

Senate Committee on Foreign Affairs & International Trade (AEFA)

Submission on Study of Bill C-79

Japan Automobile Manufacturers Association of Canada

October 22, 2018

JAMA Canada supports diversified trade liberalization for the mutual benefits accruing to all trade signatories from enhanced business opportunities, as well as advantages for consumers. As global value chains forge stronger economic linkages with major trading partners, we urge Canada to continue pursuing diversified trade initiatives in Asia Pacific with the CPTPP, building on the provisional implementation of the CETA with the EU and the fully implemented Canada-Korea FTA.

The CPTPP will offer expanding trade and business opportunities for Canadian exporters in Asia-Pacific, precisely because Canada will have a 'first-mover' advantage as the US withdrew from the TPP in 2017.

For JAMA Canada and our members, CPTPP is simply a matter of fairness – equitable tariff treatment for all automakers in Canada. With the Canada-Korea FTA and the CETA, Canada now offers preferential treatment to vehicle imports from South Korea and Europe – but not Japan. As US automakers in Canada have had the benefit of duty-free treatment particularly from their home market for both parts and vehicles since the 1965 Auto Pact, Canada should also extend the same duty-free treatment to Japanese automakers in Canada who now represent 46% of total light vehicle production in Canada.

With the recent successful conclusion of negotiations for a renewed trilateral agreement of NAFTA (now called the USMCA), ratifying and implementing the CPTPP will send a positive signal to Japanese investors and to our members in Canada that creating and maintaining a level playing field for all automakers is a critical part of ensuring a competitive and vibrant auto industry in Canada.

The CPTPP agreement will finally and effectively create a balanced and competitive auto market in Canada, allowing Canadian consumers competitive access to a wide range of safe, environmentally friendly, advanced technology and alternative powertrain vehicles.

Contributing Facts:

- ❖ For the second year in a row, over a million Japanese brand vehicles were built in Canada in 2017, representing an estimated 46% of total light vehicle output in Canada.
- ❖ Total 2017 production in Canada **1,004,292** light & medium duty vehicles
 - **Honda** (Alliston) **430,209** light vehicles
 - **Toyota** (Cambridge/Woodstock) **571,403** light vehicles
 - **Hino** Motors (Woodstock) **2,680** medium duty trucks
- ❖ In 2017, JAMA Canada members as a group sold 719,806 light duty vehicles – overall, record sales for the fourth year in a row. Market share rose to 35.3% in 2017.
- ❖ For every Japanese-brand vehicle sold in Canada, our members built 1.4 vehicles in Canada in 2017.
- ❖ In 2017, Canada exported over 4 times as many vehicles as were imported from Japan.

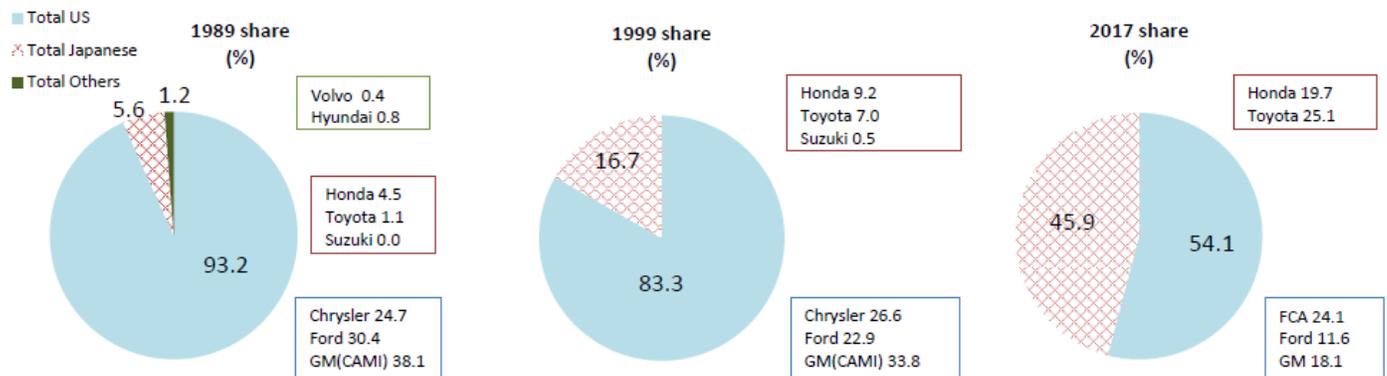
- ❖ Since 1993, Canada has exported 4.7 million more Japanese brand vehicles than were imported from Japan, US, Mexico and other countries combined.
- ❖ There are 1,238 Japanese brand dealerships in cities and towns across Canada employing about 44,500 Canadians in sales, service & repair.
- ❖ While direct and indirect employment in the Japanese auto industry in Canada stands at about 80,000 in 2017, a recent [study](#) found that the Japanese-brand auto industry supports over 200,000 jobs across Canada due to the impact of direct, intermediate and spin-off employment.

