

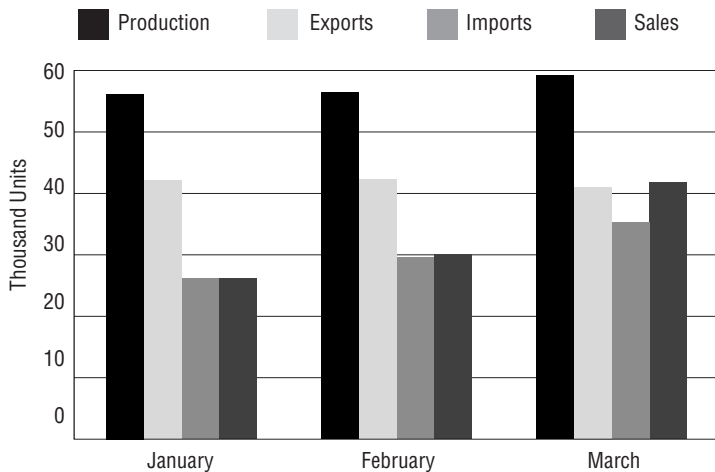


AUTO QUARTERLY

Spring 2003
www.jama.ca

NEWSLETTER OF THE JAPAN AUTOMOBILE MANUFACTURERS ASSOCIATION OF CANADA

Key Vehicle Statistics - 1Q 2003



Production and sales post moderate growth for first quarter of 2003

During the first quarter of 2003, production and sales among Japanese automakers continued to expand albeit at a moderate pace. At the end of March, sales of light duty vehicles climbed 6.4% to 101,726 units. Passenger cars were up 6.1%, while light trucks gained 7.1% over the same period in 2002. Among member companies, Toyota, Nissan, and Suzuki were in positive territory, while Honda Subaru and Mazda sales slipped from the first quarter of last year.

At the same time, the whole Canadian market has softened in the wake of robust sales in 2002. Light vehicles sales were down 4.9% to 342,963 units at the end of March, largely as a result of slow sales in January from an extended period of cold and snowy weather, which kept consumers away from showrooms. Passenger cars were 3.2% lower, while light trucks lost 6.8% in the first three months. Virtually all analysts agree that sales in 2003 will be lower than the record year sales level set in 2002, in spite of widespread incentive programs. Moreover, interest rates have risen and the Canadian dollar has strengthened against the US currency.

Production at three Japanese affiliated vehicle assembly plants in Canada increased 10.5% to over 171,700 units for the first quarter, while exports of finished vehicles from those plants rose 6.9% over last year. While Honda and Toyota (TMMC) improved output, only CAMI and Honda (HCM) posted increases in exports. TMMC designated a bigger share of their production to the Canadian market, based on the continuing strength of the market in Canada.

Accordingly, exports from TMMC dropped 17.1% for the first three months of 2003.

As for imported vehicles, overall imports were up slightly, 1.5% in the first quarter. While vehicle shipments from plants in the US and Mexico were up 22.7% to almost 34,000 units, shipments from Japan fell 8.0% to 57,000 units during the first three months of 2003.

Honda's Investment in Canada

March 5, 2003 - Business Panel on Canada, 2003 SAE Congress, Detroit, Michigan - by Jim Miller, Senior Vice President, Corporate Affairs, Honda Canada



If anybody has been following the media in Canada you would think the Canadian auto industry is in crisis. And based on this, you might ask yourself why would you want to invest in Canada?

This debate in the media, about the state of the Canadian auto industry, centers on the pros and cons of incentives for greenfield automotive investments, as well as the definition of incentives. Does this mean the auto industry is in crisis?

Canadian consumers represent approximately 8% of the total North American automobile sales potential, or 1.6 to 1.9 million units. On the production side, on average we produce about 16% of the total North American capacity. In the case of one automaker, Canadian production represents over 20% of their North American capacity, and in another case, 30%. Last year Canadian production was just short of 2.6 million units out of a North American total of 14.6 million.

