



Ontario's Strategic Approach to the Automotive Sector



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Ministry of Economic Development & Trade
Automotive Strategy Branch
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Ontario Made Products



DaimlerChrysler Canada Inc.

Brampton Chrysler 300, Dodge Magnum and Charger
Windsor Dodge Caravan/Grand Caravan
Chrysler Pacifica

St. Thomas Sterling (Freightliner)
Medium and Heavy Duty Trucks

Ford Motor Company of Canada Ltd.

Oakville Ford Freestar

Ford Edge/Lincoln MKX (October 2006)
Ford Fairlane/Lincoln (2008)

St. Thomas Ford Crown Victoria/Mercury Grand Marquis

General Motors of Canada Ltd.

Oshawa, Plant 1 Chevrolet Monte Carlo, Impala
Oshawa, Plant 2 Buick Lacrosse/Allure,
Pontiac Grand Prix
Oshawa Truck Chevrolet Silverado, GMC Sierra 3-dr
extended cab pickups

Toyota Motor Mfg. Canada Inc.

Cambridge (South) Lexus RX350
Cambridge (North) Toyota Corolla and Matrix
Woodstock Toyota RAV4 (2008)

Honda Canada Mfg. Inc.

Alliston, Plant 1 Acura CSX and Honda Civic
Alliston, Plant 2 Acura MDX and Honda Pilot
Honda Ridgeline

CAMI Automotive Inc.

Ingersoll Chevrolet Equinox
Pontiac Torrent
Suzuki XL-7 (August 2006)

Navistar International Corp

Chatham Navistar International Heavy Duty
Trucks

Ontario's Position in the NA Auto industry - Production

- Ontario is the largest light vehicle-producing jurisdiction in North America. Ontario's output exceeded Michigan's for the second year in a row in 2005:
 - Although that US state still leads in terms of auto parts manufacturing
 - Despite falling 30%, Michigan's total automotive employment is still double that of Ontario's
 - Michigan is also a global R&D centre for most major assemblers and parts companies, while very little is still done in Ontario (OAI is helping here)
- Despite Ontario's leading position in North America, total light vehicle unit production is actually down from a peak of over 2.9 million units reached in 1999:
 - Since then, two Ontario assembly plants have closed - Ford's Ontario Truck Plant (Oakville) and DaimlerChrysler's Pillette Assembly Plant (Windsor)
 - There have been a number of supplier plants which have closed, including those owned by the car manufacturers – DC's Ajax Trim Plant
 - Recently announced closures of Ford's Windsor Casting Plant and General Motors' (GM's) St. Catharines Powertrain Components Plant
- Ontario's share of NA-produced vehicles has remained consistently around 16% for many years:
 - Total value of shipments (about \$100 billion per year), and the auto industry's share of the provincial GDP (about 4%) have also remained relatively stable over the past few years

Ontario's Position in the NA Auto Industry - Employment

- **During the past six years, Ontario's total automotive manufacturing employment has fallen by 3%:**
 - **This is relatively flat compared with the 90,000 jobs lost in Michigan, or nearly 30% of its automotive employment**
 - **Despite the strong presence of Honda in Ohio, and Toyota and Subaru in Indiana, these states lost 19% and 15% respectively of their automotive employment in the same period**
 - **Nearly all the job losses are at Big 3 assembly plants and the suppliers dependent on them for business**
 - **Job losses are related to falling market share for the Big 3 but also to dramatic improvements in productivity**
- **Ontario has experienced a contraction related to Big 3 plants and employment just like the US Upper Midwest:**
 - **However, Ontario has also benefited from Japanese investment like the US South**
 - **In fact, it is partially because of the shifts in production from states like Michigan, Ohio and Indiana down to Alabama, Tennessee and Kentucky that Ontario now produces more vehicles than any other North American jurisdiction, including all of Mexico**

Ontario's Position in the NA Auto Industry - Investment

- **New investment in Ontario's auto sector has continued to remain strong throughout the past few years:**
 - **The total amount of capital expenditure in the automotive industry in Ontario has exceeded \$4 billion per year since 2000**
 - **This is even higher than the \$3.6 billion average annual investment attained throughout the 1990s**
- **The OAIS program has ensured that this momentum is maintained.**
- **Ontario has successfully landed investments from the Big 3 as well as growing Japanese car companies:**
 - **These have positioned the province well to compete in North America and take advantage of emerging market shifts**
 - **Ontario "lost" the opportunity to land a number of non Big 3 plants built in the southern US but these were never going anywhere but the US – so Ontario was never on the short list to begin with**