Automobile Manufacturing Plants in Canada, 1989 – 2017

Since the Canada-US FTA was implemented in 1989, the auto manufacturing industry in Canada has undergone considerable transformation. Production rose 53% from 1.94 million units in 1989 to a peak of almost 3 million light vehicles in 1999.

Light Vehicle Production in Canada: 1989 - 2017

1989		1999		2017		% change (1999/1989)	% change (2017/1999)	1989 share (%)	1999 share (%)	2017 share (%)
Chrysler	480,153	Chrysler	796,727	FCA	527,733	65.9	-33.8	24.7	26.6	24.2
Ford	590,965	Ford	685,535	Ford	254,025	16.0	-62.9	30.4	22.9	11.7
GM	740,339	GM (incl. CAMI)	1,012,742	GM	396,984	36.8	-60.8	38.1	33.8	18.2
Total US	1,811,457	Total US	2,495,004	Total US	1,178,742	37.7	-52.8	93.2	83.3	54.1
Honda	86,447	Honda	274,908	Honda	430,209	218.0	56.5	4.5	9.2	19.7
Toyota	20,859	Toyota	211,082	Toyota	571,403	911.9	170.7	1.1	7.0	26.2
Suzuki (CAMI)	660	Suzuki (CAMI)	15,079	Suzuki (CAMI)	0	2184.7	-100.0	0.0	0.5	0.0
Total Japanese	107,966	Total Japanese	501,069	Total Japanese	1,001,612	364.1	99.9	5.6	16.7	45.9
Volvo	8,004	Volvo	0	Volvo	0	-100.0	-	0.4	0.0	0.0
Hyundai	14,780	Hyundai	0	Hyundai	0	-100.0	-	0.8	0.0	0.0
Total Others	22,784	Total Others	0	Total Others	0	-100.0	-	1.2	0.0	0.0
Grand Total	1,942,207	Grand Total	2,996,073	Grand Total	2,180,354	54.3	-27.2	100.0	100.0	100.0



Source: DesRosiers Automotive Consultants/JAMA Canada/Ward's

In 1997, Toyota started production at the North Plant in Cambridge. In 1998, Honda opened Plant 2 and engine production in Alliston. On the other hand, plant closures included the Volvo plant in Nova Scotia, the Hyundai plant in Quebec and the GM Van Plant in Scarborough.

After 1999, a number of other US vehicle and parts plants closed in Quebec and Ontario, while the only greenfield auto manufacturing plant in Canada was opened by Toyota in Woodstock in 2008. In 2017, total light vehicle production in Canada was 2.18 million units, a decline of 27.2% from the peak in 1999.

With only US and Japanese automakers building vehicles in Canada after 1999, total US light vehicle output dropped 52.8% to 1.18 million in 2017 from almost 2.5 million at the peak in 1999 as a result of plant closures. During the same period, Japanese light vehicle production in Canada has increased 99.9% to 1,001,612 units in 2017.

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Addendum: **FAQ on CPTPP**

What is the CPTPP outcome for the auto sector? *(from Global Affairs Canada)*

The CPTPP parties have agreed to maintain all of the tariff outcomes contained in the TPP, which will provide Canadian vehicle and parts exporters with duty free access up to 12 years after entry into force of the agreement.

Meanwhile, Canada will eliminate its 6.1% tariff on imported passenger vehicles for all CPTPP countries over 4 years, through five annual cuts.

The CPTPP will also expand export opportunities for Canadian-made autos by ensuring that non-tariff barriers are reduced in CPTPP markets through provisions contained in chapters on technical barriers to trade, transparency and anti-corruption, and regulatory coherence.

Canada has obtained additional commitments from several individual countries in the form of enforceable side letters on issues such as rules of origin and standards/regulations that will further support Canadian automotive exports. Such commitments will also ensure that Canadian automotive producers will enjoy a level playing field with major competitors in the future.

The CPTPP also establishes new channels for parties to cooperate and address non-tariff barriers, including through institutional dialogues and through the agreement's dispute settlement mechanism.

What has changed (from the TPP to the CPTPP)?

Unlike the original TPP, the CPTPP is not a *de facto* re-negotiation of the NAFTA. As such, CPTPP automotive Rules of Origin (RoO) will not apply and are unrelated to NAFTA - in the same way that CETA RoO differ from NAFTA.

