

Free or Fair Trade

A Case Study



David W. Schaub

Dave Schaub was born in Mansfield, Ohio. He has a degree in chemical engineering from Lehigh University, Pennsylvania, and joined Uniroyal Inc. in 1963, as a technical sales representative. He held a variety of marketing assignments in the chemical, plastics and tire divisions in the U.S. From 1984 to September 1985, Dave was Vice-President and General Manager of Synpol Inc., Uniroyal's synthetic rubber subsidiary in Texas before returning to the tire division in Detroit as Vice-President replacement sales. He was appointed President and Chief Executive Officer of Uniroyal Goodrich Canada Inc. on August 1, 1986 when Uniroyal Tire Ltd. and the tire operations of B.F. Goodrich Canada Inc. were combined. He and his family reside in Waterloo, Ontario.

I would like to tell you a little about our company, Uniroyal Goodrich Canada Inc., then I hope to provide you with an overview of the tire industry; my views on trade - both free trade and fair trade; and, finally, why government, municipalities and the private sector must climb into bed with each other.

First, my company, Uniroyal Goodrich is the largest manufacturer of radial passenger and light truck tires in Canada. Our headquarters, two tire manufacturing plants and RMS Machinery Division are in Kitchener. We also have a tire textile cord plant in Lindsay, Ontario plus distribution centres across Canada. We employ 3,000 people, 2,600 of them in Kitchener with an annual payroll of \$80 million, who collectively produce over 7 million tires annually, plus an important volume of very sophisticated machinery from our RMS Machinery Division for a number of industrial segments.

Our company came into being in August 1986, when the tire operations of BF Goodrich and Uniroyal were merged. Previously both Uniroyal and BF Goodrich were fierce competitors. But the two companies recognized a risk to long-term sur-

vival in an increasingly competitive global marketplace.

A joint venture was the solution. Uniroyal had its greatest strength in the original equipment market as a major supplier to General Motors. BF Goodrich was strong in the replacement market and had an enviable reputation for its line of T/A high performance tires.

Merged, we were able to capitalize on these strengths and achieve substantial savings through volume purchasing power, reduced administration costs and by synergizing technology.

You all know of the changes sweeping the tire industry today. Continental of Germany recently bought General Tire in the U.S. and Canada. Goodyear closed its new Toronto tire plant in May and Firestone says it will close its Hamilton plant in January if it is not sold by then. Sumitomo bought Dunlop in North America and Pirelli is thinking about buying Armstrong Tire in the U.S. And, in the past few years 28 tire plants in North America have closed!

What's Going On?

The issues are twofold: over-capacity domestically and competition from overseas. The over-capacity situation is a result of productivity gains and the fact that radial tires last about twice as long as the bias type tires you rode on less than a decade ago. And when was the last time you had a flat? Spare tires are now mini-spare. Cars are lighter, further reducing the wear on tires and extending their useful lives.

The Japanese, Korean, Brazilian and Chinese manufacturers are also making deep inroads into the North American market. They have relatively low labour costs and they are investing heavily in the latest technology and production facilities - backed by government and the banks (who are backed by the government!).

This same trend can be seen in other industries such as footwear, textiles and steel. A combination of improving technology, changing consumer needs and competition from emerging nations is having a profound effect on the way we conduct our businesses.

And now - Free Trade!

In Canada we depend on trade for survival. Over 80% of that trade is with the U.S.

Next January if Canada's Parliament and the U.S. congress approve the trade deal just negotiated, it will kick-start a feverish race among Canadian industries to be among the winners.

For the tire industry, the deal will eliminate all duties within 10 years. Tires now coming into Canada from the U.S. face a 10.7% penalty. Tires going from Canada to the U.S. only have a 4% duty applied to them. And on top of that 6.7% advantage, we Canadians are cushioned by our 75 cent dollar.

We can't depend on our dollar remaining at that level forever. And we already know that our U.S. competitors have the advantage of scale. Our tire plants are smaller and, as a result of serving a small, geographically widespread market, we make a greater variety of types and sizes of tires.

If the tire industry in Canada is to grow under a new reality called Free Trade, then it is going to have to change.

Business as usual will not cut it any longer. We must accept change. We need to manage change.

We need to create change. It must be "Business as Unusual".

Although my industry could be hurt if we don't get our act together in the next few years, I believe the Free Trade deal between Canada and the U.S. is the only way to go. Because without it, we face much greater risk. That of being shut out of the largest and richest consumer market in the world. Canada can't afford to isolate herself from the competitive forces at work around the globe.

