House of Commons
CANADA

Subcommittee on the Automotive Industry in Canada of the Standing Committee on Industry, Science and Technology

SAIA • NUMBER 003 • 2nd SESSION • 40th PARLIAMENT

EVIDENCE

Tuesday, March 10, 2009

Chair

The Honourable Michael Chong

Also available on the Parliament of Canada Web Site at the following address:

http://www.parl.gc.ca

Subcommittee on the Automotive Industry in Canada of the Standing Committee on Industry, Science and Technology

Tuesday, March 10, 2009

● (1830)

[*English*]

The Chair (Hon. Michael Chong (Wellington—Halton Hills, CPC)): Good evening to members of the committee and to our two witnesses. Thank you very much for coming to appear in front of us today.

We are undertaking a study of the Canadian automobile sector and some of the challenges it faces, and your testimony will help us write our report and recommendations that will be submitted to the House of Commons by the end of March. So thank you very much for coming.

Today we have Stephen Beatty, managing director of Toyota Canada Inc., and Adriaan Korstanje, who is the general manager, external affairs, of Toyota Motor Manufacturing Canada Inc. Thank you both very much for coming.

We'll start with 10-minute opening statements. Then we will proceed to comments and questions from the members of our committee.

Please proceed.

Mr. Stephen Beatty (Managing Director, Toyota Canada Inc.): Thank you, Mr. Chairman.

I'd like to start by simply thanking you and the members of the committee for the opportunity to meet with you this evening.

As you mentioned, I have with me Adriaan Korstanje, who is general manager of external affairs for Toyota Motor Manufacturing Canada in Cambridge, Ontario, or, as we refer to it, TMMC.

TMMC builds Toyota and Lexus vehicles in Canada. Toyota Canada, the company I represent, is responsible for the marketing, distribution, sales, servicing, and warranty activities of Toyota in Canada. We have a sister company, Toyota Financial Services, which offers dealer business financing and consumer purchase financing and leasing.

The issues the subcommittee has been asked to investigate are certainly serious and far reaching for the Canadian auto industry and for the Canadian economy as a whole. You, of course, already know that the auto industry is a significant contributor to the Canadian economy, but I would say that in Toyota's 45-year history in Canada, we've also become a significant contributor to the auto industry itself, and in turn to the country.

Over the past four decades we've committed billions of dollars to establish manufacturing facilities, hire and train employees, create a dealer and service network, and more. We now employ thousands of Canadians directly and provide indirect employment to tens of thousands of Canadians at our various suppliers and partners.

Our capital investments include a brand-new, state-of-the-art assembly plant in Woodstock, Ontario. When this plant officially opened last December, it became the first greenfield assembly plant in Canada in 20 years. Our contribution includes the fact that TMMC builds some of North America's most popular and fuel-efficient vehicles in their classes, including the Toyota Corolla, Matrix, and RAV4, and the Lexus RX 350.

That manufacturing mandate is significant for two reasons. First, Canadian-built models will account for roughly half of our anticipated sales volume in Canada this year. In fact, it is fair to say that if people aren't buying a Toyota, there's a pretty good chance they're not buying a Canadian-built car this year. Second, Toyota is a net exporter of vehicles, which supports our investment in Canada. Last year our plants in Cambridge and Woodstock, Ontario, exported approximately 70% of their production, compared to roughly 85% of the production exported on average from Canadian plants operated by other non-Asian automakers. As such, sales in Canada of Canadian-made products are major contributors to the success of our Toyota assembly plants.

Beyond this, on a global scale, we're creating the technologies that are charting the future course for the industry in helping societies. Our world-leading hybrid vehicles are the most visible examples of this, but it's no accident that Toyota offers the most fuel-efficient passenger car fleet in Canada.

But like every other company in the global automotive industry, Toyota is being affected by the unprecedented decline in the world economy, and that decline is led by the collapse of the consumer marketplace in the United States.

While our investments in infrastructure and technology are positive accomplishments, Toyota is also mindful that everything starts with the customer. We need a market to buy our products, plain and simple, and that, in our view, requires two things: first, consumer confidence, and second, access to credit.

These issues are particularly important right now. Approximately 43% of the 2008 total Toyota and Lexus Canadian annual sales of passenger vehicles were made in the months of March, April, May, and June. In effect, then, if dealers and manufacturers miss this important spring market, they've really missed the year in Canada.

For Toyota, these months coincide with our annual red tag days event. This year, for the first time in our history, we're offering 0% financing on our core Canadian-built models and have added a free job-loss credit protection program on those same models. It's our effort to stimulate economic activity here in Canada and help bolster consumer confidence for those core vehicles.

I would tell you today that the single most important request Toyota has of the Canadian government is this: open access to credit now. The inability to obtain access to credit is bigger than any individual company. Traditional sources of credit for vehicle financing and leasing, including but not limited to the financial arms of auto companies, need access to large amounts of money in order to do business. The normal sources of this credit—asset-backed securities, commercial paper, short-term loans, bonds, and so on—are not available these days even to creditworthy financing operations.

We applaud the government for stepping into this gap in the last budget with the proposed $12 billion fund. But we do have some concerns in that respect.

● (1835)

First, we worry that with the continuing state of the economy, $12 billion, while substantial, may not be enough to cover the needs of those financing arms operated by the various automakers, let alone other independent sources of credit.

Second, if that $12 billion isn't enough, how will the government allocate what is available? We encourage the government to establish a mechanism to ensure that this money goes to those financing operations that are committed to actually getting the money into the pockets of consumers as opposed to those looking to use it to cover their own business requirements.

Third, it must be recognized that not every source of vehicle financing is created equal. Some financing operations are not as creditworthy as others, and if the government treats every applicant equally, without considering their credit quality, the government will have to include a premium on the interest it charges those who take advantage of the facility, and that in turn means the interest rate charged to consumers will have to be higher, which may deter some consumers from purchasing or leasing a new vehicle.

Finally, the fund provides the opportunity to kick-start consumer confidence, but to be effective the money needs to be made available immediately. As I noted, the key selling season is under way in Canada. We need to unlock those funds immediately or consider other timely approaches to stimulate consumer spending.

If the government can't create a market where access to credit is available, there are other programs that can be considered and that in fact have been proposed to this committee. Those proposals include such things as a sales tax holiday, right through to an overhaul of the scrappage program that encourages Canadians to retire old vehicles and purchase new ones. Certainly, each has its benefits and trade-offs.

For example, a temporary sales tax holiday on new vehicles would be relatively quick to implement, and for this reason it might be the easiest way to stimulate the market. But it has lasting costs that would be borne by the government in a period of deficit financing. Meanwhile, an improved scrappage program would deliver environmental fuel efficiency, pollution control, and safety benefits as well, but it needs to offer a larger monetary incentive to retire an old vehicle than it does currently, and it needs to tie the size of the consumer incentive to the gains made in environmental performance. But it has to be done sooner rather than later if it's going to have the benefit in the spring market.

It's important to note as well that to date the debate has been focused at the manufacturing level, and that overlooks the fact that approximately 50% of the employment in the Canadian auto industry is in sales, distribution, and dealerships. Incentives to consumers help to clear dealer lots and reopen the manufacturing pipeline, providing the financial resources that everyone in the supply chain needs to ensure the economic health of the sector. This certainly doesn't negate the specific cashflow requirements of those parts of the supply chain, such as vehicle and component manufacturing, that are dependent upon U.S. exports, but it does underline the fact that in an integrated North American market, Canada has to do its part to address the economic forces that have caused new car purchases to stall.

We can't lose sight of the fact that to remain competitive for continuing investment in Canada, an assembly plant must provide the highest quality and productivity levels. Quality is dependent on constant training and improvement of skills, while productivity relies on capital investment in equipment and technological innovation. Government can continue to support with incentives and a favourable tax structure that recognizes achievements and training, research and development, and capital expenditures for equipment and technology.

The current market conditions are temporary, but they are very real. They have painful consequences for individual Canadians, so this is not a hypothetical debate. We shouldn't lose sight of the fact that there are other important national objectives that have been set aside as we all concentrate on short-term adjustments. For example, the need to address safety, fuel economy, and emissions standards remains. The U.S. administration is poised to introduce new fleet fuel economy and emissions targets for 2011 and beyond, and Canada, of course, has pledged to set complementary standards, but the industry needs both the time and the resources to be able to successfully meet those requirements, adding further urgency to dealing with the economy so we can move on.

This also suggests that if consumer incentives are to be considered, they should help to move the market in the direction of those future standards, improving the demand curve for vehicles meeting the highest standards in safety, fuel economy, and environmental performance, and thereby ensuring that manufacturers are able to quickly and profitably pursue new technologies.

In summary, then, this is what Toyota is doing to address the current situation. We're building a full range of fuel efficient, high-quality, and safe products that Canadians actually want to buy, and we're building a high percentage of those right here in Canada. We've already invested in Canada at all steps of the automotive sector supply chain, and we will continue to support those investments. We're creating attractive pricing and financing offers and other incentives to encourage Canadians to purchase new vehicles. We're investing in R and D globally to ensure Toyota's products continue to meet or exceed society's demands for fuel efficiency, environmental performance, safety, and other standards.

● (1840)

In turn, our recommendations to the subcommittee are these.

Focus on programs that encourage Canadians to buy new vehicles, because this will support every step of the auto sector's supply chain.

If the government wants to help the manufacturing activities of the auto sector, the best way to do that is to ensure that there's a healthy market for our products. The fastest and most effective way to do this is to create immediate access to credit. A second-choice option may include offering Canadians a temporary tax holiday on new vehicle purchases, because this can be implemented quickly and help the industry to capture sales in the current and crucial spring selling period.

Finally, you could follow this with programs that encourage new vehicle purchases that also help the government achieve longer-term policy objectives. For example, a new scrappage program incorporating the ideas that Toyota has outlined would encourage environmentally responsible, fuel-efficient choices while taking the older, less safe, more polluting vehicles off the road.

Thank you for your attention. My colleague and I look forward to your questions.

The Chair: Thank you very much, Mr. Beatty.

Before we begin with questions and comments from our members, I want to first indicate to members of the committee that General Motors of Canada has indicated that it will submit another brief to our committee to supplement the testimony of last week—Wednesday—in light of the recent deal negotiated with the Canadian Auto Workers. So I'll have the clerk follow up with General Motors of Canada to ensure that brief is submitted to all your offices.

Without further ado, we'll begin with questions and comments from Mr. Valeriote.

Mr. Francis Valeriote (Guelph, Lib.): Thank you so much, Mr. Beatty and Mr. Korstanje, for coming this evening.

The more we hear, the more I'm beginning to feel that this is like trying to land a plane on the Hudson, to be candid. From what I'm hearing, everything that's required to bring some resolution to this has to be in as equally perfect alignment as those things that have caused the problem in the first place.

