J A M A C A N A D A

AUTO QUARTERLY

JAPAN AUTOMOBILE MANUFACTURERS ASSOCIATION OF CANADA

SUMMER 2000

http://www.jama.ca

Sales/Production – Growth Begins to Moderate in 2000

Production

In the first half of 2000, total vehicle production rose by almost 10% to a total of 327,321 units for combined operations at Honda, Toyota and CAMI plants in Canada. However, this gain in output was driven primarily by Honda in Alliston, where unit production jumped almost 37% to 170,599 units for the six month period. At the same time, production at CAMI in Ingersoll slid 4.3%, while output at Toyota in Cambridge fell 12.4% compared to the same period in 1999. The strength in output at HCM is largely due to the robust demand in North America for the Odyssey minivan.

Motor Vehicle Production in Canada

	Jan-June 2000	Jan-June 1999	% Change
HONDA (HCM)	170,599	124,698	36.8
TOYOTA (TMMC)	97,605	111,459	-12.4
CAMI*	59,117	61,800	-4.3
TOTAL	327,321	297,957	9.9

* 1999 estimated

Source: JAMA Canada

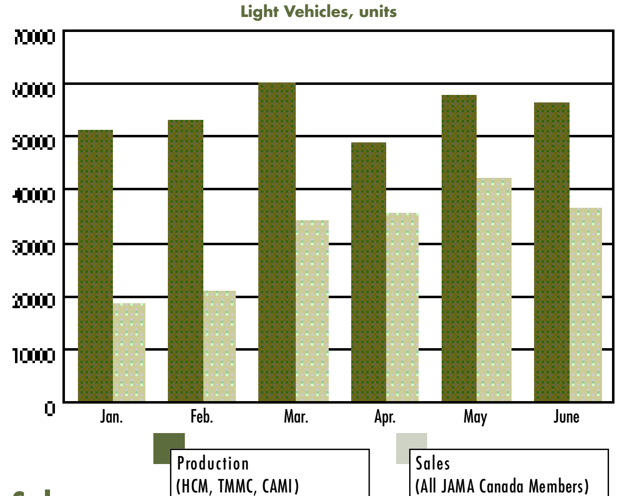
Vehicle Exports

Vehicle exports for the most part reflected the results in unit production, rising almost 12% over 1999 to 253,411 units during the first two quarters. Overall growth was driven by higher shipments from Honda's operation, up 41.8% over last year; while Toyota recorded lower exports during the period, down 17.6%. Shipments from CAMI rose 8.6% over the same period in 1999, due in part to a higher percentage of output designated for export markets.

Imports (Shipments to Canada)

Imports of finished vehicles by all JAMA Canada members combined during the first half of 2000 rose 12.5% to 141,276 units. Shipments from Japan were up 5.2% year over year to just under 89,000 units, while imports from the US and Mexico gained 27.4% to almost 52,300 units. While it takes time for factory shipments to be distributed and finally sold to the retail consumer, an increase in shipments is a clear sign that demand remains buoyant, at least in the short term.

2000 Production & Sales in Canada



Sales

Sales of light duty vehicles among all JAMA Canada members continue to improve, gaining 9.5% to 187,725 units in the first half of 2000. Both passenger cars and light trucks were up, 9.9% and 8.5% respectively.

Among individual members, Honda is the current sales volume leader, while Nissan posted the highest growth, up 34.6%. Mazda and Subaru both had sales gains in excess of 20% over the previous year. Market share for JAMA Canada members edged up to 23.4% in the first half of 2000, from 22.7% in the same period in 1999.

