



THE MACDONALD-LAURIER INSTITUTE



COMMENTARY/COMMENTAIRE

Martinrea and Manufacturing Competitiveness

By Rob Wildeboer

Executive Summary/Sommaire

The future of the automotive industry, and manufacturing generally, depends on entrepreneurs who focus on customers, use technology intelligently and innovate boldly. But we can't do it alone. We also need governments to focus on getting the policy basics right to enhance competitiveness. Without that, our future cannot be bright.

The main things that government can do to ensure a competitive policy climate for manufacturing include:

- Ensuring untrammelled access to the US market, which means dealing with American concerns about border security.
- Being the lowest tax jurisdiction for making things.
- Providing government services at competitive costs.
- Protecting the environment in ways that do not devastate the economy and insisting on evidence before taking panicky steps.
- Maintaining and improving our good record on infrastructure.
- Rewarding hard work; a job is not a right nor is a high wage.
- Encouraging people to be productive—that includes supporting families and welcoming industrious immigrants.
- Providing schools that train people in the trades. If schools won't teach trades, encourage training and apprenticeship programs.
- Having fewer people in government and more in the private sector. Those who are in government need to be coordinated, consistent and efficient.

Get these things right and opportunity will drive results.

L'avenir de l'industrie automobile, et du secteur manufacturier en général, dépend d'entrepreneurs qui se concentrent sur les besoins des consommateurs, qui utilisent la technologie intelligemment et qui innovent avec audace. Mais nous avons également besoin que les gouvernements s'activent à mettre en place les politiques fondamentales permettant d'améliorer la compétitivité. Les principales choses qu'un gouvernement puisse faire sont notamment de :

- Garantir un accès sans entraves au marché américain, ce qui implique de tenir compte des préoccupations de nos voisins à propos de la sécurité aux frontières.
- Faire en sorte que nous soyons les moins taxés lorsqu'on fabrique des biens.
- Fournir des services gouvernementaux à des coûts concurrentiels.
- Protéger l'environnement par des moyens qui ne ravagent pas l'économie et insister pour avoir des preuves au lieu d'adopter des mesures sous l'effet de la panique.
- Maintenir et améliorer notre bonne réputation en matière d'infrastructures.
- Encourager les gens à être productifs – ce qui inclut appuyer les familles et accueillir des immigrants qui ont le sens du travail.
- Fournir des cours de formation technique dans les écoles. Si ces dernières n'offrent pas de tels cours, encourager les programmes de formation et d'apprentissage sur les lieux de travail.
- Faire travailler moins de gens dans le secteur public et plus dans le secteur privé. Ceux qui travaillent pour l'État doivent être mieux coordonnés et accomplir leurs tâches de façon cohérente et efficace.

Si l'on fait les choses correctement dans tous ces domaines, plus rien n'empêchera les occasions d'affaires de se transformer en résultats.

**Rob Wildeboer is Executive Chairman of Martinrea International Inc.
and chair of the board of directors of the Macdonald Laurier Institute**

Based on a Canadian Manufacturing Week speech to the Society of Mechanical Engineers on October 5 2010.

The Future of the Canadian Automotive Industry and its Supply Base” may sound esoteric, but it is not. In fact it is a topic that should interest every Canadian because of what it tells us about Canadians’ ability to continue to make industrial products (“manufacturing”) in the future.

As with any industry, the future of auto manufacturing in Canada depends in part on entrepreneurs who treat people well, focus on quality and adopt world-class technology. But we operate in a larger economic and policy environment where governments must also do some heavy lifting if manufacturing is to retain its place in the Canadian economy.

Dealing with the Automotive Crisis

The most dramatic fact about the larger economic environment, of course, is the recession that started in 2008 and whose effects are still being felt today. It hit auto manufacturing very hard: industry rev-

enues fell off a cliff; production was halved; our customers faced ruin and, in the case of our own firm, two of our key customers went bankrupt.

