



Ford of Canada

Public Affairs

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NEWS

Remarks by Mark W. Hutchins, President and Chief Executive Officer, Ford Motor Company of Canada, Limited, to the Canadian Club of Toronto on Monday, October 21, 1996:

I welcome this opportunity to share some thoughts with you about my industry, an industry that helps fuel the economy of Canada, and therefore helps sustain the standard of living Canadians enjoy today.

The timing of your invitation to speak at today's meeting was perfect ... the automobile industry has just completed another model year, the traditional time for reflecting on the past and taking a peek into the future. The industry has also reached several important milestones worth mentioning, which I'll get to in a moment.

The 1996-model year which ended September 30 was another challenging one for the automobile industry in Canada. Lately, the word challenging has been an understatement in our business.

Sales of 1,164,000 cars and trucks fell below the 1995 model year by two percent. To put that in perspective, automobile sales in Canada have declined in six of the last seven years and are now a staggering 400,000 units below the record 1988 levels.

Within the 1996 results, however, the Big Three domestic manufacturers improved their overall share at the expense of the imports, continuing a trend of recent years, I'm happy to report.



At Ford of Canada, we're riding the crest of a wave of new products. In the '96-model year we again outperformed the industry by increasing both our volumes and, more importantly, our share of the total vehicle market.

Come to think of it, the 1996 calendar year is shaping up as a five-star year for the company and its 610 dealers across Canada, who deserve much of the credit for our strong performance, and I'm pleased to see some of them here today.

Ford of Canada's market share is on the upswing for the fifth consecutive year ... we've improved our customer satisfaction index, as measured by an independent, unbiased research company, for the fifth consecutive year ... five of the ten top-selling cars and trucks in North America are Ford products ... we've introduced five all-new cars and trucks in the last 12 months, more than in any comparable period in our history ... AND, of particular importance to the Canadian economy, we've just completed an unprecedented five-billion-dollars worth of investments at our Canadian plants that generated about 2,000 new jobs.

For the 1997-model-year which began on October 1st we think overall industry sales will improve, although modestly. I also feel pretty good about Ford's prospects for continued growth in sales volumes, market share and customer satisfaction within this tough market.

In general, I think the fundamentals continue to be very positive for economic growth in Canada as we move into 1997. Continued fiscal restraint at both the federal and provincial levels has laid the groundwork for improved economic recovery.

Canada's low inflation and low interest rates will also contribute to an improved prosperity for 1997. And the consumer finally is set to return to the market as the labour market improves and consumer confidence strengthens.

Now, about the milestones I mentioned earlier. I noticed that the Canadian Club of Toronto is celebrating its first hundred years. Co-incidentally, it's also the 100th anniversary of the automobile in North America. So happy anniversary to all of us.

At Ford, we're also celebrating a milestone of our own that bears mentioning. On October the 8th, a Ford plant somewhere in the world produced the company's 250-millionth vehicle.

We couldn't pinpoint the exact vehicle, or plant, because Ford assembly plants around the world complete 20 vehicles per minute.

What I can tell you, however, is that if you put those cars and trucks bumper to bumper, they would stretch around the world 30 times! Reminds me of Highway 400 on a holiday weekend.

But enough trivial pursuit ... what's really important about the 250-millionth Ford vehicle is what it says about Canada and its position as a major force on the world automobile scene. And, so far, a highly competitive force.

Ford of Canada emerged as Ford's top producer among the 29 countries -- outside of the United States -- where Ford has manufacturing facilities.

The Canadian company has built more than 20 million cars and trucks since its inception, well ahead of the 18-million vehicles assembled in Great Britain and 17-million in Germany.

Not bad for a little company that began in 1904 with 17 employees, a combined payroll of \$12,000, and first-year production of 117 cars ... and has grown to 17,000 men and women who earned more than a billion dollars and assembled more than a half-million cars and trucks last year.

I don't want to bore you with statistics, but just one more will help set the stage for my main message to you today.

It took Ford of Canada 72 years after it was established in 1904 to reach the 10-million mark in production ... 72 years that included the post-war boom and the emergence of two and even three-car families as baby boomers fuelled the greatest expansion in our history. However, it took Ford of Canada less than 20 years to chalk up the second ten-million cars and trucks ... not because the Canadian market had expanded that dramatically, although it continued to grow until seven years ago.

The magic wand for Canadian investment, production, and most importantly, Canadian jobs was the Canada-U.S. Auto Pact, which was signed by Prime Minister Lester Pearson and U.S. President Lyndon Johnson in 1965.

In a nutshell, the Auto Pact opened the U.S. market to Canadian vehicle producers that could meet the challenges of North American competition. Some didn't make it. Ford, GM, and Chrysler did.

And the Canadian economy is still reaping the benefits.

As I mentioned earlier, for example, Ford of Canada is completing the largest investment and expansion program in its 92-year history -- \$5 billion and 2,000 new jobs. In addition, our purchases from Canadian suppliers totalled \$5 billion last year alone.