• See *Honda's Investment in Canada...* continued on page 3

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Light Vehicle Sales in Canada, by Company

| Company | Jan-Mar 2003 | | | Jan-Mar 2002 | | | % Change | | |
|--------------------|--------------|--------|---------|--------------|--------|--------|----------|--------|-------|
| | CARS | TRUCKS | TOTAL | CARS | TRUCKS | TOTAL | CARS | TRUCKS | TOTAL |
| HONDA | 23,321 | 9,252 | 32,573 | 24,038 | 9,463 | 33,501 | -3.0 | -2.2 | -2.8 |
| N.A. Built | 21,584 | 5,318 | 26,902 | 22,278 | 4,649 | 26,927 | -3.1 | 14.4 | -0.1 |
| Japan Built | 1,737 | 3,934 | 5,671 | 1,760 | 4,814 | 6,574 | -1.3 | -18.3 | -13.7 |
| TOYOTA | 24,026 | 8,404 | 32,430 | 22,084 | 7,688 | 29,772 | 8.8 | 9.3 | 8.9 |
| N.A. Built | 12,610 | 3,315 | 15,925 | 11,541 | 3,197 | 14,738 | 9.3 | 3.7 | 8.1 |
| Japan Built | 11,416 | 5,089 | 16,505 | 10,543 | 4,491 | 15,034 | 8.3 | 13.3 | 9.8 |
| MAZDA | 9,488 | 3,464 | 12,952 | 10,314 | 3,293 | 13,607 | -8.0 | 5.2 | -4.8 |
| N.A. Built | 1,170 | 1,745 | 2,915 | 298 | 2,014 | 2,312 | 292.6 | -13.4 | 26.1 |
| Japan Built | 8,318 | 1,719 | 10,037 | 10,016 | 1,279 | 11,295 | -17.0 | 34.4 | -11.1 |
| NISSAN | 10,217 | 4,613 | 14,830 | 9,500 | 3,606 | 13,106 | 7.5 | 27.9 | 13.2 |
| N.A. Built | 7,267 | 1,098 | 8,365 | 7,544 | 1,357 | 8,901 | -3.7 | -19.1 | -6.0 |
| Japan Built | 2,950 | 3,515 | 6,465 | 1,956 | 2,249 | 4,205 | 50.8 | 56.3 | 53.7 |
| SUZUKI | 1,344 | 680 | 2,024 | 826 | 1,031 | 1,857 | 62.7 | -34.0 | 9.0 |
| N.A. Built | 0 | 133 | 133 | 0 | 274 | 274 | 0.0 | -51.5 | -51.5 |
| Japan Built | 1,344 | 547 | 1,891 | 826 | 757 | 1,583 | 62.7 | -27.7 | 19.5 |
| SUBARU | 2,259 | 913 | 3,172 | 2,861 | 729 | 3,590 | -21.0 | 25.2 | -11.6 |
| N.A. Built | 1,296 | 61 | 1,357 | 1,525 | 0 | 1,525 | -15.0 | 0.0 | -11.0 |
| Japan Built | 963 | 852 | 1,815 | 1,336 | 729 | 2,065 | -27.9 | 16.9 | -12.1 |
| ISUZU | 0 | 7 | 7 | 0 | 195 | 195 | 0.0 | -96.4 | -96.4 |
| N.A. Built | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 |
| Japan Built | 0 | 7 | 7 | 0 | 195 | 195 | 0.0 | -96.4 | -96.4 |
| MITSUBISHI | 3,231 | 507 | 3,738 | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 |
| N.A. Built | 1,240 | 0 | 1,240 | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 |
| Japan Built | 1,991 | 507 | 2,498 | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 |
| TOTAL | 73,886 | 27,840 | 101,726 | 69,623 | 26,005 | 95,628 | 6.1 | 7.1 | 6.4 |
| N.A. Built | 45,167 | 11,670 | 56,837 | 43,186 | 11,491 | 54,677 | 4.6 | 1.6 | 4.0 |
| Japan Built | 28,719 | 16,170 | 44,889 | 26,437 | 14,514 | 40,951 | 8.6 | 11.4 | 9.6 |

* car sales include Mexican built

Source: AIAMC, DesRosiers Automotive Consultants Inc.

