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Chair

The Honourable Mark Eyking

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• (1525)

[English]

The Chair (Hon. Mark Eyking (Sydney—Victoria, Lib.)): Order, MPs. It's good to see you. It's very nice to see everybody getting along so well after question period.

An hon. member: We do get along.

The Chair: To our panellists via video, thank you for joining us today. This is a continuation of the study we are doing on future opportunities with our trading partners Mexico and the United States.

We have already had quite a few presenters come forward to us, and not only stakeholders in Canada, because we've also visited the western states of the United States. Next week we are going to Detroit, Michigan, and then Chicago, Illinois. We'll finish up next week in Washington for a couple of days. We also have plans to go to the midwestern states and our trading partner Mexico in the fall.

We have a very ambitious agenda. It's very important right now, and we're very honoured that you people have come to join us today to do your presentations. My understanding is that we have with us Honda and Toyota.

Mr. Worts, you are kind of the head guy there. The floor is yours. Use whatever time you need. The quicker the better, because then we can have a dialogue with you and continue our afternoon.

Go ahead, sir.

Mr. David Worts (Executive Director, Japan Automobile Manufacturers Association of Canada): Thank you very much, Mr. Chairman, for the opportunity to address the Standing Committee on International Trade on the proposed reopening of NAFTA.

I am David Worts, executive director of JAMA Canada. Joining me today on the video conference is Hanif Nori from Honda Canada, Stephen Beatty from Toyota Canada, and Scott MacKenzie from Toyota Motor Manufacturing Canada.

JAMA Canada represents the Canadian subsidiaries of Japanese automakers. These include Hino Motors Canada, Honda Canada, Mazda Canada, Mitsubishi Motor Sales of Canada, Nissan Canada, Subaru Canada, Toyota Canada, and Toyota Motor Manufacturing Canada. A variety of light-duty vehicles, engines, and medium-duty trucks are currently being built in Canada by Hino Motors Canada, Honda Canada, and Toyota Motor Manufacturing Canada.

Let me first outline our recommendations for updating NAFTA. JAMA Canada strongly supports the continuation of NAFTA as a trilateral trade agreement, recognizing that three out of every four Japanese-brand sales in Canada are vehicles built in Canada, the U.S., and Mexico. Moreover, the success of NAFTA for the auto industry stems from a single set of rules established through uniform regulations. This has allowed automakers to develop highly integrated supply chains in production facilities across the region, allowing increasing levels of trade in both vehicles and parts to the benefit of all NAFTA countries.

The current NAFTA automotive rules of origin should be retained. To be effective, rules of origin in modern trade agreements should be clear, simple, predictable, flexible, and easily administered. It is also important to recognize that NAFTA automotive rules of origin have the highest regional content thresholds and do not include any country-specific sourcing.

Improvements to modernize NAFTA in the 21st century include the following: update and expand the list of job opportunities for temporary entry of business persons; update customs and trade facilitation provisions, recognizing the integrated nature of the global supply chains in North America and around the world; update border infrastructure with mechanisms to address bottlenecks; create additional framework agreements within NAFTA, including for automated vehicles, data flows, cybersecurity, or other measures that facilitate e-commerce; and increase regulatory co-operation with the flexibility to align with, or have mutual recognition of, such major international standards as UNECE and U.S. FMVSS. Finally, as a general rule we strongly recommend not including any provisions in trade agreements that signatories don't want to use, or have used against them.

JAMA Canada supports such liberalized trade as NAFTA for delivering mutual benefits to trade partners that enhance competitiveness for both automakers and parts suppliers and encourage adoption of advanced technologies to provide safe and sustainable mobility for consumers that meet their transportation needs and provide reliable long-term employment for skilled and highly qualified Canadians. The auto industry in Canada is built on a foundation of open trade, and continues to be highly trade-dependent and deeply integrated in North America.

Looking at the NAFTA region as a whole, Japanese automakers have made significant long-term commitments to localization under the principle of “build where we sell”. Japanese automakers have established a high-quality manufacturing and R and D presence in North America based on the NAFTA framework. The NAFTA framework has made North America a highly integrated and globally competitive region for automotive manufacturing and trade. JAMA and JAMA Canada hope for a framework that will continue to support and strengthen the competitiveness of the North American auto industry.

Let me summarize the impact and benefits that have arisen in Canada from liberalized trade and illustrate the “build where we sell” principle. Since 1965, 15.8 million Japanese-brand vehicles have been sold in Canada. Since 1986, 17.4 million Japanese-brand vehicles have been built in Canada. In the mid-1980s, virtually 100% of our sales were vehicles made in Japan. In 2016, 76% of Japanese-brand vehicles sold in Canada were locally built in North America. About 29% were built in Canada, 36% were built in the U.S., and 11% were built in Mexico.