As an industry, Canada's automotive shipments in 1995 were at a record \$71 billion, of which \$62 billion or 85 percent was exported.

Total employment was up three percent to 502,000. When you factor in the spin-off jobs, you come up with one of seven Canadians either directly or indirectly involved in the auto industry.

Here's more evidence of the far-reaching impact of our industry ... the automobile sector accounts for 11.5 percent of Canada's manufacturing gross domestic product ... automotive trade accounts for 23 percent of total Canadian merchandise trade and in 1995 Canada had a trade surplus in vehicles of nearly \$29 billion.

Canada is the sixth largest vehicle producer in the world. Canadian plants turn out 16 percent of North America's automotive production while accounting for only seven percent of North American sales.

Except for Michigan, with its obvious advantage as the head office for most companies, the province of Ontario produces more automobiles than any other state or province in North America.

But where does the Canadian automobile industry go from here in today's ultra-competitive, rapidly changing business world?

Globalization and the technology revolution are rewriting the rules. The playing field for business is now larger and more open than ever before.

National markets, and borders, are blurring and potential new markets emerge with regularity.

Ninety-three years ago, Ford Motor Company operated only in the United States. A year later, a group of young Canadian businessmen made a deal with Henry Ford and the company had gone international.

Today, nearly 50 percent of Ford's sales are outside of North America and that percentage will continue to grow as we enter the emerging markets of Asia.

With increasing globalization, there's a lot at stake for the Canadian automobile industry, the Canadian economy, and the standard of living of all Canadians.

As we move toward the next millenium, a new economy is emerging ... an economy in which a nation's rate of growth will be dependent on technology-based and knowledge-based industries and the high tech spin-off jobs they generate and support.

Ford of Canada, GM of Canada, and Chrysler Canada and their Canadian suppliers together represent Canada's most strategic, high tech industry.

Bits and bytes are replacing nuts and bolts as we strive to ensure that our products and processes are among the most technologically sophisticated in the world, and that we continue to hire and train the best of the class.

Along with purchasing the lion's share of rubber, glass and steel, today's auto industry is also a major consumer of semi-conductors and computers.

Our engineers tell me that today's Ford vehicles have more computer power than was on board the Apollo missions to the moon.

They've also calculated -- with the help of a computer, no doubt -- that Ford Motor Company's in-house computer power could process all the tax forms in both the U.S. and Canada in less than one-half hour.

The health and vitality of today's Canadian automobile industry contrasts sharply with the pre-Auto Pact industry of 1965. At our Oakville plant, for example, a visitor in 1964 would have seen a variety of cars, and trucks, coming down the same line because we had to produce most of the models we sold in Canada, or pay a stiff tariff for any we brought in from the U.S.

Under that historic agreement, the automobile companies including Ford, GM, and Chrysler, were granted duty free access to the Canadian market for original equipment parts and finished vehicles providing they met two requirements ... a one-to-one production to sales ratio, and a minimum 60 percent Canadian Value Added, or CVA.

Today, billions of dollars of investment later, we're well ahead of the game. Ford, for example, produced two vehicles for every one sold in 1995 and we've exceeded the CVA by 13 percent.

Production of motor vehicles by the Canadian industry has soared dramatically, from 670,000 in 1964 to almost one million in 1967 to a record 2.4 million in 1995.

Canadian parts manufacturers have also been major beneficiaries, and their production has grown from less than \$1 billion in 1964 to more than \$20 billion in 1995.

Obviously, the report card on the Auto Pact reads "A-plus" for Canada.

The strategic importance of the Auto Pact was recognized by the governments of Canada and the United States when it was made an integral part of the 1989 Free Trade Agreement, and NAFTA in 1994.

Rationalization of production has enabled the industry to reduce costs and improve quality. The consumer has benefitted from lower prices than would have been possible if the industry had continued in its inefficient pre-Auto Pact days.

Instead, Canada is among the lowest priced automotive markets in the world. Automobiles, on average, are priced \$2,000 below those in the U.S.

The Auto Pact, FTA, and NAFTA provided a framework to develop a strategic world-class manufacturing and automotive parts industry in Canada ... a development that enabled the industry to play a leading role in the surge of exports that was a bright spot in the Canadian economy in recent years.

Ford exports 85 to 90 percent of its vehicle production from Oakville and St. Thomas and its engine and component production from Windsor to more than 40 countries around the world. That's a tribute to the quality and reliability of North American-built products.

And yet there are still some markets where access for North American products is unfairly restricted.

The stakes are high ... a \$1-billion increase in exports would result in 15,000 additional Canadian jobs. So it seems quite obvious to me that Canada's automotive strategy should focus on opening foreign markets to North American-produced vehicles and parts.

Instead, recent actions of the federal government have had the effect of undermining the very cornerstone of Canada's automotive trade policy. An integral part of the Auto Pact

has been Canada's Most Favoured Nation tariffs on imports of original equipment parts and vehicles from outside North America.