We said, why let a good crisis go to waste? We felt that if we came through it on solid ground, we would do more than ok. So we did a lot of things.

In Canada, we got very involved in saving the automotive industry. We worked with the federal and Ontario governments, and the US government, on the bailout packages.

For the supply base, we said the most critical thing was to ensure we got paid on a timely basis — if there was no assurance of being paid, the whole industry would grind to a halt, and any liquidity in the system would dry up. Suffice it to say I think we did a good job, all working together.

- We saved the Canadian auto industry, or at least good chunks of it.

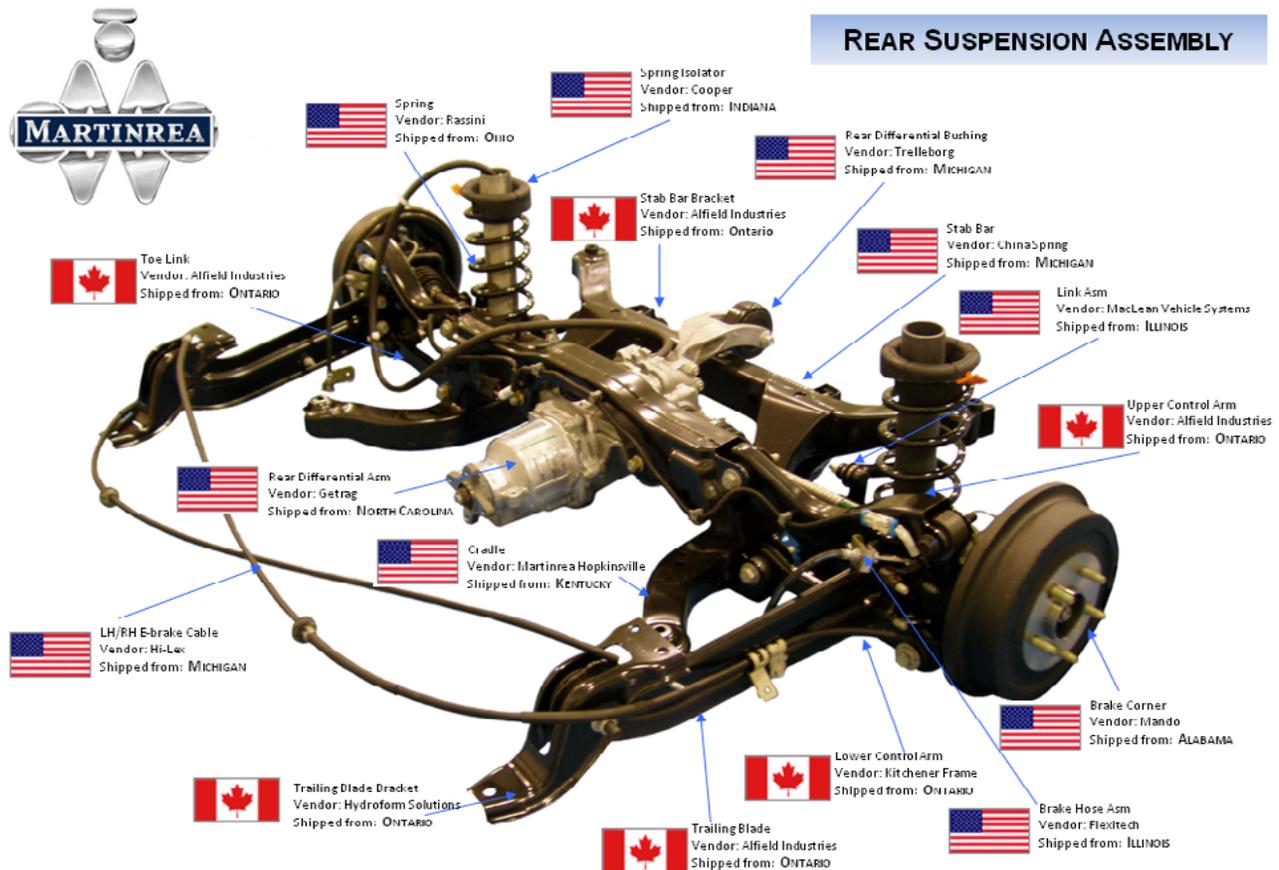


Figure 1: In North America we manufacture things together.