Ontario's Auto Industry – Dark Clouds

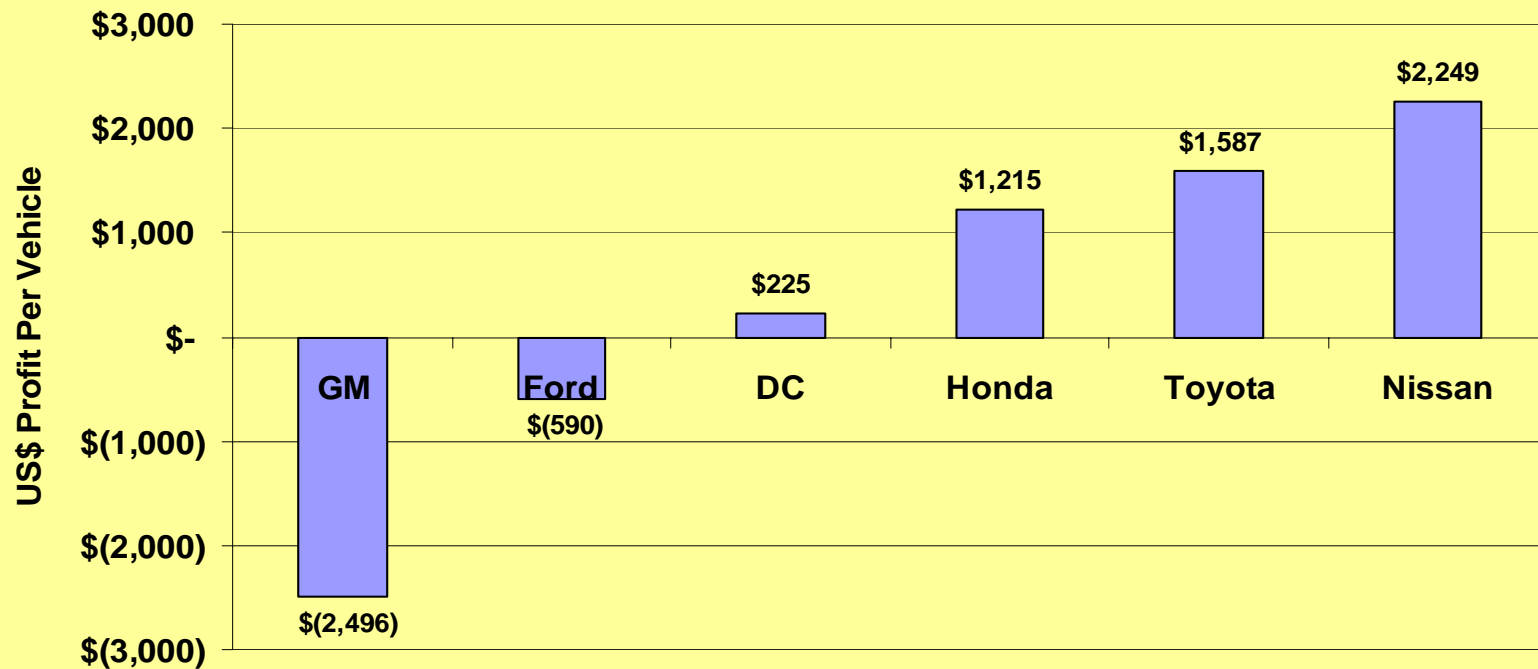


- The aggregate statistics on employment and investment hide the dramatic shifts occurring in the industry, which have been impacting Ontario both positively and negatively.
- Ontario is an integrated part of the North American auto industry and therefore impacted by factors driving competition across the continent:
 - Falling Big 3 market share – Ontario assembly is still about 70% Big 3
 - Excess capacity for Big 3, some Ontario plants have closed
 - Hyper-segmentation – Big 3 need flex for production – **OAIS helps**
 - Fuel costs causing shift away from profitable vehicle types for Big 3 like pickup trucks and big SUVs – **towards crossovers – Oakville, CAMI, Toyota**
 - Changing consumer tastes – **hybrids are hot and two going into Oakville**
 - High structural costs including legacy and healthcare costs – huge issue in USA
 - Outsourcing of parts manufacturing to LCCs/ULCCs – **low initial cost versus best cost**
 - Global currency shifts – Chinese Yuan now allowed to float within narrow band, strong Canadian dollar, strong Euro
 - ***Problems are with individual companies and some of their products, not with the entire industry***
 - ***Well run companies with good products and low costs are profitable***

