FAQ: Canada – Japan Economic Partnership Agreement

Canada and Japan have just begun negotiations on a comprehensive economic partnership agreement (or EPA), that is designed to eliminate tariffs, trade barriers and create new trade opportunities. The Japan Automobile Manufacturers Association of Canada (JAMA Canada) has prepared the following Q&A regarding the bilateral EPA and how it affects the Japanese auto industry in both Canada and Japan.

1. Why does the Japanese auto industry want Japan and Canada to negotiate an EPA?

The Japanese auto companies are global—they manufacture or sell almost everywhere, including Canada—so free and open trade is vital to their success. The EPA has the potential to reduce trade barriers, make cross-border manufacturing more efficient, lower costs, and benefit consumers. For our companies, this kind of trade liberalization is definitely a "win-win."

2. The Detroit-based auto companies say Japan should not be allowed to participate in Canada-Japan EPA negotiations because the Japanese auto market is closed to imports. Is that true?

No. Japan has zero import duties on cars. There are no barriers to the import and sale of foreign-made vehicles in Japan. The Japanese market is highly competitive, but European auto companies that have committed time and resources to selling there have been successful. JAMA and JAMA Canada have offered to be of assistance to the Detroit-based auto companies in connection with difficulties they may have in the Japanese market. So far they have been unresponsive.

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

Yes. It is important to understand that about 90% of Japanese passenger car sales are very small cars, with engines under 2000cc. The Detroit-based companies only offer five models in this market segment. While up from only two last year, this is not enough to compete effectively. By comparison, European automakers offer 87 models in this segment. About one-third of all Japanese sales are "mini-cars," and the U.S.-based companies don't build vehicles in this model size. On the other hand, European manufacturers are competing in the small car segment, and they have a substantial 20% market share in the profitable luxury car segment. In short, U.S. market share in Japan is being determined by the U.S.-based companies themselves, not by Japan. U.S. companies simply haven't tried to establish a presence in most of the Japanese market—their product mix is focused on "big" cars, and Japanese consumers overwhelmingly want "very small" cars.

4. It has been reported that the U.S. automakers have indicated that "distribution" is an issue that Japan needs to address in seeking to participate in the EPA and the TPP (Trans Pacific Partnership). 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. The fact is that over the past 15 years the number of dealers 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. Again, the issue here is not trade barriers, but the willingness of the U.S.-based auto companies to commit to serving the Japanese market. These numbers show there is no dealership "problem" other than the withdrawal from the market by the U.S.-based companies.

5. That raises another question—a few years ago GM, Ford and Chrysler had significant investments in Japanese auto companies. Now they don't. What happened?

They withdrew. GM, for example, held 20% ownership in Suzuki and Fuji. GM also held 49% of Isuzu. Ford held 33.4% of Mazda, and DaimlerChrysler held 37% of Mitsubishi. Except for a minor residual ownership, all of this equity has been sold. 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.

6. Doesn't Japan impose stiff regulatory requirements on imported cars that limit imports?

Actually Japan's certification requirements for emissions and safety are in line with those of many other auto-producing nations. Furthermore, Japan long ago agreed to a "Preferential Handling Procedure" for small volume vehicle imports that allows those cars to be imported if they comply with simplified and expedited procedures. There have not been any complaints from U.S. auto companies about problems with this Procedure.

7. How important is it that Canada's 6.1% import tariff on passenger cars and trucks be phased out?

The EPA is about trade liberalization and that includes reducing or eliminating tariffs. Canada's MFN tariff on passenger vehicles is two and a half times higher than the US 2.5% import tariff. Ultimately, eliminating the tariff will benefit consumers by reducing non-manufacturing costs. That said, Japanese automakers' North American plants produce all the pick-up trucks and two-thirds of the cars we sell in Canada. Of course, vehicles produced in North America are not subject to tariffs as they meet the NAFTA rule of origin. However, as a comprehensive free trade negotiation, the EPA goes far beyond tariffs by addressing non-tariff barriers, technical standards, intellectual property rights, and a wide range of other trade issues. JAMA and JAMA Canada strongly support the EPA because it will bring trade benefits to both countries, encourage cross-border investment, and create skilled, well-paid jobs.