As long as NAFTA/USMCA is in effect, automakers in Canada will meet NAFTA/USMCA RoO for preferential duty-free access to the US market. In addition, with NAFTA and the CPTPP, Canadian made vehicles have a tariff advantage over imports from Japan into the US.

CPTPP will offer guaranteed preferential access to key markets in Asia including Japan, Australia, Malaysia, Vietnam & New Zealand – along with other potential CPTPP countries that may join such as Taiwan and South Korea.

CPTPP is a separate trade initiative for Canada – which differs significantly from the original TPP (when all 3 NAFTA partners were involved). As with the provisions in other trade agreements such as CETA, automotive rules of origin in CPTPP will differ from NAFTA. Like US automakers in Canada, Japanese automakers are highly integrated in North America as a result of NAFTA. At the same time, we support Canada's initiatives to diversify trade across the globe for the opportunities to expand trade and enhance competitiveness along with employment growth and related economic benefits.

The CPTPP side letter on autos between Canada and Japan offers improved access including MFN treatment (no less favourable than trade agreements with any other country), recognition of US FMVSS (motor vehicle safety standards) that are no less stringent than Japanese motor vehicle safety standards & regulations, as well as an accelerated binding dispute settlement mechanism.

Will Japanese auto parts makers in Canada relocate to other CPTPP countries as a result of eliminating tariffs on auto parts?

No – import tariffs on auto parts for production in Canada have been zero since 1996. During that period, we have seen continuous investment and growth by both Japanese automakers and Japanese auto parts makers. In a globalized industry, all parts do not come from any one country. Canada made local auto assembly more competitive by eliminating parts tariffs, while US plants continued to pay duties. That strategy helped OEMs retain or build new capacity and that in turn boosted investment in local suppliers.

With a philosophy of 'build where you sell', Japanese automakers' production systems rely on Just-in-Time (JIT) delivery. As a result, automakers prefer suppliers to be nearby in order to lower transportation and logistics costs. In general, shipping parts and components across the Pacific is not a cost-efficient supply chain.

Will Japanese OEMs have an incentive to continue to invest in Canada?

The biggest risk to continuing Japanese auto investment would come from Canada NOT signing the CPTPP. For JAMA Canada members, the CPTPP is simply a matter of fairness - equitable tariff treatment for all automakers in Canada. This will send a timely and positive message to our members and Japanese investors by restoring a level playing field on vehicle tariffs for the benefit of Canadian consumers as well as our suppliers and dealers across Canada.

The Detroit-based auto companies say the Japanese auto market is closed to imports. Is that true?

No, in fact since 1978, Japan has had zero import duties on cars. There are no barriers to the import and sale of foreign-made vehicles in Japan. While the Japanese market is highly competitive with more than 40 international brands, the growing success of European automakers in Japan demonstrates that the market is open.

While access doesn't guarantee success, a lack of success is not evidence of a closed market. For example, Suzuki Motor Company withdrew from the US and Canadian automobile markets a few years ago as a result of unprofitable operations. Suzuki offered primarily small, fuel-efficient entry-level vehicles that struggled to compete against cheaper imports from other countries in the Canadian & US markets dominated by larger cars and light trucks. The key to achieving success, whether in Japan or any other market, is to design and build vehicles that consumers in those markets want to buy.

The Detroit-based companies say that their low market share in Japan proves that the market is closed to imports. Are they wrong?

Currently, over 90% of Japanese passenger vehicle sales are very small cars, with engines under 2000cc. The Detroit-based companies only offered ten models in this market segment in 2015, while European automakers had 117 models in this segment. In short, U.S. market share in Japan is being determined by the U.S.-based companies themselves, not by Japan.

US automakers have claimed that “distribution” is an issue that Japan needs to address. What is the dealership situation in Japan?

Japanese auto companies do not and have not influenced dealers as to what makes of cars the dealers sell. The Japanese Fair Trade Law prohibits any such action, and Japanese auto companies have told their dealers that is the law.