Profits Drive Investment Decisions



2005 US\$ Profit Per Vehicle in North America

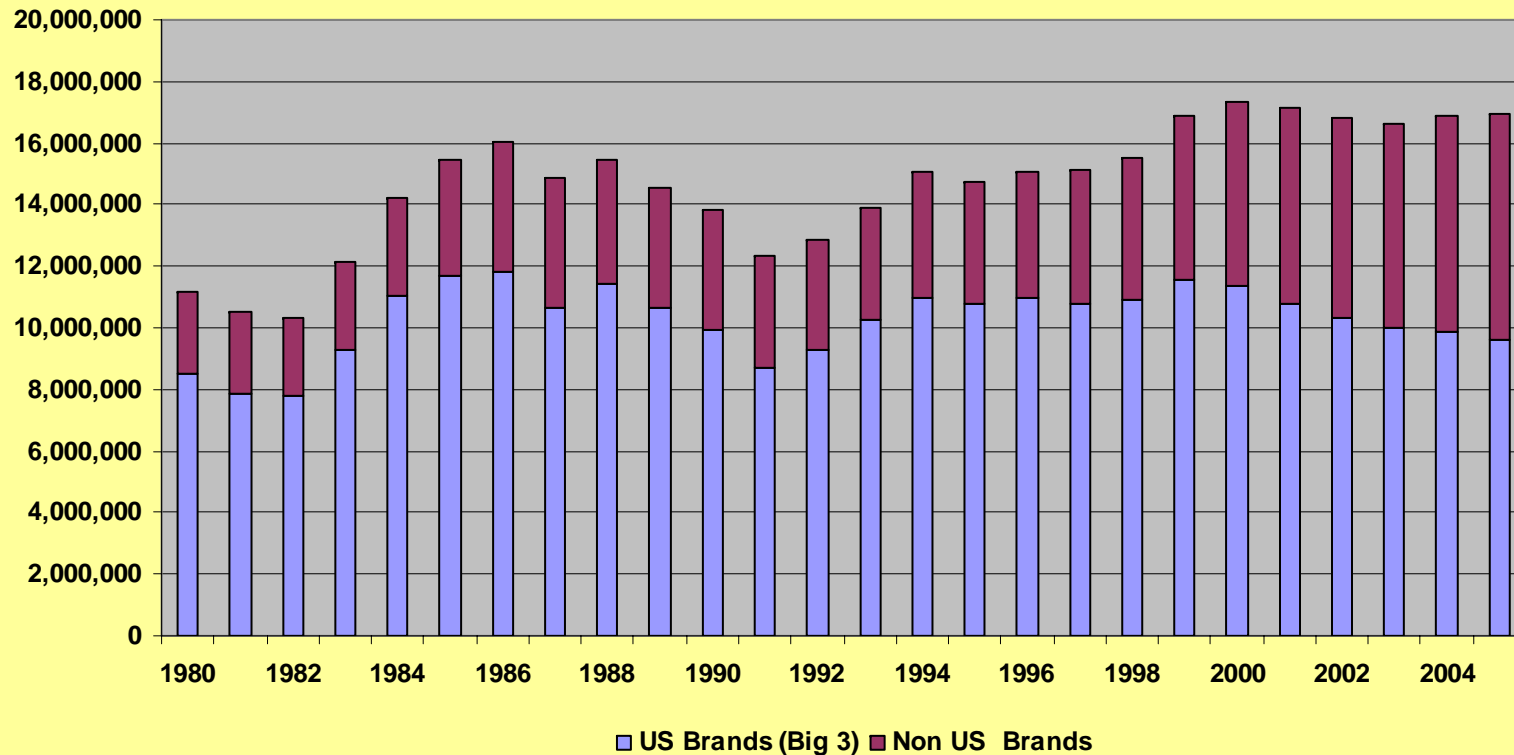


Each of Japan's Big 3 earns more on each vehicle than all of the Detroit Big 3 combined, according to the 2006 Harbour Report.

US Sales Remain Strong Overall But Big 3 Continue to Lose Market Share



US Light Vehicle Sales - US Brands vs Non US Brands

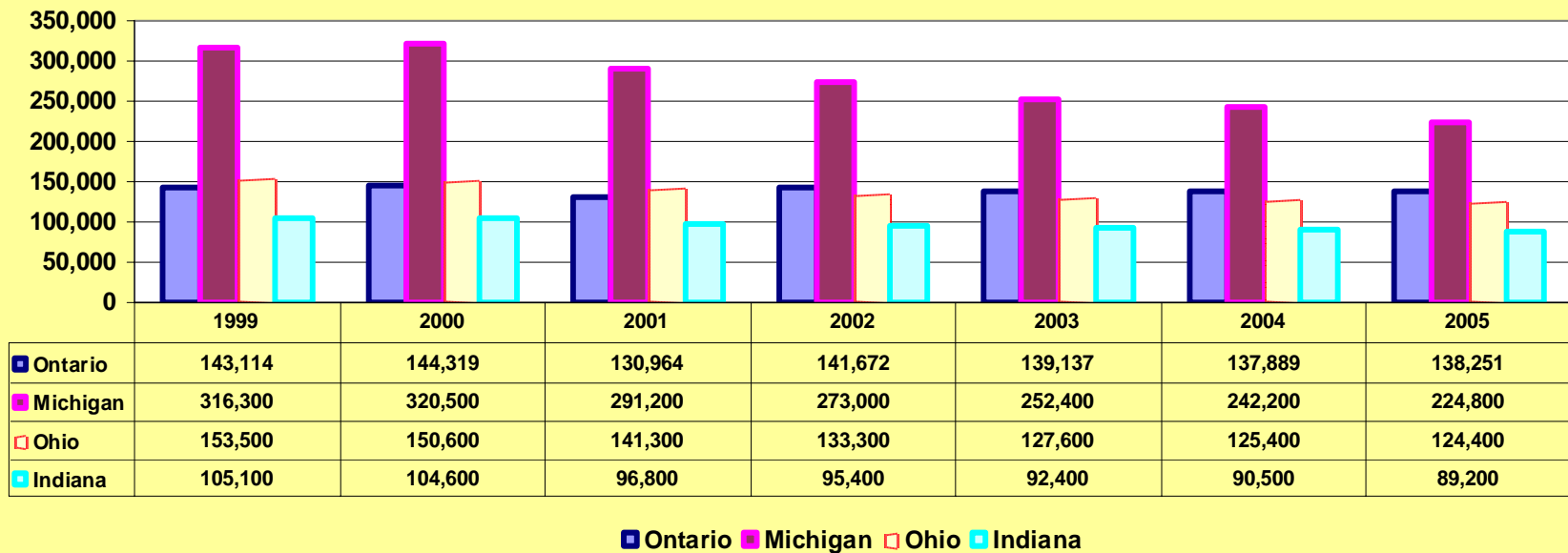


In 1980, the major US brands accounted for nearly 77% of all vehicles sold in the US. In 2005, it was less than 57%. Thus far in 2006, Big 3 market share has fallen even further to below 55%. Each two percentage points lost in market share will result in the closure of one large assembly plant or two small ones. 8

