

# The History of Canada-Japan Auto Sector Development, 1978-2002

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In the context of Canada-Japan trade in general and in the 25 years of the CJBC, the auto sector has played a major role in our bilateral relationship; and I would like to take a few minutes to consider some of the key aspects of that development, and look briefly at current challenges and opportunities for deepening this relationship.

Looking back, it is obvious that much has changed in the auto industry in the past 25 years. Consumers, technology, manufacturing, supplier relations, trade policy, regulation, exchange rates, energy, environment, safety, design - as the saying goes, the only thing constant is change itself. One of the key elements in this ongoing evolution is globalization, where international competition and cooperation has intensified. At the same time, the growth and development of the multilateral trading system in the post-war period has created more open borders, as well as increased trade and investment through the reduction of tariffs and non-tariff barriers, inevitably leading to deeper international economic integration.

The scope and scale of these changes have been dramatic. Consider the fluctuation of currency values, which is just one of the many factors behind the internationalization of the auto sector. And who, for example, back in 1980, would have imagined that Japanese automakers would be making over 3.2 million units a year in North America in 2001? Who would have predicted that Renault would come to the rescue of Nissan, or that General Motors Japan would become the 14<sup>th</sup> member of JAMA? Or who would have thought that Canada, every year since 1993, would be a net exporter of Japanese vehicles?

I propose to briefly examine the bilateral development of the sector by looking first at a few of the key political events and industry activities of the past 25 years. And secondly, I want to highlight examples of recent Canadian-related developments in Japan and finally illustrate some of the dramatic changes that Japanese automakers have created in Canada over the past 15 years

## The Historical Context of Auto Sector Development in Canada, 1978 - 2002

- 1979: 2<sup>nd</sup> oil shock - consumer demand shifted to more fuel-efficient cars
- 1980: 2 year recession in N.A.
- 1981: VRA with US to allow breathing room for restructuring of the domestic industry. Exports were also restrained to Canada, but under a different agreement format.
- 1982: Port action in Vancouver. Customs inspection action was designed to send a message to Japan according to Industry Minister Ed Lumley. CAJAD (Canadian Association of Japanese Auto Dealers) was established to help respond to import quotas on Japanese cars
- 1983: Federal Government Task Force Report, *An Auto Strategy for Canada*, recommended local content as a condition of market access.
- 1984: JAMA Canada established.

*JAMA Canada began informally in the early 1980's as a result of several key issues that concerned all Japanese automakers in Canada. At the time, we felt compelled by force of circumstance to organize and coordinate a response to three separate but related events that threatened our business in Canada:*

*Voluntary Export Restraint agreement between the US and Japan in 1981;*

*Second, the Canadian Customs action at the Port of Vancouver in 1982, which effectively stopped the entry of Japanese cars into Canada by staging a vehicle-by-vehicle inspection slowdown; and*

*Third, the Federal Government set up an industry-led Task Force in 1983 that was given the mandate to review and report on An Automotive Strategy for Canada . This report recommended, among other things, protection in the form of local content requirements as a condition for access to the Canadian market.*

Pacific Automotive Cooperation Inc. was also established in 1984:

*PAC was a unique organization, established only for Canada. The main objective of PAC was to promote automotive investment in Canada and support new business opportunities with Canadian auto parts suppliers. PAC s main activities included:*

- *Invest in Canada seminars in Japan,*
- *PAC seminars in Canada from 1986-1989.*
- *In 1990 PAC began PAC-APMA Seminars jointly with APMA. Themes of the seminars focused on Purchasing, Quality, Development, Cost Reduction, and Globalization.*
- *PAC planned Canadian suppliers mission to Japanese Tier 1 suppliers in U.S.A. to promote Tier 2 business.*
- *PAC began a series of Kaizen Seminars in 1987. A total of 105 companies participated in these seminars, which were run by JIT Automation. Seminars in French were held for the benefit of Quebec parts suppliers.*
- *PAC Canada Report (bimonthly from 1995-1997) introduced 80 Canadian parts manufacturers to Japanese auto industry, identifying some of the unique capabilities of these companies.*
- *PAC facilitated the participation of the APMA with JAMA/MEMA One-on-One events as well as USJAC conferences with MEMA and JAPIA.*
- *PAC Steering Committee met annually with APMA, as well as Federal & Provincial government officials to review activities. The exchange of information and open-minded communication through their visits greatly contributed to strengthening the Japan-Canada relationship and mutual understanding.*

