
January 1997

Discussion after the Speeches of William Kelly and David Winfield

Discussion

Follow this and additional works at: <https://scholarlycommons.law.case.edu/cuslj>

 Part of the [Transnational Law Commons](#)

Recommended Citation

Discussion, *Discussion after the Speeches of William Kelly and David Winfield*, 23 Can.-U.S. L.J. 517 (1997)

Available at: <https://scholarlycommons.law.case.edu/cuslj/vol23/iss/53>

This Speech is brought to you for free and open access by the Student Journals at Case Western Reserve University School of Law Scholarly Commons. It has been accepted for inclusion in Canada-United States Law Journal by an authorized administrator of Case Western Reserve University School of Law Scholarly Commons.

DISCUSSION AFTER THE SPEECHES OF WILLIAM KELLY AND DAVID WINFIELD

QUESTION, PROFESSOR KING: I have a question on exchange rates. In Europe they are thinking of a single currency, and sometimes it is either feast or famine depending on exchange rates and the ability to buy and sell. Do you have any comment on those fluctuations and how they affect your approach towards something like the NAFTA? In other words, one minute the Mexican peso is very good, it looks rosy, and the next minute it is down in the dumps.

ANSWER, MR. WINFIELD: We have a bunch of people in a back room that is kept locked most of the time who have computers and numbers and they tell us what happens. It is very serious. And for a corporation like ourselves that operates in fifty countries around the world, the fear of exchange rate fluctuations keeps the CFO and others awake at nights, particularly when you see the Mexican peso crisis hit and the ongoing Tequila effect and other such issues.

What about the European plan for a single currency? We have that under review in our company, obviously, with major operations in Britain, Germany, France, and Italy and sales throughout Europe. We need to understand what that means for us and what it means for our various business units. I do not have a definitive answer, and that is why I am skating around saying there are lots of people working on it.

COMMENT, PROFESSOR KING: I agree with you. The other thing is that it does affect corporate earnings.

COMMENT, MR. WINFIELD: It does affect them, good and bad. We have one experience of an operation in one part of the world, which will remain nameless for obvious reasons, that continuously because of the management of exchange rates, does this very well.

COMMENT, MR. KELLY: As important as exchange rates are in every market where we operate, it is certainly important in Mexico where we exported \$4.8 billion dollars last year, for example. How much we source to Mexico will, in part, depend upon the cost of operating there.

But in a broader sense, what is far more important to Ford Motor Company is the yen-dollar relationship. Anything that we do in Mexico will be dwarfed considerably by just minor changes in the yen-dollar.

And the yen has depreciated more than 48.2% or so in the last year. So we are not talking about something with Mexico that is critical to us. The yen-dollar is. It is also a problem in Europe, but there the European monetary union will help to sort this thing out for us.

COMMENT, PROFESSOR KING: It affects Europe's ability to sell those great volumes of cars in Tokyo, does it not?

COMMENT, MR. KELLY: That is right. There is nothing more to say.

QUESTION, MS. EDEN: Where does Mexico fit into the long-run supply chain strategy for Ford? Ford 2000 is based on worldwide sourcing, buying the lowest cost inputs wherever you can find them in the world. Mexico is not the lowest cost input. The Mexican drug suppliers are not first-tier suppliers and may not even be second-tier suppliers.

Once you get rid of the local content when they are all phased out at the end of the auto decree, is Ford contemplating more than just keeping the engine production that it has there or is there any move afoot? You are talking about selling thirteen nameplates down there. But in the long run, how many of those nameplates are going to be made in Mexico using Mexican-made parts?

ANSWER, MR. KELLY: Ford is not at the moment buying a lot from Mexican suppliers unless those suppliers are world-class. The changes in the auto decree with NAFTA have allowed us to start producing a higher-quality product in Mexico and a more competitively priced one. Some Mexican suppliers are very good, they are world-class, and those suppliers are going to do very well. The other ones are going to have to adjust.

QUESTION, MS. EDEN: Are the suppliers indigenous or foreign-owned?

ANSWER, MR. KELLY: The ones that we are dealing with in Mexico are Mexican-owned. And there are some good Mexican-owned companies. It is an interesting question.