- If the feds and province did not come to the table, we would not have GM and Chrysler, and Ford, assembly plants here.
- And then the supplier industry would be decimated—the reality is that we need to be where our customers are.

The basic premise was that in North America, we make things together, Canada and the US.

Figure 1, from our London, Ontario plant, gives an illustration of just how integrated Canadian and American inputs are in our manufacturing.

Where is the auto industry today?

For years we have punched above our weight in the auto industry. Before the recession, we consumed about 8 percent of the vehicles sold in North America and produced about double that percentage. We still punch above our weight today, but the reality is that we will likely not grow the percentage; the percentage is likely to go down over time.

Martinrea is hopeful we will still punch above our weight. We are hopeful we will maintain assembly plants in Canada, and that GM (Oshawa, Cami), Ford (Oakville), Chrysler-Fiat (Bramalea, Windsor), Toyota (Cambridge, Woodstock), Honda (Alliston) will be here for a long time. This will ensure a supply base. But the reality is that the supply base will have to be international too. If we are not e.g. in Mexico and the US, we will not be able to survive in Canada alone.

In terms of a broad picture for the auto industry

- We believe volumes are going up over time, and not down.
- The speed of the increase is uncertain.
- But the reality is that a scrap rate of 14 million vehicles a year means that at some point we will be selling more than 11 million vehicles; the costs of maintaining a vehicle at some point exceed the costs of buying and financing a new one.

- Canada will continue to have a share of that market, albeit, as I said, a declining one.
- Again using our own firm as an example, our real growth has been in the past two years and will be in Mexico and the US, especially the south.

Grow and survive with technology

The automotive industry is one of the most competitive, technologically oriented industries on our planet. Those automotive companies and those suppliers who are at the leading edge will survive and thrive.

Looking at the industry as a whole, here are some examples of innovation and technology at work:

The growth of computer systems in the vehicle

- Ford's "sync" technology—made Ford Motor Company the technology company of the year!
- Anything from GPS systems, to entertainment, to handsfree in a vehicle.
- Cars are computers with wheels.

Safety systems

- Use of higher strength steels and systems that make vehicles safer in a crash.
- Everything from air pressure gauges to tires that virtually never go flat—when is the last time you had to change a flat?

Environmental Improvements in fuel emissions

Apart from greenhouse gases, vehicle emissions are so clean now that we are almost emission free.

- The emissions from one 1987 car are equal to emissions from 37 2009 vehicles.
- If you drive a 2010 vehicle from here to Vancouver and back, there are fewer emissions than opening a single can of water based paint!
- On certain days in Los Angeles, the exhaust from a new vehicle will be cleaner than the air going in!



- The newest frontier is greenhouse gas emission reduction.
- I am not sure I am a true believer in the global warming panic that we've seen over the past few years, but this is an issue for our industry.
- The best way to reduce these emissions immediately is to improve mileage, and the single best way to do that is to reduce vehicle weight.

At Martinrea, for instance, innovative technologies put us at the leading edge of environmentally based solutions in many of our product offerings.

- As a leading metalformer, we embrace leading edge processes, such as hydroforming and hot stamping of metal, that allow us to make parts lighter while maintaining strength.
- We are at the forefront of the lightweighting game.
- As a fluid systems manufacturer, we are into the fuel game and the fuel emission reduction arena. For example, the capless fuel filler Ford has is our product. Among other things, such as convenience, it actually reduces emissions.
- We are also working with Ford, and others, on greenhouse gas footprint studies.
- In our view, this is not only being a responsible supplier, but this is the way to grow our business over time. Note that I am not saying that we just do environmental things and change our business focus. Much of our product will continue to involve basic stampings, assemblies and so forth. But that extra five or 10 or 20 percent of our business that involves leading edge technologies or innovations will be a differentiator that makes us a key supplier to our customers, and will give us a competitive advantage to secure our future.