1985-1989: First wave of Japanese automakers investments in Canada

- 1985 - **Captin** aluminum wheel plant (Toyota), Delta, B.C.
- 1986 - **Honda of Canada Mfg**, Alliston, Ontario
- 1988 - **Toyota Motor Manufacturing Canada**, Cambridge, Ontario
- 1989 - **CAMI** Automotive, Ingersoll, Ontario

1989: Canada / US FTA implemented. The FTA brought key changes in auto trade policy.

1. Auto Pact closed to new entrants.
2. New rules of origin with higher regional content.
3. Remission & drawback programs were temporarily extended.

1990: GATT Uruguay round MFN tariff cuts - Canadian vehicle tariff reduced from 9.2% to 6.1% in 1999.

1990 - 1996: recession in Canada - market slump cut vehicle imports from Japan by 75% from 295,000 units at the peak in 1987 to 70,000 units in 1995. The economic slump in Canada

paralleled the post-bubble recession in Japan, including yen-daka as the Japanese yen appreciated as high as 62 yen / Can\$ in 1995.

- 1994: NAFTA brought Mexico into the FTA, changed the origin rules for autos & parts, extended drawback & remissions to 1996 and increased the regional content requirements.
- 1997: After remissions & drawback ended in NAFTA, Canada removed tariffs on OE parts for production in Canada.
- 1997: PAC closed when their mandate was completed. Communications & liaison functions of PAC transferred to JAMA Canada. Japanese auto related investment in Canada continued to expand: HCM and TMMC major expansions with second plants and new models. Since PAC was established, over thirty Japanese auto parts-related operations had set up in Canada.
- 1998: Canadian Government released *Automotive Competitiveness Report* that declined any change to the MFN vehicle tariff. This prompted Japan & EU to launch a WTO dispute. In February 2000, the WTO panel report confirmed the Auto Pact in Canada to be inconsistent with WTO rules. Canada appealed the decision, but the findings were upheld in appeal and adopted by the WTO. Following a WTO Arbitrator's Report in October 2000, the Canadian government decided to fully comply with the ruling.
- 2001: Canada repealed the Auto Pact on February 18, 2001. MFN tariffs on all non-NAFTA imported passenger vehicles remained at 6.1% compared to 2.5% in the US and 0% in Japan.

In summarizing the history of Canada/Japan auto sector development over the past 25 years, I believe that the Canadian auto industry has been significantly transformed by the presence of Japanese automakers and parts companies. More recently, the Canadian auto industry has a growing presence in Japan.

#### **Canadian auto related developments in Japan:**

1. Honda of Canada Manufacturing was the first automaker to export finished vehicles in significant volumes for the domestic market in Japan. Shipments of the upscale version of the Odyssey minivan, called La Great began in 1999.
2. IW Foam Corporation - a joint venture between The Woodbridge Group and Inoac - now has about 8 plants in Japan as a result of recent acquisition of a number of Ikeda Bussan facilities. IWFC plants are producing automotive moulded polyurethane foam using proprietary foam technology developed in Canada by Woodbridge.
3. ABC Group Japan opened a technical centre in Hamamatsu in 1999 for the design and development of thermo-plastic components for customers in Japan. The facility has testing and prototype manufacturing capability. ABC is currently prototyping a thermo-plastic prop shaft boot for the Japanese market.
4. F&P Manufacturing has adopted hydroforming technology developed in Canada by Vari-form Inc at their recently expanded plant in Tottenham, Ontario. F&P is a key structural component supplier to HCM in Alliston. This hydroforming technology is now being used at F&P Manufacturing's mother plant in Japan.
5. Magna was one of the first Canadian companies to open a sales/engineering office in Japan in the late 1980's. While that office was closed when Magna experienced some difficulty,

Magna and other Magna related companies such as Intier, currently maintain sales/engineering offices in Japan.

