January 4th, 2016

Innovation, Science and Economic Development Canada
Minister of Innovation, Science and Economic Development
235 Queen Street
Ottawa, Ontario K1A 0H5
Canada

Minister Navdeep Bains,

On October 5th, Canada and eleven other nations concluded negotiations of the Trans-Pacific Partnership (TPP). On the whole, the TPP would provide Ontario businesses with increased access to the markets of both current and relatively new trading partners. Together, TPP members represent 800 million people and a combined GDP of $28.5 trillion, or about 40 percent of global economic output.

Today, however, the Ontario Chamber of Commerce (OCC) is writing to express our concern regarding the provisions related to the automotive industry that are contained in this agreement.

Ontario's auto industry is a top economic driver in the province, contributing more than $16 billion to the economy and supporting over 100,000 direct manufacturing jobs. Growth in this industry has been fostered by a highly integrated relationship with the U.S. and the provisions contained in the North American Free Trade Agreement (NAFTA). Auto trade under this agreement is $100 billion annually, or more than 20 percent of total Canada-U.S. trade.

If ratified by all member countries, the TPP risks jeopardizing this critical trading relationship and will put Canada's auto industry at a serious disadvantage relative to its competitors. This comes at a time when Canada is already struggling to attract new auto investment.

Specifically, the OCC is concerned about three specific outcomes of the TPP negotiations.

First, under a ratified TPP, Canada's phase-out of tariffs on Japanese automotive vehicle imports would be misaligned with that of the U.S. While Canada's 6.1 percent tariff would be eliminated over a five-year period, the U.S. has 25 years to do the same. To sustain the benefits that Canada has created via a highly integrated auto sector with the U.S., it is essential that both countries are subject to the same provisions.

Second, the content requirements for vehicles and vehicle parts have been reduced from current levels. At present, to be traded duty-free under NAFTA, 62.5 percent of the value of that vehicle must originate from a member nation. Under the TPP, this requirement would be set at a much lower level—45 percent—and include a much broader group of member nations. For many members of the auto parts manufacturing community in Ontario, these changes present a significant risk to their business by exposing them to competition from low-cost jurisdictions.

Third, the TPP does not contain an enforceable agreement to prevent currency manipulation. Without such enforcement mechanisms, Canada's competitors could be tempted to devalue their currency to gain an unfair advantage.

From the perspective of the OCC, the outcomes of the TPP negotiations underscore the need for a targeted and coherent intergovernmental strategy for Ontario's manufacturing sector, a need we stressed in *Emerging Stronger 2015: Ontario's Path from Recovery to Growth*. Ontario's days as a manufacturing hub are far from over, but specific actions need to be taken to attract and sustain investments in areas where the province can be globally competitive.

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A critical component of this strategy will be a new approach to attracting auto manufacturing investment. This should include both globally competitive investment incentives and a manufacturing-based trade strategy to create meaningful new export markets for Canadian-produced vehicles. This will help secure the ongoing investment in innovative technologies and manufacturing processes, while strategic, manufacturing-based trade agreements will help ensure that Canadian products can be exported.

As a start to this broader process, the OCC recommends that the new federal government closely examine all the provisions in the TPP with an eye to their impact on domestic industry.

As your government takes time to understand and evaluate the implications of the TPP for Canada, we encourage you to engage with the OCC and Ontario's auto industry to carefully consider all options available to improve upon the current automotive terms in the TPP, as well as working with auto sector stakeholders to move forward with a comprehensive plan to support this crucial sector of the economy.

To that end, the OCC is in the process of organizing a roundtable on this subject in the winter of 2016, to which we would very much appreciate your attendance. We would be happy to fit this roundtable into your schedule.

Sincerely,

Allan O'Dette

Allan O'Dette
President and Chief Executive Officer
Ontario Chamber of Commerce

cc:
Hon. Kathleen Wynne, Premier of Ontario
Hon. Brad Duguid, Ontario Minister of Economic Development, Employment, and Infrastructure