You spoke of a number of ideas that might promote sales, might help the industry. Frankly, we've heard those ideas before. I'm aware that when you opened your plant in Woodstock in December, rather than two shifts that had been planned, it was down to one shift, and rather than 2,200 or 2,300 people, it was 1,100 or 1,200 people. I'm under the impression this is not just a recent phenomena, this downturn. It has been ongoing for a while, for a number of years. Then I found a document dated October 2007 that the CVMA had produced, with certain features in this document, recommendations to help the industry.

My question is this. Have you been aware of this oncoming problem for a while, and if so, how long? Have you made representations to any government—the previous Liberal government or this government—for a national auto strategy, indeed a North American auto strategy, given the integration of the industry?

● (1845)

Mr. Stephen Beatty: As you know, the Canadian Automotive Partnership Council has been working over a number of years in order to frame up a proposed policy. It worked with the Canadian government as well as with the provinces in the development of those strategies. So there's been a lot of work done in terms of setting the broad policy framework to move forward.

What I would say, though, is that I don't think anybody anticipated the specific nature of, if I may call it, the perfect storm that's hit us over the last 12 months or so. To have the U.S. marketplace collapse as rapidly and completely as it has, has certainly affected the ability of any manufacturer in Canada to be able to plan their production mandates properly, on an orderly basis. It's not terribly surprising that the Canadian economy is following, perhaps not as deeply or as quickly, behind the U.S. because of that close and tight integration of the North American economy.

Our submission is focused very directly on this issue of opening up the credit markets for consumers. It was consumers who led us into the current global crunch, and ultimately it's going to be those same consumers who lead us out, not just for the auto industry but for many other sectors. Arguably the best approach to take is one that backstops good-quality credit because it doesn't set up a long-term obligation for the government.

Mr. Francis Valeriote: You've made that point. But my question specifically is this. Before now, last year, based on this document I've looked at in 2007, where they spoke of scrappage and they spoke of incentives to stimulate purchases, had you made these presentations or representations to the government?

Mr. Adriaan Korstanje (General Manager, External Affairs, Toyota Motor Manufacturing Canada Inc.): Under the CAPC, presentations were definitely made to the government, but not really under the auspices of the current crisis. We were talking at that time about the Canadian dollar changes, and we were talking about hours of productive work available per person in Canada versus in the United States. We were talking about the types of large incentives we might get from a state versus the investments from here, and the need to promote investment. In other words, we were still talking about the option of investing in Canada if we could create the right scenario. It was a surprise for TMMC that we did not achieve our second shift in Woodstock. In fact, when Woodstock was conceived, it was conceived to be much grander than just the one plant, if everything continued to work out. We bought double the size of lot there that we need. Close to our announcement of starting with only a first shift, we had only days or maybe weeks of notice for how to strategize that. Indeed, we were hiring full steam ahead to deliver Woodstock at two shifts. In September, for Corolla Matrix, as management, we were still trying to strategize how to get our people to work more overtime. Things have happened very quickly and for reasons that are different from what we were talking about a year ago.

Mr. Francis Valeriote: I have another question.

Seven to ten billion dollars invested in the industry is a lot of money. We have an obligation around this table to weigh, frankly, the preservation of valued jobs—up to 500,000 jobs—against our requirement to be fiscally responsible with taxpayers' money when faced with the possible risk of losing that money, I suppose, at some point.

Have you assessed, from where you stand in your position, whether that amount of money is enough? How quickly do you think, in your opinion, if you have one, General Motors and Chrysler would go through that? What would you do if somebody came back later and asked for more?

Mr. Stephen Beatty: I don't think we're in a position to assess the business plans of our competitors. I'm sure they will give you the necessary detail to be able to evaluate their plans as they bring them forward. No doubt you will want to make sure that you get all necessary assurances when you're dealing with public funds.

I will say, though, that the catastrophic collapse of any major manufacturer is likely to have implications for the sector as a whole. There clearly is a crossover, not just in the supply chain, but also in the dealer networks of all of the car companies. Anything that causes significant further downturn in the economy or a loss of jobs has a general economic impact, which surely can't be good for the Canadian economy or for the auto sector in particular. We're very mindful of the fact that this is an unusual circumstance. The types of restructuring that are taking place in many parts of the industry are certainly necessary. The marketplace today is different from what it was 10 or 20 years ago, and that restructuring had commenced before the current market conditions hit. The speed with which these current market conditions hit was the thing that was unpredictable, and that has caused, I think, this committee to have its mandate.

● (1850)

The Chair: Thank you very much, Mr. Beatty.

Monsieur Vincent, vous avez la parole.

[*Translation*]

Mr. Robert Vincent (Shefford, BQ): Thank you, Mr. Chair. Welcome to the witnesses.

You have made three proposals: provide access to credit, exempt new vehicles from the sales tax for a period of four months and introduce a scrappage program. These would all be part of the government's effort to help automakers like Toyota, Honda and GM rebound from the economic crisis.

Nonetheless, I'd like to hear some of the details of what you've committed to do to weather this crisis and the changes you want to make to entice consumers to buy your vehicles.

[*English*]

Mr. Stephen Beatty: Thank you.

Just to be very clear, as opposed to there being three distinct proposals, it really is one proposal on consumer credit, and in the event that's not possible, then there are alternatives. It's not one on top of another.

From the standpoint of what we are doing to respond to consumers, it's very much what we've done in every other significant economic crunch that we have encountered, going back to the oil crisis of the 1970s and forward.

Toyota's position has been that consumers in troubled economic times tend to turn to quality. They're looking for the lowest possible price, with the least inconvenience, they can possibly obtain in the marketplace today. So they're looking for an affordable car of high quality that won't leave them with unusual maintenance costs, and they're looking for high levels of fuel economy.

As I mentioned in my remarks, we have focused very directly on putting our own corporate resources behind promoting our Canadian-made products that fall exactly into that category. So vehicles like the Corolla, like Matrix, like the RAV4, are all fuel-economy leaders in their class, and all are very highly rated for quality.

As I said, for the first time in our history, we're providing 0% financing, as well as job-loss credit protection, and a number of other measures designed to try to help consumers find their way into a new car purchase.

But beyond that, as I said, we're very mindful of the fact that the world is going to change one more time. So in 2011 and beyond, as we move to new fuel economy standards and new emissions standards, we have to move very rapidly to introduce new technologies. For example, later this spring we'll be introducing the third generation of our hybrid technology to Canada, a vehicle that not only provides extraordinary advances in vehicle power and fuel efficiency, but also moves the needle on safety and a number of other features. This new car introduces new materials technology into the automotive marketplace; it introduces things like a solar powered moon roof, which helps to ventilate the car using no other external energy; it has advanced pre-collision systems, which read the traffic in front of the vehicle and help it to avoid collisions; and it has new innovations in the human-machine interface.

So Toyota is not holding back at all in the face of a slow market. We are in fact, to the contrary, moving as quickly as we possibly can to bring new technologies out and, more significantly, in the current market, to support our Canadian operations.

[*Translation*]

Mr. Robert Vincent: I understand that the revolutionary hybrid vehicles that you intend to manufacture will carry a certain price tag. Will these vehicles be affordable? As I was saying yesterday to another manufacturer, given the current economic crisis, many people are losing their jobs and taking pay cuts. Consequently, what's needed right now are more affordable vehicles.

The situation is not about to change, because even if the economy does recover, wages and purchasing power will have decreased so dramatically that the consumer will be looking for a vehicle that matches his purchasing power. If the crisis continues until 2010 or 2011, salaries will not increase during this period. Hourly wages will have been slashed by $3, $4 or $5. Workers will not have recovered these lost wages when the economy rebounds in two years' time. Their purchasing power and their creditability will have suffered tremendously. They will still be in debt, but their ability to repay their debts will have taken a hit.

We need to adopt a new approach, like we did in the 1970s. We need to build cars that have the bare minimum in terms of features, that is a motor, a transmission and doors. In order to compete, these cars should be as affordable, as low-cost, as possible.

● (1855)

[*English*]

Mr. Stephen Beatty: Thank you for the question.

Of course, the obvious difference between the seventies and today is much higher levels of safety and emissions requirements—and those systems are costly. But I think we take considerable pride in the fact that throughout that period, Toyota has been introducing new small cars to Canada; in fact, we brought the hatchback back to Canada with the Yaris hatchback, which is very popular in Quebec. And we have managed, as we have done so, to bring car prices down.

I'd like to turn it over to my colleague, because I think he can talk to you about the fact that the number one job in Toyota manufacturing is really to focus on those questions of how to bring the most affordable products to the marketplace.

Mr. Adriaan Korstanje: Of course, our company is based very much on the principle of how to build the best product at the best price. There are any number of elements in the Toyota production system of making vehicles that strive to do that, first by pulling vehicles only as they are needed by customers so we don't have excess inventory or waste that impacts cost. But waste isn't only in excess inventory. Toyota looks at seven categories of waste. So every Toyota team member is trained to think about how to streamline their process and have less waste, but at the same time how to add in their ideas for quality. Because quality can come from design to quite a large degree, but once a vehicle is being made, the build quality and all of the knicks and knacks that control the cost happen right at the interface.

The Toyota production system has spent 50 years making a system that can respond to those three needs: to have top safety, top quality, top productivity. And top productivity, in the end, delivers the best car at the best price.

The Chair: Thank you very much, Mr. Korstanje.

The floor goes to Mr. Lake.

Mr. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): Thank you, Mr. Chair.

And thank you for coming before us tonight.

I want to start with a little bit of context, if I could, just speaking a little bit about the global context. Of course, as we all know, there's a global economic downturn that's had a significant effect on the industry. But as we look at what commentators around the world from outside the country have said about Canada's system, we see *Newsweek*, for example, talking about the World Economic Forum ranking our banking system as the healthiest in the world, whereas the Americans, I think, are number 40. They actually noted in the same *Newsweek* article a couple of weeks ago, “If President Obama is looking for smart government, there is much he, and all of us, could learn from our...neighbour to the north.”

We have *The Daily Telegraph* in London, in the summer, saying, “If the rest of the world had comported itself with similar modesty and prudence, we might not be in this mess.”

We have *The Economist* saying, “...in a sinking world, Canada is something of a cork. ... The big worry is the fear that an American recession will drag Canada down with it.”

I think we're seeing what's happening in that regard right now.

The New York Times just recently noted:

> There is no time to waste. Reconfiguring the American banking structure to look more like the Canadian model would help restore much-needed confidence in a beleaguered financial system. Why not emulate the best in the world, which happens to be right next door?

There is a lot of commentary in terms of that global context. I'd like your feedback on that in terms of your experience in the auto sector. Is the experience in the Canadian auto sector similar to that in other industries, where we're really, relative to other countries—particularly the United States—much stronger, but there's nothing we can do to avoid what's going on in the States and the impact it's having on our industry?

