929.2
1994	1,771.0	3,044.3
1995	1,318.1	3,586.4
1996	1,881.3	2,994.4
1997	3,670.1	2,835.9
1998	3,524.9	1,957.1
1999	6,405.0	2,515.7

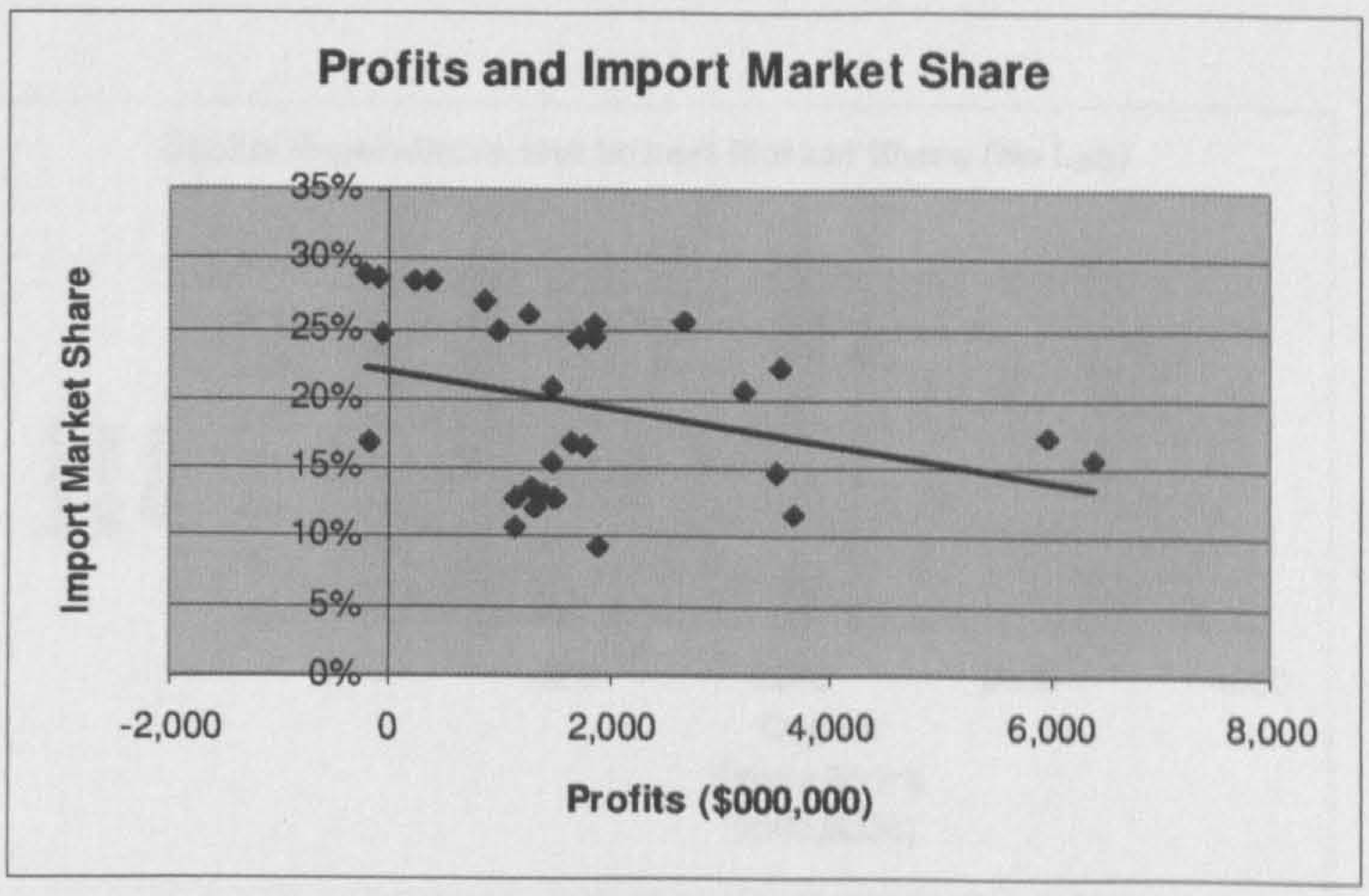


Sources:

- Profit data for the period 1972-87 derived from Statistics Canada *CANSIM* Table 180-0002 - Financial Statistics, Detailed Balance Sheet and Income and Retained Earnings, by Industry based on the Standard Industrial Classification.
- Profit data for the period 1988-2003 derived from unpublished Statistics Canada data.
- Capital Expenditure data compiled from *DesRosiers Automotive Yearbook: 1994 Edition*, Capital Expenditure Statistics – Motor Vehicle Assembly Industry (New Capital Expenditures only), p 103 and Capital Expenditure Statistics – Motor Vehicle Parts and Accessories (New Capital Expenditures only), p 104.
- Data for both profits and new capital expenditure decisions was normalized to 2003 on the basis of Statistics Canada *CANSIM* Table 326-0002 - Consumer Price Index (CPI), 200 Basket Content, Computed Annual Total.

Hypothesis 3: Profits and Import Market Share

	Net Profits After Taxes (Normalized to 2003 $s)	Imported Vehicle Market Share
1972	1,458.2	20.84
1973	1,657.4	16.98
1974	1,400.7	13.19
1975	1,125.2	12.94
1976	1,483.8	12.95
1977	1,472.2	15.56
1978	1,270.7	13.63
1979	1,139.5	10.83
1980	-199.6	16.84
1981	-77.9	24.62
1982	-112.7	28.72
1983	1,852.7	24.36
1984	3,540.6	22.20
1985	2,680.7	25.52
1986	1,840.5	25.48
1987	875.8	27.09
1988	1,691.7	24.34
1989	1,242.2	26.02
1990	222.8	28.54
1991	389.9	28.48
1992	-222.6	28.80
1993	993.5	24.90
1994	1,771.0	16.77
1995	1,318.1	12.32
1996	1,881.3	9.48
1997	3,670.1	11.70
1998	3,524.9	14.77
1999	6,405.0	15.84
2000	5,987.9	17.46
2001	3,196.2	20.66