• (1530)

When the Canada-U.S. FTA came into force in 1989, Japanese-brand light-vehicle production in Canada was a little more than 100,000 units annually. In 1999, five years after NAFTA was implemented, output had climbed to about 500,000 units annually. In 2016, production had doubled to over one million units for the first time.

Needless to say, the investment in growth of production in Canada would not have happened without open access to the much larger U.S. market through preferential trade agreements like the Canada-U.S. FTA and NAFTA. Currently, as a result, over 77,000 direct and indirect jobs have been created in Canada, including jobs in sales, service, distribution, manufacture, and export and import of vehicles and parts.

Let me conclude by saying that while our success in Canada has been based on a foundation of liberalized trade in North America, Canada must also pursue other opportunities to be actively connected to the increasingly interdependent global economy. With the CETA recently completed and the Canada-Korea FTA fully implemented, we look forward to Canada securing a free trade agreement with Japan, whether bilaterally or multilaterally, in the near future.

Thank you. We all look forward to any questions the committee may have.

The Chair: Thank you, sir.

Just for the record, I drive a Tacoma and my wife drives a Honda Civic, so we're doing all right. They're working well.

We're going to start the questioning. We'll go right to Mr. Hoback.

Mr. Randy Hoback (Prince Albert, CPC): Thank you.

I was under the impression that they all had presentations.

The Chair: I'm sorry. Do you have more presentations, sir?

Mr. David Worts: No, that's it. We're all here to answer questions.

The Chair: So I understood. I'm sorry about that. There was just a little misunderstanding here.

We're going to start the dialogue with the MPs. We're going to have Mr. Hoback for the Conservatives for the first five minutes.

Go ahead, sir.

Mr. Randy Hoback: Thank you, Chair.

Gentlemen, in some of the earlier testimony by other manufacturers in North America, and in some of the meetings I've had with them, they've talked about trying to get the regulations right, so that we have the same standards and create a North American standard for the auto sector here in North America. What's your opinion on that? Do you have any advice on pursuing that?

Mr. David Worts: Certainly from a JAMA-Canada perspective, we're, as we mentioned, in favour of alignment of the regulatory environment in North America. We have been supporting the Regulatory Cooperation Council and their activities in that regard. We just think that it shouldn't be exclusively one set of standards. There should be the opportunity for flexibility to recognize other global standards as well.

• (1535)

Mr. Randy Hoback: Okay. With these regulations, then, do you see that as being something that should be done in NAFTA right now, in an agreement, or is this something that should be done on the side of NAFTA?

Mr. Stephen Beatty (Vice-President, Corporate, Toyota Canada Inc.): If I may answer, one of the things we look at the regulatory cooperation initiative under way to look at existing regulations and how they line up. That's one activity, and I think it's a valid one, but it probably isn't the more significant piece of this puzzle.

As we're moving forward, technology is moving very rapidly, particularly in areas like connected vehicle technology and automated vehicles. In that space, certainly, the Toyota point of view would be that there is an opportunity in the context of NAFTA to try to set up a framework agreement so that we create a common set of rules here in North America. That has a couple of benefits. One is that vehicles travel back and forth across borders in North America, but number two, by setting a common set of standards for the North American marketplace, you're going to get vehicles at the lowest possible cost to consumers in ways that make them the most easily manufacturable vehicles here in the region as well.

Both from an industry and a consumer standpoint, I think that putting in that type of framework agreement would be a valuable addition.

Mr. Randy Hoback: Yes, and I'm glad you went there, because I was going to go there with my next question. When we start looking at the new technologies and vehicles talking to vehicles, I want to make sure that a Ford can talk to a Toyota and to a Honda when it's driving down the road, especially as we go to automated driverless cars and stuff like that.

One of the other concerns I have is that when you you go car, let's say from Windsor, across the border, all of a sudden it's using data in the U.S., so you're going from an unlimited data package in Canada to ten bucks a megabyte in the U.S. Have you put any thought into what should be done to solve some of those problems as vehicles cross the border? The owner of the vehicle may not even be using his phone or the data on the phone; it may be the car itself using that data. How do we handle those types of things?

Mr. Stephen Beatty: Again, from the standpoint of the way our vehicles perform, I would say that they will roam in both markets, so it's covered by part of your existing data package, but above and beyond the cost of the data itself is the question of how you treat the privacy of the data that's flowing into the car—

Mr. Randy Hoback: That's a good point.

Mr. Stephen Beatty: —when you move between jurisdictions. Again, those issues of privacy and security, I think, lend themselves to that type of North American strategy.

We can handle the commercial side of it, but that sort of legal framework in which it operates, I think, is very important for government-to-government dialogue.

Mr. Randy Hoback: We have some great technology companies here in Canada, of course, but it seems like they can't sell here in Canada. What are you doing to reach out to technology companies here in Canada to take advantage of that world-leading technology? It's amazing. You see Canadian companies going down to the States to buy Canadian technology instead of buying it here in Canada.