Motor Vehicle Production in Canada

| | Jan-Mar 2003 | Jan-Mar 2002 | % Change |
|----------------------|----------------|----------------|-------------|
| HONDA (HCM) | 105,775 | 94,528 | 11.9 |
| TOYOTA (TMMC) | 52,047 | 46,921 | 10.9 |
| CAMI | 13,942 | 13,991 | -0.4 |
| TOTAL | 171,764 | 155,440 | 10.5 |

Source: JAMA Canada

Vehicle Imports (Shipments) to Canada

| | Jan-Mar 2003 | Jan-Mar 2002 | % Change |
|--------------------|---------------|---------------|------------|
| JAPAN | 57,040 | 62,007 | -8.0 |
| U.S./MEXICO | 33,967 | 27,681 | 22.7 |
| TOTAL | 91,007 | 89,688 | 1.5 |

Source: JAMA, JAMA Canada

Motor Vehicle Exports from Canada

| | Jan-Mar 2003 | Jan-Mar 2002 | % Change |
|----------------------|----------------|----------------|------------|
| HONDA (HCM) | 83,414 | 70,238 | 18.8 |
| TOYOTA (TMMC) | 29,444 | 35,528 | -17.1 |
| CAMI | 12,573 | 11,597 | 8.4 |
| TOTAL | 125,431 | 117,363 | 6.9 |

Source: JAMA Canada



Honda of Canada Manufacturing in Alliston

The last 4 years have been record sales years in Canada, and they have been strong production years as well. Is this an industry in crisis? It should come as no surprise that, as with any industry, there will always be winners and losers.

There are those who say the low Canadian dollar, government health insurance, an educated, competitive and committed workforce as well as a competitive corporate tax structure no longer defines a sufficient competitive edge.

I would suggest to you that when you add in the human factors and the quality of life, a good business case could be made for investing in Canada.

But before investing there must be a compelling reason to invest in Canada. In our case, it is part of our philosophy of investing in countries where we do business to give back to the community and be close to our customers. In Honda's case, this meant investing, on our own, to achieve our philosophical and business objectives.

It is a philosophy that talks to "Small born", or starting in a market and developing a customer base. Once our customer base is established, investment follows and we continue to grow with that expanding customer base. We refer to this as 'glocalisation', which means having a global view, but a local focus.

We started manufacturing in Canada in 1986 with a modest investment in a modest facility that produced 15,685 units in 1987. Today, our twin plants have a capacity of 390,000 units, producing five different models with 4,300 associates. Moreover, we have 46 Canadian parts suppliers to service our current needs. It should also be noted that Honda Canada was selected as the "mother plant," or leadplant in launching Honda into the light truck business. This is a strong vote of confidence for the abilities of our associates' and the Canadian workforce.

Honda as a global company has established six autonomous regions around the world to meet the local needs of those regions. This means we need to be close to our customers and to supply them with products that meet their individual market requirements. Products from the various regions are not necessarily the same, but they are all part of global Honda. This allows our production facilities in Canada, as part of the global Honda, to export products back to Japan and 10 other countries outside of North America. This also works in reverse in that we have the ability to import products from other regions that we feel are appropriate for our customers. It also

means, as part of the North American region, about 50% of our total Canadian sales were made at our plant in Alliston, while 82 percent of the vehicles we sold in Canada were built in North America. The key is having the flexibility of both manufacturing and global parts sourcing.

This flexibility has allowed us to grow in Canada not only as a manufacturing company but also as a sales company. In 1986 when we started production, we were selling 60,000 units per year. Today we are selling 165,000 units per year.

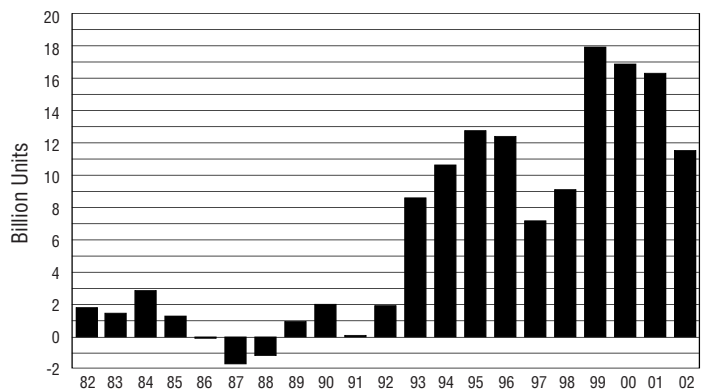
Is Canada a good place to invest? We like to think so, as we are the one, as I mentioned earlier, with 30% of our North American capacity in Canada.