Decline of Big 3 Resulted in Huge Job Losses



Automotive Manufacturing Job Losses

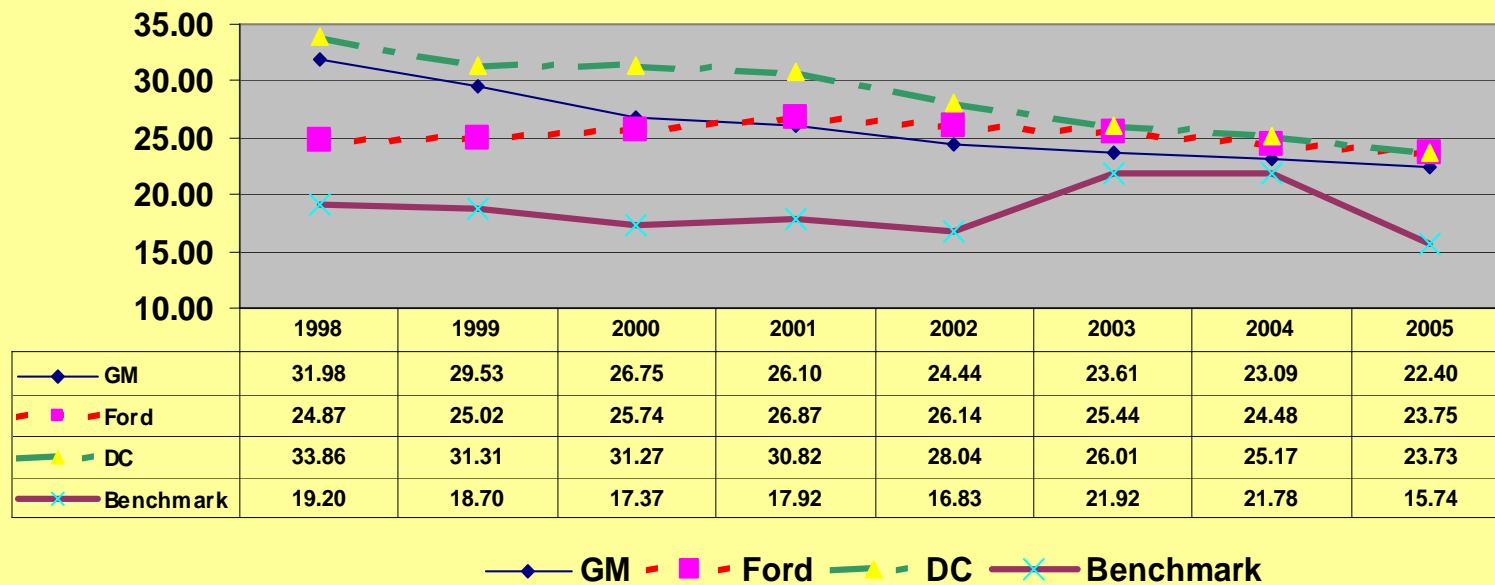


During the past six years, Ontario's total automotive manufacturing employment has fallen by about 5,000 jobs or 3%. This is relatively flat compared with the 90,000 jobs lost or nearly 30% by Michigan. Unlike Ontario, Michigan has no production from the Asian 4 – although they do have R&D and engineering centres as well as Japanese suppliers. Despite the strong presence of Honda in Ohio, and Toyota and Subaru in Indiana, these states lost 19% and 15% respectively of their automotive employment in the same period. Nearly all the job losses are related to Big 3 assembly plants and suppliers dependent on them for business.

Huge Productivity Gains by Big 3



Big 3 Productivity Improvements in Hours Per Vehicle (HPV)



During the past eight years, the Big 3 have made dramatic improvements in productivity with many of their plants being industry benchmarks, like GM Oshawa. While reducing direct unit costs, this has resulted in capacity creep. It is estimated that productivity improvements coupled with falling volumes has resulted in the need for 50,000 fewer auto jobs. Even if production volumes had remained at the average rate during this time, the increase in productivity would still mean 35,000 fewer jobs required. Unfortunately for the Big 3, many of these unneeded employees are still on the payroll through the 'Jobs Bank' type programs.