● (1900)

Mr. Stephen Beatty: There are two sides to this, and again, perhaps I'll ask Adriaan to comment on it in a moment. But let me start off by saying that certainly there's no other country I'd rather be in. The Canadian automotive marketplace last year grew, so it is unlike every other industrialized nation. There has been some fundamental health in the Canadian economy. And that's been the result of hard work by government and by industry over a great many years.

That said, the analysts and others are right, that we are in an integrated global economy, and when other trading partners begin to decline, it has an impact on every aspect of the Canadian economy. Specifically since the mid-sixties, in fact just about the time that Toyota first started doing business in Canada, we decided as a country that we wanted to create an integrated North American marketplace for vehicles, with manufacturing established to work on a north-south basis.

The plus for our Canadian facilities is that Toyota has decided to put vehicles into production in Canada that are popular with Canadian consumers. So if 50% of my sales this year come from our plants in Cambridge and Woodstock, that's a very big plus, and I think that helps those plants in a time of challenging economic conditions in the U.S. But there's no question, the plants could not exist without access to the U.S. marketplace, so any impact in the U. S. is going to take its toll on the Canadian auto sector. We are a little less exposed to it, but it's measured by comparators.

Adriaan, perhaps you can speak to the manufacturing side.

Mr. Adriaan Korstanje: If your question is on whether Canada has done, or is doing, all the right things to secure automotive manufacturing and investment, I think Canada offers a great deal in terms of workforce, and easy access and a cooperative nature with governments and communities, but there are points that we've talked about and struggled with over the years, whether they are points of incentivizing capital investment....

Our industry has to retool every four or five years—virtually rebuild our plants from the inside out to produce a new model. It's an enormous capital investment. There are many jurisdictions in the United States, and in the world, that offer immediate return on such capital investment. For us, that's usually a negotiation.

We built Woodstock at a time when plants were being built in some of the southern states. Woodstock was well supported with a $55 million, interest-free loan and $85 million of incentive support from Canada and Ontario, in return for $1.1 billion of investment and a guarantee of maintaining 5,000 jobs—all TMMC—for seven years. We're doing that.

That investment by Canada was almost minuscule compared to the investments some of the states were willing to make in terms of property tax relief and other moneys. If the North American head office has to look around at where it's going to put its next plant, and the people are relatively equal, and the access to government is relatively equal, and it's integrated, and there's North American free trade, and there's more incentive here and less incentive there, it doesn't become a complicated decision.

I'm not saying that Canada has to do more significant incentives along the line of the States, but be aware, for our plants to stay fresh in this country, we need to train our people to a very high level so they can produce quality...and we need to have modern equipment and technology. Fresh plants, with trained people, don't get shut down, and those things need incentives.

● (1905)

Mr. Mike Lake: Could you take a moment to clarify your position on the loan package offered to GM and Chrysler?

Mr. Adriaan Korstanje: We're neutral on the loan package. We need a healthy auto industry.

Our auto industry is integrated. We immediately feel the outputs of failings in other segments of the auto industry, so we need a healthy auto industry to survive. Being neutral, we might ask that you think about how to do this in a way that doesn't give a competitive advantage. There may be other supports, but think about what might give competitive advantage and try not to go there.

The Chair: Thank you very much, Mr. Korstanje.

Mr. Masse.

Mr. Brian Masse (Windsor West, NDP): Thank you, Mr. Chair.

And thank you, gentlemen, for coming here this evening.

I don't know if it's the curse of having institutional knowledge at this place, but I remember the days, back in 2002, when John Manley wanted to basically deregulate our banks and it was us and the Bloc who had to fight that off. I find it interesting, the bragging rights about the bank situation right now.

But I'm not so pleased with them. It's good that they are making profits right now, but at the same time there's a real functional problem. You mentioned your solution is for the advance credit. We've heard that consistently here, with anywhere from $13 billion being suggested by the government, up to $60 billion being suggested by some industry analysts.

I think there needs to be some type of a working mechanism here. If it's just going to come from the public sector, that's one thing. But when you go to the bank's lending programs right now, they're at 8%, if you have good credit—up to 14%. For someone in my riding, who doesn't have as good a credit rating, it's 30%. Some of these costs are outrageous.

Is that the reason you went into your own financing and offered these attractive programs? The financing seems to be making the most money right now. You look at some of these scheduled payments, and after five years they still owe thousands of dollars. It's past the warranty time and you haven't paid off your vehicle yet.

Mr. Stephen Beatty: Mr. Chairman, as you can imagine, it's not just consumers who borrow from the marketplace. Certainly, our financial arms do as well. For us to be offering 0% financing on vehicles like our Toyota Corolla and Matrix, it means we're subventing the rates that are available to us. In a tightening credit marketplace, those rates are climbing all the time. It's sort of the hidden cost of the auto industry.

But the reality of it, and for me the most important thing, is that we're a consumer-facing industry. If we can't find a way to put customers behind the wheel of a new vehicle, then we really don't have a business model at all. So we are going to the markets to find the credit that powers our ability to turn those incentives over to consumers.

As I said, whether you're Toyota or someone else, the credit market generally is tightening. As that happens, the costs of doing business in Canada are rising quite rapidly and restricting the ability of the market as a whole to stimulate consumer demand.

Mr. Brian Masse: If we just simply provided the $13 billion to start with and then didn't do anything else, would it be unacceptable for Parliament to consider some type of restriction on the interest payments that banks put on vehicles? To me, if we're not going to be able to provide equity necessary to move the industry along, why let it be stymied, essentially, by borrowing rates that are way above the Bank of Canada rate in any means? That's one issue that I think should at least be examined. If not, we might not have the credit available.

Mr. Stephen Beatty: Certainly, any kind of program that the Canadian government might release to the industry through the banking system or through other mechanisms is going to have conditions attached to it.

But as I said in my submission, I hope we understand that the credit marketplace is comprised of placements of varying quality, and no matter what sorts of rules you might write for it, there is going to be some variability in the rates charged because of the nature of the risk associated with any instrument you might backstop.

What we're seeing right now are unparalleled gaps, if you will, between the central bank rate and the effective rates in the marketplace. We need to address that in some fashion, in part by providing additional moneys to the marketplace in order to free up credit. Certainly, Parliament, in its wisdom, will have to look at what the appropriate mechanisms are to control the financial marketplace.

● (1910)

Mr. Brian Masse: I often regret that we didn't have some of the banking industry come forward in this committee. Unless we're going to come up with billions more for this credit, the $13 billion, I mean, it's pretty universal what we're hearing. The banks are going to need to play a role, and they should play a role. They shouldn't be the ones that make money off the workers and companies without having some type of accountability.

I agree that there might be some different elements that you have to nuance with all the different lending institutions. I think it should be looked at. It's a valuable contribution.

I would like to move to the parent company in terms of what is happening right now with the industry in Japan. It's important. You mentioned that there's kind of this mythology out there that no supports have been provided to some of the American plants for development or for whatever it might be. I understand that in Japan the state also invests in its industry. What's happening over there with regard to their operations in the parent company?

Mr. Adriaan Korstanje: Perhaps the most notable media around that topic from last week involved Toyota Financial Services being in talks with the state-backed Bank for International Cooperation to loan some money.

It is understandable that media misinterpreted and started calling “bailout” very quickly, but what needs to be understood is that in this instance Toyota Financial Services is not an operating function of our company. They're the financial services. Their job, all year long, is to secure credit from an array of lenders, credit that they can translate into loans and leases for customers.

By talking to this state-backed bank and all of the other array of lenders that they talk to, they're just being prudent in making sure that, as things go forward, they still have sources to be able to run the credit and lease arm. None of this money is for operating; it's just to do what they normally do and to be prudent about it.

That's not to say that there isn't a challenge in Japan. Toyota has 60,000 team members, maybe 100,000 people who work for supplier companies, and thousands of contract team members hired for flexibility but who have had to be let go. They're looking at reduced hours. They're looking at executive and labour wage structures. They're in the same mode: how can we save the dollars but protect the core of what we have and not give up our values in employment? They're struggling just the same as everyone else.

The Chair: Thank you very much.

Madam Hall Findlay.

Ms. Martha Hall Findlay (Willowdale, Lib.): Thank you, Mr. Chair.

Thank you very much, gentlemen, for being here.

It's worth repeating, if ad nauseam, that we all care about jobs. As parliamentarians we also have to care about taxpayers' money. We are here to look at the auto industry, but we are also here to consider a request for significant funding. I'm not talking about the $12 billion credit piece; I'm talking about active cash.

I very much appreciate the recommendations in your submission on supporting the market. I couldn't help but notice that there is not a recommendation in there to have the government provide a significant amount of money to General Motors or Chrysler. So I have a couple of very blunt questions.

Will Toyota benefit from General Motors and/or Chrysler going into...not bankruptcy specifically, but into CCAA, the equivalent of the chapter 11 process here in Canada?

Mr. Stephen Beatty: The answer to your question is we don't benefit from that. Because of the interlinked nature of both the supply base and the dealer networks across North America, anything that creates broad disruption in the auto sector is going to touch every company.

I think it's also reasonable to say that consumers, in the aftermath of that type of reorganization, are going to look very carefully at the automotive marketplace and question whether now is the right time to be buying a car. Uncertainty always brings the natural consumer response to back off a bit and let the dust settle a little before making major purchase decisions.

It's reasonable to assume that any catastrophic failure or significant reorganization that cuts off receivables to dealers, or parts suppliers and other affiliated companies, will cause dislocation through the rest of the industry. The scale of that is very hard for us to predict.

I think there's been this public perception that Toyota or some other companies gain if other companies fail, and I don't think that's ever true of an industrial sector as a whole. You all benefit when the industry sector is healthy; you all tend to experience pain when some are suffering.

● (1915)

Ms. Martha Hall Findlay: The irony now is that with all of this talk we are seeing market share numbers affected. The GM and Chrysler products are being affected by the current environment and concerns about the companies' future.

You made a comment—and yesterday the representative of the Japanese Manufacturer's Association made a similar comment—that what the government does should not create a competitive disadvantage or a competitive advantage. So I appreciate your answer to the first question.

In the process and the effort of helping the government on a non-partisan basis, what are some of the things this government can do to address those concerns and not provide a competitive advantage? At first blush one would think that providing two companies with a great deal of money would give them a competitive advantage. I'd really appreciate your comments on how to reconcile those two things.

Mr. Stephen Beatty: I hesitate to go too far down that road, because clearly, General Motors and Chrysler are the companies that need to talk to you about the necessary elements of any type of restructuring. As I said earlier, I think what we're faced with right now, in some respects, is the perfect storm. Not only do you have companies that needed to restructure operations, because, quite frankly, they were manufacturing in excess of the real market needs of North America over the last number of years, but now they're facing a situation where, as a result of a further decline in demand, there are cashflow issues. There are any number of other impacts on their business.