In my view we have to ally ourselves within a strong trading bloc. Within 20 years most trade between nations will be conducted within global trading blocs: the European Economic Community or EEC; the Pacific Rim Group of China, Korea, Japan, Taiwan, Australia; the South American Bloc, and the Communist Bloc of countries.

The logical bloc for us to belong to is a North American one represented by the U.S., Mexico and Canada.

Canadians Can Compete Successfully Against Anyone

Artificial barriers to trade such as tariffs only make us fat and complacent, allowing the rest of the world to pass us with new ideas, products and technology. And, they punish the consumer - you and me.

When I leave my office each day, I'm a consumer like everyone else. And I want the best value for my money. I don't care where the product or service comes from. Every consumer has the chance to judge value (the combination of quality and price). But it sure irks me if I have to pay extra because government is propping up inefficient domestic industries through tariffs.

Sure I know there are a number of inequities out there. Some of the countries don't play fair. They erect non-tariff barriers or help their industries through some very creative subsidy arrangements.

I believe in Free Trade but I also believe in Fair Trade. That's the goal we must shoot for. Then let's take the gloves off and get at it. My advice to government is to deal with other countries (non-U.S.) on an equal or fair basis. And, what really gripes me is the way our Federal and Provincial Governments throw out money to encourage foreign automobile companies to set up operation in Canada. Too often it is done at the expense of existing jobs. Sure, they employ people and generate some peripheral business and jobs. But

who's keeping score on the number of jobs which will be lost when they take market share from GM, Chrysler and Ford, all of which have at least 60% Canadian content in their cars. The newcomers are under no such content obligation. Yet the Federal Government knows there will be major excess auto production capacity in North America by the end of this decade!

It doesn't make sense to me why taxpayers' money is being spent to reduce employment. Instead, why not work with existing companies to improve their operations so they can become more competitive?

The great irony of it all is that governments in Canada only pay attention to domestic industries when a plant closing is announced. Then they usually try to solve the problem by throwing enough money at it to keep an inefficient operation operating inefficiently on into the future.

In Japan, the government, the banks, the people support their own industries. Do you think Japanese companies could be as successful as they are without that ongoing support?

In Canada, we support Japanese and other foreign industries.

Take a look around in your own municipalities. Are there some local companies who could expand with a little help from you and the community?

Within our north tire plant in Kitchener resides a small business called RMS Machinery Division. I like to think of it as a skunkworks, because some fantastic inventions and innovative ideas emerge from that rather unstructured environment.

In recent months, RMS engineers and technicians have designed a machine that uses new cutting technology to chop scrap tires into bite-size chunks; found a way to turn waste sludge into a high BTU fuel source; and, with the help of tire builders, developed a machine which will double a tire builder's output and improve product quality.

The new tire building machine is fantastic. We believe it is better than any similar equipment anywhere in the world! We hope to manufacture the machines right here in Kitchener for all the Uniroyal Goodrich plants in North America.

Our only problem is money. The tire industry has the lowest return on investment earnings history among major industries. To make capital investments we must first earn the money needed.

It's sort of a catch-22. To be competitive in a Free Trade environment we have to improve our productivity. Yet we aren't making enough money to allow us to make that investment fast enough.

That's why I get ticked when I learn about some new government handout to help a foreign company set up business in Canada. That's why I get ticked each month when I see imported tire share of market up. They are taking our market and we have no access to theirs. Where's Fair Trade? What about my company? We've been in Ontario for 75 years. And other companies in similar situations, fighting for their very lives just to remain viable, let alone grow?

I don't believe in handouts. But I sure as hell believe in investment. And obviously the Japanese do. They invest in their industries by giving them the support necessary to succeed and make Fair Trade an unreality.

If Canada expects to benefit from a Free Trade association with the U.S., it will have to pay closer attention to the needs of its own enterprises, the ones who have long contributed to the nation's employment and tax base.

It may be sexy to escort a sleek foreign model to the table, but if she leaves with the silverware, your joy is shortlived. Better to spend the money on a facelift for your spouse. She's been here in the past and wants to be so in the future.

We need consistency in the application of industrial support within Canada. The new companies settling in Canada must be required to operate within the same guidelines as existing companies. An example is the Canadian content requirement within the Canada/U.S. Auto Pact. Newcomers should also meet the required levels. There needs to be Fair Trade with other nations doing business in Canada. Their markets must be as available as ours.

I have to run a business fully competitive in the global market. And I accept that responsibility. But it is damned difficult to succeed when not only their government, but our own government, is throwing its weight behind the other guy.