### **The Impact of Japanese auto-related Investment in Canada:**

Twenty years ago, no Japanese automakers had yet begun production in North America. Today, Honda, Toyota and CAMI account for about 25% of total vehicle production in Canada, and have a higher percentage of their NA production in Canada than the Big 3.

Combined production capacity in Canada today stands at 780,000 vehicles per year. Last year almost 500,000 of the 617,000 units produced were exported to the US and several other countries. And since 1986, over 5 million vehicles have been built in Canada at HCM, TMMC and CAMI. Over 4 million of those have been exported. Canada has been a net exporter of Japanese vehicles since 1993.

Current employment in Canada stands at 53,000 comprised of 9,000 in vehicle plants, 12,700 in parts-related plants, 1,725 at head & regional offices and 30,000 at about 1,000 dealerships across Canada.

Japanese auto parts manufacturers have also been active in Canada in pursuit of new business opportunities with Japanese as well as other automakers in North America. By 2003, there will be over 40 plants operating in Canada supplying parts, materials and machine tools. With integration of the auto sector in North America as a result of NAFTA, Canada's share of North American auto production stands at about 16%. By contrast, Canada accounts for about 8% of North American vehicle consumption, a situation that has given Canada a structural automotive trade surplus for the past 20 years. In 2001, Canada's overall auto trade surplus stood at \$16 billion.

To get a clear picture of automotive trade in Canada, one must necessarily look beyond a simple bilateral analysis and take a multilateral perspective. On a bilateral basis, Canada has always had an auto trade deficit with Japan. But consider the fact that almost 500,000 vehicles were exported from Japanese affiliated plants in Canada last year compared to the 189,000 that were imported by JAMA Canada members from Japan. Moreover, three of every five 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 added depth to the range of mutual benefits. 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. With a long-term commitment to Canada and Canadian consumers, Japanese automakers and parts makers have become an integral part of the social and economic fabric of Canada.

Finally, I will close with a few brief comments on the current situation in the Canadian auto industry. There is a debate that the Canadian auto industry is in the midst of a crisis. While some companies are dealing with financial and/or market share losses, other companies are struggling to meet current demand.

Without a doubt, the sector is changing. Automakers and parts makers are facing numerous challenges: demanding consumers, intense competition, shift to flexible manufacturing and global platforms, new technology, and globalization to name a few. With excess capacity, it is likely that three vehicle assembly plants in Canada, all of which are currently operating on only one shift, will close over the next two years. At the same time, press reports confirm GM will add a third shift in Oshawa due to strong demand for the Impala, and DaimlerChrysler is considering producing a new truck and passenger van in Windsor.

Furthermore, both Honda and Toyota are now completing major expansions at each of their Canadian operations, and several new investments by Japanese parts makers are under development.

Is this the picture of an industry in crisis? I suggest these ups and downs are due to three key factors: the industry's traditional business cycle, the ongoing restructuring as a result of globalization and the market mechanism at work. Fundamentally, automakers do well when they make attractive vehicles at reasonable costs that meet the needs and the desires of the consumer. What concerns us about this current situation is the effort by some to have the Canadian government impose discriminatory trade or tax measures to adjust this market mechanism. In our view, given that all automakers in Canada are foreign owned, it only makes sense to treat everyone equally. To maintain Canada's competitive edge and enhance the climate for future investment, we support the following non-discriminatory, forward-looking measures by the Canadian Government to help the industry as a whole:

- further infrastructure improvement, especially at the border
- sustained focus on skills training & education
- enhance R&D incentives for both product and process capabilities
- international harmonization of technical standards & regulations.

The divisive and exclusionary policies of the 20<sup>th</sup> century will not solve the competitive challenges of the industry in the 21<sup>st</sup> century. All industry stakeholders in Canada should cooperate on issues of common concern to ensure the auto industry will be globally competitive.

In the past the CJBC has played a significant role in the development of the auto sector in Canada and Japan through the Auto Sector meetings. It is encouraging to see that the opportunity for deepening this relationship will continue in the new meeting format.