Credit and Financial Crisis Looming



- **Continuous downgrades to junk bond status at GM, Ford – little immediate direct impact, but:**
 - **Raises costs and ability to borrow going forward**
 - **Affects ability to market vehicles based on cheap financing**
- **Signals to debt & equity markets: underweight the sector:**
 - **Contributes to supplier problems - already a liquidity crisis underfoot as traditional sources of capital abandon this sector.**
 - **Two thirds of the largest North American suppliers have bond ratings of “junk” or are in bankruptcy**
 - **M&A activity weak – few strategic investors, only “vultures” or private equity**

- **Wall Street predicts a recapitalization of Detroit assemblers and parts companies:**
 - **Current shareholders will lose – emerge with new owners**
 - **Once completed, better cost structure for producing better products**
 - **A substantial right sizing will take years**
 - **US government says it has no role but will it have a choice? – PBGC, healthcare/drug benefits for those no longer on the Big 3's payroll**
 - **60,000 job cuts and over two dozen plant closures already announced by GM and Ford**
 - **US financial community concludes that GM and Ford may need to cut up to 20% more capacity and employment than already announced**
 - **Worst case scenario is the bankruptcy (Chapter 11 not Chapter 7) of GM or Ford – if one goes, so will the other**
 - **GM and Ford still sell 40% of NA vehicles – they will not disappear but emerge as smaller, leaner companies with fewer structural cost disadvantages and legacy commitments**
 - **Serious negative impacts and challenges for suppliers, and communities where the impacted plants/workers are located**

GM and Ford – Plan 60,000 Job Cuts and 26 Plants on Death Row



GM – 30,000 jobs, 12 plants, 1 M units cut

- **Closure of Oshawa Car Plant #2**
- **Oshawa Car Plant #1 – shift reduction**
- **Closure of St. Catharines Powertrain Components**
- **Closure of Oklahoma City, OK Assembly**
- **Moraine, OH Assembly, shift reduction**
- **Closure of Lansing, MI Craft Assembly**
- **Closure of Doraville, GA Assembly**
- **Spring Hill, TN Assembly Line 1**
- **Closure of Lansing, MI Stamping**
- **Closure of Pittsburgh, PA Stamping**
- **Closure of Portland, OR Distribution**
- **Closure of St. Louis, MO Distribution**
- **Closure of Ypsilanti, MI Processing**
- **Closure of one additional processing centre**
- **Flint, MI 3800 series engine facility**

Ford – 30,000 jobs, 14 plants, 1.2 M units cut

- **Closure of Windsor Casting**
- **Loss of 1 shift at St. Thomas – Closure?**
- **Closure of Norfolk, VA Assembly**
- **Closure of Twin Cities. MN Assembly**
- **Closure of St. Louis, MO Assembly**
- **Closure of Atlanta, GA Assembly**
- **Closure of Wixom, MI Assembly**
- **Closure of Batavia, OH Transmission**
- **More losses from ex Visteon plants (Automotive Components Holding LLC)**
- **Other cuts to be detailed later, jobs losses could be closer to 40,000**

Since the late fall of 2005, both GM and Ford have announced sweeping restructuring plans which will eliminate more than 60,000 jobs and close over two dozen manufacturing and distribution facilities. More than 2 million units of capacity will be cut. This is on top of the more than 2 million unit production cut by the two companies since 1999.

Big 3 – Have Already Shut Many Plants as Non Big 3 Output Grew



GM - Recent Plants Closed

- Baltimore (May 2005)
- Lansing Craft Centre ((March 2006)
- Linden (May 2005)
- Lansing (Mar 2006)
- Oklahoma City (Feb 2006)
- 20 other plants closed between 1985 and 2004 including St Therese and Scarborough

Ford - Recent Plants Closed

- Lorain (Dec 2005)
- Lorain Car (1997)
- Ontario Truck/Oakville (June 2004)
- Edison (mid 2004)
- St. Louis/Hazelwood (Mar 2006)

Chrysler

- Pillette Road/Windsor (mid 2003)
- 8 other plants closed between 1985 and 2002
- Some were from AMC including Brampton Jeep

Since the mid 1980s, as non-Big 3 “transplant” production grew, the Big 3 began to shut down unneeded plants. Most of these were outside of the I75/I65 transportation corridor and/or were older plants with generally poor economics.

Revenue and Cost Gap Between GM and Toyota



- Despite huge strides made in quality and productivity, high structural costs remain for each of the Big 3.
- For example, there is a US\$ 5,000 per vehicle revenue gap between GM and Toyota:
 - US\$ 3,000 for incentives - perception gap of quality, durability, resale, brand value
 - US\$ 480 for productivity - this gap has narrowed and does not exist at all for some models
 - US\$ 897 for legacy costs - GM pegs this number even higher
 - US\$50 for union officials - Toyota has no union
 - US\$140 for layoff provision – short term layoffs due to weak demand
 - US\$200 for Jobs Bank – longer term layoffs, no closure clauses
 - US\$180 for medical leave and related costs
- GM's labour costs are higher because they have many non-workers. GM's 21,500 non workers are 80% of Toyota's total North American manufacturing workforce!
- GM's 21,500 non-workforce includes:
 - 7,000 workers on paid medical leave
 - 7,500 workers in the jobs bank
 - 5,000 workers on layoff
 - 2,000 company-paid union officials

Lots of Uncertainty for Assembly and Parts Companies

- In Ontario, the situation is mixed.
- Nearly three quarters of assembly output in Ontario is linked to the Detroit Big 3, but about 90% of its parts manufacturing depends on them for business.
- While Japanese companies are expanding in the province, their supply base is not expanding quickly enough to offset the attrition in the traditional supply base.
- Ultimately, all of the difficulties facing the financially weaker (but dominant) automakers flow down through the tiers of the supply base.
- Canadian suppliers face most of the same issues as the rest of North America:
 - Soaring prices for raw materials
 - Unrelenting demands by vehicle assemblers for price cuts
 - Declining market share of the Detroit Big 3
 - Tier 1 bankruptcies/restructuring – Delphi, Tower, Visteon, Dana, C&A
 - Currency issues - strong value of the Canadian dollar
 - Credit issues
 - Difficulty diversifying customers and platforms
- Ontario's most successful parts companies are now focusing on technology, innovation and a global footprint to maximize regional strengths - Magna, Linamar, Westcast , Woodbridge Group and Exco Technologies.