Is Canada open to investment? Most definitely. Government assistance is available to deal with all the usual "red tape". This includes helping suppliers to locate in Canada. Need improved road access? Not a problem. Require extra water or sewage treatment? It's done. Need assistance with recruiting or training? The government is glad to help. It should also be noted that Canada has one of the most attractive R & D tax incentive programs available to the industry at both the federal and provincial level.

Having said all this is not to imply it is all a bed of roses, it is more a case of meeting expectations. There are always issues in any industry that will arise or be regulations to comply with, but Canada offers an environment that is open for discussion and negotiation. It may not necessarily always be instant gratification; but generally speaking, a position can be reached that should satisfy the needs of the investor as well as the Canadian Government.

Canada's auto trade surplus falls to \$11.5 billion in 2002

Canada's Automotive Trade Balance, 1982-2003



Overall, Canada's auto trade surplus in 2002 was reduced to \$11.5 billion from \$16.4 billion in the previous year, a drop of almost 30%. While the value of both exports and imports were ahead of 2001, imports of assembled vehicles and auto parts were up 12.2% to \$81.4 billion, while exports grew by 4.5% to \$92.9 billion. The trade surplus in finished vehicles stands at \$29.6 billion, down 13.0% in 2002, while the deficit in auto parts grew 2.5% to \$18.1 billion.

• See *Canada's auto trade surplus...* continued on page 4

Canadian Automotive Trade - All countries (C\$ million)

| | 2002 | 2001 | 2002/2001 |
|-----------------------------|----------|----------|-----------|
| I. Canadian Exports | | | |
| Passenger Cars | 49,910 | 48,752 | 2.4% |
| Trucks | 15,641 | 14,968 | 4.5% |
| Other Vehicles | 2,067 | 2,150 | -3.8% |
| Assembled Vehicles | 67,618 | 65,870 | 2.7% |
| Engine and Engine Parts | 5,438 | 5,198 | 4.6% |
| Parts and Accessories | 19,905 | 17,904 | 11.2% |
| All Motor Vehicle Parts | 25,343 | 23,102 | 9.7% |
| All Automotive Exports | 92,962 | 88,971 | 4.5% |
| II. Canadian Imports | | | |
| Passenger Cars | 26,264 | 22,228 | 18.2% |
| Trucks | 8,959 | 6,951 | 28.9% |
| Other Vehicles | 2,770 | 2,647 | 4.7% |
| Assembled Vehicles | 37,993 | 31,825 | 19.4% |
| Engines | 7,122 | 7,206 | -1.2% |
| Engine and Engine Parts | 2,762 | 2,570 | 7.5% |
| Parts and Accessories | 33,550 | 30,979 | 8.3% |
| All Motor Vehicle Parts | 43,435 | 40,754 | 6.6% |
| All Automotive Imports | 81,428 | 72,579 | 12.2% |
| III. Balances | | | |
| Passenger Cars | 23,646 | 26,524 | -10.9% |
| Trucks | 6,682 | 8,017 | -16.6% |
| Other Vehicles | (703) | (497) | 41.5% |
| Assembled Vehicles | 29,625 | 34,045 | -13.0% |
| Engine and Engine Parts | (4,446) | (4,578) | -2.9% |
| Parts and Accessories | (13,645) | (13,074) | 4.4% |
| All Motor Vehicle Parts | (18,092) | (17,653) | 2.5% |
| All Automotive Products | 11,534 | 16,392 | -29.6% |

Source: DesRosiers Automotive Consultants Inc., and Statistics Canada

In trade with the US, the value of automotive exports was up 4.5% to \$90.6 billion, while imports increased 11.3% to \$63.7 billion in 2002. Canada's trade surplus in assembled vehicles slipped 6.0% to \$41.0 billion, which was offset by an unchanged deficit in auto parts of \$14.2 billion, resulting in an overall surplus of \$26.8 billion, down 8.6% from 2001 at \$29.4 billion.

With respect to trade with Japan, robust demand in Canada led to a 22.7% increase in the value of automotive imports. While auto parts shipments were almost unchanged, finished vehicles rose 30.3% to \$5.1 billion. On the other hand, exports of auto parts from Canada to Japan soared 224.5% to \$67 million over 2001, even as assembled vehicles fell 21.4% to \$102 million. The overall auto trade deficit with Japan in 2002 stood at \$6.4 billion, up 23.0% over the previous year.