The competitiveness of our manufacturing sector

Now I would like to make some broader, more general comments about competitiveness because ev-

eryone in manufacturing, everyone in government and indeed everyone in Canada is affected by the broader issues of competitiveness.

First, let me present an excerpt from a report prepared for the Ontario government by the Ontario Manufacturing Council, on which it is my privilege to serve:

The competitiveness of Ontario's manufacturing sector and the economic prosperity of the province depend on innovation. Our ability to discover, create, source, produce and market new goods and services, and to apply new and improved ways of doing things in manufacturing, is the most important factor determining productivity performance. And, productivity growth is what sustains business competitiveness, Ontario's economic growth potential, employment prospects, and the standard of living of each and every Ontarian. Improvements in our health, personal security and the quality of our environment all go hand-in-hand with our ability to innovate.

Manufacturing is a major source of innovation in Ontario. Manufacturers account for almost 60 percent of all business investment in research and development and for more than 80 percent of all innovations success-



Figure 2: Fully automated assembly line at Martinrea's Hydroform Solutions plant in Brampton, Ontario.



fully brought to market in the province. Today, faced with intense competitive pressures in global markets, Ontario's manufacturers must be advanced in terms of their use of technologies and their ability to offer new and improved product solutions rapidly to customers in Canada and around the world.

A few months ago, I was asked to present some thoughts on making manufacturing competitive in the 21st Century in Canada and Ontario. My audience was a number of deputy ministers in the federal and Ontario governments with economic portfolios. They are sincere, hard working people with a tough job. Here is basically what I said.

Our Top Ten List

In the spirit of David Letterman and TSN, I summarize briefly my Top 10 of Things Needed to Make Manufacturing, Our Competitiveness and Our Country Better, and they are all interrelated.

The list may not be everyone's, it may not be inclusive, and it may not be politically correct. It does not have three of the usual issues – the Canadian dollar, liquidity, and innovation support. But it reflects views that I hold, along with many others whose opinions I respect.

In one respect, I believe we Canadians can be, and are, very competitive. Some of these points will encourage competitiveness, some actually focus on removing barriers to competitiveness.

1. Access to the US/North American market through perimeter security

I will go rogue at the start. The best thing we can do for our manufacturing industry is ensure access to our largest markets in North America, and probably the best way to do that is to deal with the security fears/concerns of Americans.

It is time to knock down the border between us to the greatest extent possible, but to recognize that our failure to have a secure international border hurts

us. In our industry in particular, we make things together. You saw the graph of what Martinrea assembles in London, Ontario. Real friends don't have borders. We are a true friend and should be treated as such.

2. Be the lowest tax jurisdiction for making things

- Our corporate tax rates are declining and competitive—good.
- We should have no taxes on capital—it is a tax on productivity.
- Accelerated depreciation is good—I would write off machinery over a year; match the deduction to the financial payment obligation.

In sum, tax strategy should encourage investment in productivity.

Some of the best investments in productivity are in IT systems and communications—the virtual manufacturer. Here we have done quite well.

3. Competitive services costs

Power and electricity costs used to be a real advantage in Canada. With the subsidization of certain forms of power, of debatable economic benefit, power deserves its own point.

Subsidizing the costs of so called “green energy” has tremendous costs on manufacturing and our industrial base. This should be an advantage! But today our cost structure for services is uncompetitive. A tragedy.

I think we are trading potential “green” jobs for real, existing jobs.

4. Getting it right on environmental fanaticism before emasculating our economy

I believe in environmental protection. Whether one is a tree hugger or seeking to protect our creation from a Christian perspective, the need to respect our environment and pass on our great country to our children is undisputed. But the so called “science” or fact of man made global warming, its mag-



nitude, its impacts, its reality and most importantly how to address the challenges is not certain.

