



JAPAN AUTOMOBILE MANUFACTURERS ASSOCIATION OF CANADA

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On behalf of the members and directors of JAMA Canada, we would like to thank the Committee for the opportunity to participate in the 2012 Federal Pre-Budget Consultation. The following are our three recommendations and the rationale behind them. We have developed our recommendations on the basis of the four primary issues of interest to the committee (how to achieve a sustained economic recovery in Canada, how to create quality sustainable jobs, how to ensure relatively low rates of taxation, and how to achieve a balanced budget), and believe our recommendations address most of these issues directly.

Recommendations:

In our view, the following will help the economic recovery in Canada through maintaining a globally competitive industry as well as a welcome environment for investment that supports high wage employment across Canada:

1. Finalize the Canada-Japan Joint Study to ensure that negotiations toward a comprehensive bilateral Economic Partnership Agreement are completed within as short a timeframe as possible.
2. Expand Canada's alignment of auto related standards and regulations with the US to include harmonizing Canada's 6.1% tariff on imported cars and trucks with the 2.5% US tariff on passenger vehicle imports and the 4% US tariff on medium duty commercial trucks.
3. Continue the accelerated CCA for machinery and equipment to help maintain a competitive environment for investment in Canada.

Rationale for Recommendations:

1. Finalize the Canada-Japan Joint Study to ensure that negotiations toward a comprehensive bilateral Economic Partnership Agreement are completed within as short a timeframe as possible.

Global competition is intensifying, requiring automakers to constantly find ways to reduce cost, including the cost of regulation and the associated administrative burden. At the same time, the rising cost of developing new technology and the growing reliance on global and local supply chains are creating opportunities for cooperation and strategic alliances. Our broader intention in supporting an economic partnership agreement is to deepen our bilateral commercial relations, and to create collaborative opportunities between Canadian and Japanese business in Asia and around the world.

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Of the \$22.6 billion in total Canada-Japan bilateral trade in goods last year, automotive vehicles & parts represented about a quarter of the total. Over the past twenty-five years, Japanese investment in Canada has been led by motor vehicle and related parts manufacturers, and with the support of the Federal and Ontario governments continues to expand in Canada to supply markets primarily in North America.

Moreover, Japan remains the third largest economy after the US and China, and is in a favourable position for Canada and for Canadian companies as a base for broader strategic initiatives in Asia. Overall, there is a need for both governments and the private sector to engage in a broader dialogue in order to deepen and strengthen our economic and trade partnership.

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

As a result of over \$9 billion Japanese automakers' cumulative investment in Canadian manufacturing plants over the past 25 years, Canada has been a net exporter of Japanese brand vehicles every year since 1993. In 2010, over 590,000 vehicles were exported from Honda and Toyota plants in Canada, almost three times the 196,000 vehicles that were imported from Japan by all JAMA Canada members. Moreover, two of every three Japanese brand vehicles sold in Canada are now built in North America.

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

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

While we would prefer that tariffs be eliminated multilaterally, the uncertainty surrounding the current Doha Round of WTO negotiations raises the profile and prospect for alternative measures such as bilateral trade initiatives. At the same time, Canada's current FTA negotiations with South Korea and the European Union (both major auto producing and exporting jurisdictions) have raised serious concerns among JAMA Canada members about competitive disadvantages they would face if only imports from Korea and Europe would be duty free. This is particularly of concern to our members as the 6.1% import tariff impacts not only price-sensitive fuel-efficient entry level vehicles, but also any low-volume, high-tech, fuel-efficient vehicles made only in Japan, thus limiting access and affordability of those vehicles to Canadian consumers. A prospective EPA with Japan could effectively address those particular concerns by offering equivalent tariff treatment for all automakers in the Canadian market.

Finally, a bilateral trade agreement with Japan would help in maintain a positive environment for over 65,000 Canadians employed directly or indirectly in the manufacture, export, import, distribution, sale or service of Japanese brand vehicles in Canada.

2. **Expand Canada's alignment of auto related standards and regulations with the US to include harmonizing Canada's 6.1% tariff on imported cars and trucks with the 2.5% US tariff on passenger vehicle imports and the 4% US tariff on medium duty commercial trucks.**

The auto sector is highly integrated in North America as a result of various trade agreements including the 1965 US/Canada Auto Pact, the Canada / US Free Trade Agreement in 1989 and the NAFTA in 1994. With the benefit of open access to the large US market, the auto sector in Canada has been able to sustain a much larger production base than the domestic Canadian market requires by itself.

Recently, the Canadian Government has formally recognized the essential logic and need for a harmonized regulatory environment within North America to support Canada's trade-dependent industries by aligning safety as well as fuel consumption and GHG emissions regulations in Canada with the US. Currently, Canada and the US are negotiating a Border Action Plan to facilitate trade, enhance competitiveness and secure jobs.

In this context, we recommend extending harmonization of regulations and regulatory processes at the border to include common external tariffs. As Canada maintains higher import tariffs on passenger vehicles and commercial trucks than the US, common external tariffs would generate benefits for automakers in Canada with global supply chains. In the case of passenger vehicles, Canada's import tariff is 6.1%, about two and a half times higher than the 2.5% tariff in the US.

Tariffs are a non-manufacturing cost which is an added burden for consumers. Studies have shown that lower tariffs, like a tax cut, can stimulate market demand. Lower tariffs would provide the opportunity for manufacturers to pass on savings of \$900.00 to the consumer (assuming \$25,000.00 value for duty) which would assist in jump starting vehicle sales. Moreover, aligning with the US tariff rate is consistent with other regulatory harmonization initiatives being undertaken within the industry on safety and fuel economy standards as well as being consistent with the objectives of the Perimeter Security and Economic Competitiveness Initiative. Finally, this initiative supports the purchase of vehicles through Canadian dealers in every community across the country.

3. **Continue the accelerated CCA for machinery and equipment to help maintain a competitive environment for investment in Canada.**

Global competition is intensifying, requiring automakers to constantly find ways to reduce cost, including the cost of regulation and the associated administrative burden. At the same time, the need for investing in new and innovative technology, products and processes is a critical component of being competitive. What's more, Mexico's auto sector has recently outpaced Canada and its lower cost of labour gives it a competitive advantage for manufacturing investment. Continuing the accelerated CCA for machinery and equipment will help manufacturers in Canada maintain a competitive edge through use of high technology equipment and innovative processes.

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The Japan Automobile Manufacturers Association of Canada (JAMA Canada) is a non-profit trade association established in 1984 to promote greater understanding on economic and trade matters pertaining to the motor vehicle industry and to encourage closer cooperation between Canada and Japan. JAMA Canada represents Japanese companies that manufacture, import, export, distribute, sell and service automotive products. In 2010, Japanese automakers sold over 531,000 new vehicles in Canada representing 34.1% of Canada's new vehicle market. Three out of every five vehicles sold by JAMA members in Canada are currently built in North America.

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