Away from the table, two factors helped sway the GM-Unifor deal

By Leslie Shiell
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This week's headlines told a good-news story from the contract negotiations between General Motors of Canada and its assembly workers. The company has committed to investing more than $500-million in Oshawa and St. Catharines, Ont., saving 2,500 jobs and setting the stage for new hiring. The union also secured undisclosed wage increases and bonuses for its members.

At the same time, the union relented in its demand to have new hires fall under the current hybrid pension plan. Instead, new hires will be covered by a defined contribution plan, which guarantees only contributions going in, not benefits coming out. This is bad news for new employees, but it appears to represent a major gain for GM, especially since the company's 2009 crisis was triggered in part by the insolvency of its defined-benefit pension plan.

However, much of the significance of the deal appears to be linked to two major developments away from the negotiating table.

First, the Canada-U.S. exchange rate has declined by roughly 25 per cent in the past three years. With most of their product priced in U.S. dollars, auto companies also assess their costs in U.S. dollars. Whatever the wage increase, it is sure to be modest in comparison with the exchange-rate decline. So GM will enjoy a significant reduction in effective labour costs for several years.

How long will this benefit last? With foreigners' perception of the Canadian dollar as a petro-currency, the answer depends on how long the price of oil remains in the $40-to-$60 range. Six months ago, conventional wisdom said these prices couldn't last. But with Saudi Arabia taking steps to restructure its economy and finances, many economists now believe that we could be in for a prolonged period of lower oil prices. If so, then we could see the dollar in the range of 75 to 80 cents for some time.

The second major development relates to subsidies. According to a Globe and Mail report, the federal government has privately agreed to change the form in which it gives financial assistance to automotive companies, from taxable no-interest loans to tax-free grants.

Innovation, Science and Economic Development Minister Navdeep Bains has not confirmed this, but if true, it would remove a long-standing irritant for industry players, who complain that Canada's current policy puts it on the sidelines of the global investment game. Significantly, in its brief statement on Tuesday morning, GM indicated that it would "be working with government on potential support."

This development may make taxpayers nervous, but every major jurisdiction in the world offers subsidies to attract auto investment. Moreover, companies look at the entire picture when assessing locations. Improvements in labour costs, productivity and transportation infrastructure can go a long way to reducing the scale of subsidies needed to land new investment.

A recent example came in 2014, when Chrysler demanded a contribution of $700-million from the Canadian and Ontario governments to secure an investment of $3.6-billion in its Windsor and Brampton operations. After weeks of negotiations, the company withdrew its request, claiming that the issue had become a political football. Instead, Chrysler made the investment on its own – without subsidies. But

the final word went to chief executive officer Sergio Marchionne, who said the long-term viability of auto making in Canada would be determined by the outcome of the 2016 contract negotiations.

So here we are in 2016 and what do we see? The agreement between GM and its workers offers significant reductions in effective (i.e. U.S. dollar) labour costs as well as an important change in the pension plan.

Now, government must use all its levers to push for further gains in efficiency and productivity. Think of investments in transportation, training, research and development as well as – wait for it – a mechanism to prevent the Canadian dollar from overshooting when the price of oil spikes. Making an irresistible investment case in Canada is the surest way to minimize the demand for subsidies in the auto sector.

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