We need to get this right before instituting prohibitive cost measures that, frankly, will castrate our economy and hurt millions of people.



Figure 3: If Canadians want a robust manufacturing sector, making things like this Martinrea engine cradle, we must get competitiveness right.

I am not a sceptic, but I am a seeker of truth based on facts. And in Canada, which is tremendously strong in natural resources, we have an even greater stake in the issue.

My view is climate science is important — let's insist on understanding before being bullied into the wrong move. It is good to move cautiously.

5. Great infrastructure

Highways, sewers, power plants *et cetera* are great investments for the future, and give us competitive advantage. So do high speed internet networks. This is a competitive advantage for Canada, and should be at the forefront of a competitiveness strategy. We have world leading expertise in this area, and build things very well—SNC, Aecon. Here we are doing fairly well.

6. Maintain a focus on our areas of competitive advantage-strengths

We cannot be all things to all people. Industrial growth has to focus on some advantages that we have, such as

- Our natural resource advantage—water, energy, mining, forestry.
- Advance manufacturing areas, including auto, the most advanced manufacturing industry in the world – which is in danger of fading away over time. [Note that Ford has just been described as the new Apple – by the tech Sector!]
- IT/Communications.
- Financials/strong financial infrastructure.

Everyone likes the latest trend, but to see our strengths look at the makeup of the TSX Composite Index.

The next three items are the most important, because they relate to our most important asset, our people. They are interrelated to some extent. Where you have a successful business or enterprise, it always comes down to the people.

First of all, we need people – we are running out. We are at the precipice of a people shortage we have not seen before. But not any kind of people. We need people with certain characteristics – the kind who helped build this country with their work ethic, skills and entrepreneurialism.

7. We need to reward and encourage hard work—we need hard working people

We have become way too much a taking society. Over benefited, over unionized, over rights oriented rather than privilege and responsibility oriented.

- A job is not a right, we have to work for it.
- A wage rate is not a right, we have to earn it in the marketplace; and labour is not a fixed cost.
- Our government policies should encourage people to be productive and to work hard.

This ranges from supporting immigration of people who will try to build a future here; to supporting families who tend to instil values of hard work, diligence and responsibility; to having less progressive income tax rates; to basically stress in everything the



fact that our country will grow and prosper through hard work.

On the immigration front, people who come here need to “earn the right to stay”, not come here to be wards of the state. One of my colleagues says come here three years as a guest worker; three years as a landed immigrant; then, if you pass the tests, you have a right to citizenship. If you don’t, you have no right to stay and no right to a social net.

Immigrants and hard working ones, at that, helped build this country. At Martinrea, our CEO (Jaekel) is from Argentina; our President (Orlando) is a first generation Italian; our Vice Chair’s father (Rea) was an Italian immigrant who built our fluid division; I am the son of Dutch immigrants; our board has a Yugoslavian immigrant (Arandjelovic) who has started a string of companies, and a Palestinian immigrant (Rashid) who built a consulting practice, and so forth. Exhibit A for the strength of sound immigration policies.

The auto parts sector includes Frank Stronach, an Austrian immigrant, and Frank Hasenfratz, a Hungarian one. Our sector was built by immigrants. Who is going to build the future?

8. We need trained and educated people

We excel in many areas of education, and that is a strength. But we need many more people trained in the trades—tool and die makers; millwrights; electricians; carpenters; builders; etc.

We are as a society losing the ability to make things – and so much innovation involves process improvements. How can you improve what you don’t know how to make in the first place?

Every grade school should teach a trade. Every high school should teach something hands on. There is and will be a tremendous need for these people.

If the schools won’t do it, we need to encourage training and apprentice programs like never before, and reward those who use them. And anyone on unemployment should be required to learn skills.

We need knowledgeable, enthusiastic people - that attract industries here.

