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September 11, 2013

Sent by mail, fax and e-mail

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The Hon. Charles Sousa
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Dear Ministers Flaherty and Sousa;

RE: Sale of Government Shares in General Motors

I am writing as the founding National President of Unifor, the new union created on Labour Day weekend through the combination of the former Canadian Auto Workers (CAW) and Communications Energy and Paperworkers' (CEP) unions. Our union represents over 300,000 members working in over 20 different defined sectors of the economy, covering all stages of the value-added process (including resources, manufacturing, transportation, and private and public services). Over half of our members live in Ontario, and of course we retain (like the CAW before us) a core interest in the future of Canada's auto industry.

I am writing in regard to the announcement that your governments plan to sell a significant portion of your equity holdings in the restructured General Motors, in a block sale to two major banks. In our view, it would be better for the federal and Ontario governments to retain its holdings in the company. This would allow Canadians to benefit from the coming appreciation in the value of the company's equity.

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As you know, GM's share price has appreciated substantially in line with the improving performance of the company, and the overall North American auto industry. Those gains are sure to continue in coming years, thanks to rising sales, rising production, better capacity utilization, and other operational improvements. Selling the public's equity stake in this company now will deny Canadians an opportunity to share directly in that continuing progress.

More importantly, however, we believe that it is important for your governments to retain a direct ownership share in the company as a lever for ensuring that GM maintains a strong manufacturing footprint in Canada for decades to come. As you know, all stakeholders made substantial sacrifices during the 2008-09 restructuring of the company, which occurred in the wake of the global financial crisis and worldwide recession. Your governments jointly made an enormous, essential, and much appreciated financial contribution to the company's survival and recovery. So did our members, through the renegotiation of collective agreements which resulted in billions of dollars of ongoing cost savings for the company (and put the labour costs in GM Canada's operations on par both with GM's plants in the U.S., and with the non-union Canadian assembly operations of Toyota and Honda). Special mention must be made of the sacrifices of GM retirees in Canada, who experienced reductions in pension indexing and health care benefit coverage as part of the effort to rebuild GM's balance sheet. Other Canadian stakeholders (including suppliers, dealers, non-union staff, bondholders, municipalities, and more) also made important contributions to GM's restructuring and survival.

This rescue effort was successful: the company quickly exited bankruptcy protection in the U.S. (and avoided bankruptcy protection altogether in Canada). Its operating costs were reduced dramatically; its sales rebounded (thanks both to a growing market and to improved consumer acceptance of GM's products); most of its debt was written off; and GM's profitability in recent years has been among the highest in its history. There is no doubt that the company's Canadian operations, and the purchases of GM products by Canadian consumers, have been a key part of this success. GM is highly profitable in Canada, on both the manufacturing and the retail side of its business.

Equally, there is no doubt that the rescue effort was a net benefit to the Canadian economy, and indeed to the fiscal balance of both of your governments. The enormous costs of a GM liquidation for the economy, and for your budgets, make your decision to help save the company a prudent one. Independent research (by the Institute for Research on Public Policy and other sources) confirms that the support you gave to rescuing GM and Chrysler has already "paid off" for Canadians, including through a net improvement in government finances.

In the years since GM's recovery, however, I can state that the company's attitude toward its Canadian workers and other stakeholders has hardened considerably. Our negotiations with the company around compensation and work practices have been difficult, with no end to the company's demands for continuing concessions (regardless

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of its very strong profits). Our efforts to confirm future capital investments and model allocations by GM in its Canadian facilities have been unsuccessful. To the contrary, GM has shifted the future assembly of some core products (like the Camaro) to other jurisdictions, despite the profitability of its Canadian facilities.

It is very important to note that this challenge in confirming future GM investments in Canada does *not* reflect uncompetitive labour costs or other union-influenced factors. All-in active labour costs in GM's Canadian facilities presently average $60 (Canadian), including payroll taxes, layoff-related costs, and other non-compensation factors. At present exchange rates, that is almost exactly equivalent to average active labour costs in GM's U.S. facilities ($57 U.S.). Our 2012 contract with GM ensured that Canadian plants will remain totally in the cost ballpark for future investment decisions. It featured a four-year freeze in base wages (following on a long wage freeze that has already been in place for most of the time since 2008), a pension freeze, and other cost-saving measures; it included no measures which would measurably add to fixed labour costs. For newly-hired employees, we negotiated an innovative new-hire grow-in program, under which new hires will start at lower wages and benefits, with gradual improvements over the subsequent decade. This program ensures that new hires in Canada actually cost significantly less over the foreseeable future than new hires in the U.S. (a fact confirmed by GM's own internal cost estimates). GM officials have complained bitterly and publicly about labour costs in Canada; they have also complained equally publicly about virtually everything else associated with manufacturing here (electricity prices, traffic jams, payroll taxes, and so on). Your own internal analysis confirms that these complaints are not justified, and that on an all-in cost basis (considering some of our advantages like public health care, well-educated workers, and higher realized productivity) Canada is indeed an attractive and profitable location for GM's operations. GM makes similar demands on unions and governments everywhere else that it operates (such as its recent threats to withdraw manufacturing investment from Korea). Surely you understand that this rhetoric reflects its normal approach to extracting as much value as possible from every jurisdiction where it does business, backed up by its ability (in the absence of regulatory measures to constrain its investment mobility) to threaten any jurisdiction in the world with disinvestment.