Strategic Issues Going Forward According to an Ontario-based Global Leader



- Ontario-based Magna is a global leader in the automotive supply business.
- It ranks #2 in North America, just behind bankrupt Delphi.
- Globally, Magna ranks #4 – nearly tied with Denso at #3 (an affiliate of Toyota). Germany-based technology powerhouse Bosch is #1, while Delphi is #2.
- All except Delphi are profitable – Delphi will fall out of the ranking post restructuring since most of its North American operations will be wound down.
- Magna sees the following general trends and risks for the industry going forward:
 - Growth of Asia-based carmakers in North America and Europe – thus the decline of other customers in traditional markets
 - Growth of auto industry in China India and Korea plus E Europe and other Asia – migration of manufacturing to LCCs generally
 - OEM driven parts price reductions, sometimes retroactively, additional cost downloading for engineering and development
 - Volatility in commodity prices including for steel and resin
 - Financial condition of some companies - OEMs and all tiers of the supply base
 - Opportunities for suppliers as OEMs outsource more, larger complex modules – but increased engineering capabilities required to win future business
 - Increased number of vehicles built off of high volume global platforms
 - Increased demand for lighter and safer, as well as more comfort, convenience and space. Alternative fuel/propulsion systems and electronics

Origins of Ontario's Auto Strategy

- The challenges in the industry have intensified recently but have been a concern for some time.
- Auto industry in Ontario is facing tough competition from low cost jurisdictions in the southern US, Mexico as well as emerging auto-producing regions like China and India.
 - **Not just for autoparts but engineering, IT, design and eventually assembled cars.**
- Ontario's auto assembly sector posted record output for 1999 – **over 2.9 million units.**
- Industry began to slow the following year, resulting in lower production and announcements of plant closures and layoffs – **two assembly plants closed in Ontario.**
- In 2002, Ontario consulted with industry stakeholders to keep the sector competitive and sustain both investment and employment. Federal consultation with industry followed .
- It was concluded at both events that supporting investment and facilitating automakers' ability to innovate is the key to this sector's long-term survival.
- Industry and government agreed a new program was needed so Ontario could partner on major investment projects and support training, innovation, advanced technology, research and development, and flexible/lean manufacturing.



What is OAIS? - Ontario Automotive Investment Strategy

- Announced April 14, 2004 - **\$500 million, 5-year program**
- Provincial program to stimulate innovation, investment and employment - **to ensure Ontario remains a leading North American auto jurisdiction**
- Allows Ontario to partner with industry and federal government on investment attraction/retention
- 5 key policy areas : skills, innovation, infrastructure, environmental and energy technologies
- Minimum \$300 million in investment or create/retain more than 300 jobs - **meeting minimum thresholds does not mean that a company automatically qualifies.**
- Leverage expanded innovation: engineering, technology and R&D - **promotes partnering between universities and automotive firms.**
- **Consistent with CAPC recommendations.**
- **To date \$7 billion worth of new investments announced.**
- Ontario continues to be engaged in confidential discussions with a number of other auto assembler and supplier companies.



OAIS and Related Successes



- May 17, 2006 – Honda, \$154 million engine plant, Ontario support is \$15 million for infrastructure in the Alliston area.
- May 12, 2006 - Linamar, \$44.5 million OAIS support for over \$1 billion project in Guelph
- January 20, 2006, Nemak - \$6 million in OAIS support for \$100 million project in Windsor
- November 21, 2005, DaimlerChrysler- \$76.8 million in OAIS support for \$768 million project in Windsor and Brampton
 - Plus federal support \$46 million
- June 30, 2005, Toyota - \$70 million in Ontario support for a new \$800 million (since upgraded to \$1.1 billion) assembly plant in Woodstock – first greenfield site since the 1980s.
 - Plus federal support \$55 million
- May 16, 2005, Navistar - \$32 million in OAIS support for \$270 million expansion – plant closure averted, significant R&D shift from the US to Ontario in addition to the commitment in 2003
 - Plus federal support \$33 million
- March 2, 2005, General Motors - \$235 million in OAIS support for \$2.5 billion Beacon Project – largest in Canadian automotive history
 - Plus federal support \$200 million
- October 29, 2004, Ford - \$100 million in OAIS support for \$1-billion Project Centennial – revitalized two outmoded Oakville plants into one flexible Oakville Assembly Complex
 - Plus federal support \$100 million