9. We need less people in government and more working in the private sector

Within our company, we have a saying for our executive team – we are overhead and the business needs to be able to support it.

In many ways, government represents overhead on the productive class, and at some point the government sector becomes unsupportable – I think we are close to and maybe past the tipping point. Many in government are undoubtedly educated, hard working and fine people, although I am not sure they are entrepreneurs or good business people that I would invest in. But the reality is that outside government, market forces have forced us to become lean, or we would die. That has not happened, yet, in the public sector, and it has to.

There is a growing social frustration and anger about this – and whether we see it in the Tea Party in the US, or in other areas, the fact is that the government needs to be smaller, less expensive, and less intrusive. By the way, in the private sector we are doing away with defined benefit pension plans – that day of reckoning needs to come in the public. Smaller government will allow us to reduce the burdens—tax, regulatory, red tape, on the private sector.

In sum, on the people front, the people are the energy, the Canadian battery so to speak, to power the future; but we have to charge it up, and we need the right mix.

10. Government needs to be coordinated, consistent and not duplicative

I spent the last year and a half working with the federal and provincial governments on auto and manufacturing policy and helping out our sector. I was amazed at the high level of cooperation, dedication etc.

That is perhaps a rarity, but one that should happen more often. It should be encouraged. It is ap-



preciated. It is also needed within government, and not just with economic departments. Today, the Department of the Environment is an economic one.

Finally, I did not mention in my list two of the items you will undoubtedly hear from many. First, the Canadian dollar. In my view, it is what it is. We should be and are prepared for a strong dollar. By spending dollars on productive assets and efficiencies, we can build better companies.

Second, innovation. We of course support it, both product and process innovation. But, innovation is not formulaic, it is often a mindset of the people you have and the opportunities you create

for them. Actually, I am not sure we have an innovation problem in our Country – our people are capable. If we make progress on the Top Ten List, we will all be amazed at what innovations we can come up with.

Opportunity will drive results.

Conclusion

I'm very proud of the way our company conducts its business. But the fate of manufacturing depends on more than the actions of individual firms and entrepreneurs. It depends on our governments meeting the challenge of competitiveness. That's where our future lies... or doesn't.





THE MACDONALD-LAURIER INSTITUTE



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The Macdonald-Laurier Institute for Public Policy exists to make poor quality public policy unacceptable in Ottawa. We will achieve this goal by proposing thoughtful alternatives to Canadians and their political and opinion leaders through non-partisan and independent research and commentary.

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The notion that a new think-tank in Ottawa is unnecessary because it would duplicate existing institutions is completely mistaken. The truth is there is a deep dearth of independent think-tanks in our nation's capital.

Allan Gotlieb, former Deputy Minister of External Affairs and Ambassador to Washington

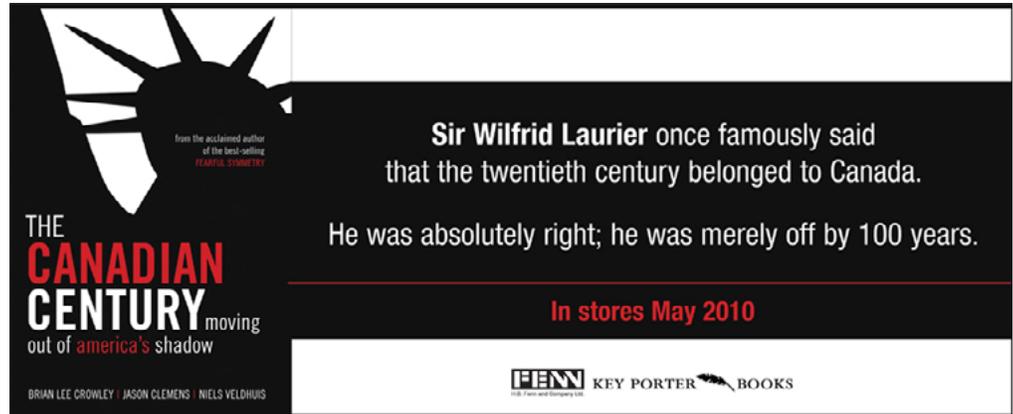
To surmount the enormous challenges of getting Canada's place in the world right and taking advantage of changing opportunities, we need more ideas, input, discussion and debate in Ottawa-- that is where the crucial decisions about our future are made. That's why MLI is so vital to Canada today.

