

CONSULTATIONS ON POSSIBLE NEGOTIATIONS FOR A COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT WITH JAPAN

JAMA Canada supports the Joint Study towards an EPA with Japan

With motor vehicles and auto parts representing 25.9% of total bilateral trade between Canada and Japan last year, JAMA Canada enthusiastically supports efforts to further liberalize our trade and investment relationship including consideration of a comprehensive free trade agreement.

Canada and Japan have over 80 years of diplomatic relations and an even longer trade relationship that began over a century ago. A number of bilateral initiatives have been established to facilitate trade and investment as well as deepen our relationship, such as the Canada Japan Framework for Economic Cooperation in 1976, the Canada Japan Business Committee, which re-structured after 25 years in 2002, and the Canada Japan Forum. In spite of these efforts, total bilateral trade remains fairly stable in overall value terms, but is gradually declining relative to overall global trade.

Of the \$22.6 billion in total bilateral trade in goods last year, automotive vehicles & parts represented about a quarter of the total. Over the past twenty-five years, Japanese investment in Canada has been led by motor vehicle and related parts manufacturers. What's more, investment continues to expand in Canada to supply markets primarily in North America. At the same time, there is growing Japanese interest in innovative Canadian leading-edge technologies such as bio-plastics and other light-weight materials as well as industrial processes such as hydro-forming. It should also be noted that both geography and cold weather have attracted Japanese automakers to set up cold weather research such as Toyota's operation in Timmins Ontario.

Although rapid economic growth in China, India and other Asian countries continues to attract global business interest, Japan not only remains the third largest economy after the US and China, but is in a favourable position for Canada and for Canadian companies as a base for broader strategic initiatives in Asia. Overall, there is a need for both governments and the private sector to engage in a broader dialogue in order to deepen and strengthen our economic and trade partnership.

The importance of liberalized trade for the Canadian auto industry:

With a relatively small domestic market, Canadian policy makers have recognized the dependence on, as well as the benefits of, liberalized trade and foreign investment needed to support a globally competitive industry. The auto sector is highly integrated in North America as a result of various trade agreements including the 1965 US/Canada Auto Pact, the Canada / US Free Trade Agreement in 1989 and the NAFTA in 1994. With the benefit of open and duty free access to the large US market, the auto sector in Canada has been able to sustain a much larger production base than the domestic Canadian market requires by itself. Moreover, all vehicle manufacturers in Canada are foreign owned.

As a result, Canada has had structural automotive trade surpluses for most of the past two decades due to the fact that the vast majority of automotive production is exported. However, in the past few years, the surplus in auto-related trade has fallen into deficit as a result of a number of factors including currency appreciation, the early onset of an economic recession in the US, the global financial crisis in 2008 and the bankruptcy crises of General Motors and Chrysler in 2009. In 2010, Canada's overall auto trade deficit stood at approximately \$8.6 billion, with a \$4.9 billion surplus in finished vehicle exports and a \$13.5 billion deficit in automotive parts. Last year, the automotive surplus with the US was \$7.3 billion (comprised primarily of \$17.4 billion surplus in finished vehicles, and \$9.9 billion deficit in auto parts).

Bilaterally, Canada has also auto trade deficits with major non-US trading partners including Japan, Korea and a number of European countries as most of the vehicles sold in Canada are imported – from the US, Mexico, Europe and Asia.

But as a result of over \$9 billion Japanese automakers' cumulative investment in Canadian manufacturing plants, Canada has been a net exporter of Japanese brand vehicles every year since 1993. In 2010, over 590,000 vehicles were exported from Honda and Toyota plants in Canada, almost three times the 196,000 vehicles that were imported from Japan by all JAMA Canada members. Moreover, two of every three Japanese brand vehicles sold in Canada are now built in North America.

The steady growth of the Japanese auto industry in Canada over the past 25 years and the now expanding Canadian automotive presence in Japan has begun to add depth to the range of mutual benefits. Two decades of industrial cooperation and investment in Canada has opened up business opportunities, technology transfer and Canadian parts investment in Japan including local sales and engineering offices of large Canadian auto parts suppliers including Linamar, Magna International, ABC Group and the Woodbridge Group.

More intense competition ultimately improves products and broadens choice, which benefits consumers. Closer cooperation offers new business opportunities, technology sharing, lower costs and efficiency gains to name a few. There is no doubt that today the Canadian auto industry is stronger, more globally competitive and better able to meet the ever-increasing demands of the consumer as a result of liberalized trade in NAFTA and GATT / WTO.

In spite of our success to date, global competition is intensifying, requiring automakers to constantly find ways to reduce cost, including the cost of regulation and the associated administrative burden. At the same time, the rising cost of developing new technology and the growing reliance on global and local supply chains are creating opportunities for cooperation and strategic alliances.

Our intention in supporting an economic partnership agreement is not only to address current impediments to trade and investment and thereby deepen our bilateral commercial relationship, but also to create an impetus for collaborative opportunities between Canadian and Japanese business in other markets in Asia and around the world.

Key issues in a bilateral EPA negotiation:

Our intention in supporting an EPA is not only to address current impediments to trade and investment and thereby deepen our bilateral commercial relationship, but also to create an impetus for collaborative opportunities between Canadian and Japanese business in other markets in Asia and around the world. The following are key issues for improving our bilateral trade and economic partnership:

Motor Vehicle Tariffs: While Japan has had zero tariffs on imported vehicles and parts since 1978, Canada maintains a significant MFN tariff of 6.1% on finished motor vehicles. Canada eliminated the tariff on automotive parts for use in production in Canada in 1997.

At the same time as local sourcing in North America expands with growing capacity in Canada and the US, JAMA Canada members continue to rely on vehicle imports from Japan to meet the needs of Canadian consumers with products not currently built in NAFTA, such as niche or low volume vehicles often made only in Japan. Currently a majority of vehicles are built in North America; however, about 34% of current sales are made in Japan and subject to the Canadian 6.1% tariff. In 2010, almost 183,000 vehicles sold in Canada were imported from Japan.

While we would prefer that tariffs be eliminated multilaterally, the uncertainty surrounding the current Doha Round of WTO negotiations raises the profile and prospect for alternative measures such as bilateral trade initiatives. At the same time, Canada's current FTA negotiations with South Korea and the European Union have generated serious concerns among JAMA Canada members about competitive disadvantages they would face if only imports from Korea and Europe would be duty free. This is particularly of concern to those who are building and/or importing compact and sub-compact vehicles for the Canadian market where a 6.1% landed cost advantage would be a significant advantage in a price-sensitive segment of the market. A prospective EPA with Japan could effectively address those particular concerns by offering equivalent tariff treatment for all automakers in the Canadian market.

Mutual Recognition / Harmonization of Standards & Regulations: Automakers increasingly depend on global and local supply chains to maintain competitiveness. Mutual recognition agreements can be helpful in transitioning to harmonized standards and technical regulations.

Working Visas: Current standards for issuing and renewing business visas are not as clear, open and transparent as they could be, creating an often burdensome process for international intra-corporate transfers, particularly for training and international business experience.

In the context of our broader trade, economic, social and cultural relationship with Japan, we recommend giving serious consideration to the benefits that would accrue to both countries. We look forward to the results of the Joint Study and the early start of negotiations towards a comprehensive economic partnership agreement.

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