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1st Q Review: Sales in Canada sluggish while production and exports stronger

Sales

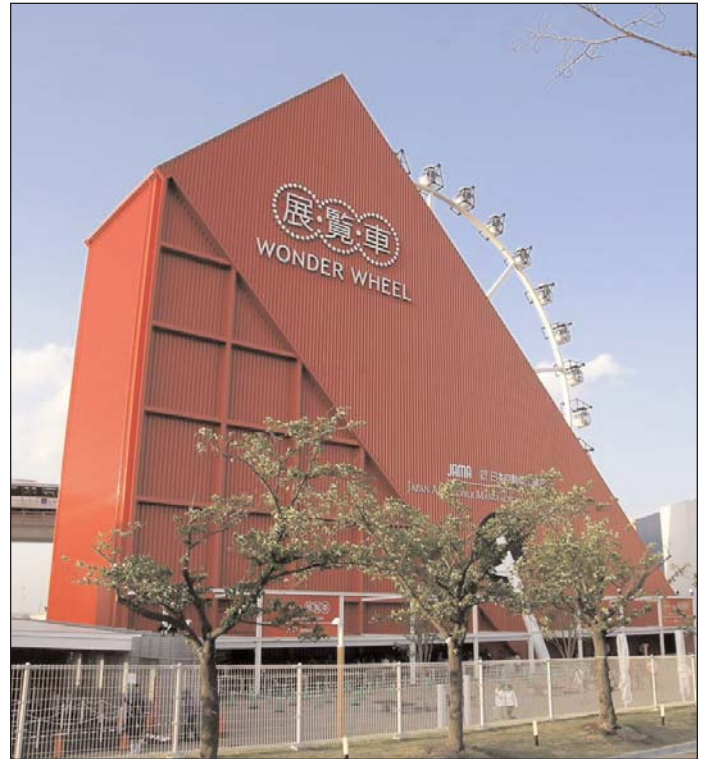
New light vehicle sales in Canada for all makes during the 1st quarter of 2005 were up 1.7% over the same period in 2004 to 326,361 units. Passenger cars rose 1.0%, while light trucks gained 2.4%. However, the fact that sales in March were down 1.0% has some analysts concerned about the longer trend, since March historically is usually the first of the key selling months in Canada. On the other hand, February sales in Canada made double digit gains, wiping out the 5.0% dip in January. In the best of times it is hazardous to predict longer term sales trends from results from any given month.

For Japanese automakers, first quarter total light vehicle sales declined 1.6% over last year to just under 98,000 units. While passenger car sales dipped 3.8% to 69,421 units, light truck sales grew 4.5% to 28,551 units. Among individual companies, the results were mixed. Honda (including Acura) was up 5.6%, Mitsubishi gained 4.9%, Nissan (including Infiniti) increased sales 3.9% and Subaru was up 2.1% in the first quarter compared to 2004. While Toyota (& Lexus) sales were flat overall, Mazda and Suzuki sales were both down 20%. Also notable in the first quarter results was a 7.3% gain in sales of vehicles built in North America, while sales of models built in Japan dropped 14.2% over the same period compared to 2004, with passenger cars falling 20.1%. For the year to date, 64.2% of all Japanese brand vehicles sold in Canada were built in North America.

Overall, Japanese market share has dropped to 30.0% in 2005 from 31.0% in the first quarter of the previous year. Big Three market share was unchanged at 59.0% as Ford sales were down 5.2%, but GM and DC recorded sales increases of 4.0% and 4.3% respectively. Korean automakers recorded double digit sales gains in the first quarter, which drove their market share up more than half a point to 5.5%. With the exception of Audi and Jaguar, European sales were up 6.6% for the first three months, which boosted their market share to 5.4% for the first quarter.

Production & Export

Production of light vehicles at Japanese affiliated plants in Canada increased 17.4% in the first quarter of 2005 to over 224,000 units. The majority of the gain was a result of output at CAMI which more than tripled to 44,440 units compared to 13,713 units in the first quarter last year. CAMI, a 50/50 joint venture between Suzuki Motor Corporation and General Motors of Canada in Ingersoll Ontario, currently builds only one model, the Equinox sport utility vehicle for



JAMA's Wonder Wheel features a visual history of mobility and a spectacular vista of the 2005 Expo site in Aichi, Japan. Expo 2005 runs until September 25, 2005.