Hon. James S. Peterson, former Minister of International Trade and Member of Parliament for 23 years

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WHAT PEOPLE ARE SAYING ABOUT *The Canadian Century*, THE MACDONALD-LAURIER INSTITUTE'S FIRST BOOK

It is not often that Canadians talk about moving out of America's shadow—for far too long we have simply assumed that being in that shadow was the natural order of things. Crowley, Clemens and Veldhuis remind us that Sir Wilfrid Laurier thought that all things were possible for us, and they show, with an impressive array of facts to support their argument, that Laurier's plan for Canada can still carry us through to that Canadian century we have all been eagerly awaiting for over a hundred years.
-Allan Gotlieb, from the foreword



"As the U.S. and other nations struggle to defuse some potentially disastrous fiscal time bombs, The Canadian Century makes a compelling argument that the world should be looking to Canada for lessons on how to get reform right." - Robert Kelly, Chairman and CEO, BNY Mellon

"The Canadian Century reminds us that the temptation for governments to solve all our problems with higher spending always ends in grief—a lesson the U.S. will soon learn. It's a reminder that prosperity can be ours if we remember Wilfrid Laurier's legacy of liberty, lower taxes and smaller government." - Patrick Luciani, author, Economic Myths

"Crowley, Clemens and Veldhuis show that if we establish a real advantage vis-à-vis the U.S. on tax and other policies, that will increase both our attraction with emerging pow-

ers and our leverage with the US. The question the authors pose is whether we have the wherewithal to finish the job." - Derek Burney, former Canadian Ambassador in Washington

"The authors strike exactly the right balance with enough detail to keep the most ardent policy wonk captivated while writing in a breezy style that will engage non-economists. And as with a good novel, the authors leave us in suspense. I urge people to read this compelling tale and then, like me, anxiously wait for a sequel to see how the story ends." - Don Drummond, Senior Vice-President and Chief Economist, TD Bank Financial Group

"Entrepreneurship, hard work and self-reliance are deeply ingrained in our psyche. During the Redemptive Decade of the 1990s these virtues were resurrected. In tandem with

concerted actions by the different levels of government, we put right the debt and despair created by a couple of dark decades when we wobbled towards what the Wall Street Journal described as Third-World Status. Limited government, light taxes and fiscal discipline, argue the authors, are the ingredients that bring gold in the Olympiad of nations." - Colin Robertson, first Head of the Advocacy Secretariat at Canada's Washington Embassy

"This timely and provocative book will remind Canadians that the smart fiscal and trade policies pursued by governments of all stripes in the past two decades has made Canada a star at the beginning of this century. But history should not repeat itself. What we have achieved recently is what Wilfrid Laurier understood to be the right path forward for the last century. Instead, wars and economic

depression led to inefficient government spending, high taxes and deficits, and protectionism. Canada should avoid this poisonous policy recipe in the coming years to fulfil Laurier's dream of a truly great nation of the North, which we should rightly be." - Jack Mintz, Palmer Chair in Public Policy, University of Calgary

"This wonderful book is an urgent wake-up call for Canada's current leaders—of all political stripes—and raises crucial economic issues that should be top-of-mind in coming federal elections. Now is the time to reaffirm the power of Laurier's vision, to make some courageous policy decisions, and to thereby ensure that the 21st Century belongs to Canada in the way Sir Wilfred intended a hundred years ago. Will Canada's political leaders pay attention?" - Christopher Ragan, Clifford Clark Visiting Economist, Finance Canada