The assistance you might provide to companies to help them restructure and emerge as stronger, more viable companies isn't necessarily something we see as a competitive disadvantage for us. To the contrary, if it avoids a situation in which you do significant damage to the supply base and the dealer networks and so forth, there may be some advantage, as a whole, for the industry.

The issue, though, is that sometimes there is a demand on government to look at very specific and narrow programs. They are designed to underwrite specific vehicle programs or to provide very narrowly focused consumer incentives that assist one or several companies to the disadvantage of the industry as a whole. That's really where our comments are pointed. If you provide incentives to the consumer, make them broad-based, and aim for a general benefit to the consumer. Then the consumer decides. I think that provides us with the proper mechanism.

The Chair: Thank you, Mr. Beatty.

We'll go to Mr. Wallace.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chairman, and thank you, gentlemen, for coming.

I would agree with your presentation earlier, when my colleague from the Liberal side was talking about whether we could have done something sooner. As an active member of the auto caucus on the Conservative side, which meets with the big North American three and the international manufacturers that are here, I can tell you that at our monthly meetings there was no discussion about what was going to be happening. Things were going well at this time last year, for example. It came as a big surprise, in a sense. We were talking about the automotive innovation fund and so on, into which we put $250 million, and about increasing that.

I have a couple of quick questions for you.

You mentioned the jobless protection system. Are you financing that, or do you have a third party doing that?

● (1920)

Mr. Stephen Beatty: Toyota Financial Services is providing that free of charge to the customer.

Mr. Mike Wallace: The customers don't pay for that when they buy a car.

Mr. Stephen Beatty: The customer does not pay for that.

Mr. Mike Wallace: How long does that program last?

Mr. Stephen Beatty: We're offering it right now.

Mr. Mike Wallace: Is it a one-year protection?

Mr. Stephen Beatty: We're offering it as a special program in the spring market. We'll have to wait and see whether it goes on beyond that.

Mr. Mike Wallace: If I'm a customer and I become.... How long do I have? Is it for any length of time that I'm financing with you?

Mr. Stephen Beatty: It covers your contract.

Mr. Mike Wallace: It covers the whole contract. Okay.

Are you the only company providing that kind of service?

Mr. Stephen Beatty: On a no extra charge basis, yes.

Mr. Mike Wallace: It's an interesting concept. Somebody would have the incentive to buy if there's some protection in case something happens to him or her.

Mr. Stephen Beatty: For us, we know that the bulk of our vehicles are sold to families. Here are the people who have the greatest concerns at the moment about what the household budget looks like, so that's the aim.

Mr. Mike Wallace: I have a financing question for you.

At this time last year there was a lot of discussion here in the House, and lots of discussion in Canada, about non-bank asset-backed commercial paper. ABCPs are what you're looking for, in a sense. You guys would try to bundle your financing, bundle it and sell it to the Government of Canada in the $12 billion financing capacity.

There was concern. We have the Montreal agreement—I forget what it's actually called, I think it's called the Montreal Accord—whereby some investors were protected, basically, based on those things failing. Tell me, as a member of Parliament risking $12 billion in a secured financing facility—and I agree with putting it in here, by the way—how your asset-backed paper is better. Why is it quality? If you can't sell it in the marketplace, why should we buy it?

Mr. Stephen Beatty: The answer is that it is a very good investment strategy for the government. The reality of it is that the financing arms of the auto companies have traditionally been quite profitable, because this is quality paper, based on people buying a vehicle and leveraged against the value of that vehicle.

Certainly at Toyota, we take considerable pride in the amount of retained value in our vehicles over time. So there's a good asset there. Typically on one of our contracts, the customer ends up with equity in the vehicle that they apply to the next one. So they're very conservative instruments. They are tied to the value of vehicles, and they're tied to something that the Canadian consumers are not leveraging against. This is their principal means of transportation.

So it's a very conservative, if you'll excuse the term, approach to financing.

Mr. Mike Wallace: Small “c”, you say.

So of your business in the past, what percentage of it was leasing?

Mr. Stephen Beatty: Leasing could run up to 40% of our business. Interestingly, we haven't cut back on the availability of leasing at all, but consumers are looking at longer-term financial instruments now, as opposed to leasing.

Mr. Mike Wallace: So for the leasing you're doing now, you're obviously selling that paper; you're selling those. The consumer comes in to lease something and you try to turn that over for cashflow. Who securitizes your leasing now?

Mr. Stephen Beatty: Now, of course, when you have a captive finance arm, it then turns to the market, and it may often turn to an arm of one of the major banks in order to raise money in the marketplace. The difference, of course, is that in the last while, as the credit markets have generally tightened, the spread has grown and the cost to finance has grown quite dramatically.

The Chair: Thank you very much, Mr. Beatty.

Mr. Vincent.

[*Translation*]

Mr. Robert Vincent: Thank you, Mr. Chair.

Following up on my earlier questions, what vision do you plan to embrace once the economic crisis is over? Will you take a different approach to manufacturing automobiles? Or, are you telling yourselves that while things may not be going so well for you because of the economic crisis, when things begin to turn around, you will continue to build the same line of vehicles and it will be business as usual? Will you be changing the way you do things once this crisis is over?

● (1925)

[*English*]

Mr. Stephen Beatty: Much like the oil crisis and every one of those pivotal points in the industry, I think what emerges on the other side is not just a different industry but also a different consumer, who is looking for something other than what they were seeing previously.

I think this is a three-way partnership, frankly. The consumer will be looking for a different type of vehicle coming out of this. Automakers need to look at how to ensure they are competitive in that new marketplace, and particularly, as you're saying, in a situation where people's own budgets are only starting to recover.

Finally, we're looking at a new regulatory system in North America and around the world. All of that will drive changes in vehicles, and you've seen it certainly over the last decade. The move from minivans to SUVs and now back to crossovers...we are seeing massive shifts in different types of vehicles. You're seeing the introduction of mini-vehicles in Canada. You're seeing hybrids and other advanced technology. It's all happening very, very rapidly. A number of products that were unknown 10 years ago are now fairly common on Canadian streets, and the pace is picking up.

[*Translation*]

Mr. Robert Vincent: Since sales of Toyota vehicles are already down substantially in Japan, how do you think this will affect your company and the funding of your Canadian operations?

[*English*]

Mr. Adriaan Korstanje: I don't think we'll feel that in Canada. We opened RAV4 with a single shift, so we are actually producing 75,000, and there is more market for the RAV4 than that—perhaps not a market for a whole second shift, but more market.

Corolla is lagging a little bit right now, especially in the States. This is challenging us. That's the area where we've had to take some measures to control our line speed, so we make fewer Corollas temporarily. We're very hopeful that with the spring and the summer, a car like Corolla, with its smallness and its fuel utility, will come back more quickly than perhaps some of the rest of the industry. So we're optimistic about the Corolla and our RRX. Vehicles like that don't jump up and down as quickly, and we have a new model that is just a killer. It's a fantastic car that I want you all to go and test drive, because I think it's going to do very well too.

[*Translation*]

Mr. Robert Vincent: Fine then. Thank you.

The Chair: Thank you, Mr. Vincent.

Monsieur Wallace, monsieur Lake.

[*English*]

Mr. Mike Lake: I want to just touch on something quickly, if I could.

Yesterday, during the committee meeting, we had the CAW before us, talking a lot about the productivity advantage of CAW workers versus non-CAW workers. I'm just wondering if you would comment. Are your workers less productive than CAW workers? If so, why?

Mr. Adriaan Korstanje: How were they framing their analysis?

Mr. Mike Lake: It would take me a while to go into the evidence and frame it.

To reframe my question, are your workers less productive than CAW workers?

Mr. Adriaan Korstanje: Absolutely not. Our workers, in terms of hours per unit or cost per unit, are North American and world competitive. That's been proven out in study after study.

I'm not sure whether they found some cherry-picking where they can show a productivity difference. Productivity is apples and oranges, depending on the vehicle you're working on. Productivity on a Lexus is different from productivity on a very simple-to-build truck. So it's a hard number to understand.

But for us, our ability to change tack time, which is our cycle time, quickly and adapt quickly to market and make more or less vehicles without enormous investments in time and resources makes us very competitive in terms of productivity.

● (1930)

Mr. Mike Lake: I don't want to mistakenly leave the impression that any Canadian auto worker is not productive.

I want to ask this question, then. In terms of Canadian auto workers, what is it that makes a Canadian auto worker more productive generally across the board than auto workers in other countries? We hear that time and time again, that we have a real competitive advantage across the board, in terms of our expertise here.

Mr. Adriaan Korstanje: I'm not sure it's fair to say they're more competitive than other jurisdictions, but productivity is a function of how many man-hours you have to put in to build a vehicle. Our hours per vehicle are certainly very competitive within North America and the world.

As I said, for man-hours per vehicle, if it's a more complex vehicle, it isn't the same calculation.

Mr. Mike Lake: Okay.

Just shifting gears a little bit here, I want to talk a little about, if I could, the current economic position of Toyota. Obviously, there's significant difficulty across the board. We've heard in the news that Toyota, if I'm not mistaken, will experience a loss for the first time in history.

First of all, maybe speak to the extent of that.

Mr. Adriaan Korstanje: Toyota Motor Corporation worldwide is anticipating in the area of a $5 billion loss, give or take, in this year, by the end of this year that we're in the fourth quarter of right now.

The cash burn has been very quick. We're fortunate that we have more liquidity behind us, so that is not impacting us as immediately. We're taking very strong and immediate counter-measures, in terms of stopping unnecessary capital spending. We're looking at compensation for executives, we're looking at wage freezes across the board. We're looking at every area where we spend money and trying to still keep the things that will give us the future, the R and D, the *kaizen*, the attention to quality, but we're trying to change the culture of our company, from a cost point of view, because we're very challenged.

If things don't turn around, the cash burn in the auto industry is incredibly quick.

Mr. Mike Lake: This is a really important question for Canadians who might be watching this, thinking about their taxpayer dollars going towards these loans, but if things don't turn around, because nobody really knows how long it's going to take to turn things around, is there a point at which we might see Toyota at the doorstep of the industry minister's office asking for a loan?

Mr. Adriaan Korstanje: I don't see that as a likelihood in any scenario that we're looking at.

Mr. Mike Lake: To rephrase it to the way I asked it yesterday to the Ford folks, you don't see it as a likely scenario, but the question would be, how long would the economy have to go in the direction that it's going for that to become a necessity, because eventually I'm sure it would happen?

Mr. Adriaan Korstanje: I wish I were a better economist so that I could answer more accurately, but in terms of our current model cycles and our hopes for those models, I don't see that level of intensity coming out of there.

The Chair: Thank you.

Mr. Beatty, go ahead, just briefly.