Chevrolet, which has been enjoying brisk sales in the US and Canada. CAMI will add a Pontiac version of the Equinox in 2005, and Suzuki is expected to build a new SUV at CAMI in 2006.

At the same time, production at Toyota Motor Manufacturing Canada (TMMC) rose 6.0% in the first three months of 2005 to almost 79,000 units. TMMC makes three models, the Corolla and Matrix in the North Plant, and the Lexus RX330 in the South Plant in Cambridge, Ontario.

¹ See 1st Q Review... continued on page 2

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Light Vehicle Sales in Canada, by Company

Company	Jan-Mar 2005			Jan-Mar 2004			% Change		
	CARS	TRUCKS	TOTAL	CARS	TRUCKS	TOTAL	CARS	TRUCKS	TOTAL
HONDA	19,813	8,910	23,723	19,453	7,738	27,191	1.9	15.1	5.6
N.A. Built	18,099	5,551	23,650	17,709	4,420	22,129	2.2	25.6	6.9
Japan Built	1,714	3,359	5,073	1,744	3,318	5,062	-1.7	1.2	0.2
TOYOTA	24,778	8,334	33,112	23,456	9,695	33,151	5.6	-14.0	-0.1
N.A. Built	17,269	5,049	22,318	15,396	5,604	21,000	12.2	-9.9	6.3
Japan Built	7,509	3,285	10,794	8,060	4,091	12,151	-6.8	-19.7	-11.2
MAZDA	10,665	2,080	12,745	13,642	2,461	16,103	-21.8	-15.5	-20.9
N.A. Built	2,574	1,560	4,134	893	1,598	2,491	188.2	-2.4	66.0
Japan Built	8,091	520	8,611	12,749	863	13,612	-36.5	-39.7	-36.7
NISSAN	8,938	6,786	15,724	10,296	4,843	15,139	-13.2	40.1	3.9
N.A. Built	7,512	3,122	10,634	1,427	1,958	10,827	-15.3	59.4	-1.8
Japan Built	1,426	3,664	5,090	8,861	2,885	4,312	-0.1	27.0	18.0
SUZUKI	1,245	568	1,813	1,521	745	2,266	-18.1	-23.8	-20.0
N.A. Built	0	0	0	0	257	257	0.0	-100.0	-100.0
Japan Built	1,245	568	1,813	1,521	488	2,009	-18.1	16.4	-9.8
SUBARU	2,476	855	3,331	2,336	926	3,262	6.0	-7.7	2.1
N.A. Built	1,254	16	1,270	1,198	41	1,239	4.7	-61.0	2.5
Japan Built	1,222	839	2,061	1,138	885	2,023	7.4	-5.2	1.9
MINI	1,506	1,018	2,524	1,489	918	2,407	1.1	10.9	4.9
N.A. Built	565	318	883	409	278	687	38.1	14.4	28.5
Japan Built	941	700	1,641	1,080	640	1,720	-12.9	9.4	-4.6
TOTAL	69,421	28,551	97,972	72,193	27,326	99,519	-3.8	4.5	-1.6
N.A. Built	47,273	15,616	62,889	44,474	14,156	58,630	6.3	10.3	7.3
Japan Built	22,148	12,935	35,083	27,719	13,170	40,889	-20.1	-1.8	-14.2

* car sales include Mexican built

Source: AIAMC

Motor Vehicle Production in Canada

	Jan-Mar 2005	Jan-Mar 2004	% Change
HONDA (HCM)	100,856	102,811	-1.9
TOYOTA (TMMC)	78,985	74,481	6.0
CAMI	44,440	13,713	224.1
TOTAL	224,281	191,005	17.4

Source: JAMA Canada

Motor Vehicle Exports from Canada

	Jan-Mar 2005	Jan-Mar 2004	% Change
HONDA (HCM)	81,553	84,020	-2.9
TOYOTA (TMMC)	62,587	58,426	7.1
CAMI	41,675	13,032	219.8
TOTAL	185,815	155,478	19.5

Source: JAMA Canada

Vehicle Imports (Shipments) to Canada

	Jan-Mar 2005	Jan-Mar 2004	% Change
JAPAN	49,400	45,360	8.9
U.S./MEXICO	43,882	40,141	9.3
TOTAL	93,282	85,501	9.1

Source: JAMA, JAMA Canada

¹ Continued from page 1... 1st Q Review

Output at Honda of Canada Manufacturing (HCM) in Alliston Ontario fell 1.9% to 100,856 units in the first quarter. HCM launched the new Ridgeline pick-up truck in January 2005, while production of the Odyssey minivan for North America has been relocated to Honda's plant in Alabama.