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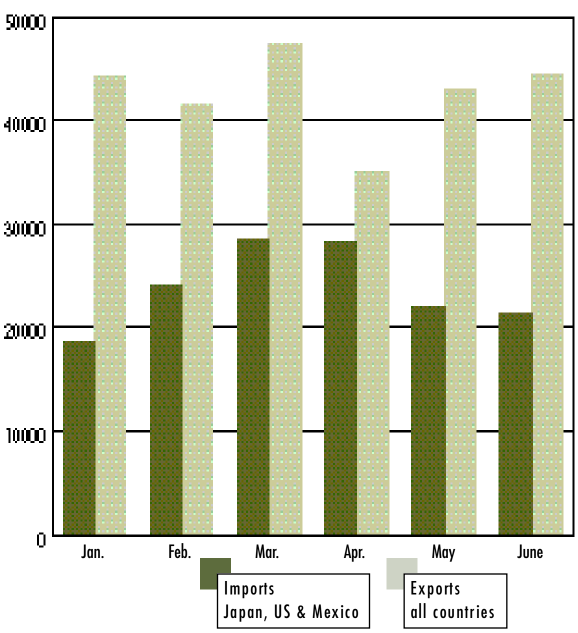
Light Vehicle Sales in Canada, by Company

Company		Jan-June 2000 CARS	Jan-June 2000 TRUCKS	Jan-June 2000 TOTAL	Jan-June 1999 CARS	Jan-June 1999 TRUCKS	Jan-June 1999 TOTAL	% Change CARS	% Change TRUCKS	% Change TOTAL
HONDA		53,339	13,181	66,520	49,622	12,404	62,026	7.5	6.3	7.2
	N.A. Built	47,956	6,919	54,875	43,022	5,677	48,699	11.5	21.9	12.7
	Japan Built	5,383	6,262	11,645	6,600	6,727	13,327	-18.4	-6.9	-12.6
TOYOTA		48,342	12,861	61,203	45,399	15,638	61,037	6.5	-17.8	0.3
	N.A. Built	23,945	7,606	31,551	22,642	8,360	31,002	5.8	-9.0	1.8
	Japan Built	24,397	5,255	29,652	22,757	7,278	30,035	7.2	-27.8	-1.3
MAZDA		18,318	7,120	25,438	16,987	3,355	20,342	7.8	112.2	25.1
	N.A. Built	1,568	2,712	4,280	2,680	2,823	5,503	-41.5	-3.9	-22.2
	Japan Built	16,750	4,408	21,158	14,307	532	14,839	17.1	728.6	42.6
NISSAN		13,527	8,779	22,306	9,715	6,851	16,566	39.2	28.1	34.6
	N.A. Built	8,404	3,257	11,661	6,187	1,365	7,552	35.8	138.6	54.4
	Japan Built	5,123	5,522	10,645	3,528	5,486	9,014	45.2	0.7	18.1
SUZUKI		2,713	2,634	5,347	2,855	2,920	5,775	-5.0	-9.8	-7.4
	N.A. Built	697	941	1,638	865	966	1,831	-19.4	-2.6	-10.5
	Japan Built	2,016	1,693	3,709	1,990	1,954	3,944	1.3	-13.4	-6.0
SUBARU		4,646	2,265	6,911	3,639	2,012	5,651	27.7	12.6	22.3
	N.A. Built	3,501	0	3,501	2,283	0	2,283	53.4	0.0	53.4
	Japan Built	1,145	2,265	3,410	1,356	2,012	3,368	-15.6	12.6	1.2
TOTAL		140,885	46,840	187,725	128,217	43,180	171,397	9.9	8.5	9.5
	N.A. Built	86,071	21,435	107,506	77,679	19,191	96,870	10.8	11.7	11.0
	Japan Built	54,814	25,405	80,219	50,538	23,989	74,527	8.5	5.9	7.6

Source: AIAMC

2000 Canada Imports & Exports

Japanese brand vehicles, in units



Motor Vehicle Exports from Canada

	Jan-June 2000	Jan-June 1999	% Change
HONDA (HCM)	129,326	91,197	41.8
TOYOTA (TMMC)	73,057	88,672	-17.6
CAMI*	51,028	47,000	8.6
TOTAL	253,411	226,869	11.7

* 1999 estimated

Source: JAMA Canada

Vehicle Imports (Shipments) to Canada

	Jan-June 2000	Jan-June1999	% Change
JAPAN	88,977	84,570	5.2
U.S./MEXICO	52,299	41,047	27.4
TOTAL	141,276	125,617	12.5

Source: JAMA, JAMA Canada

23rd CJBC Conference Considers Prospects of Free Trade

The focus of the 23rd annual Canada-Japan Business Conference, held in Tokyo on May 14-16, centred on ways to revitalize the bilateral relationship, including a new liberalized trade initiative toward an FTA.