Mr. Stephen Beatty: I was just going to say that the investments that need to be made to develop the technologies for the next vehicles have been made. The company is moving very rapidly to change its internal practices in order to conserve resources, in order to carry the business forward. So starting in a better position with greater liquidity, having moved as quickly as we have to address those basic business issues, it's highly unlikely that you would see us at the door. I think you'd expect us to move that rapidly to address the business.

The Chair: Thank you very much, Mr. Beatty.

The last member for this panel is Mr. Masse.

Mr. Brian Masse: Thank you, Mr. Chair.

I think it's important to clarify something. When you're asked—maybe in the community around Woodstock or wherever—how you compare an employee at Toyota's compensation to that of an employee of the Detroit three, what would you say to a question like that, if someone were to ask?

Mr. Adriaan Korstanje: If you're asking about the Detroit three in Canada, the answer is different from what it would be for the Detroit three in the United States.

Mr. Brian Masse: I mean in Canada.

Mr. Adriaan Korstanje: In Canada it's a little different from the States. We've all tried to be very competitive on total compensation, which means on base rate we may be pennies apart, but that's inconsequential. On value of benefits, we may administer them differently—one may be more flexible and one may be more rigid—but they're pretty competitive. In Canada we've maintained a closer competitive relationship with the Detroit three, and in fact with the whole OEM segment in Canada than perhaps....

● (1935)

Mr. Brian Masse: Now, given that they've been directed to lower their compensation and reopen their collective agreements—and the details will be coming forth in the analysis—will you at any point in time be going to your employees asking for a reduction in their base rate or benefits during this time right now or in the future?

Mr. Adriaan Korstanje: Our commitment to our team members is that we're going to protect the core of what we have. That doesn't mean every day off and every benefit that may be a little esoteric or really not cost-effective is going to stay, but we realize our people need a certain number of hours of work and dollars per hour to maintain what we have, and that's what we're trying to work together to protect.

Mr. Brian Masse: Okay, but you are going to be looking at what they did and then looking at your workforce.

Mr. Adriaan Korstanje: We've already taken many measures. We're at zero overtime, and in a company that has worked overtime the whole time we've been here, that's a change for people. We've had several days when we had non-production. For our contract or flexible workforce, that meant they were home. For our full-time permanent workforce, they could come to work for pay, or not; they could stay home. We've taken many measures. Executives have taken pretty significant reductions in compensation. So we're doing things, but we're doing them within a value base that says there's a certain core that's required to be an auto worker at the level we are at now, and we're going to try to maintain that.

Mr. Brian Masse: So it would be fair to say, then, if you were asked to compare the ordinary worker in the plant in Windsor at a mini-van plant and a worker in Woodstock, that their compensation at the end of the day would be relatively comparable and equal. Is that correct?

Mr. Adriaan Korstanje: That's how we've always designed it to be, on an overall compensation base, and not cherry-picking one element over another.

Mr. Brian Masse: There seem to be a lot of suggestions that the solution to this problem is to consistently lower workers' wages and benefits. Would you argue that's the solution to the situation?

Mr. Adriaan Korstanje: I think part of that confusion comes from the fact that compensation is modelled differently in the States. In a Toyota plant in the United States, your base rate might be 10% less than a Detroit three base rate, but your variable compensation, if the plant does well, might bring you up to a total compensation of 5% more than the Detroit three total compensation. Your plant has to do well. There has to be a performance element.

If you forget about all that and say, “I just want you to drop to that base rate”, that's not a very sophisticated approach to force people to take. I wonder if when people say they want the Detroit three to drop to the rates of companies like Toyota, they're just cherry-picking a little bit about one situation like that.

Mr. Brian Masse: I think you're correct, and it's led to some complications in getting a solution to the situation. It's also been a distraction from the real problem here, which is that the financial markets are really the core problem of where we're at today. It's not the men and women who are making the vehicles, whether they be in Woodstock or Windsor. It's not their fault. I worry about the fact that if we continue to erode their base, it defeats the whole purpose of economic stimuli, because when you look at Windsor now, we have lost another shift; or if you look at Woodstock, if you have to cut two or three dollars off their wages, or something like that, they'll no longer be able to contribute to the local economies, which is necessary to maintain the systems that we're trying to sustain right now by doing this massive borrowing. I find that particularly difficult to deal with.

The Chair: Thank you very much, Mr. Masse.

Thank you to our witnesses, Mr. Korstanje and Mr. Beatty, for appearing in front of us tonight. Your testimony will help us in formulating a report and recommendations to the House.

We'll suspend for six minutes to allow a change in witnesses, and we'll reconvene at 7:45.

●

(Pause)

●

● (1945)

The Chair: Good evening, members, and good evening to our two witnesses.

We have in front of us for the second panel tonight Honda Canada. From Honda we have Mr. Jerry Chenkin, who is the executive vice-president, and Mr. Louis Gaetan, who is the director of government relations.

Welcome to you both. Thank you very much for appearing in front of us. Your testimony will help us in formulating a report and recommendations that will be sent to the House of Commons by the end of March.

So without further ado, we'll give you the floor for a ten-minute introductory statement.

[*Translation*]

Mr. Jerry Chenkin (Executive Vice-President, Honda Canada Inc.): Good evening, Mr. Chair, committee members, ladies and gentlemen. It is a great pleasure for me to be here this evening to talk to you about Honda Canada.

[*English*]

Thank you for inviting Honda Canada to participate in this hearing on the crisis facing the auto industry in Canada.

Mr. Manabu Nishimae, president and CEO of Honda Canada, wanted to be here tonight, but he is unfortunately unable to do so because he is out of the country at this time. He asked Louis and me to represent him. He sends his regards and his congratulations for undertaking such an important mission to find potential solutions to the crisis affecting the automotive industry in Canada.

As a way of introduction, let me give you a quick background of Honda Canada and maybe explain some things about our company that you maybe have not heard before.

First, tomorrow, by coincidence, on March 11, we will celebrate our 40th anniversary in Canada. So we're going to be heading back for a big party tomorrow.

In 1969, when Honda came to Canada, we were a small company with a big dream. We started with motorcycles and power equipment, and in 1974 we started the automobile business. In fact those of you who remember the first Civic that we launched in 1974, we sold a total of 747 units that year.

But we worked hard to gain the confidence and trust of Canadians, and over time, through the development of our strong brand image, our products earned the respect of the marketplace. And we grew. In 1986 we built our first factory in Alliston, Ontario, the first automobile manufacturing plant opened by a Japanese company in Canada. By 1991 we had sold one million vehicles in Canada, and in 1998 we built a second manufacturing plant, again in Alliston, based on our company's philosophy, which is to produce products as close as possible to the markets where they are sold.

Following that same philosophy and based on our steadily increasing sales, this last year, in 2008, we invested in our third manufacturing facility in Ontario, this time a state-of-the-art engine plant to supply our Canadian factories with fuel-efficient, low-emission four-cylinder vehicles.

But the investment hasn't stopped there. Last year we began the construction of our new, environmentally friendly head office in Markham, Ontario, which is designed to be LEED gold-certified. Our new facility will accommodate 700 associates. And as you may know, we also have regional offices across the country, in British Columbia, Alberta, Quebec, and Nova Scotia. All these investments now exceed $2.6 billion that Honda has made in Canada. These were all made without direct governmental aid or subsidies, as we believe that to be sustainable, an investment has to make sense on its own financial merit over a given period of time.

I'll come back later in my presentation on this point, as we believe that governments have an important role in creating stability in the market to make such investments viable and recurring.

So what is Honda in Canada today? Honda is a company powered by Canadians for Canadians. In fact, more than 22,000 Canadians work either directly or indirectly for Honda, in the manufacturing, sales offices, and dealerships across the country, generating $12.5 billion in sales annually. You may ask, why such a large number of people? It's because Honda Canada distributes more than just cars and trucks under the Honda and Acura brand names. We also sell motorcycles, ATVs, power and marine equipment, and soon, small business aircraft with our new fuel-efficient Honda jet. Anything with an engine is good for Honda.

In terms of production, with just over 383,000 cars and light trucks built in Alliston last year, Honda Canada was the third-largest automotive manufacturer in Canada, behind GM and Chrysler, and the second-largest manufacturer of passenger cars, behind GM. Based on recent announcements about production from some manufacturers, it could well be that Honda will be the number one manufacturer of automobiles in Canada next year.

● (1950)

It's also worth noting that later next month, our Alliston plant will be manufacturing their five millionth vehicle—a very important milestone for any manufacturer, but this means so much more for a company such as Honda, which is often referred to as a foreign company rather than a new domestic manufacturer.

Furthermore, the Honda Civic, one of the models manufactured in Alliston, has been Canada's best-selling car for eleven years in a row. Because of its success, Honda Canada is proud that 45% of all the Honda and Acura vehicles sold in Canada last year were manufactured in Canada.

Behind all those successes and numbers are what Honda Canada is all about, our people and our customers. That's why we're here tonight. We want to continue to thrive in Canada so that our associates, our dealers, our suppliers, and our customers continue to enjoy the benefits that come from a solid automotive sector.

We believe that government can help in these difficult times, and we would like to cover some of the initiatives we propose that can be undertaken for that purpose. Before I do so, however, I'd like to briefly explain what Honda Canada believes are our responsibilities as a company that Canadians want to exist, as indicated in our global mission statement.

As a responsible member of society, Honda is making every effort to ensure that our associates continue to enjoy working in a secure and pleasurable environment; that our dealers and their employees continue to benefit from the investment and dedication they have made, both in their dealerships and our products; that our suppliers expand their business further through technological advancements; and that our customers continue to be the primary focus of everything we do.

At Honda, we have always considered it our responsibility to ensure blue skies for our children. That means ensuring the preservation of the global environment in every phase of our corporate activities. That's why Honda Canada introduced in 2000 the Honda Insight—North America's first gasoline-electric hybrid. We made sure that our plants in Alliston have zero landfill waste and our engine plant uses molten aluminum made from 100% recycled scrap.

We're studying how to commercially sell the Honda FCX Clarity, a zero-emission, hydrogen-powered fuel cell vehicle, in Canada.

We're just as proud that more than 1.2 million Canadians have benefited from charitable programs funded by Honda Canada and the Honda Canada Foundation, which focuses on environmental activities.

So while Honda will continue to be governed by these basic principles and philosophies, the onset of the recession has created widespread concerns among all of our stakeholders. I know that the association representatives that were here before you yesterday covered the state of the automotive market in North America extensively, so I will not go into any details on that topic. But as far as Honda Canada is concerned, suffice to say that while enjoying record sales in Canada at the beginning of 2008, our sales, just like the majority of other manufacturers, have decreased substantially in the latter part of the year and during the first two months of 2009.