QUESTION, MR. KING: How about plant closings? Have either of you suffered plant closings? People said that jobs would go to Mexico. I think that is where the public impact is. Do you want to comment?

ANSWER, MR. WINFIELD: For those of you who are from Canada, you will know the *Toronto Star*, which has taken up a campaign against us. In fact, they focused on a particular family from Newfoundland who were enticed. There is a joke that goes, how do you get six Newfoundlanders in a Volkswagen? Tell them you are going to Toronto. Sorry, but that is politically incorrect.

Obviously, with the way the economies of the maritime provinces are in Canada, there is a tremendous attraction for those people who want to work and who are willing to leave their homes to come to Central Canada and even Western Canada to work. The auto industry, and other industries, as well have been the beneficiaries of this movement in hard-working people. There are one or two families who have been picked up by the *Toronto Star* who have accused us of having enticed them to move to Toronto, and then firing them because we moved their jobs down to Mexico.

In fact, our employment in Canada was stagnant for a number of years. From about 1992 through our crash, we wrote off a billion dollars in 1993 to about 1994, if I am not mistaken. Employment in Canada is growing again. What we are finding, however, is that there is a tremendous shift in the composition of employment in Canada. In the mid-1980s about forty percent of our employees were what we would call knowledge workers. Today that is reversed. In other words, sixty percent of our employees are knowledge workers, people who require high levels of technical training, a university education, et cetera. And that number, by the way, will be seventy-five percent by the year 2000.

There are shifts within our industry. And that is not just happening to us. It is happening in all industries. Yes, people are being affected. I do not think it is right to blame it on Mexico and NAFTA because our employment in the United States is increasing. In fact, it is increasing more than our employment in Canada. So, the small amount of production that we have in Mexico has certainly not taken jobs away from Canada. Those jobs were disappearing in any case.

QUESTION, PROFESSOR KING: It is interesting that your company employs a significant percentage of all the technical graduates in Canada. Do you know the percentage?

ANSWER, MR. WINFIELD: If I am not mistaken, twenty-five percent of all engineering, science, and computer science students in Canada come to work for Nortel. It is roughly the same number of MSC or graduate students, Ph.D., and Master's students as well. And we are competing, by the way, with companies like Microsoft, IBM, and so on who come to Canadian universities and actively recruit. But we hire from American universities, as well, huge numbers, but not in the same proportions, obviously.

COMMENT, MR. KELLY: Ford has not closed and does not intend to close any plant in the United States, Canada, or Mexico because of the NAFTA. As I mentioned, our employment is actually up compared to what it was in 1993, although it is not totally attributable to the

NAFTA. So this is not an issue for us, and I hope it is not going to be an issue.

QUESTION, MR. LEVEY: Has NAFTA affected how you distribute or sell your product in Mexico? There have been a lot of problems, I guess, with UPS getting access in terms of that sort of distribution. And, the way that you sell cars in the United States may be, in fact, different from the way that cars are typically bought in Mexico.

ANSWER, MR. KELLY: We are still selling cars in Mexico, the United States, and Canada in the more traditional ways of regular franchise dealerships, although there are some innovations underway that you have probably read about that may over time affect the way that companies do sell vehicles.

The answer to your question is no, the NAFTA has not affected the way we distribute and sell our product in Mexico. But the only caveat I would give you is that the Mexican automotive market declined almost completely in 1995 as a result of the collapse of the peso. So, more than two-thirds of the market just went away. Yes, that has created some dislocations in the way we sell vehicles. But in terms of the structure, no, we are still selling vehicles the same way we did back then. The Mexican market is actually recovering quite rapidly.

COMMENT, MR. WINFIELD: We went into Mexico because of deregulation and privatization. If you were to ask MCI that same question, they would answer it the same way. They did not go into Mexico because of the NAFTA.

That having been said, NAFTA has confirmed certain disciplines and has established a framework for trade, which helps us, but we have not materially changed anything that we do in Mexico because of the NAFTA itself. We have changed because the Mexican market is expanding, because new service providers are entering it. Some of them are customers. That is giving us a huge opportunity.