By committing to make massive investments in Canada and thereby grow the Canadian auto industry, Ford, Chrysler and GM earned the right to import parts and vehicles from outside North America, duty free, as long as they continued to meet their Auto Pact commitments. And as I said previously, the Big Three have more than met these commitments.

As the Wall Street Journal reported last week, and I quote, "Because of Canada's advantages for production, the U.S. auto makers have built extensive operations here and have easily lived up to the bargain. The ratio of vehicles produced to vehicles sold has grown to more than two-to-one today," unquote.

In the same article, Dennis DesRosiers, an independent Canadian auto analyst, put it this way, and I quote: "We're not just at record levels. We've blown away every previous employment record and production record, and interestingly, we're also investing at record levels," unquote.

In 1995, the Canadian government eliminated the Most Favoured Nation tariff on original equipment parts for transplant assemblers in Canada. In essence, this action extended Auto Pact benefits to transplant manufacturers without requiring the same commitment to Canada that has been demonstrated by the Big Three for over 30 years.

The Big Three's investments in Canada have been ten times that of the transplants and their employment levels are more than 20 times.

The granting of Auto Pact benefits to Honda, Toyota and other offshore manufacturers without requiring Auto Pact commitments largely erodes the very fabric of this long-standing trade agreement.

The elimination of the MFN parts tariff does nothing more than provide the transplants with unearned benefits estimated at \$700 per vehicle and encourage the use of offshore parts in their assembly plants in Canada.

A recent study released by the Automotive Parts Manufacturers Association provided some revealing data. More than 93 percent of the sales by Canadian parts manufacturers are to Big Three assembly plants while less than seven percent are to the Japanese transplants.

The transplants may assemble 16 percent of the vehicles produced in Canada, but even after ten years their commitment to this country in terms of parts sourcing is still minimal, at best.

On top of this already undesirable situation, recent news reports suggest the Canadian government may now be considering a reduction or outright elimination of the Most Favoured Nation tariff on finished vehicles imported by non-Auto Pact companies from outside North America.

Such an action would abrogate the Auto Pact by removing the CVA and production-to-sales requirements for access to Canada.

The likely result of such an action would be a flood of imports from offshore and a significant reduction in the production of Canadian-made vehicles and parts ... a scenario that would threaten current and future mandates for the Big Three's facilities in Canada, undercut the strength of Canada's highly successful auto parts industry, weaken Canada's high tech auto sector, and seriously erode our national industrial base.

The Auto Pact -- and the resulting commitment by the Big Three automakers -- has enabled Canada, with a population of only 29 million, to become the producer of five percent of the world's automobiles. The agreement has allowed Canadian parts manufacturers to emerge as world leaders in production quality and technology.

The benefits of this long-standing trade policy have extended far beyond the 502,000 men and women in Canada whose livelihood is directly tied to the industry.

Fundamentally, the agreement has made possible the development of a world-class, high-tech manufacturing and automotive parts industry in Canada ... an industry that has largely carried the Canadian economy over the past few years.

Clearly, the federal government must resist pressure to further erode the value of the Auto Pact to Canadians.

I don't like being an alarmist, but the time to speak out is now. The Canadian automobile industry is currently at a crossroads, even more critical than it was before the Auto Pact rescued an inefficient Canadian industry back in 1965.

While Canadian vehicle production in 1995 was at a record 2.4 million units, domestic sales continue to languish at 1.2 million which, as I mentioned earlier, is 400,000 units or the equivalent of two assembly plants, less than in the late 1980s.

And we're anticipating only marginal improvement for next year.

Historically, the Canadian market has averaged almost ten percent of U.S. volumes. Last year, however, vehicle sales in Canada were at their lowest level since 1983 and represented less than eight percent of U.S. volumes.

At the same time, worldwide overcapacity is growing. By the end of the 90s, just a few years away, it is projected that there will be production capacity for 20 million units for which there are no buyers. That's the equivalent of 80 assembly plants ... 80 empty assembly plants.

It's going to take a lot of hard work, innovation, and a continuously improving competitive position for Canadian plants to obtain and retain product mandates ... not unlike the qualities that characterized the founding of Ford of Canada 92 years ago.

It's also going to take well thought-out and constructive federal government trade policies ... trade policies that continue to recognize the enormous benefits of the investments and jobs made by the Big Three these past 30 years, rather than policies that could cost Canada more jobs than they create ... and trade policies that are based on multilateral negotiations, not unilateral initiatives with individual manufacturers or countries.

Virtually all other countries in the world view their existing or developing auto industries as strategic to their well being. And they are very reluctant to undertake any trade initiative which could harm the very foundation of their economies.

Rather than look to removing the Most Favoured Nation tariff on finished vehicles, Canada should seriously reconsider the harm that will be done to the Canadian auto parts industry by the removal of the MFN tariff on imported parts.

Canada's automotive trade policy must be carefully considered in a multilateral context with a view to opening up auto markets to Canadian vehicle and parts manufacturers.

Any other action will strategically harm the Canadian economy and its prospects for near and longer term job creation.

The choice for Canada seems clear to me.

Thank you.