While those month-to-month percentage differences are reflective of the record months we had last year, it's important to realize that even a company such as ours, with a wide range of product, which we can quickly adapt to shifting consumer demand, is in fact suffering. The major reasons for our rapid decline in sales are primarily due to lack of credit availability and faltering consumer confidence. We believe the government can and should play an important role in those two main factors in order to create some market stability, and as a result regenerate an atmosphere where people feel good about shopping.

Dealing with access to credit, even though you've heard this before, let me once again explain the impact on our business. With the rapid deterioration in the economy and resulting higher cost of borrowing funds, Honda had to adjust quickly by tightening credit granting for consumer loans. At the same time, our dealers saw their cost of operations increase dramatically due to that same lack of availability.

● (1955)

We were very encouraged to see in the last budget the government's efforts to backstop credit for the industry with the $12 billion secured credit facility, and we look forward to a speedy implementation by the Business Development Bank. However, we would have preferred that the government made those funds available directly at a preferential rate to the existing OEM financial institutions so that they could securitize their portfolios and thus make more affordable financing available to our customers.

With more than 65% of all Honda and Acura customers seeking some kind of financing or leasing support for their vehicle, quick access to credit by dealers and customers would provide an important boost to help the Canadian industry to at least maintain its production.

In terms of retail initiatives, while Honda is not asking for any assistance for our company from the government, we believe the government can and should help restore consumer confidence. We would recommend programs aimed directly at the customer. In fact, we believe the government has a unique opportunity to create a win-win situation by enhancing its existing scrappage program to help stimulate new vehicle sales in Canada while having a substantial positive impact on the environment, for example by quickly adopting a progressive successful scrappage program similar to that of British Columbia and a number of European countries.

Honda Canada fully supports these concepts, which provide customers with a sliding financial incentive based on reduction of greenhouse gas emissions compared to their previous vehicle. In addition to this program we believe that government should also consider other economic stimuli for customers, such as timely sales tax reduction or exemption for new vehicle purchases; allowing RRSP withdrawals without penalty for car purchases, similar to the housing program; or reducing all import tariffs from 6.1% to 2.5% to harmonize with the U.S., thus reducing the cost of all imported vehicles.

In the same vein, we also believe that financial stimuli provided to some manufacturing companies should be closely monitored to ensure the money provided is used for what it was originally intended. We are concerned that if taxpayers' money assigned for one purpose is then diverted into customer loan financing or other similar types of incentives, this introduces unfair competition for those firms who are not requesting government assistance.

To ensure that our investments continue to be profitable, and if we are to create new investment in the future, we feel it's crucial that our government ensures a level playing field among all companies when it comes to policies and programs that affect consumer purchasing decisions.

Let me wrap up by thanking you on behalf of the 5,000 Honda Canada direct associates who I represent here this evening. I thank you for your time, and I have the confidence that you all will create an environment where we can continue to grow, invest, and provide secure jobs over the long term.

● (2000)

[*Translation*]

Thank you very much for your attention.

[*English*]

The Chair: Thank you, Mr. Chenkin.

We'll have about an hour of questions and comments from members of the committee.

Mr. Valeriote.

Mr. Francis Valeriote: Thank you, Mr. Gaëtan and Mr. Chenkin, for coming this evening to speak to us. It's important for us to understand the industry and what is happening with each of those participating in the industry, because each of your experiences is valuable. We have, and this has been said before, and I know you know this, a fiscal responsibility to the taxpayer to make sure that any money that may be given to the industry to buoy it up or support it is spent wisely, with a reasonable expectation of its return. On the other hand, we also have an awfully huge obligation to preserve jobs for hundreds of thousands of Canadians. I know you know that.

It seems to me that we are continually reacting to situations and crises rather than being prepared for them. To what degree, if at all, before this year, has Honda been involved in discussions with the government to give them ideas on how to stimulate sales, how to help you grow the industry and protect jobs?

Mr. Jerry Chenkin: That's a little difficult for me to answer, because I've only been in this position for just over a year. But either individually or through the associations we belong to, we have been discussing openly with government. To the best of my knowledge, we have not requested anything from the government in terms of stimulation for the business until now, because up to last year the business was going very well for us.

Mr. Francis Valeriote: I'm talking about the scrappage-fee idea for vehicles, harmonizing standards for emissions, efficiency, and safety—those kinds of issues that have been brought to our attention by the Canadian Vehicle Manufacturers' Association.

Mr. Jerry Chenkin: There has been a significant approach. I have had several meetings in the last year and a half with various ministers relating to those kinds of things.

Mr. Francis Valeriote: Are you aware of any discussions that may be going on between the Canadian government and the American government about dealing with common interests between our countries, given the severe integration of our industry?

Mr. Jerry Chenkin: During those several meetings we had, one of the major issues we talked about a lot was harmonization with the U.S. We were recently assured by the government that the general direction is to do everything they can to harmonize those regulations with the U.S.

The major point is that as long as the regulations and specifications on safety equipment in vehicles, for example, between Canada and the U.S. are different, the customer is required to pay more for that product. So we see a huge opportunity, through harmonization, to reduce the cost of our vehicles, which means the customer will benefit.

● (2005)

Mr. Francis Valeriote: We understand that Honda is not asking for money. They must be in a better financial state than General Motors and Chrysler. In that vein, by making a comparison, are you aware of the employee compensation package that General Motors and Chrysler might be offering their unionized employees? If so, could you compare it to the compensation package that Honda offers its employees?

Mr. Jerry Chenkin: I'm not familiar with what our competitors' compensation packages are. I'm sure you are aware that our factories in Alliston are not unionized. Our philosophy has always been that it's up to our associates whether they wish to belong to a union or not. Judging by the fact that they don't, we have to assume they feel they are being compensated at a reasonable level.

Mr. Francis Valeriote: You understand that we're here to collect facts and not render any kind of judgment or opinion. In pursuit of that, do you have enough knowledge of the industry to say whether or not General Motors and Chrysler are at a competitive disadvantage because of the compensation packages they offer their employees?

Mr. Jerry Chenkin: I don't have enough knowledge, and frankly we don't benchmark those manufacturers. We try to make sure we have well-trained, very happy associates working at our factories. So far we seem to have been successful.

Mr. Francis Valeriote: Okay.

You indicated that Honda is also suffering. We're curious to know how long the existing state of the economy would have to persist before Honda found itself in financial difficulty and perhaps asked a government for support.

Mr. Jerry Chenkin: We have never asked any governments for support anywhere in the world, and I don't want to speculate as to when the economy might recover.

Mr. Francis Valeriote: You may have a sense of what's happening at Toyota. Could you compare Honda's compensation package with Toyota's?

Mr. Jerry Chenkin: I have no knowledge of Toyota's compensation package.

Mr. Francis Valeriote: You have none at all?

Mr. Jerry Chenkin: No.

Mr. Francis Valeriote: We've all heard about what may happen if there is a structured CCAA arrangement made at General Motors. Can you tell me what it might do to your particular corporation should that happen?

Mr. Jerry Chenkin: We are of the opinion that any company going out of business will damage the economy, and any damage to the economy will damage our business.

The Chair: Thank you very much, Mr. Chenkin and Mr. Valeriote.

[*Translation*]

You have the floor, Mr. Vincent.

Mr. Robert Vincent: Thank you, Mr. Chair. First off, welcome to all of you.

All of GM's main competitors in Canada posted sharp losses in February. Ford posted a loss of 15.4%, Chrysler, 27%, Toyota and Honda, 26% and your company, 43%. To what do you attribute declining auto sales in February?

● (2010)

[*English*]

Mr. Jerry Chenkin: The major issue we had was actually twofold. A year ago, as you may remember, we were tackling a totally different marketplace. The Canadian dollar was at par, and we were taking very strong action to protect the perceived price difference between Canadian vehicles and the equivalent American vehicles. So we had huge incentives in the market to compensate the customers for the foreign exchange gap that disappeared because the Canadian and U.S. dollars were at par. As a result of those very strong incentives and a market that was still quite buoyant, we had huge sales results.

January and February are traditionally very weak months for the auto industry from a seasonal point of view. Compared to February two years ago, our sales this February were down by less than 20%. So from that point of view we were quite satisfied with the results in February.

[*Translation*]

Mr. Robert Vincent: I'll ask you the same question that I put to the other manufacturers.

In light of pay cuts, numerous job losses and declining wages in all industrial sectors in Canada, how to you envision the future in terms of automobile sales and wooing back you customers?

When wages decline, so too does people's purchasing power. A decade ago, and even more recently, wage increases were in the 1.5% to 2% range. Workers who earned $15 an hour and who had agreed to a rollback of $4 per hour to help their employer weather the economic storm and remain competitive in the marketplace needed 10 or 12 years before their salaries were back to pre-recession levels.

Given that consumers are losing some of their purchasing power, how to you envision the future in terms of promoting new vehicles, when customers are dealing with this economic crisis that is further compounded by wage rollbacks?

[*English*]

Mr. Jerry Chenkin: That's an interesting question. The market tends to find its own level, so today, in real dollars, automobiles and light trucks have never been cheaper. It's the best time it has ever been to purchase or lease a vehicle. So the market is adjusting itself right now based on demand.

As the market recovers and people's wages and salaries start to improve, we will see the market adjusting by itself.

[*Translation*]

Mr. Robert Vincent: I have my reservations. As I said, 10 years passed before workers were again earning their pre-recession salaries. It will surely take today's workers just as long to recover once the economy rebounds.

The price of consumer goods hasn't changed, but people's purchasing power has declined. Consequently, as a result of declining purchasing power, banks and credit unions are tightening credit conditions. They argue that if a person who once earned $14 or $15 an hour is now earning $10 or $11, credit conditions must be tightened up for a while. A person earning $15 an hour was thought to be able to afford a new car. However, when that person earns only $10 an hour, given the mortgage and other debts, financing for the purchase of a automobile is not so readily available.

I can understand that the automakers might need some assistance in the form of loans, but this situation cannot go on indefinitely.

Have you given any thought to what you will do once the crisis is over? The market will change. Today, for instance, the market is reacting a certain way, but in light of people's salaries, you will need to change your model options or build more affordable vehicles. People will not be able to obtain the required financing from the banks and the credit unions to purchase a new vehicle.

Have you given any thought to producing new models? Have you any other new car designs in mind?

● (2015)

[*English*]

Mr. Jerry Chenkin: I think I understand your question. The challenge for any manufacturer is to listen to the voice of your customer. The good guys are the guys who listen and react quickly. They're the winners. The losers are manufacturers who don't listen to the voice of their customer and continue to produce product. And I'm not talking automotive especially; this applies to any product. If you continue to design and produce product the customer doesn't want, then you cannot survive.

I can only speak to Honda. I don't know anything about any other automotive company. Honda has always listened to our customers very closely, and we are agile enough to be able to react very quickly to what customers want. For example, next month we will launch a brand-new small hybrid vehicle called the Insight. This is the second generation of Insight. It's the lowest-cost hybrid in the marketplace. We haven't announced the pricing yet, but they did in the U.S. So we are now in a position where we can adapt our product lineup to match the income of the customer.