Auto trade with all other countries combined increased with respect to both exports and imports, up 3.2% and 11.9% respectively. Exports grew as a result of a 27.0% rise in the value of finished vehicle shipments, while imports of vehicles and parts increased 11.2% and 13.1% respectively. The overall auto trade deficit with all other countries was up 14.4% to \$8.9 billion in 2002.

Ontario Government announces \$625 million support for R&D investment

The Premier of Ontario recently announced an increase of \$625 million for research & development investment targeted at the automotive industry in the province. The move is widely seen as a bid by the Government to lure new investment to Ontario, particularly from DaimlerChrysler and Ford, both of which have been lobbying the provincial and federal governments for financial assistance for proposed new assembly operations in Windsor and Oakville, respectively.

This announcement was made at the General Motors plant in Oshawa, and was designed to respond to the recommendations put forward by the Canadian Automotive Partnership Council (CAPC) for government support in competing for new and renewed investment in the Canadian auto industry. Some political commentators also tagged the announcement as an election ploy as Ontario is expected to go the polls later this spring.

"Our government is committed to keeping Ontario's economy competitive, which means creating an economic climate that attracts investment and creates jobs," said Premier Ernie Eves. "The new initiative will focus on large-scale investments that create high-value jobs and support innovation, research and development."

The criteria will be established based on size of the investment, the creation of new capacity, leap-frogging current technology, addressing and establishing strategic activities within the province and building capacity in research and commercialization.

Existing programs in three key areas will be expanded and enhanced to include the automotive sector over five years; however as the funds are not all exclusively automotive, it is not at all clear how much of the \$625 million will support auto industry programs.

1. \$500 million will be invested to enhance the Ontario Research & Development Challenge Fund. This expanded funding is expected to support innovation activities in the auto industry and accelerate the commercialization of next generation products.

The auto sector was excluded from participating in the Challenge Fund in the past. It is unclear how much of the \$625 million will actually end up supporting automotive R&D activities.

2. \$125 million will be invested to enhance existing programs that support training in skills that are needed by the sector. The focus would be on creating the strategic skills necessary for building competitiveness, increasing the fit between Ontario's training institutions and advanced manufacturing needs and expanding opportunities to learn the new skills needed for the development and use of advanced manufacturing technologies.

3. The government will continue to improve public infrastructure by upgrading and expanding existing facilities. There were no details on what new infrastructure activities would be included, and there was no funding estimate provided.

As part of this new auto sector funding initiative, the Premier also called on the Federal Government to match the province's level of funding, which would create a \$1.25 billion fund between both levels of government in support of the auto industry. Representatives from the auto industry were quick to say that the Ontario strategy was only

• See \$625 Million Support... continued on page 5

• Continued from page 4...\$625 Million Support

the first part, and that the Federal Government also needed to support the auto industry to the same extent. So far, there has been no indication what the Federal Government is planning to do to respond to the CAPC recommendations. However, the Minister of Finance announced in the Federal Budget in February that the capital tax on corporations would be phased out over five years. The recent Ontario Budget proposed to match the Federal initiative to remove the capital tax in Ontario at the same time as the Federal capital tax is eliminated in 2008.

Average Price of Vehicles in Canada above \$30,000 in 2002

The average price of buying a vehicle in Canada climbed \$790 to more than \$30,000 for the first time last year, recent statistics show. The jump in the average transaction price, excluding taxes, for cars and trucks to \$30,131 represents a 2.7% increase from 2001 according to data released by Desrosiers Automotive Consultants (DAC).

The increase outpaced the annual average inflation rate in Canada of 2.2% in 2002. Analysts contend that the increase partially reflects buyer's preference for bigger, more costly models. Based on data from Statistics Canada, Dennis Desrosiers, President of DAC, said the average transaction price for trucks, including minivans, sport utility vehicles and heavy-duty trucks shot up \$1,096 to \$36,358, an increase of 3.1% over last year.