Impact of O AIS in Ontario To Date

- To date, Ontario's strategic approach to the auto industry, including the projects supported by O AIS, has been focused on the assemblers and Tier 1 suppliers:
 - Attracted new plants from Toyota and Honda
 - Anchored existing plants from each of the Detroit Big 3 and Navistar
 - Partnered on two large scale parts projects
- Spin-off investments have already started to accrue and more are anticipated as the major projects announced to date roll out over the next few years.
- Ontario is engaged in confidential discussions with a number of other companies to explore opportunities for partnership on major investments:
 - Some companies are looking for "bailouts" or are otherwise in financial or operational trouble – O AIS was not for bailouts.
 - Ontario is actively seeking investment from companies that are gaining market share
 - Some current opportunities could be strategic for Ontario but do not meet O AIS thresholds

OAIS: General Considerations

- OAIS does not impede or supplant the existing re-investment cycle in the province:
 - It is a catalyst for investment that might not otherwise come to/remain in Ontario
- A number of large and small scale retention and greenfield opportunities for Ontario are outstanding.
- Total manufacturing employment will continue to fall in North America, including Ontario, due to productivity improvements and outsourcing to low-wage countries.
- But employment will fall even further and Ontario will not get the high value knowledge jobs without net new investment and new plant sites.
- Ontario does not want to lose part or all of major investment projects to competing North American jurisdictions.
- Many competing North American regions are aggressively courting auto investment:
 - Southern US states have successfully landed most of the new non-Big3 plants over the past two decades
 - US Upper Midwest states are vying to retain existing plants and attract new ones
- A review of major automotive investment projects in North America over the past two decades shows that virtually none have been made without government support:
 - Absolute value of total government support was rarely the deciding factor in the final site selection
 - However lack of available incentives usually dropped off potential sites from the list of final candidates

Looking Ahead: Financial Challenges Facing Applicants

- In addition to the credit crisis in the industry, parts companies face a range of financial challenges:
 - Rapid escalation of input costs like energy and raw material prices combined with the strong Canadian dollar has impacted profit margins of Canadian suppliers
 - Reduced unit sales and price reductions to the Big 3 have impacted revenue
 - Suppliers to poor selling product/platform programs cannot easily switch to other programs
 - Difficulty in diversifying the customer base and gaining business with stronger automakers – no opportunity to offset lost revenues
 - Auto parts companies have fewer resources to invest in the product and process development capabilities which are necessary to secure new contracts
 - Resources to invest in new R&D capabilities and new initiatives are also limited
 - EDC offers a wide range of services, as do other financial players, both also have views on the sector
 - Lower Tier suppliers are exposed to risk from bankrupt US Tier 1s (Delphi, Dana etc) – difficult to get new business, and exposure to possible strike action
 - Risk from suppliers' exposure to possible bankruptcy of GM and/or Ford - GM buys about half of all the parts made in Ontario and Ford buys about a quarter

Looking Ahead: Considerations for Advanced Technologies

- Ontario auto parts suppliers must nurture strong technology development and commercializing capabilities.
- Need for higher performance and fuel economy plays to the strength of European and Asian vehicle manufacturers and their suppliers.
- Securing sufficient financial resources to invest in the required R&D infrastructure and related manufacturing facilities for emerging technologies represents a significant challenge to Ontario based auto parts companies.
- The lack of research engineers with experience in these emerging technologies also poses a challenge:
 - **Industry Ontario/Canada needs to make the public investments necessary to develop experienced research and commercialization engineers**
- Except for OAI, Ontario/Canada does not have comprehensive programs to encourage the development and commercialization of emerging automotive technologies in Ontario.

Looking Ahead: Considerations for Supporting Innovation

- Ontario has been in consultations with stakeholders in the auto industry for a number of years and has concluded that it cannot help pick winners and losers.
- Ontario cannot support companies with weak business fundamentals.
- However, the province can focus on helping parts companies to innovate or support innovative activities which would not otherwise occur in Ontario.
- The objective is to have a larger number of globally competitive parts companies who research, develop, commercialise, engineer, test and manufacture in Ontario
- Innovation can be product or process.
- Successful parts companies have all three pillars of innovation:
 - Investor motivation - anticipation of financial returns
 - Corporate capability - strategy and resources to generate these financial returns
 - Corporate champions – individuals who lead innovation projects
- Barriers to innovation in auto industry include:
 - Complexity of the automobile itself – most innovations are incremental
 - Target cost of each component in a system – mentality at purchasing departments of OEMs and Tier 1s of lowest initial costs not best cost
 - Testing and warranty requirements of new ideas/parts

Looking Ahead: Considerations for Supporting Innovation (Cont.)

- For Ontario to help maintain and grow its auto parts industry, there must be profitable and growing companies in the major growth segments of the parts industry:
 - New powertrain and propulsion technologies
 - Electronics including mechatronics
 - Lightweight and high strength materials
 - Telematics including communications and on-board diagnostics, and remote repair/upgrade capability
- The growth in Ontario occurs when existing companies expand their operations and when new foreign suppliers invest here.
- OAIS addresses the innovation challenges raised by the leadership in the auto parts industry:
 - Having highly qualified and seasoned engineers for each of their innovation activities
 - Having sufficient financial resources to invest in new/enhanced internal R&D capabilities
 - Having access to specialized experimental facilities that are staffed by seasoned research engineers who can assist in solving their problems and in conducting advanced research projects