The Chair: Thank you very much, Mr. Chenkin.

Mr. Lake.

Mr. Mike Lake: Thank you, Mr. Chair.

Thank you for taking the time out of your schedule tonight to be here.

I want to come back to a little bit of context, if I could. I'm not going to read through all the quotes I read when the Toyota folks were here, but I just want to point out a few things.

Advantage Canada, our plan in 2006-2007—we did several things in there, and one of those things was to reduce taxes across the board, including a GST cut, 2% over a couple of years, about $600 on the cost of a $30,000 vehicle. We also started reducing the corporate tax rate from 22%, eventually to 15% by 2012. It will make us the most competitive tax environment in the G-7. These are important steps.

When you look at the numbers in the G-8, for example, all other countries in the G-8 ran deficits in each of the last three years previous to this one. Canada was the only one that ran a surplus in any of those years, and we ran a surplus in each of them. World Economic Forum says we have the most solid banking system in the world here in Canada, number one. I think U.K. was 44, the U.S. was 40. IMF and OECD are saying we're going to come out sooner and stronger than any other country.

I'll read one quote from *The Telegraph* that sums up the rest of them: “If the rest of the world had comported itself with similar modesty and prudence, we might not be in this mess.”

Speaking about the steps Canada has taken prior to this, I think it's important that we don't lose sight of the long-term track when we're talking here about the short-term measures, especially when we're talking about a company that's generally in a pretty solid financial position compared to others.

First of all, do you agree with my assessment that Canada is in a very strong financial situation relative to other countries?

Secondly, and an important part of the equation we haven't touched on a lot, is what do you see as the long-term prospects of the Canadian auto sector once demand in the U.S. rebounds?

Mr. Jerry Chenkin: Honda believes in Canada. We believe in the strength of Canada. We have invested, as I said earlier, over $2.6 billion in Canada. That money has been earned in Canada, from Canadians. Honda reinvests money back into the economy.

If we didn't have confidence in Canada, then we would not be here, so absolutely: unquestionable loyalty to this country. There are many thousands of Canadians who are now making a living from the business that Honda does in Canada. We are totally committed as a corporation.

Mr. Mike Lake: All right.

No doubt, despite whatever measures you're taking, you would have an overcapacity issue of some sort right now, I would imagine. Can you quantify that in any way?

Mr. Jerry Chenkin: It's very flexible. As Honda, we have one of the most—if not the most—flexible manufacturing systems in the world for automotive, so we can adapt almost daily to the requirements of the marketplace.

● (2020)

Mr. Mike Lake: Maybe I actually phrased that wrongly. I'm thinking more about inventory, your inventory numbers. You probably have more than you are able to sell right now in terms of your inventory. There's a follow-up to that and I'll just ask it now: what is your strategy to clear that oversupply? I guess that's the word I'm looking for.

Mr. Jerry Chenkin: We have been adjusting for the last six months. When we saw this problem coming, we immediately reacted. This is one of the advantages we have as Honda. We can adjust production very quickly in all of our plants across North America, so our inventory situation, while not perfect, is in actually quite reasonable shape.

Mr. Mike Lake: Have you laid off workers?

Mr. Jerry Chenkin: We have not laid off any of our permanent workers, both at Honda Canada and at our factories. The only adjustments we've made are with temporary or contract associates, where we have not renewed their contracts as they've come up.

Mr. Mike Lake: On the supplier issue, we asked Toyota about this earlier, and I'm curious to hear your take on this. If I heard correctly, you're generally supportive of the loans extended to the other manufacturers. There are some concerns about all of the different things we're doing in terms of making sure they're done in a way that doesn't create a competitive advantage for one versus another. Is that an accurate characterization?

Mr. Jerry Chenkin: We don't agree and we're not asking for anything, but we understand why it's necessary.

Mr. Mike Lake: More neutral, I guess, would be a better way of phrasing it, as Toyota did.

Mr. Jerry Chenkin: Yes.

Mr. Mike Lake: In terms of your suppliers, could you estimate for me what percentage of your suppliers is shared with the other manufacturers?

Mr. Jerry Chenkin: It's very difficult for us to determine that, because we have a huge number of suppliers in Canada and the U.S. Of those suppliers, we're not sure what percentage of their business Honda represents. It's very, very difficult for us to judge what might happen.

Mr. Mike Lake: Is it fair to say, as we've heard from others, that if one of the other big companies' manufacturers were to go down, there would be a significant detrimental effect to Honda suppliers and to Honda indirectly because of that?

Mr. Jerry Chenkin: I think we'd be remiss if we weren't studying the various potential issues we'd be facing if that were to happen. Of course, we hope it doesn't, but we need to protect our supply chain.

The Chair: Thank you very much, Mr. Lake.

We'll go to Mr. Masse.

Mr. Brian Masse: Thank you, Mr. Chair.

Thank you for appearing here today.

I noticed in your brochure that you're a very diversified company. Actually, in some respects, that's fairly unique to the hearings today.

There's some good news and bad news with that. The good news with this budget is that if you're a Canadian taxpayer and you re-sod your lawn, you can get up to $1,300 in savings, so your lawnmower industry might do well. The bad news is that the scrappage program is still at $300.

I want you to highlight a little bit the scrappage issue that you've raised, because it has come up as a regular theme in these hearings.

Mr. Jerry Chenkin: One of the fundamental principles of Honda, as I mentioned earlier, is to create blue skies for our children, so we have always believed very strongly in any activity that will help the environment. This is not new; it's not a bandwagon we're climbing on. This is something Honda was talking about 60 years ago, when he started the company. So even though we are an automotive company or we're a company involved with mobility, the company has always tried to have minimum impact on the environment, way before anybody started talking about eco-anything.

Basically, all we see is that a scrappage program is a must-have, from a philosophical point of view. Right now, we're looking for a stimulus that will get customers out purchasing something again. What a great combination. It's a win-win opportunity for everybody.

We believe the government is heading in the right direction with the $300 program, but if you look at Europe, where it's in excess of $3,000, or B.C., where I believe it's up to $2,000, we believe that kind of stimulus is necessary when there is no consumer confidence. People don't feel good. They don't want to go shopping right now—$300 isn't going to help.

● (2025)

Mr. Brian Masse: Okay. And that's important.

I just have to note, though, that I'm not sure there would be a lot of counter-arguments about ATVs and Sea-Doos being actually environmentally friendly. But it is important to focus on what we can do for the automotive sector related to keeping people employed.

Now, you mentioned in your statement there that you've only laid off temporary workers and contract workers. We're trying to get an angle, in terms of the cost analysis, between the Detroit three domestically here, and there have been a lot of suggestions of what it really is, and a lot of information out there.

What percentage of your employees are contract or are temporary workers?

Mr. Jerry Chenkin: I don't have those numbers. Sorry.

Mr. Brian Masse: Would it be a significant number, or would it be a small portion of your operations?

Mr. Jerry Chenkin: We have about 5,000, so maybe less than 10%.

Mr. Brian Masse: Okay, and that's important.

What would your common worker get, for example, in your automobile division? What's the starting wage or what's the hourly wage? Would it be comparable—I asked this of Toyota earlier—to that of the Detroit three in Canada?

Mr. Jerry Chenkin: I'm sorry, I'm not involved in the manufacturing side.

Mr. Brian Masse: Oh, okay.

Mr. Jerry Chenkin: The only answer I can give you to that question is that every time we have an opening, there's a lineup of people at the door. So we have no shortage of people looking to work at the factory.

Mr. Brian Masse: Could we maybe get that tabled later on when you come back to the committee: what an average worker would make with regard to a starting salary and what they would climb to in the organization?

Mr. Jerry Chenkin: I don't think we want to make that public knowledge.

Mr. Brian Masse: Well, I think your workers probably would.... I mean, we can go around that way and get it. I find that a little disappointing, because I think we could get that indirectly. I don't think it's a big corporate secret, by any means.

You are asking for government funds this time; it's the first time in your history. I don't disagree with the analysis of financial lending to the credit aspects of your own divisions versus that of going to a separate body. It worries me going to the BDC. There hasn't been a tremendous success rate of projects—I know in my own riding—that have gone to BDC support in the past. They've only just backed up bad, high-interest bank loans, which has really caused a lot of problems for tier one and tier two suppliers.

Perhaps with that, what would be the difference you'd like to see if it went to your own credit application process versus that of somewhere else? Would it be more efficient to get out? Would it be lower costs for consumers? What would be the net public benefit of going to your institution for the injection of money to back those loans for leases and purchase of vehicles versus that of a stand-alone institution that's different, that we have to create?

Mr. Jerry Chenkin: I don't believe we're looking for any money. I think what we're looking for is the government to provide the security or to alleviate the risk for us issuing commercial paper in the markets. Honda has a double-A rating. Our rating has not deteriorated. Our captive finance company is as profitable and as capable as it has ever been. What is happening right now is basically the access to funds, which we are trying to solve by ourselves. But right now customers are suffering because of this.

Mr. Brian Masse: Maybe I misunderstood then. I just want to make sure that it's clear. The $12 billion that some suggest has to go up to $60 billion, how would you prefer that be created? Would you prefer it be created as a separate entity, or would you prefer the injection into your own credit facilities for lending? Obviously there would be rules and structures put in place for everyone. Would you prefer it as a separate backstop, or do you want a percentage to go into your own lending capacity or for purchasing?

Mr. Jerry Chenkin: I'm not a financial expert, but I could say that all we're looking for is for those funds to be used in the best way possible to open up the credit markets.

Mr. Brian Masse: I thought in your comments you said you wanted it to go into your own credit facilities.

Mr. Jerry Chenkin: I think it's accessibility that's the issue.

Mr. Brian Masse: I appreciate that. I really wanted to clarify that.

● (2030)

The Chair: Thank you very much, Mr. Masse.

Thank you very much, Mr. Chenkin.

I just want to note that there have been other witnesses who have appeared in front of us who have declined to provide certain information that they think is proprietary to their operations. We as a committee have allowed that. I think in light of that, if the committee wishes to compel certain figures from certain companies later, we certainly can have a debate about that. I think for now and based on past practice, we'll allow them to not divulge information they feel would be of a competitive or proprietary nature.

Ms. Hall Findlay.

Ms. Martha Hall Findlay: Thank you, Mr. Chair.

Thank you, gentlemen, for being with us here in this increasingly late evening.

I have been refraining and I cannot resist any longer. My colleague has talked about what a great financial situation this country is in, and I have to say I'm extremely proud of the financial situation this country is in and has been achieving over the last decade and a half. I would like to point out that it was your colleague, Stephen Beatty, managing director of Toyota, who in the earlier testimony acknowledged that Canada's financial situation is strong thanks to the effort of governments over the last many number of years. I am very proud to be part of the government that in fact did take us out of deficit spending to a surplus and did pay down a significant amount of debt and turn our debt-to-GDP ratio around, which is regarded as one of the strongest aspects of the Canadian economy.