Vehicles exported from these Canadian plants followed a similar pattern in the first quarter. Overall shipments to US and other global markets climbed 19.5% over 2004 to 185,815 units in total. Exports from CAMI jumped 219.8% to 41,675 units (an export to production ratio of 93.8%), while TMMC shipped 62,587 units, up 7.1% (an export ratio of 79.2%) and shipped vehicles from HCM dropped 2.9% to 81,553 units (an export ratio of 80.9%).

Imports

Vehicle shipments to Canada from Japan and Japanese owned plants in other countries increased in the first quarter by 9.1% to a total of 93,282 units. With expanding capacity in North America, shipments from within NAFTA countries (US & Mexico) rose 9.3% to almost 44,000 units, while shipments from Japan increased 8.9% to 49,400 units. For the past 12 years, Canada has been a net exporter of 'Japanese' vehicles, and this trend continued in the first quarter of 2005 as HCM and TMMC exported a combined total of over 144,000 units, while all JAMA Canada members imported less than 90,000 units during the same period, a net export total of about 54,000 vehicles.

Ontario Automotive Mission to Japan deemed a success

April 25 – 29 was 'Ontario Automotive Week in Japan' as the Japan Society of Canada, in cooperation with the Automotive Parts Manufacturers Association (APMA), AUTO21 and the Ontario Government held interconnecting conferences, meetings and tours in Tokyo and Nagoya. A special feature of the week-long event culminated with visits to the 2005 Expo in Aichi, Japan, including tours of the Canada pavilion as well as corporate exhibits from Toyota Motor Corporation and JAMA's Wonder Wheel.

"We're making sure that Japan and Ontario become even stronger partners in the global economy," said Joe Cordiano, Minister of Economic Development and Trade, who led the Ontario



The Canada Pavilion at Expo 2005 in Aichi, Japan.

automotive trade and investment mission. "This visit is an opportunity to showcase our leading-edge companies and brightest researchers on the world stage. We're presenting a compelling case that Ontario is the best business location in North America."

In 2004, Japan was Ontario's fourth-largest trading partner. In addition, Japan is the largest Asian investor in Ontario, with some 240 Japanese companies maintaining business interests in the province, including three vehicle manufacturing operations and over 40 auto parts related plants.

"Ontario and Japan have a well-established, long-standing relationship reinforced by economic, cultural and educational ties," said Ben Ciprietti, President and CEO of the Japan Society of Canada, which partnered with the Province on the Japan mission. "It's important to our continued prosperity that we proactively foster this relationship and the business opportunities it represents."

During the five-day mission, based around Expo 2005 in Aichi, Japan, the Minister met with Japanese auto industry leaders to advocate for new investment and research in Ontario. There were two conferences during the mission: the first was held on April 25 at the Canadian Embassy in Tokyo which featured briefings on economic and political developments in Japan, including the prospects of an enhanced framework agreement between Canada and Japan by Ambassador Rob Wright and the Senior Trade Commissioner



Aerial view of Expo 2005.

Peter MacArthur. Over lunch, John Harris of Ballard Power Systems Japan office spoke about the future of fuel cells and fuel cell technology. In the afternoon session, eight presentations covered a broad range of current automotive research being undertaken at several universities in Ontario, including the expanding activities at AUTO21 and an overview of Hydrogenics Inc., a fuel cell company in Ontario.

The second Automotive Seminar took place on April 27 in Nagoya with presentations by Gerry Fedchun, President, APMA on an Overview of the Canadian Auto Parts Industry; Ray Tanguay, President, Toyota Motor Manufacturing Canada who spoke about Toyota's North American Supplier Development; Dr. Mamdouh Shoukri, Vice President, McMaster University, who explained Ontario's automotive research network, and Mark Hogan, President, Magna International who outlined Magna's global activities and growing presence in Japan and Asia.

On April 28, JETRO held a Breakfast Seminar in Nagoya which featured a presentation by Kunihiko Fujiki, Fujiki Business Research Office on recent trends in the auto industry in Japan and key aspects of Japanese automakers' purchasing strategy. Delegates toured the Tsutsumi plant in Toyota City, the only plant currently making the Prius hybrid vehicle.