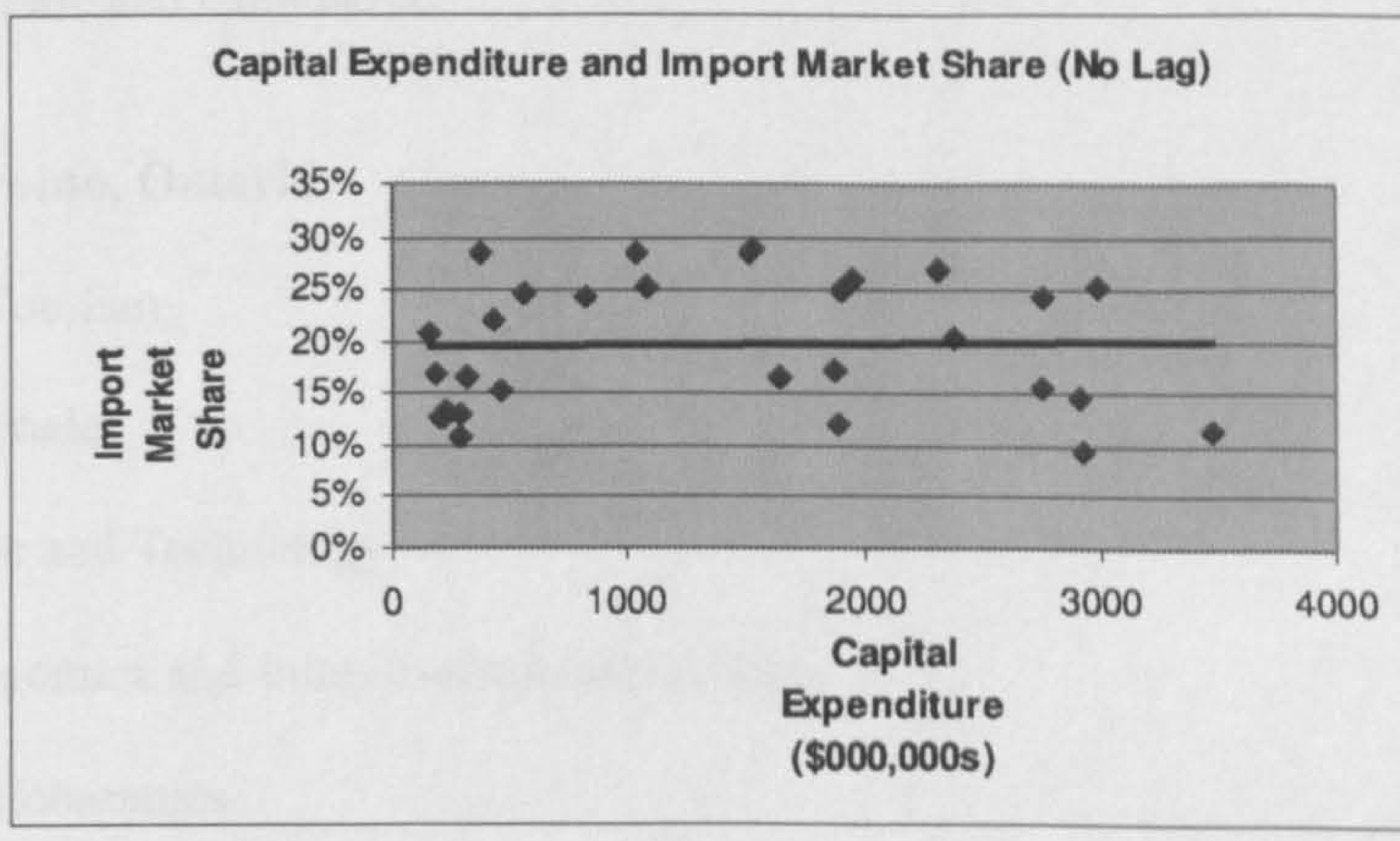


Sources:

- Profit data was derived for the period 1972-87 derived from Statistics Canada *CANSIM* Table 180-0002 - Financial Statistics, Detailed Balance Sheet and Income and Retained Earnings, by Industry based on the Standard Industrial Classification.
- Profit data for the period 1988 – 2003 from unpublished Statistics Canada data.
- Data for both was normalized to 2003 on the basis of Statistics Canada *CANSIM* Table 326-0002 - Consumer Price Index (CPI), 2001 Basket Content, Computed Annual Total.
- Import Vehicle Market Share from Statistics Canada *CANSIM* Table 079-0001 - New Motor Vehicle Sales, Canada, Provinces and Territories.

Hypothesis 4: New Capital Expenditure and Import Market Share

	New Capital Expenditure (Normalized to 2003 $s)	Imported Vehicle Market Share
1972	155.1	20.84
1973	188.0	16.98
1974	290.2	13.19
1975	216.2	12.94
1976	196.5	12.95
1977	469.0	15.56
1978	234.5	13.63
1979	286.2	10.83
1980	318.4	16.84
1981	566.6	24.62
1982	380.4	28.72
1983	819.8	24.36
1984	434.4	22.20
1985	1,082.6	25.52
1986	2,988.8	25.48
1987	2,316.9	27.09
1988	2,756.9	24.34
1989	1,955.0	26.02
1990	1,045.4	28.54
1991	1,515.9	28.48
1992	1,524.5	28.80
1993	1,899.6	24.90
1994	1,652.4	16.77
1995	1,884.7	12.32
1996	2,932.2	9.48
1997	3,473.0	11.70
1998	2,920.0	14.77
1999	2,761.4	15.84
2000	1,872.6	17.46
2001	2,388.2	20.66



Sources:

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- Data for both was normalized to 2003 on the basis of Statistics Canada *CANSIM* Table 326-0002 - Consumer Price Index (CPI), 2001 Basket Content, Computed Annual Total.
- Import Vehicle Market Share from Statistics Canada *CANSIM* Table 079-0001 - New Motor Vehicle Sales, Canada, Provinces and Territories.

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