The average price of passenger cars increased by \$441, or 1.8% to \$24,811 in 2002. The prices do not account for taxes (about 15%), but do include all other costs including options, accessories, dealer mark-ups and delivery charges. The increase in 2002 comes after a year when the average price declined about \$200. This decrease in 2001 was a result of heavy incentives, particularly after September 11, as well as a general preference for smaller cars. It was the first time transaction prices had declined since 1991.

| | Passenger Cars | Trucks | Total Vehicles | Percent Change |
|------------|----------------|----------|----------------|----------------|
| 1982 | \$9,864 | \$13,434 | \$10,668 | |
| 1983 | \$10,721 | \$13,269 | \$11,282 | 5.8% |
| 1984 | \$11,469 | \$14,540 | \$12,216 | 8.3% |
| 1985 | \$12,054 | \$15,724 | \$12,997 | 6.4% |
| 1986 | \$13,393 | \$17,051 | \$14,408 | 10.9% |
| 1987 | \$14,786 | \$18,618 | \$15,957 | 10.7% |
| 1988 | \$15,819 | \$19,945 | \$17,161 | 7.5% |
| 1989 | \$16,740 | \$21,014 | \$18,168 | 5.9% |
| 1990 | \$17,235 | \$22,255 | \$18,886 | 3.9% |
| 1991 - GST | \$16,152 | \$21,109 | \$17,748 | -6.0% |
| 1992 | \$17,157 | \$22,806 | \$19,133 | 7.8% |
| 1993 | \$17,967 | \$25,011 | \$20,647 | 7.9% |
| 1994 | \$18,944 | \$26,811 | \$22,137 | 7.2% |
| 1995 | \$20,714 | \$28,784 | \$24,147 | 9.1% |
| 1996 | \$21,961 | \$31,216 | \$26,139 | 8.2% |
| 1997 | \$22,797 | \$32,296 | \$27,371 | 4.7% |
| 1998 | \$23,021 | \$33,717 | \$28,172 | 2.9% |
| 1999 | \$23,581 | \$35,754 | \$29,388 | 4.3% |
| 2000 | \$24,483 | \$35,401 | \$29,561 | 0.6% |
| 2001 | \$24,370 | \$35,262 | \$29,341 | -0.7% |
| 2002 | \$24,811 | \$36,358 | \$30,131 | 2.7% |

Note: excludes taxes but includes all other costs such as dealer prep, options, accessories & mark-ups

HiSan of Canada Ltd. opens new plant in Orangeville, Ontario

In April, HiSan of Canada opened its new consolidated manufacturing operation in Orangeville that effectively doubles its production capacity. HiSan intends to expand business in North America due to the increased production efficiency at the \$4.5 million plant. HiSan produces automotive tubular products including brake tubes, fuel tubes (both steel and plastic), as well as engine and power steering parts for a number of assemblers including Honda, Toyota and CAMI. While sales in 2002 were about \$24 million, the target for 2003 is about \$33 million. Currently there are about 120 associates employed at the plant in Orangeville.

JAMA Canada recommends federal incentives for advanced technology vehicles

As part of the federal pre-budget consultation, JAMA Canada has urged the Minister of Finance, John Manley, to introduce tax-based incentives on the sale of advanced technology vehicles to accelerate the market acceptance of these fuel-efficient technologies.

Due to the higher cost of developing and producing advanced technology vehicles, such as gas-electric hybrid vehicles, offering tax incentives will not only stimulate consumer demand by making such vehicles cost competitive with conventional ones, but also will help pull into the market vehicles with significant improvements in fuel efficiency and lower emissions. While automakers strive to provide vehicles that meet evermore-demanding consumers needs, it is consumers who determine through their purchase decisions the fuel economy of the whole fleet. Recent surveys have shown that while consumers express interest in acquiring environmentally friendly, fuel-efficient vehicles, they balk at paying more for advanced technology than they would for conventional vehicles. With government and automakers working together, the combination of tax incentives and advanced technology vehicles will provide improvements in fuel economy and lower emissions at prices affordable to consumers.

Currently the Ontario Government offers a sales tax rebate of up to \$1000 on the purchase of an alternative fuel vehicle, and similar incentive programs in the US provide rebates of US\$2000 for a hybrid vehicle and US\$4000 for a fuel cell vehicle. The proposed incentives for the Government of Canada include a rebate of the GST (7% Goods & Service Tax) and eliminating import duties on alternative fuel vehicles.

The Federal Budget was brought down in February. While no specific incentive programs for advanced technology vehicles were introduced, \$2 billion was designated over 5 years for implementing the Climate Change Plan pertaining to Canada's obligations as a signatory to the Kyoto Protocol.



Auto Tax Reform in Japan

Japanese national and local governments receive more than 10 percent of their entire revenue from nine automobile related taxes. These include sales, property and fuel taxes, which have risen over the years leaving Japanese consumers with less yen in their pockets and little understanding of the logic or purpose of the system. Polls show that 66 percent of consumers want reform and the automobile industry has decided to do something about it.