Dr. Michael Worsnick, WATCAR, University of Waterloo outlined the activities of the Waterloo Centre for Automotive Research at the Canadian Embassy in Tokyo.

Auto Sector Reaches Voluntary Agreement with the Government of Canada to Reduce Greenhouse Gases

On April 5, Canada's automotive sector announced a voluntary agreement with the Government of Canada to reduce the greenhouse gas (GHG) emissions from Canada's vehicle fleet by 5.3 megatonnes by the end of 2010. The agreement is consistent with the GHG reduction goal for light duty vehicles set out in the government's 2002 Climate Change Plan for Canada.

To achieve the 5.3 megatonne GHG reduction objective for the sector, the Canadian automobile industry will deliver on a broad action plan that will:

- Offer and promote a wide variety of fuel saving vehicle technologies including hybrid powertrains, cylinder deactivation technology, advanced diesel technology, alternative fuel compatible vehicles and other emerging technologies.
- Pursue design and engineering improvements without compromising vehicle occupant safety.
- Bring forward technologies that promote fuel savings such as on-board diagnostics and tire pressure monitoring systems.
- Help Canadians understand what they can do to reduce GHG emissions and will support positive consumer and driver behaviour with respect to the purchase, maintenance and operation of cars and light duty trucks across Canada.
- Encourage the appropriate use of alternative fuels such as ethanol, clean diesel and bio diesel and will work with the government and fuel providers in this regard.
- Work with the government to support Canadian-based research and development related to future technologies with the potential to significantly reduce GHGs after 2010 such as hydrogen fuel cells, the development of a hydrogen infrastructure in Canada and other emerging technologies.



(L to R): Marcus Breitschwerdt, Chair of the Association of International Automobile Manufacturers of Canada (President and CEO, Mercedes-Benz Canada); the Hon. Stéphane Dion, Minister of Environment Canada; the Hon. R. John Efford, Minister of Natural Resources Canada; Joe Hinrichs, Chair of the Canadian Vehicle Manufacturers' Association (President and CEO, Ford of Canada).

The agreement provides for a joint government-industry committee to monitor annual progress and industry performance against projected interim GHG reduction goals as a means of ensuring accountability. The 5.3 megatonne GHG reduction goal by 2010 is based on updating the work of the 1999 Government Transportation Climate Change Table and its projections of vehicle-related GHG emissions, and NRCan's "Canada's Emission Outlook: An Update, December 1999".

These undertakings build upon significant achievements made to date in the reduction of smog causing, vehicle related emissions. New Tier 2 emission vehicle technologies now entering the market are expected to reduce smog-causing emissions by 99% from pre-control levels. These standards which will contribute significantly to improved air quality are the most stringent national standards in the world and for the first time, will apply equally to both passenger cars and light duty trucks, including sport utility vehicles (SUVs).

This agreement builds upon the industry's track record of successful voluntary agreements in Canada in a number of areas including vehicle safety, fuel consumption and emissions reductions. The Canadian Automobile Dealers Association (CADA) played a role in the decisions leading up to the agreement and will further help its success by reaching out to communities across Canada.

Backgrounder: Auto Industry Technologies to Reduce GHG Emissions

(The following backgrounder was prepared by AIAMC and the CVMA. For further information, visit www.aiamc.com or www.cvma.ca).

Across North America, the auto industry has developed a variety of technologies to reduce greenhouse gas (GHG) emission from vehicles. Most of these technologies have related effects requiring re-engineering of associated systems, increased vehicle computer power and software sophistication, as well as changes to assembly procedures and supplier systems. Some technologies will require further research, development and engineering work and in certain vehicle applications may not be appropriate, feasible or cost-effective.

The following is a general description of various types of fuel saving technologies being implemented and developed by today's auto manufacturers.

Transmissions

One way to improve drivetrain efficiency is to better match vehicle speed to engine speed. This matching is controlled by the transmission. Operating the vehicle, as much as possible, with the engine at peak efficiency, can provide a substantial benefit.

Recent developments in transmission technology which contribute to these operating improvements include CVTs (Continuously Variable Transmissions), transmissions with four, five, six or more forward gear ratios, advanced overdrive systems, and automatic transmissions with electronically-controlled torque converters.

Engines

Improvements in engine efficiency may be accomplished either through increased combustion efficiency, reduction of mechanical losses, or advanced engine management systems.