Given these facts, how can we best respond as a country to GM's continued demands (placed on workers, government, and all other stakeholders) for more concessions? How can we ensure that GM fairly recognizes the sacrifices that Canadians (union members, taxpayers, consumers, bond-holders, dealers, and others) made to help this company survive? How can we protect Canada's share of GM manufacturing in future years – as your governments did so effectively with the footprint commitments negotiated as part of the 2009 restructuring (commitments which expire in 2017)?

There are many levers which could be invoked to strengthen Canada's bargaining position with GM (and other global automakers) moving forward. We have highlighted some possibilities in our recent proposals for a new automotive strategy for Canada ("*Rethinking Canada's Auto Industry*," published by the CAW in 2012). But it is clear that one potentially important tool is the continued ownership of a significant equity share of the company.

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In many other advanced countries around the world, governments take equity shares in companies held to carry a strategic importance in the national or regional economies, precisely to ensure that those companies operate in a manner consistent with the national interest. This practice is especially common in the auto industry. The French government owns a 15% share of Renault. The state government of Lower Saxony owns 20% of Volkswagen (and it is not coincidental that Volkswagen has not closed a manufacturing plant in high-cost Germany since the end of World War II). State development banks and wealth funds own important shares of other automakers throughout Europe and Asia. In every case, public minority equity ownership is seen as one tool (among many) for ensuring that each country retains a valuable and broadly proportionate share of the strategic industry in question.

Even in Canada, there is ample historical precedent for using public equity as a lever in strategic industries – such as oil sands, aerospace, and petrochemicals.

In our view, this approach still carries considerable merit for Canada's auto sector. We had urged your governments to retain its minority share in Chrysler (a company which also benefited hugely from sacrifices by Canadians). We do the same with your shares in GM. And we even encourage you to consider other ways of accumulating equity holdings in other automakers (for example, accepting equity in return for your joint support for new capital spending projects by those companies) as another way of cementing the economic loyalty of these firms to a jurisdiction which continues to be very profitable for them.

In our experience, it is simply not enough for a jurisdiction like Canada to make itself competitive on cost grounds, and then wait for global firms to beat a path to our door. Companies are influenced by many other factors – including political pressure, the gravitational pull of home offices, state subsidies, and others – in making their investment location decisions. While Canada's auto industry survived the 2008-09 meltdown remarkably well (thanks in large part to the actions of your governments, and the sacrifices of our members), we now face important risks moving forward. It is essential that we use every tool in the policy toolbox to ensure that GM and the other automakers in Canada retain and grow their operations here. We stand ready to work with both your governments toward that shared goal. But in our judgment, retaining a public equity stake in GM – reflecting the substantial sacrifices which Canadians made to help this company survive – would be an important help in that effort. Moreover, we recommend that your governments aim to wield that equity share more pro-actively with the company's senior executives, in the interests of ensuring that GM's future investment decisions fully reflect its debt to Canadians.

So long as GM continues evolving into a fully privately-owned corporation, accountable ultimately only to investors (and their interest in maximizing profits and share prices), Canada will face an uphill battle to maintain our share of GM's production footprint. Given the importance of Canada to GM's profitability, and the sacrifices made by Canadians in the company's more dire hour, this is fundamentally unfair. Please retain the remaining public shares in this company, and use it (as part of a broader automotive strategy) to cement the future manufacturing footprint here of GM and other automakers.

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I would be most willing to discuss these matters with you and your officials further. Also, let me conclude with a general commitment to work actively with both of your governments, as the first National President of Unifor, on our shared effort to build a prosperous and equitable Canadian economy.

Thank you in advance for your interest.

Sincerely,

Jerry Dias
National President

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copy: The Hon. James Moore, The Hon. Eric Hoskins, Carol Stephenson