Discussion papers were presented by Keidanren and the Business Council on National Issues (BCNI) that explored the prospects as well as some concerns about a new bilateral trade discussion aimed at an eventual FTA between Japan and Canada. An independent paper prepared for Toyota Canada by T. Iwasaki was also distributed to the CJBC delegates. This paper explored the historical precedents for Canada - Japan trade initiatives, and strongly supported the case for further analysis of bilateral trade liberalization between the two countries, consistent with the multilateral trade system in the WTO.

At the CJBC plenary session, there were concerns expressed on both sides about sensitive issues in an FTA initiative; but at the end of the day the joint statement issued by the Co-Chairmen of the CJBC endorsed further study on various options on a free trade deal, with a view to reporting on progress at the 24th CJBC that will be held in Calgary in mid-May, 2001. While this initiative is being spearheaded by the respective business communities in Canada and Japan, government officials have been very cautious at this stage, but no doubt will closely follow the progress at the CJBC.

There seems to be five major reasons for the current interest in a Canada-Japan FTA:

1. Seizing the opportunity to strengthen the Canada-Japan relationship which has been stagnating recently; recognizing the relative complementarity of our two economies;
2. While Japan is the only major developed economy that is not involved in a free trade agreement, it is now exploring bilateral and regional trade in support of the multilateral system in the WTO;
3. Canada-Japan FTA would not only be mutually beneficial, but would also provide a template for future trade initiatives with the US and be a precursor to open broader trade talks in the Pacific region;
4. The failure of the WTO to launch the “Millennium” Round in Seattle last year;
5. The growing business opportunities for both Canada and Japan in the IT sector of the new economy.

While Canada has been active for the past 15 years negotiating various free trade agreements with US, Mexico, Israel, Chile, EFTA and more recently Costa Rica and Singapore, Japan has recently begun to consider regional or bilateral trade initiatives to supplement the multilateral trade regime under the WTO. Japan has entered into formal discussions with Singapore and is likely to consider further trade initiatives with Mexico and South Korea in the near future.

Automotive Committee at CJBC

On the second day of the CJBC, the Automotive Sector Meeting was hosted by Honda at the Motegi Twin Motor Ring facility outside of Tokyo.

Two panel discussions were held during the morning session. The first explored “Automotive Trends in Southeast Asia” with presentations by Mr. Koji Hasegawa, Managing Director, Toyota Motor Corporation; Mr. Shigehiro Nishimura, General Manager, International Planning Group, Denso International; and Mr. Martin Mazza, Vice President, Diversified Sales and Global Marketing, The Woodbridge Group. The focus of the panel explored the business opportunities for Canadian auto parts suppliers with Japanese automotive companies in four ASEAN countries (Thailand, Malaysia, Philippines and Indonesia) as the economies in the region begin to recover from the Asian currency crisis begun in 1997.

The second panel looked at “M & A Trends in Asia’s Auto Industry”. Panelists included Mr. Edward Phillips, Director, Motor & Equipment Manufacturer Association (MEMA) Japan; Mr. Daniel Baum, Director, Sales and Engineering, Magna International; and Mr. T. Onda, Purchasing Director of Honda Motor Company. The focus of this session was on rapidly changing corporation affiliations and strategic alliances in Japan and the Asian region, including ongoing consolidation and globalization in the motor vehicle and Tier One auto parts industries.

The meeting was co-chaired by Mr. Takeo Fukui, President of Honda R&D Co. Ltd. and Mr. Ken Nichols, Chairman & Chief Executive Officer, Ventra Group Inc.

New Chairman at JAMA

Hiroshi Okuda was elected Chairman of JAMA for a 2 year term.

