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AUTO INDUSTRY ON THE BRINK:

Why our industry is in crisis

Why concessions can't save the industry

What should be done

The North American auto industry is in jeopardy. Read this booklet for facts and figures on the importance of the industry, the contributions of Canadian autoworkers, and how we can fight to save our jobs and pensions.

A Message from Ken Lewenza

Defend Ourselves by Sticking Together

With dizzying speed, the North American auto industry has descended into its worst crisis yet – one that threatens its very existence. The global financial meltdown could push the Big Three, which were weak to start with, right over the edge. Parts companies and heavy truck producers are also on the brink.

What will happen to the workers? We don't manage the companies. We didn't write the free trade deals. We don't design the cars – we only build them.

The workers didn't cause this crisis. Neither did their union. The crisis was caused by globalization. By poor management. And by a private financial system that put speculation ahead of production – and is now collapsing around us, dragging down real industries (like auto) with it.

But while we didn't cause the crisis, corporate executives and conservative commentators are still demanding that we pay for it. They're pointing the finger at unions, and coming after us for concessions. Their motto seems to be: "When in doubt, blame the union!"

For years the CAW has warned that the industry was on a path that could only end in economic disaster. Governments that worship free trade opened the doors completely to imports, abandoning the sensible principle (once enshrined in the Auto Pact) that companies must produce here if they want to sell here. And instead of actively supporting and nurturing the auto sector like other countries do (with investment, technology, and infrastructure), North American governments mostly took the industry for granted.

We're the only continent in the world that tolerates the massive trade imbalances that are killing this industry. North America imports over 4 million vehicles every year (enough to keep 20 assembly plants running full-tilt), yet we export hardly anything back the other way. No industry can survive in that circumstance.

Companies responded to years of decline, by simply adjusting to an ever-dwindling market share. They closed plant after plant. And demanded concession after concession. They tried to dig themselves out of a hole. Predictably, it didn't work. It couldn't work. Sooner or later, constant down-sizing and cutbacks throw the very viability of the industry into question. That's where we are today.

The weeks and months ahead will be dramatic and dangerous. Read the facts in this book – which prove that labour concessions cannot solve the problem. Support your union's call for a new North American Auto Pact, and a strategy to fix this industry once and for all. Be ready to support your local union in doing whatever is required to protect our jobs, our contract, our pensions, and our communities.

The CAW will play a responsible, principled role in the weeks ahead. We will do everything possible to save our plants and our jobs. Concessions won't do that.

And one thing is absolutely certain: By sticking together, workers will do better through the coming crisis, than by standing alone.

Thank you for your continuing support and solidarity.

In solidarity,

Ken Lewenza

Ken Lewenza
National President

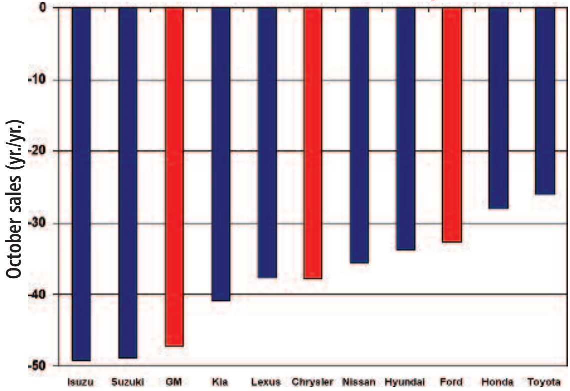
Credit Freeze and Industrial Collapse

BECAUSE OF THE global financial meltdown, the banking industry is experiencing a credit freeze. This means that banks, panicked about their survival, stop lending.

The credit freeze is affecting the North American auto industry in several ways:

- New car buyers can't get loans at attractive rates. And leasing has stopped almost completely.
- Car dealers can't get credit to place wholesale orders with the car companies.
- Auto parts companies can't get normal operating finance.
- The automakers can't access capital to finance needed investments in plants and products.

Decline in U.S. Auto Sales, by Maker



Source: CAW Research from Ward's Automotive.

Because of the credit crisis, U.S. auto sales have collapsed. October's sales were down almost 40% from October 2007. U.S. vehicle sales are running at a seasonally adjusted rate of barely 10 million units – compared to 16 million units in 2007. The Big Three's market share is declining. But all automakers operating in North America have been dragged down by the impact of the credit freeze – some (like Suzuki, Lexus, and Kia) even worse than the Big Three. Even Toyota is losing money in North America, cutting back production, and laying off workers; its debt rating has been cut.

We ALL Depend on the Auto Industry

THIS TABLE HIGHLIGHTS just some of the major contributions made by the auto industry to Canada's overall economy.