So I just wanted to reinforce with my colleague that we are all extremely proud of the economic situation that Canada has been in for the last decade and a half.

I will reiterate this for every witness. We are very concerned about jobs as parliamentarians. We are also very concerned about taxpayer money. You have talked a bit about recommendations, and I appreciate that very much. I understand the recommendations from the consumer and market perspectives. As with your colleagues earlier, there is not a specific recommendation there to bail out General Motors or Chrysler, but you have said in response to a couple of questions that this would be problematic for Honda.

You can say that at the high level, but I am curious, because we have to know in terms of alternatives, what might happen. We don't know yet. If in fact General Motors and/or Chrysler were to go into CCAA restructuring, our equivalent to chapter 11, could you elaborate a little bit—and pick the following six months—on what that would eventuality do to Honda that has you concerned? You can talk about what effect that would have on your supply chain, your own manufacturing, your own level of sales, etc. If you would elaborate a little bit, I would appreciate it.

Mr. Jerry Chenkin: Let me try. It's obviously very difficult to try to speculate what might happen, because we're heading into uncharted waters, so to speak, with the possibility that these things might happen.

Our number one concern is to get consumers back into our dealerships. As we've already pointed out, there are two or three things that need to happen to enable that. First of all, people have to feel good again, and right now people don't feel good. Unfortunately, if any other major manufacturer were to end up in CCAA, then the question is what effect would that have on the Canadian consumer?

Ms. Martha Hall Findlay: I don't mean to interrupt, but we have a pretty good understanding of what effect that might have on the consumer. That's at the high level. But my specific question was, if that were to happen, what would that do to Honda? What would that do to the supply chain, for example, that you share? Would that create a problem for your source of supply? Would it enhance people's desire to buy Honda cars? Would that be offset? Would factory capability potentially be available for a competitor to acquire?

It's that level of granularity I was looking for.

● (2035)

Mr. Jerry Chenkin: I'm sorry, I misunderstood you.

Basically, again, it comes back to the consumer. What we don't know is what the consumers will do in the event one of those companies goes into bankruptcy protection. Will that be considered to be the bottom, in which case people will go out and say okay, it can't get any worse than this, it's time to go shopping, or will it create more fear? Nobody knows.

As far as the supply chain is concerned, as I mentioned earlier, we are studying right now what the impact will be on our suppliers, because we have 271 major suppliers in Canada. So it's not a case of a very few suppliers.

The Chair: Thank you very much, Mr. Chenkin.

Mr. Wallace.

Mr. Mike Wallace: Thank you, Mr. Chair.

And I thank you, gentlemen, for joining us here tonight.

We've heard lots from different individuals. There is the idea of allowing a withdrawal from your RRSP for a car purchase. That's a program available for home purchases, but I don't think it's been considered for automobile purchases—though I may have missed this—so I appreciate the suggestion. There is a slight difference in the end value of a home, hopefully, from that a vehicle, but it's something to consider.

Your financial arm is up and running, I'm assuming, and still loaning and leasing for new car purchases. Is that an accurate statement about Honda financing?

Mr. Jerry Chenkin: It is running, but nowhere near the same level as it was before the financial crisis started.

Mr. Mike Wallace: Can you tell me how much of your automotive business is leasing?

Mr. Jerry Chenkin: It depends, product by product, but somewhere between 30% and 40% is leasing.

Mr. Mike Wallace: Okay, so the $12 billion in the secured financial facility we're offering will be helpful. It's one portion of the piece.

The other thing we're really discussing around here, after hearing from everybody that credit is an issue.... And we have a facility for that. Whether it's enough or not, that's been up for discussion, there's no doubt about it. But there is another side of the coin, as there may be a company or two who come to see us about an actual loan—not a gift, but an operating loan to keep them in business—for which the taxpayer will expect repayment.

From a fairness perspective, since you're not likely to be one of those companies coming to see us, do you have a set of criteria that I, as a member of Parliament, should be looking at in terms of how that money could be used, so that it doesn't give them an unfair advantage over those who haven't asked for it?

Mr. Jerry Chenkin: That's a good question.

First of all, you're absolutely right: we're not asking for anything. But what we are requesting is that anything the government does, or any kind of program created by the government, should create, as best you can, a level playing field at the end of the day.

For example, we have several situations where the funds that have been injected into competitors of ours have been used for retail incentives. So in effect we are fighting in the marketplace against another company that's using taxpayers' money to fund an incentive program that we're competing against. In the meantime, we have a factory in Alliston producing 390,000 vehicles a year. We need to protect those jobs.

Mr. Mike Wallace: Okay.

Everybody has come to see us—Toyota, Honda, the Association of International Automobile Manufacturers of Canada—and many of them have said, well, we're not asking for anything. But still, if the Government of Canada, the taxpayer, is putting up money to support asset-backed commercial paper, for instance, it is still contributing to the availability of credit, so you're still using the government in a way to ensure that money becomes available for you to make loans and offer leases.

Is that not accurate?

Mr. Jerry Chenkin: Again, I'm not a financial expert, but I can say that the system is frozen. Once it becomes unfrozen, everybody benefits, not just Honda or any other company. Right now we have a total lack of confidence from the major financial institutions around the world and in Canada. Something has to trigger the unfreezing of this, and it's been tried in many countries, but nobody's managed to make it successful yet, because there are still more and more shocks happening every day.

● (2040)

Mr. Mike Wallace: How much of your product that's made in Canada is sold south of the border in the United States?

Mr. Jerry Chenkin: It's about 80%.

Mr. Mike Wallace: So you need consumers south of the border to buy vehicles in order for our manufacturing on this side to be successful. Would that be an accurate statement?

Mr. Jerry Chenkin: Absolutely.

Mr. Mike Wallace: Do you know what the federal administration in the United States is doing to loosen up credit to consumers there?

Mr. Jerry Chenkin: I'm not familiar with that.

Mr. Mike Wallace: You're not familiar with that.

Thank you, Mr. Chair. That's all I had.

The Chair: Thank you, Mr. Wallace.

Monsieur Vincent.

[*Translation*]

Mr. Robert Vincent: I have no further questions.

The Chair: None at all.

Do you have a question, Mr. Lake?

[*English*]

Mr. Mike Lake: I'll just ask a quick question.

I was interested to hear you talk about something that hasn't really been touched on, when you were talking a little bit about some of the things that Honda is doing in addition to making cars. One of the questions that is always in the back of my mind is, if we're going through this process.... Everybody talks about the fact that at the end of all of the restructuring there's going to be a smaller industry here in North America. That means one of two things. It either means there are going to be people who are working who aren't going to be working in the auto industry any more for the companies that manufacture—so for the six companies, I guess, that manufacture here in Canada—or the alternative, which doesn't get talked about so much, which is that they could be working for one of those companies but not making cars. It seems to me that you've kind of touched on that, and no one else has touched on that.

Does Honda have a diversification model? Maybe you can explain that diversification model—obviously there is one—that allows you to capitalize on the investments that you've made in technology, in the expertise of your workers, and in transition into other products that might allow you to keep workers when other companies can't.

Mr. Jerry Chenkin: No doubt Honda is probably one of the most flexible companies in the world when it comes to diversified product lines, and the ability to make decisions very quickly and move resources very quickly. One good example is that where other companies are cutting research and development expenses, Honda is increasing dramatically right now, because we know that we need to produce the products that this whole new world that's coming at us will require. So we make tough decisions quickly and move people quickly.

In Honda, you work not for one division but for the company, so to move from auto to motorcycle to power equipment and marine can happen at any time very quickly. I myself have had that experience in 35 years with Honda. I've worked in every product line and every division in the company.

Mr. Mike Lake: This just leads me to some more questions. In terms of that dramatically increasing R and D, can you quantify that compared to what happens at other companies? I know that's a challenge right now when companies at this time are cutting back in their expenditures. Can you quantify that?

Mr. Jerry Chenkin: It's difficult for me to quantify it, because obviously this is a worldwide activity, but Honda has always invested in R and D, independent of profitability. Our research in Honda R and D engineering is through a totally separate company that is funded by Honda Motors. They have always been fully supported, whatever the financial situation.

Mr. Mike Lake: When we look at the skill sets of the Canadian worker, specifically the Canadian auto worker—and it's well known that we have a significant skills advantage here—where do you see the contribution of these skill sets in Canada if they're not in auto? For example, I had one conversation with someone from south-western Ontario who talked about transitioning using workers who had been trained in the auto sector to build wind turbines. Can you maybe give me some examples of where you might see opportunities for some of these workers in the future economy?

● (2045)

Mr. Jerry Chenkin: It's very difficult to speculate. All I can tell you is that the quality of product coming out of our factory in Alliston is as good as, or better than, any Honda product that's developed anywhere in the world. That is because of the people.

Mr. Mike Lake: Good.

Thank you.

The Chair: Thank you, Mr. Lake.

Thank you, Mr. Chenkin.

One last question from Mr. Masse.

Mr. Brian Masse: Thank you.

I wouldn't want to be remiss by not asking you the question that I've been asking everybody with regard to the banking charges for loans. It is important to get on the record, for me anyway, the fact that the banks have interest rate loans right now at anywhere between—this one right here is from a domestic bank—8% and 14% for good credit applicants. Do you believe that this is hurting the market right now as well?

I know that some of the other loans that I've heard about from my local constituency go up to 30% in the car industry. Is this something that really needs to be fixed?

Mr. Jerry Chenkin: We know that under the current financial crisis the cost of borrowing has increased and the availability of credit has become much tighter, so it's kind of a perfect storm for the customer out there right now. They're paying more for their loan, if they can get it.

Mr. Brian Masse: I hate that analogy, because that movie doesn't end very well.

I really want to be specific here, though. In terms of your credit financing, you don't have loans at 8% to 14%, do you?

Mr. Jerry Chenkin: I can't speak to our captive finance arm, what their standard rates are.

Mr. Brian Masse: Okay. Could we maybe get that tabled, if it's not a secret of any sort?

Mr. Jerry Chenkin: No, we can, actually. You can go to Honda.ca and get the information right off there, sir.

Mr. Brian Masse: Okay.

Thank you.

The Chair: Thank you very much, Mr. Masse.

I'd like to thank the two witnesses for talking to us tonight and providing us with your testimony.

I'd like to thank, in particular, the committee staff for these long days and evenings. The clerk, the analyst, the technical staff, and the translators, thank you very much for your efforts here.

This meeting is now adjourned.

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

Also available on the Parliament of Canada Web Site at the following address:
Aussi disponible sur le site Web du Parlement du Canada à l’adresse suivante :
http://www.parl.gc.ca