JAMA – The Japan Automobile Manufacturers Association at their annual Board Meeting held in Tokyo, Japan on May 18, 2000 elected Toyota Motor Corp. Chairman Hiroshi Okuda to be the new JAMA Chairman succeeding Yoshifumi Tsuji, Counselor, Nissan Motor Co., Ltd.

Mr. Okuda, who will serve a two-year term, pointed out in Tokyo following his election that the automobile industry is now global and, in a sense, the world is now a single market. "International exchanges of people and overseas communications have become increasingly more important for our association."

Mr. Okuda believes that JAMA should "take a leadership role in promoting harmonization and world vehicle standards by contributing our know-how to the world." "The Japanese automobile industry will continue to work with the world motor vehicle industry to further these goals."

Mr. Okuda served as Toyota's president from 1995 to 1999 whereupon he assumed the auto company's chairmanship. Mr. Okuda spent most of his 45-year career with Toyota's international operations including overseeing preparation for construction of manufacturing plants in North America.

Two years ago, Mr. Okuda was selected as a member of the Prime Minister's Economic Strategy Council of Japan. In 1999, he became chairman of the Japan Federation of Employers' Associations (Nikkeiren). For the past two years, Mr. Okuda has also served as Co-Chairman of the Canada-Japan Business Committee (CJBC).

Mr. Okuda graduated from Tokyo's Hitostubashi University in 1955 where he earned a degree in business. His favorite pastimes include books and movies. He also holds a black belt in judo.

CAMI Automotive Names New President

Simon Boag was appointed President of CAMI on July 1, 2000

General Motors employee Simon Boag, 34, a former CAMI team member, has been appointed president of CAMI Automotive Inc. Effective July 1, he replaces Shigeo Narita who is returning to Suzuki Motor Corporation.

The appointment was announced on May 24 by senior members of the CAMI Board of Directors, Maureen Kempston Darkes, President and General Manager of GM of Canada and Sokichi Nakano, Executive Managing Director of Suzuki Motor Corp. of Japan.

"We're delighted to welcome Simon back to CAMI Automotive," said Rick Jess, CAMI's Vice President of Personnel. "On behalf of the 2,400 CAMI team members, I want to thank Narita-san for his enormous contribution to CAMI as a 'founding father' and president, and wish him best of luck with his new role at Suzuki Motor Corporation."

Born in Brockville, Ontario, Boag began his career at CAMI in 1988, beginning in paint production engineering and eventually becoming Assistant Manager of the paint shop.

He joined Ford Canada in 1991, and then moved to GM in 1994 in the Cadillac/Luxury Car Division, Flint, Michigan as Area Manager, Paint. In 1996 he was appointed Area Manager, General Assembly at Buick City in Flint and in 1997 he was promoted to Assistant Plant Manager at Buick City. In 1999, GM selected Boag for a Sloan Fellowship at Stanford where in June 2000 he will be awarded a Master of Science in Management Degree.

Boag graduated in 1988 with a bachelor's degree in Mechanical Engineering from the University of Toronto.

CAMI Automotive Inc., a joint venture between GM of Canada and Suzuki Motors of Japan, located in Ingersoll, Ontario, opened in 1989 in a $500 million, 1.7 million square foot building on 570 acres of land. Two types of vehicles are built there on two separate lines operating simultaneously - the Chevrolet Tracker and the Suzuki Vitara sport utility vehicles and the Chevrolet Metro, Pontiac Firefly and Suzuki Swift economy cars.

WTO Report upholds earlier finding: Auto Pact contravenes trade rules

There was no surprise when the WTO Appellate Report, which was publicly released at the end of May, upheld the key findings of the earlier Final Panel Report, in which major parts of the Auto Pact in Canada were deemed to be inconsistent with WTO rules. On June 19, the Dispute Settlement Body of the WTO formally adopted both reports. Under WTO Dispute Settlement procedures, Canada has 30 days to respond to the WTO with measures to comply with the ruling.

One aspect of the case, pertaining to the SCM Agreement (Subsidies and Countervail Measurements), requires Canada to 'withdraw the export subsidy within 90 days'. Canada was found to be acting inconsistently with Article 3.1(a) of the SCM Agreement by granting a subsidy which is contingent in law upon export performance, as a result of the application of the 'production-to-sales' ratio requirements as one of the conditions determining eligibility for the import duty exemption on motor vehicles under the Auto Pact and similar Special Remission Orders.