Outstanding Investment Opportunities: Retention

- **Possible overhaul of the Ford St. Thomas Assembly Plant:**
 - **Not part of Project Centennial**
 - **Current STAP product mandate runs out before the end of the decade**
 - **Need to avert closure, and the possible loss of the 1,500 remaining jobs**
 - **CAW/Magna proposal for small car plant adjacent to STAP of about \$750 million**
 - **Alternatively, STAP would need an investment in the range of \$1.0 billion to convert it to a flexible assembly facility**
 - **This would allow the plant to build modern vehicles, versus the late 1970s vintage products currently being built there**
- **The long term future of Ford's engine plants in Windsor are also the subject of some speculation amongst auto analysts:**
 - **Essex engine is already under utilized**
 - **Both plants build larger, thirstier engines which go into products that are not selling as strongly as they once used to**
- **The future of GM Windsor Transmission plant is also unclear:**
 - **Production volumes at the plant have been weak, despite the recent increase in gas prices and the interest in the four cylinder powertrains made at the plant**
- **DaimlerChrysler's Etobicoke Casting Plant**
 - **CAW feared it would be closed during the last contract negotiations**
 - **Could still be on the chopping block for the next round**

Outstanding Investment Opportunities: Attraction

- Ontario would like to get another assembly or powertrain plant from Honda whose recent investment announcement was modest compared with the large investments being made by Toyota and its affiliated supplier companies.
- The province is actively seeking investment from global assemblers who are gaining market share, but do not currently have a manufacturing presence in Ontario:
 - This includes: Nissan, Hyundai/Kia, and VW group
 - Link to investment opportunities from keiretsu/chaebol suppliers
 - Contract assemblers such as Magna Steyr for special low-volume models
 - Foreign brands of Big 3 (Saab, Mercedes/Smart, PAG/Mazda)
- How to partner on and support innovative activities which do not meet current OAIS thresholds which were set with large-scale investment in mind:
 - Some small scale projects looking for Ontario's support could be strategic and bring new, advanced capabilities to the province
 - Hybrid powertrain component development/manufacturing
 - Critical new technologies for future powertrains, materials, and manufacturing processes

Other Opportunities and Challenges

- **Links to India and China and other low cost jurisdictions**
 - Commodity production migrating to low and ultra-low cost countries (LCC/ULCCs)
 - Suppliers are following OEMs to LCCs
 - Market Ontario as engineering, value added manufacturer to partner with LCC firms
 - Retain intellectual property and proprietary value-added work here
- **Regional and SME opportunities/challenges**
 - North American auto industry is restructuring regionally
 - Shift is north/south along US I75/I65 corridor linked with Ontario's 401/QEW corridor
 - Excess capacity of multi plant companies is driving consolidation to optimize logistics
 - Supplier consolidation is driving out smaller and weaker medium size companies
 - Impacting many smaller communities outside the emerging corridor
 - Many small parts companies are significant contributors to regional economies
 - These same small companies in outlying regions are also predominately Big 3 suppliers – hard to get business from Asian 4
- **Land assembly, use and planning**
 - Ability to assemble large parcels of land needed, especially for greenfield assembly plants
 - Few large parcels remain in Ontario close to desirable transportation corridors
 - Brownfields redevelopment

Opportunities: Parts Companies

- **Opportunities exist if companies can take advantage of them:**
 - **Technology downloading to suppliers is opening up opportunities**
 - **But outsourcing of design and engineering to suppliers strains their ability financially and technically**
 - **EDC helps, but even they are pulling back from exposure to GM/Ford**
 - **OEM financial screening of suppliers is preventing some well established companies from winning follow-on program business**
- **Impact of new Toyota assembly plant in Woodstock**
 - **Continues to build critical mass of Japanese assemblers to attract Japanese suppliers**
 - **Opportunities for best domestic suppliers with technology, value proposition and established relationships with Toyota, Honda**
 - **Unrealistic expectations from traditional supply base/communities that it is easy to get Japanese assembler business - resuscitate old APMA program?**
- **Challenges to landing new Japanese parts business**
 - **Identifying prospects**
 - **Long investment attraction cycle**
 - **Find, assemble and zone land**
 - **Build infrastructure**
 - **Need to offer financial and other incentives to locate in Ontario**

CAPC and Other Ontario Initiatives



- Ontario and federal governments' consultations and roundtables culminated in the establishment of Canadian Automotive Partnership Council (CAPC) in June 2002, a multi-stakeholder advisory committee:
 - CAPC is industry led; focuses on strategic issues affecting the industry
 - Members: OEMs, suppliers, CAW, academia, dealers and government
 - Municipal level not members of CAPC – MEDT Minister meets regularly with OMAI
 - CAPC's core mandate is to focus on priorities which could improve competitiveness of the industry and identify opportunities for future innovation, investment and employment.
- December 2005, Minister Cordiano announced Advanced Manufacturing Investment Strategy (AMIS):
 - \$500 million interest free loan program
 - mostly non-auto, sizeable scale projects
 - thresholds: minimum \$50 million investment and/or 150 jobs.
- Much smaller initiatives, such as the Initiative for Automotive Innovation (IAI), hope to help tooling and parts companies improve their ability to innovate/compete.
- Ontario is partnering with 5 auto communities in the Automotive Communities Program (ACP), which is a regional development program with the US Upper Midwest .