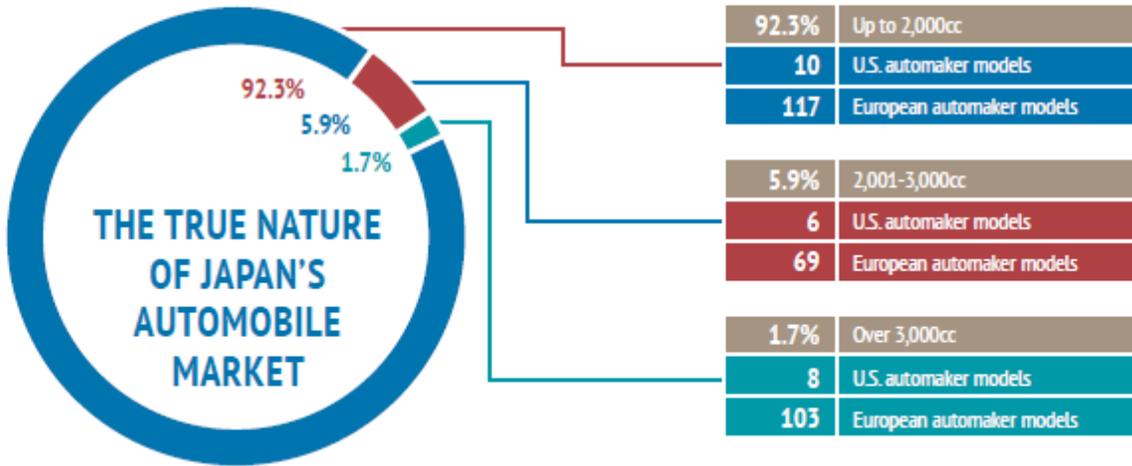
According to data supplied by JAMA (see illustration below), since 1996 the number of dealers in Japan selling European nameplate cars has gone up by 72 percent, but the number of dealers selling U.S.-made cars has gone down by 74 percent.

A few years ago, US automakers had significant investments in Japanese auto companies. Now they don't. What happened?

They withdrew. GM, for example, held 20% ownership in Suzuki and Subaru (FHI). GM also held 49% of Isuzu. Ford held 33.4% of Mazda, and DaimlerChrysler held 37% of Mitsubishi. Except for a minor residual ownership, these equity partnerships have been dissolved or significantly reduced. The fact that the Detroit-based auto companies have “disinvested” in Japan is yet another indication that they have little or no interest in selling in the Japanese market.

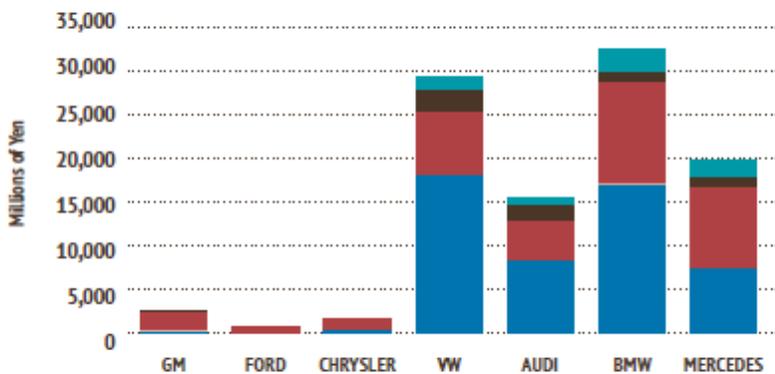
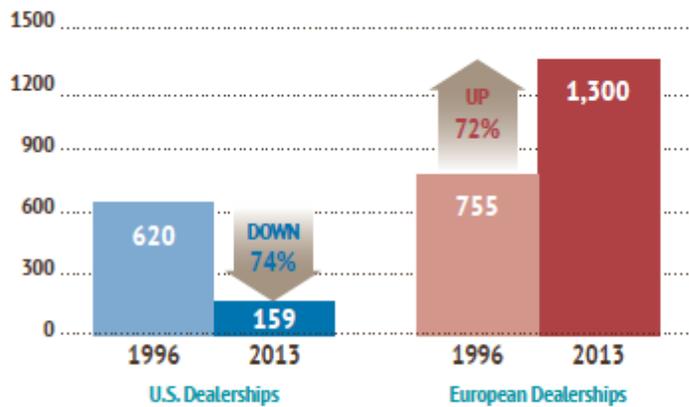
Does Japan impose stiff regulatory requirements on imported cars that limit imports?

While the Type Approval System is applied to both domestic and imported models, Japan's certification requirements for emissions and safety are in line with those of many other auto-producing nations. Furthermore, Japan has long ago agreed to a “Preferential Handling Procedure” for vehicle imports that allows those cars to be imported if they comply with simplified and expedited procedures. Recently, the threshold for the PHP has been raised to 5,000 units per model.



Breakdown of Japan's Domestic Market for Passenger Cars by Vehicle Class (cc) and Number of Imported Models (2015)

NUMBER OF U.S. AND EUROPEAN AUTO DEALERSHIPS IN JAPAN



U.S. AND EUROPEAN AUTOMAKERS' ADVERTISING INVESTMENTS IN JAPAN (2009-2013)



Source: JAMA/Video Research Ltd.