

JAMA Canada Statement on the proposed Canada-Korea FTA

JAMA Canada supports the rules-based expansion of international trade and firmly believes that Canada has and will continue to benefit from trade liberalization. However, bilateral preferential trade agreements that create competitive disadvantages in the Canadian market ultimately require additional measures to avoid market distortion and ensure a competitive arena for the ultimate benefit of consumers.

In the event of a Canada – Korea FTA, motor vehicles made in Korea, two thirds of which are in the highly price-sensitive small vehicle segment (subcompact and compact) of the Canadian market, would likely be handed a 6.1% landed cost reduction. This would create a significant competitive disadvantage for other small vehicle imports from Japan that compete in the same market segments. Secondly, three JAMA Canada members are currently manufacturing small vehicles in Canada (passenger cars and compact sport utility vehicles), and this disadvantage would impact these plants and their team members directly.

Both DFAIT (U of T) and Industry Canada studies on the FTA with Korea conclude, wrongly in our opinion, that the impact on the Canadian auto sector would be marginal. Our concern is that the impact will be targeted at our members, particularly all those who import competing products from Japan, as well as those with manufacturing plants in Canada.

The studies identify that the biggest impact will be on ‘other imports’. Preferential tariffs for Korean imports will obviously disadvantage vehicle imports from Japan by all of our members that compete directly with Korean models in these price-sensitive segments. At the same time, we note with considerable interest the U of T analysis that shows the impact of unilateral tariff elimination would be small.

Moreover, the studies ignore the dramatic experience in Canada in the mid-1980s when Hyundai first began exporting with the benefit of a zero General Preferential Tariff (GPT) granted by Canada, while imports from Japan were restrained and subject to Canada’s MFN tariff at that time of 9.2%.

Hyundai sales in Canada:	1984	25,000 (<i>Pony</i>)
	1985	79,000 (<i>Pony & Stellar</i>)
	1986	70,000 (<i>Pony & Stellar</i>)

While Canada withdrew the GPT for Korea in 1987, the following year Hyundai sales (three models) dropped to 27,900 units. Twenty years later, in 2007 Hyundai’s light vehicle sales in Canada totaled 75,000 units.

To put this unprecedented market penetration in perspective, the Honda Civic has been the best selling passenger car in Canada for the past 11 years, and Civic sales in 2008 totaled 72,463 units, a YOY gain of 2.3% – the vast majority of which were built in Canada. At the same time, sales of the Hyundai Accent jumped 81.5% in 2008 to almost 30,000 units.

The studies look at the impact on domestic production as a whole, but overlook the potential impact of preferential tariffs on domestic production that competes directly with Korean imports – specifically the Honda Civic, Acura CSX, Toyota Corolla, Toyota Matrix, Suzuki XL7, and now the Toyota RAV4. While the studies consider the impact of tariff cuts on new investment, they do not address the impact on continuing investment in existing Canadian operations.

Notwithstanding the benefits that may accrue to Canada from a bilateral trade agreement with Korea, and considering that the majority of Canadian built vehicles are exported, we suggest that the alternative to preferential tariff treatment with a single trading partner would be to reduce or eliminate MFN tariffs on all vehicle imports. While applied tariffs could be unilaterally reduced, Canada could still negotiate bound rates multilaterally.

In the absence of a bilateral FTA with Japan, as well as stalled discussions at the Doha Round, applying zero MFN rates would maintain tariff equality and fairness in the Canadian market, allow consumers to benefit from lower costs, and promote demand for new energy efficient vehicles, thereby stimulating sales as well as helping to attract and maintain manufacturing investment in Canada. Moreover, the impact of unilateral vehicle tariff elimination would be confined to reducing government tariff revenues according to the U of T study commissioned by DFAIT.

As a growing part of the Canadian auto industry, we continue to advocate open, transparent and non-discriminatory automotive trade policies that will sustain a vibrant, globally competitive industry in Canada, and which will continue to attract investment, jobs and consumer benefits for Canadians into the 21st century.

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