The WTO panel found that the production-to-sales ratio (a condition to produce one vehicle in Canada for every vehicle sold in the same class in the Canadian market), required an automaker to export (usually to the US) in order to meet the ratio, and thereby obtain the duty-free benefit. The factual evidence of the Canadian auto industry tends to support this finding. For example, Canadian vehicle production in units is currently twice as large as total domestic sales. It is not just that the Canadian market is too small for the amount of production; but also that automotive trade policy, as it was set up in the Auto Pact in 1965, was designed to create an integrated market in North America, with duty free access for vehicles and original equipment parts between the US and Canada. In 1999, more than 3 million vehicles were built in Canada, while new vehicle sales totaled 1.5 million units. Furthermore, over 80% of total Canadian production is exported, while over 70% of domestic sales are vehicles built outside of Canada.

Where the WTO finds subsidies deemed to be of an egregious nature, such as an export subsidy, the ruling usually requires that the subsidy be withdrawn 'without delay'. In this case, the Panel ruled that a 90 day period would be sufficient as the Canadian Government can effect the change through regulation (i.e. an Order in Council) rather than legislation. The likely response to this 90-day ruling would be to 'strip out' the production-to-sales ratio in the Auto Pact and Special Remission Orders through an Order in Council, thereby removing the contingency which creates the export subsidy. In effect, the duty-free subsidy would still exist after the 90 day period, but it would no longer be an 'export subsidy' because the condition that created the export subsidy would have been eliminated. In this case, other parts of the Auto Pact and SROs, such as duty-free treatment of imported vehicles, would likely continue until all other parts of the Panel's ruling will have been addressed.

The Panel also found that the Auto Pact was inconsistent with other WTO articles. Canada was found to act inconsistently with GATT Article I:1 (the MFN obligation for non-discriminatory treatment of like products of all member countries), and Article III:4 of the GATT (concerning national treatment obligations arising from the CVA (Canadian value-added) requirement in the Auto Pact that favoured domestic suppliers over products of suppliers from other GATT members). The Panel also concluded that there were violations of Articles II and XVII of the GATS (General Agreement on Trade in Services). Similarly, these refer to MFN and national treatment obligations in respect of services and service suppliers.

As a result of this WTO report, it is widely acknowledged in both government and industry that the Auto Pact will eventually be terminated. The timing for these changes, other than the 90 day export subsidy issue, are subject to WTO procedure, perhaps as much as 12-15 months from the date of adoption of the report by the Dispute Settlement Body. The timing is also subject to negotiations between the parties: Canada, Japan and the EU.

While eliminating the Auto Pact in the absence of other measures will subsequently subject all finished vehicle imports that do not qualify for NAFTA to the current 6.1% MFN tariff, JAMA Canada would urge the Canadian Government to go one step further and remove the tariff altogether. Others share this view. According to a recent article in the Ottawa Citizen, Simon Reisman, the illustrious Canadian trade official who negotiated both the Auto Pact in 1965 and the Canada-US FTA in 1989, said that while bowing to politics, he supports the complete elimination of tariffs on imported vehicles, as the Auto Pact had done what it was intended to do.

With the formal adoption by the WTO Dispute Settlement Body of the panel and appellate reports on June 19, the Canadian Government should now move forward expeditiously to comply with the WTO ruling. At the same time, JAMA Canada continues to support tariff elimination for finished vehicle imports, as well as trade policies and regulations that are open, transparent, and non-discriminatory. For further information, please visit our website at 'www.jama.ca.'

Will U.S. Auto Parts Suppliers Achieve Success in Japan's Auto Parts Market?

By William C. Duncan, Ph.D. General Director, JAMA U.S.A.