¹ See *Auto Sector Reaches Voluntary Agreement...* continued on page 5

¹ Continued from page 4... *Auto Sector Reaches Voluntary Agreement*

Improved combustion efficiency may be obtained through the use of increased compression ratio, better air/fuel mixing and distribution, dual ignition and optimized spark timing (all related to improved valve, ignition, and fuel injection control). In gasoline and diesel engines, electronically-controlled direct injection fuel systems provide increased fuel efficiency over a wide range of operating conditions. Newer vehicle systems that capture evaporative emissions during vehicle refueling and operation also provide benefits.

Reduced mechanical losses may be achieved by lowering internal engine friction through the use of advanced components (ceramics, rollers) and lubricants, reduced/enhanced throttling (load control by valve timing and electronic throttle control), selective cylinder shut-down, and physical engine downsizing (enabled, with power levels maintained, by turbo/supercharging).

Advanced engine management systems such as on-board diagnostics (OBD II) and engine start stop systems are designed to reduce wasted energy from out-of-tune engine operation or excessive idling, respectively.

Variable valve timing & lift enable the engine to be optimized for peak power or efficiency over its entire operating range. Enhanced responsiveness and power also make downsized engines, without compromising vehicle performance.

The use of advanced diesel engines is another way to address GHG emissions. In order to meet modern, North American exhaust emission standards, advanced catalysts and other exhaust after-treatment technologies as well as enhanced fuel formulations are required.

Other Improvements (Applied to the Powertrain)

Improvement in powertrain management, through the use of electronic monitoring and control, enable the engine and transmission to more efficiently handle heavy vehicle loads and adverse operating conditions.

New systems such as voltage regulated electric fuel pumps, electric coolant and power steering pumps and high efficiency alternators reduce energy losses in vehicle subsystems, boosting vehicle efficiency.

Other Improvements (Applied to the Entire Vehicle)

Lightweight materials, low rolling resistance tires, tire pressure monitoring systems, and enhanced aerodynamics reducing energy requirements by reducing the friction associated with vehicle weight (done without compromising vehicle occupant safety) and drag.

Hybrid propulsion systems recover energy generated during braking. This energy is used to assist in the reacceleration of the vehicle, significantly reducing power requirements on the engine.

Modern modelling tools, advanced simulation and system optimization methods, and on-road optimization enable vehicles to be designed and manufactured more precisely to satisfy owner expectations in utility, and performance.

Alternative, renewable fuels such as ethanol from biomass (E10, E85), bio-diesel & hydrogen can produce lower levels of GHGs on a life cycle basis than current gasoline and diesel fuels.

Reductions in Smog-Causing Emissions

Greenhouse gas emissions and smog-related emissions are not the same. The regulated tailpipe emissions involved in the formation of smog include hydrocarbons, oxides of nitrogen and carbon monoxide whereas GHG emissions are a result of burning carbon-based fuels in the vehicle and is proportional to the distances traveled by vehicles and the amount of gasoline consumed.

The Canadian automotive industry has been acting to reduce smog causing emissions for several decades. The implementation of the recent Tier 2 emission standards for all new vehicles (cars and light duty trucks) will ensure that smog-causing emissions are reduced by 99% from precontrol levels.

How clean are these new Tier 2 vehicles, in practical terms?

- Burning one cord of wood in your fireplace this winter will create more smog causing emissions than the entire lifetime emissions produced from ten Tier 2 sport utility vehicles (SUV).
- You would have to drive 37 new Tier 2 SUV's around the earth's circumference to equal the emissions from burning that one cord of firewood.
- Painting a room with one gallon (4.54 litres) of interior water-based paint generates more smog causing emissions than driving a Tier 2 vehicle from Toronto to Vancouver and back.

New AIAMC President, David Adams



In April, David C. Adams was appointed President of the Association of International Automobile Manufacturers of Canada (AIAMC).

Mr. Adams replaces Robert (Bob) J. Armstrong, who recently left AIAMC to join PBB Global Logistics as Senior Vice President, Government Affairs after serving as President of the Association of International Automobile Manufacturers of Canada since 1997.

Before joining AIAMC, Mr. Adams served as Vice-President, Policy, with the Canadian Vehicle Manufacturers Association (CVMA), since 1999. The CVMA represents DaimlerChrysler, Ford and General Motors. Since joining CVMA in 1987, Mr. Adams was primarily responsible for CVMA activities in the areas of trade, economics, taxation, social welfare and consumer measures.