To give you a number, Mexican teledensity, that is, the number of telephones per 100 people, is roughly ten. Canada and the United States are roughly at sixty. The Mexicans plan to double that number by the year 2000, in other words, they intend to double the existing telephone network in that country. So the opportunity for us, for Motorola, and for all the competitors is tremendous. NAFTA has eliminated the tariff laws that existed before.

QUESTION, MR. KIRBY: Both of you operate with substantial operations in Europe. How do you deal with the relative lack of flexibility in the European labor market?

Uniquely now, of course, in the U.K., there is a flexible market. But if you take a look at Europe and what happens in Germany and France

when companies make political decisions that are made to try to privatize, you have a tremendous reaction. I wonder if you could comment on how you are dealing with this issue.

ANSWER, MR. KELLY: It is certainly an issue and it has been an issue for the last fifteen years. Ford has had a policy to try to bring the labor unions into a dialogue with us on the global marketplace, and we are achieving something in that regard. I have to say that, overall, I do not get the impression that Europeans generally, whether they are in labor, in government, or in any other capacity, fully appreciate, as we in North America or as people do in Asia, their place in the world market. And that may be one reason why you see so many German companies bringing their facilities to the United States, to Canada, and elsewhere. It is very difficult. They have a very rich social welfare program for everyone, and that includes us as we operate there.

We have had success in trying to bring costs under control. We have not had success anywhere in the auto industry, except maybe at the very high end of products, in exporting from Europe to other markets. Costs are high. Mercedes can do it because Mercedes has a unique reputation, as does BMW. Our own experience exporting Ford European products, other than Jaguar, which may be a unique case, has not been all that good. Costs have been very high, and exchange rates during this period of time have worked against us as the dollar has depreciated. I do not know if that is a full answer to your question. It is a problem. We have identified it, and we are working on it, but without total success.

ANSWER, MR. WINFIELD: We are relatively new in Europe. We have joint ventures. In Britain, we have a wholly owned company which employs about 8,000 people. In Britain we have not had the problem because, quite frankly, the labor market and the surrounding labor market are more flexible today than they were before.

In France, we had to close a plant fairly recently and, in fact, we relied upon our French partners to manage that particular exercise, and they did so without any negative repercussions.

We have not had the experience in Germany, but we have a partnership with Daimler Benz and we rely on them. What I am trying to say is we rely very heavily on our joint venture partners to give us advice on local practices, local labor conditions, and how you might manage it.

In Germany, it is very difficult. I was speaking to one of our consultants last week, and he said it is very tough for German companies. He said what they are doing is they are sending people home and gradually reducing their salaries, and at some point in the future they will just cut them off because you cannot fire them; you cannot declare them

redundant, but you have to do something with them. And what you do is you send them home, give them no work, and gradually reduce their salaries. Presumably, the pension plans will kick in.

QUESTION, PROFESSOR SCHAEFER: I was going to ask a question on the International Technology Agreement (ITA). There is an MFN obligation both in the GATT and the GATS for the agreement saying that, unless we can get commitments from countries representing ninety percent of trade in information technology products, we are not going to go ahead. That means there are at least ten percent free riders out there. How do you come up with the ninety percent figure versus eighty percent or seventy percent or ninety-five percent? Is the industry suggesting it to some negotiators? Are governments coming up with it independently? Secondly, if you're stuck at, say, eighty-five percent, and you need to get to ninety percent, it seems like it might be tough to drag along those last few countries because if they wait and let another country or two do it, they might be able to bring the free riders in. I am just wondering how that plays out.

ANSWER, MR. WINFIELD: I was not directly involved in this particular negotiation, although some of my people were providing advice through industry associations in Washington and in Ottawa. Essentially, I think that the ninety percent came from discussion between the industry and the government. The view in the end was to get this started, get the forty signed up. There are another ten to fifteen countries who said they would be prepared to do so in due course.

I guess the point of view of the Canadian government is the same view that we have: let us get as many people signed up, set an example, move ahead, start to demonstrate some benefits from this type of agreement, and then others will start to come on board. As it is with the forty that have signed up, I think we already have many of the major players.