Economic Contributions of Canada's Auto Industry	
135,000 direct jobs	440,000 jobs (including spin-offs)
$94 billion in sales	Almost $80 billion in exports
$8.8 billion in personal income (direct jobs only)	$2.2 billion in personal income taxes (direct jobs only)
$430 million in municipal taxes	50,000 pensioners, over $1 billion per year in pensions (Big Three only)

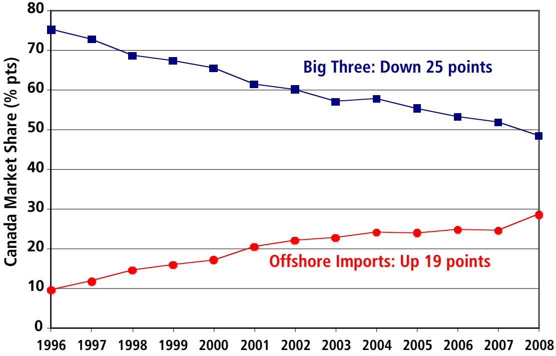
Sources: Statistics Canada, Ward's Automotive, CAW Research, Center for Automotive Research.

Government, too, depends on the auto industry – for several billion dollars per year in revenues (income taxes, corporate taxes, payroll taxes, and sales taxes). Canadian taxpayers will face huge additional costs if the auto industry collapses.

What Caused This Crisis?

SINCE THE MID-1990s, the market share of the North American producers has fallen dramatically: from 73 percent in 1996, to well under 50 percent today. This is mostly due to a tripling of imports to North America from offshore – which rose from 10 percent of the market in 1996, to almost 30 percent today.

Market Share Trends in Canada



Source: CAW Research from Ward's Automotive

In other words, a fifth of our total market has been shifted from domestic production to overseas production in barely a decade. No wonder our jobs are in jeopardy.

Imports + No Exports = Lost Jobs

UNTIL RECENTLY, Canada was an automotive success story: the fourth largest auto producer in the world, assembling more vehicles per capita than anywhere on earth. We also enjoyed a large auto trade surplus: we exported as much as $15 billion more than we imported.

Smart trade policies, like the Auto Pact, were the key to that success. But then our government endorsed free trade (instead of fair trade). They allowed other countries to sell as much in our market as they wanted, with no commitment to Canadian content or Canadian jobs. Unbelievably, our government demands nothing in return:

- Since 1996, Canada's auto imports from Japan have grown 118%. But our auto exports to Japan have declined 69%. Our auto trade deficit with Japan equals $6.3 billion. **For every dollar we export to Japan, we import $135.**
- Since 1996, Canada's auto imports from Korea have grown 710%. But our auto exports to Korea have declined 75%. Our auto trade deficit with Korea equals $1.7 billion. **For every dollar we export to Korea, we import $177.**
- Since 1996, Canada's auto imports from Germany have grown 243%. But our auto exports to Germany have declined 39%. Our auto trade deficit with Germany equals $2.4 billion. **For every dollar we export to Germany, we import $29.**

It's a one-way street. Millions of vehicles come into North America, but virtually nothing flows back the other way. No wonder our trade surplus became a large trade deficit. We fist slipped into the red in 2006 – but this year our auto trade deficit will exceed $12 billion. That represents tens of thousands of lost auto jobs.

The World Trade Organization allows countries to impose trade limits when import surges are creating significant economic distress. That is clearly the case today for Canada's auto industry.

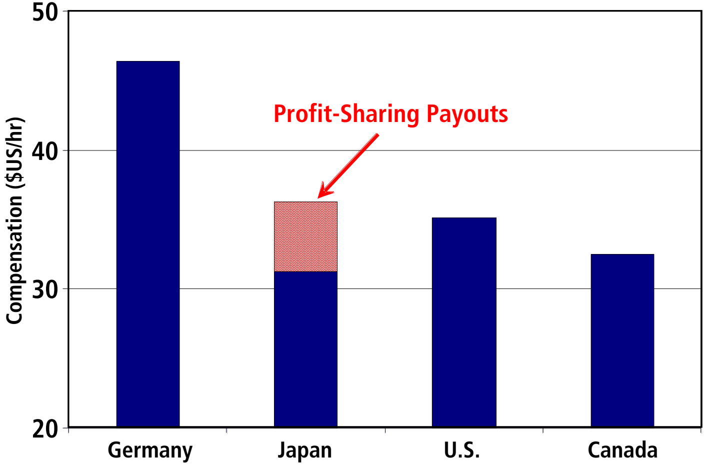
Small Slice of the Pie

DIRECT LABOUR COSTS make up only 7% of the cost of auto assembly in North America. It is economically impossible to save the industry by trying to shrink that 7% slice.

CAW members in Canada could work without wages for an entire year, and it would offset the Big Three's losses in North America so far this year for only 11 days.

Canadian auto labour is cheaper than in the U.S., Japan, and Germany. (In Japan, labour costs include large profit-sharing bonuses, equal to $10 or $15 per hour worked, paid out by the major producers.)

Canada's Labour Cost Advantage



Source: U.S. Bureau of Labor Statistics, adjusted for Nov. 2008 exchange rates and Japan profit-sharing bonuses.

Canada's Productivity Edge

The Canadian Edge			
Productivity Measure	**Canada**	**U.S.**	**Canada's Edge**
Harbour Report (hours per vehicle, 2006)	21.0	22.9	9.2%
Vehicles assembled per assembly worker per year (2007)	54.4	48.2	12.8%
Value-added per auto worker per year ($US, 2006)	$128,500	$91,600	40.2%

Source: CAW Research based on Harbour & Associates; Statistics Canada; Industry Canada; Ward's Automotive; U.S. Bureau of Labor Statistics; and U.S. Bureau of Economic Analysis. Harbour data includes Big Three facilities only. Value-added data converted at purchasing power parity.

