

February 15, 2007

JAMA Canada Statement on Automotive Trade Policy: Competition & cooperation

The CAW wants to resurrect the sectoral, managed trade policies of the old Auto Pact, involving Canada and several Asian countries, including Japan. To be sure, these are not free trade agreements being proposed. Among other things, sector-based managed trade would contravene Canada's obligations under international trade rules.

Originally, Canada negotiated the Auto Pact with the US to assure that a 'fair share' of the automotive industry in North America would be in Canada. Since then, the auto industry in Canada has changed dramatically. NAFTA has replaced the Auto Pact. And over the past 20 years, Japanese automakers have invested over \$6 billion in vehicle and components manufacturing observing the principle of "building vehicles where you sell them".

Last year, Honda, Toyota and Suzuki (CAMI – a 50/50 joint venture between Suzuki and General Motors) produced 717,000 vehicles in Canada and exported 526,000 of them, mainly to the US.

Moreover, these Canadian plants exported two and half times more vehicles as imported from Japan in 2006. Since 1993, Japanese automakers in Canada have been net exporters of finished vehicles, with an accumulated net export of over 2 million vehicles.

Due to rising demand, capacity and employment in Canada is expanding. In 2008, Toyota will open a new plant in Woodstock, and Honda will begin production of fuel-efficient 4 cylinder engines in Alliston. Hino Motors started building medium duty trucks in Woodstock for the Canadian market earlier last year. And there are currently 55 Japanese affiliated auto parts related plants in Canada, with several more under development. Expansions will increase manufacturing employment in Canada by approximately 3,000 beyond the current 11,600 jobs in vehicle plants and the 15,500 jobs at Japanese affiliated auto parts plants.

Over the past 40 years, Japanese automakers have set up Canada-wide vehicle distribution systems with full dealer organizations, a basic and critical element to selling and servicing motor vehicles in any country. Retail sales and service contributes significantly to employment. Currently, over 32,000 direct jobs have been created by 1,100 Japanese brand dealers across Canada.

Building more capacity and creating more employment in Canada in response to North American demand means less reliance on imports from Japan. Currently, three out of every five vehicles sold in Canada by our members are built in North America. We are, in fact, building where we sell. The continuing growth in investments for both vehicle assembly and parts manufacturing in Canada are strong votes of confidence in the industry's long term vitality.

So why is the CAW calling for a moribund and outdated policy to do what is already being done?

Confusing access with success in the market, the CAW is claiming foreign automakers are shut out of the market in Japan. However, an apples-to-apples comparison will demonstrate that the Japanese market is indeed open.

In 2006, light vehicle sales in Japan totaled 5.6 million, of which 2 million were mini-vehicles (small vehicles with engines under 660 cc), a low-margin, highly competitive segment in which no foreign automakers participate. Of the 3.6 million other light vehicles, European automakers recorded sales of 227,460 units for a market share of 6.3%. By comparison, European automakers' 2006 light vehicle share in Canada was also 6.3%. And Canada, as Mr. Stanford would no doubt agree, is an open market, even though import tariffs in Japan are zero, while Canada levies a 6.1% duty on import vehicles from outside of NAFTA.

In Japan, European and American imports tend to compete in the large, luxury and high performance segments, where sales are relatively successful. Given the dominance of smaller vehicles in Japan, large, left-hand drive US vehicles may be popular among some consumers in Japan, but sales are likely to be small, not because of closed markets or unfair trade policies, but because they are seen as the exotic vehicles that they are. And let's not forget that gasoline prices in Japan are twice as high as in the US.

Surely the key to achieving greater success, whether in Japan, Canada or any other market, is to design and build vehicles that consumers in those particular markets actually need and want to buy.

Along with many others, we are concerned about the financial problems facing the US automakers in North America. At the same time, we don't for a minute underestimate the ability of the Detroit Three to turn things around. But from a policy perspective, we believe Canada needs a forward looking, strategic auto policy based on global competition and cooperation rather than the protectionist notions of managed trade.