A simplified outline of this complicated auto tax system follows:

- The Japanese new car buyer pays a 5 percent "acquisition tax" (a kind of luxury sales tax) on the base price of the vehicle at the time of purchase. This tax originated in 1968 when cars for personal use were still considered a luxury.
- The acquisition tax is not out of line with many state sales taxes in the U.S. However, in 1989 the Japanese government imposed a new sales tax of 3 percent on all products, including automobiles. This was raised to 5 percent in 1997. Since the government did not abolish the acquisition tax, the Japanese consumer now pays a double tax on new cars totaling a whopping 10 percent.
- Taxes don't stop here. In addition to regular inspection fees, the Japanese car owner pays an annual vehicle property tax, ranging from between \$250 and \$900 depending on engine size. On top of this, owners pay an annual weight tax amounting to about \$105 on a one-ton vehicle. These taxes are supposed to cover road building and road maintenance costs, but the budget process offers little explanation as to their actual use.
- Then there are high fuel taxes totaling about \$1.69 per gallon or more than 50 percent of the gas price. Federal and local gas taxes in the U.S. come to about 41 cents per gallon or less than 30 percent of the gas price.

In short taxes have not kept up with significant changes in the market and the vehicle environment. On the one hand, automobiles in Japan, once a luxury for the elite, are now a necessity for most households. In 1965, for example, fewer than 10 percent of households in Japan owned a car. Today almost all households own a car and half of them own two cars. Tax rates should reflect the change. On the other hand, tax incentives should be used to encourage consumers to purchase environmentally friendly vehicles, such as hybrid and fuel cell vehicles, powered by cutting-edge technology. Overall the task is to reform the maze of taxes in a fair, simplified and environmentally friendly way consistent with practices in other countries.

The Future

The Japanese automobile industry and its consumers have changed significantly since the auto tax laws were first put in place. Furthermore, new forces such as global warming, the need to

conserve fuel and environmental protection require innovative new approaches towards personal transportation. These forces will in due course begin to reshape the tax structure and hopefully eliminate the double taxation as well. When this happens, both the consumers and the economy will benefit—the sooner, the better.

For further information and updated monthly statistics, visit JAMA's website at: 'www.jama.or.jp/e_press/index.html'.

Auto Fuel in Japan Set for Even Lower Sulfur Content: JAMA Salutes Announcement by Oil Industry

At a recent meeting of the Petroleum Products Subcommittee of the Japanese Government's Advisory Committee on Energy, representatives from the oil industry in Japan commented on the prospects for introducing sulfur-free automotive fuel.

Specifically, the opinion was expressed that a partial marketing of sulfur-free fuel, which is defined as containing 10ppm of sulfur or less, will be possible beginning in 2005. The Japan Automobile Manufacturers Association (JAMA) and other auto-related organizations welcome this news and salute the progress being made by the oil industry in achieving commercial use of sulfur-free fuel.

Mr. Yoshihide Munekuni, Chairman of JAMA said in response to the announcement that JAMA member companies will continue to channel major resources and research-and-development efforts into the early introduction of innovative new vehicle technologies utilizing sulfur-free fuel, a key phase in their quest for cleaner automobile performance and minimal environmental impact.

| Motor Vehicle Industry in Japan | | |
|---------------------------------------|--------------|-----------|
| Passenger Cars, Trucks, Buses | | TOTAL |
| PRODUCTION ¹ | Jan-Mar 2003 | 2,699,414 |
| | Jan-Mar 2002 | 2,633,633 |
| | % change | 2.5 |
| EXPORTS ² | Jan-Mar 2003 | 1,172,035 |
| | Jan-Mar 2002 | 1,099,336 |
| | % change | 6.6 |
| SALES/ REGISTRATIONS ³ | Jan-Mar 2003 | 1,729,114 |
| | Jan-Mar 2002 | 1,657,551 |
| | % change | 4.3 |
| IMPORT VEHICLE SALES ^{4*} | Jan-Mar 2003 | 72,739 |
| | Jan-Mar 2002 | 70,423 |
| | % change | 3.3 |

* (including models built by Japanese automakers overseas) source: 1-2-JAMA; 3-JADA, JMVA; 4-JAIA