U.S. auto parts suppliers seeking success in Japan's auto parts market must look ahead to the new global supply relationships developing in the 21st century. No longer should manufacturer/supplier relationships be measured in terms of corporate nationalities and reciprocal trade flows. Consideration must be given to the dynamics of new competition, technological exchange between companies and the increasing flow of direct investment between nations or risk regressing into the counterproductive rhetoric and "results oriented " formulas of the mid-1990s.

Look at the intensifying competition in Japan's auto parts aftermarket through the eyes of this issue of Japan Auto Trends (find it at www.japanauto.com). This competition arises from a number of factors, including deregulation of Japan's safety inspection standards, development of new sales channels and entrance of new participants including the Japanese vehicle manufacturers seeking to import parts as well as to sell their own brands directly into the aftermarket.

Much of this was supported and encouraged by the U.S. Government. Regardless of intent, however, it appears that profit margins are narrowing and retailers must respond by seeking low-cost products and innovative ways to attract customers, including building movie theaters near auto parts stores. While low-priced imports, particularly in the accessory categories, may benefit to an extent from this trend, it appears that narrower margins actually favor lowcost domestic producers. Foreign parts and accessories are about 5 percent of the total sales in Japan and retail executives don't expect that situation to change.

The fact that there is some pessimism among Japanese retailers regarding profit margins and import sales in Japan's aftermarket does not mean that foreign companies will be shut out. Actually, the face of Japan's auto parts supply is beginning to change with increasing evidence that foreign companies are playing a role through direct investment, marketing joint ventures and technological exchange with Japanese auto parts companies. Some examples follow:

Early last year, Goodyear Tire bought 10 percent of Sumitomo Rubber and agreed to form joint ventures with Sumitomo in North America, Europe and Japan. The joint venture in Japan aims to boost Goodyear brand tires in Japan to 10 percent of the market. About the same time, German automaker Robert Bosch acquired a majority share in Zexel, a Japanese maker of diesel fuel injection pumps. In July of last year, Delphi Automotive, formerly GM's auto parts division, purchased 5.9 percent share of Akebono brake. Earlier this year, French auto parts company Valeo worked out a cross-ownership of Japan's leading automotive suppliers. Valeo also has recently formed a joint venture with Unisia Jecs to build transmissions in Japan.

These multinational auto parts companies seek to sell parts as original equipment to the Japanese vehicle manufacturers as well as to the replacement aftermarket. Selling original equipment in turn naturally provides an advantage in the replacement parts business. But here again the market generally favors the investor in Japan. The vehicle manufacturer in Japan is more likely to rely on local suppliers, be they foreign or domestically owned, since the local supplier is better able to meet the requirement modern management technology, e.g. inventory control, rapid delivery and interface with the manufacturer during design and production.

The Future

Over the next several years, foreign direct investment in Japan's auto parts industry will increase through a combination of capital participation in existing companies, marketing joint ventures and technological tie-ups. At the same time, both tougher competition in Japan and supply logistics will likely favor locally built auto parts over imports. Those auto parts manufacturers, be they from Europe, North America, Japan or elsewhere, that take advantage of these new dynamics will be the most likely to profit from the opportunities provided by Japan's auto parts market. Success will be achieved and measured globally in the 21st century.

This was originally published in the June 2000 edition of 'Japan Auto Trends' and was reprinted here with permission of JAMA. Other articles, statistics, etc. contained in 'Japan Auto Trends'are available on the internet at 'www.japanauto.com'.

Motor Vehicle Industry in Japan

Passenger Cars, Trucks, Buses		TOTAL
PRODUCTION[1]	Jan-Mar '00	2,700,254
	Jan-Mar '99	2,663,397
	% change	1.4
EXPORTS[2]	Jan-Mar '00	1,097,316
	Jan-Mar '99	1,161,541
	% change	-5.5
SALES/ REGISTRATIONS[3]	Jan-Mar '00	1,734,756
	Jan-Mar '99	1,713,983
	% change	1.2
IMPORT VEHICLE SALES*[4]	Jan-Mar '00	71,595
	Jan-Mar '99	75,112
	% change	-4.7

* (including models built by Japanese automakers overseas)

source: 1,2 – JAMA; 3 –JADA, JMVA; 4 –JAIA

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

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Printed in Canada