Canada's auto industry may be the most productive in the world. This reflects the impact of new technology invested in Canadian plants. And the CAW has played a key role in boosting productivity, too.

Each hour of work in a Canadian auto plant produces 10 -15% more output (in physical terms) than an hour worked in a U.S. facility. The true productivity advantage is larger, because Canadian plants tend to produce a higher-value mix of products, too (larger, more complex vehicles and components). Our true productivity advantage could be as large as 40%.

Getting Ahead of the Curve

Annual Labour Cost Savings Under CAW's New 3-Year Contract (Big Three)	
Net cost savings from contract provisions once fully implemented (by 2011)	$300 million / yr.
Value of 20-cent decline in Canadian dollar since contract was signed	$750 million / yr.

Recognizing the North American auto industry's unprecedented crisis, and the likely impacts of the gathering credit freeze, the CAW negotiated an early contract with the Big Three that is just now coming into full effect.

The CAW recognized the need to act. We were the first major player in North America's auto industry to respond so forcefully to the credit crisis.

These contracts provided for many labour cost savings (including base wage freeze, suspension of COLA, reduction of vacation pay, changes to health plans, no 3-shift operating premium in assembly plants, and other national and local cost savings). It will save a net $300 million per year once fully implemented. More of these provisions come into effect on January 1.

These contracts ensured that Canada's Big Three operations would remain fully competitive on a unit cost basis with those in the U.S. – even with the Canadian dollar at par, and even in light of the UAW's 2007 contract.

But now the Canadian dollar has quickly declined from its past sky-high levels (which reflected the temporary effects of the global commodities bubble). The decline in the dollar since May saves the Big Three $750 million per year (in U.S. dollar terms).

Meanwhile, in the parts sector CAW locals have made incredible sacrifices to keep their facilities in business, including efficiency improvements and contract savings.

Canadian autoworkers are cheaper, and more productive, than their colleagues in other industrialized countries.

The Auto Industry and the Banks

POLITICIANS AND COMMENTATORS have been debating a so-called "bailout" for the North American industry. But what is a "bailout," anyway?

No-one is asking government to throw taxpayers' money at a problem, with no plan and no conditions. Indeed, supporting the auto industry need not cost taxpayers a single dollar.

The government could provide loan guarantees that would assist the companies to attain loans and investments from the private financial industry (which has "seized" up). Or it could use its own banks to issue loans when private bankers refuse to do their job. None of this is "taxpayers' money." This is simply using the government's power to offset the failure of private banks.

Back in 1979, when Chrysler was saved from bankruptcy, the Canadian and U.S. governments provided loan guarantees (not a "bailout"). The taxpayers didn't pay a dollar. And we all benefited from the jobs, incomes, and taxes which Chrysler's operations have generated ever since.

The auto industry needs short-term help to survive the credit freeze. But the industry also needs a long-term plan to ensure its ongoing viability in North America. That means regular support for capital spending, for greening the industry, for skills and infrastructure. It also means leveling the playing field in foreign trade.

The federal government and its agencies have provided over $100 billion in support to Canadian banks in recent months. This included loan guarantees, short-term low-interest loans, and "swaps" of assets so banks could pay their bills.

Exactly the same measures could now assist the auto industry.

Fighting for Our Future

FOR YEARS THE CAW has warned that our auto industry was slipping through our fingers. We built a uniquely successful place for ourselves in a fiercely competitive global industry. We did it with the help of sensible trade rules (like the Auto Pact), pro-active government policy (to attract and support key facilities), and the hard, productive effort of autoworkers.

Since the 1990s, however, governments have taken the industry (and the billions it generates in taxes each year) for granted. They've allowed imports to flood in, demanding nothing in return. And now they blame the workers for the mess that global corporations and free-trading governments created.

Our predictions that the industry faces a do-or-die challenge have, sadly, come true. This is the time for a fundamental change.

The CAW has proposed a new North American Auto Pact. It would include Canada, the U.S., and even Mexico (reflecting the integrated nature of our continental industry). It would include the following main features:

- Short-term liquidity to offset the private credit freeze and allow assemblers and parts producers to survive.
- Major reinvestments in capital equipment and new products, with an emphasis on fuel-efficiency and "green" technologies.
- Require offshore automakers to produce value-added within North America, equivalent to what they sell in North America (through more domestic production, joint-ventures, or exports from North America to Asia and Europe).
- Emergency trade restrictions on companies which do not reduce their trade imbalances to North America.
- Guidelines so each North American country retains a fair share of jobs and investment as the industry restructures.

Above all, the CAW will fight to defend the integrity of our contracts, and protect our members, families, and communities. Slashing wages and benefits will do nothing to save this industry; it will only amplify the pain being felt in our communities, and worsen the downturn in the overall economy.

Let's stand together to fight for a better future for our industry. Fighting back makes a difference!