"I am very pleased and excited to have David heading up our association. His knowledge and familiarity with the automotive industry will be a tremendous asset to our members, and his political experience will help raise AIAMC's profile at all levels of government", said Mr. Marcus Breitschwerdt, Chairman of AIAMC and President of Mercedes-Benz Canada. "David's experience will ensure that AIAMC has a strong voice in the Canadian automobile industry, and that we are proactive on addressing the issues facing our members."

Magna International opens new office in Nagoya

According to Mark Hogan, President of Magna International, Magna is expanding its operations in Japan with the establishment of a sales and engineering office in Nagoya to support its growing business in the Tokai area, specifically with Toyota. The addition of the new office increases the total number of application engineering and sales staff in Japan while providing local customers with support on key programs.

Magna first opened its Tokyo office in 1992 to better serve its customers in Japan and to expand new business opportunities. Strategically, Magna would like to increase their business with Japanese automakers on a global basis from about 5% currently to 10% by 2010.

"While Magna has been highly successful in serving its customers in North America and Europe, Magna has not yet been able to achieve a similar level of success in Japan", commented Seiichi Mihara, General Manager of Magna Japan. "We intend to grow our presence as a strategic partner in Japan by contributing to the advancing globalization of the Japanese automakers. This requires close liaison engineering with the Japanese based design and development teams in local offices such as our new Nagoya office.

"With advanced technology and world class quality, we aim to grow our reputation as a trustworthy business partner for Japanese automakers and to expand production in the Asian region", said Mr. Hogan. "Automakers have to actively address multiple global platforms, environmental issues, security and fuel efficiency. Globally capable engineering resources are always in high demand and thus we are confident that Magna will play a significant role in supplying such resources".



Mark Hogan, President, Magna International speaking at the Japan Society of Canada's Automotive Seminar in Nagoya.

Auto Industry Results for FY 2004

Motor vehicle production in Japan for the fiscal year 2004 (April 2004 through March 2005) stood at 10,617,038 units, up 260,661 units or 2.5% as compared with the production total of 10,356,377 units recorded in the same period of the previous year. Output in Japan has been on an upward trend over the past three consecutive years.

Production, by type of vehicle, April 2004 – March 2005

1) Passenger cars: 8,817,949 units, up 283,304 units or 3.3%	
Standard cars (over 2000 cc)	4,069,074 units, up 208,605 units or 5.4%
Small cars	3,379,489 units, up 42,627 units or 1.3%
Mini car (under 630 cc)	1,369,386 units, up 32,072 units or 2.4%
2) Trucks: 1,736,269 units, down 25,605 units or 1.5%	
Standard truck vehicles	771,692 units, down 9,270 units or 1.2%
Small trucks	440,398 units, down 23,821 units or 5.1%
Mini trucks (under 630 cc)	524,179 units, up 7,486 units or 1.4%
3) Buses: 62,820 units, up 2,962 units or 4.9%	
Large buses	11,830 units, down 225 units or 1.9%
Small buses	50,990 units, up 3,187 units or 6.7%

Sales

Domestic sales in Japan for the fiscal year 2004 stood at 5,820,724 vehicles, down 1.1% as compared with the 5,887,064 vehicles recorded for fiscal year 2003. More specifically, passenger car sales in Japan grew marginally by 0.2% to 4,749,346 units; while trucks were down 6.2% to 1,054,295 units; and finally 17,083 buses were sold in FY2004, down 21.2% year over year.

Exports

Exports of finished vehicles to all countries for the 2004 fiscal year rose 4.3% to 4,978,787 units compared with the previous fiscal year. Shipments of vehicles to Canada dropped 5.3% to 170,898 units during the 2004 fiscal year, while exports to the US increased slightly, up 0.2% to 1,574,318 units during the same period.

Motor Vehicle Industry in Japan 1st Quarter 2005		
Passenger Cars, Trucks, Buses		TOTAL
PRODUCTION ¹	Jan-Mar 2005	2,875,302
	Jan-Mar 2004	2,769,782
	% change	3.8
EXPORTS ²	Jan-Mar 2005	1,211,208
	Jan-Mar 2004	1,190,085
	% change	1.8
SALES/ REGISTRATIONS ³	Jan-Mar 2005	1,755,346
	Jan-Mar 2004	1,788,004
	% change	-1.8
IMPORT VEHICLE SALES ⁴	Jan-Mar 2005	69,202
	Jan-Mar 2004	73,379
	% change	-5.7

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