Are you working with other technology companies here in Canada? I'm think of dashboards and, again, getting back to the fact that we're starting to have cars talking to cars, of the safety aspect of the benefits that would provide. Where do you see that going?

Mr. Stephen Beatty: Again, across the industry, our companies are working with a variety of suppliers, including a number of Canadian suppliers. There certainly has been a lot of spin-off from the BlackBerry group into organizations such as QNX, but beyond

them into companies with security technology and so forth. That's being rolled up into technologies delivered by Toyota, as an example, but I think that's true across the industry. There's an opportunity for those joint ventures.

Mr. Randy Hoback: Will they all be open architecture?

Mr. Stephen Beatty: Yes, but with a very serious look, manufacturer by manufacturer, at how to maintain data integrity and security.

Mr. Randy Hoback: Okay.

The Chair: Thank you, Mr. Hoback.

We're going to the Liberals now.

Madam Lapointe, you have the floor for five minutes. Go ahead.

[*Translation*]

Ms. Linda Lapointe (Rivière-des-Mille-Îles, Lib.): Thank you very much, Mr. Chair.

Gentlemen, what you have just been discussing is very interesting, as were the questions my colleague Mr. Hoback asked.

You spoke about new technologies. Regarding self-driving cars, you may know that there is a test track in Blainville, Quebec, just north of my riding. This is where most tests will take place.

Since you represent a Japanese car manufacturer, I would like to know what you think we should take into consideration. You seemed to advise us to consider the possibility of adopting the same standards for the new technologies.

● (1540)

[*English*]

Mr. Stephen Beatty: In the auto industry we already work toward very broad-based standards but use different technologies to achieve those technology outcomes. What is very important is not the specifics of the technology in the vehicle, but the protocol for communication car to car. Amongst the other things we look at is how to maintain the integrity of the message that will travel from a vehicle to another vehicle or to built infrastructure. That's one of the areas where a lot of research is being done here in Canada in terms of that data security and integrity.

In the same way that today cellphones talk to each other but offer different styles, different designs, and different operating systems, you're going to see that in the auto industry as well, but it's how we make it all work together that's going to be the important question, as well as where the industry works together and in collaboration with government to ensure those standards are in place.

[Translation]

Ms. Linda Lapointe: Do you think that in the context of the new NAFTA 2.0, this would be the type of problem we could attack and resolve?

[English]

Mr. Stephen Beatty: I think there is an opportunity, since we're going back to the table to have those negotiations, to address some of those areas that were not dealt with at the time of the original free trade agreement and to do it in a constructive way that creates not only opportunity but also ensures consumer safety. I think that's where the opportunity of this renegotiation is, and not so much on dealing with the rules of origin and other elements of the package.

[Translation]

Ms. Linda Lapointe: You spoke earlier of flexibility with regard to international standards.

The standards in the United States, Canada and Mexico are different. You said you hoped that a certain flexibility would be applied in this regard.

Could you give us more details about that?

[English]

Mr. David Worts: The two global standards that we mentioned in particular were the U.S. standards, which are extant certainly in North America, but because of CETA and global trade with other jurisdictions—particularly in CETA with UNECE standards and the fact that Japan is moving toward UNECE standards as well—it makes sense to have as much flexibility as necessary to be able to support the operations not only here in Canada, but also in North America and around the world.

[Translation]

Ms. Linda Lapointe: You are speaking about flexibility in the broad sense, particularly as regards Europe, but in your opinion, what could be more flexible in NAFTA so that we may more easily conclude this free trade agreement?

[English]

Mr. David Worts: Well, I guess that's a broader discussion. It has to include the U.S. if they began discussions in the TTIP. I think it can come down to alignment in some respects, mutual recognition of those standards, and being able to be flexible enough to accommodate the high standards.

[Translation]

Ms. Linda Lapointe: Thank you.

If the conclusion of an agreement between Mexico, the United States and Canada proves to be impossible, would you be favourable to our signing a bilateral agreement with the United States, and another one with Mexico?

[English]

Mr. David Worts: No, we're not advocating separate bilaterals. We think we should maintain the trilateral nature of NAFTA, including on regulatory standards.

[Translation]

Ms. Linda Lapointe: Thank you very much.

[English]

The Chair: Thank you, Madame Lapointe.

Mr. Duvall from Hamilton Mountain, I'm glad to see you here. Welcome.

Mr. Scott Duvall (Hamilton Mountain, NDP): Thank you.

The Chair: The NDP has the floor for five minutes.

Go ahead, Ms. Ramsey.

● (1545)

Ms. Tracey Ramsey (Essex, NDP): Thank you.

Good afternoon, gentlemen. Thank you for your presentation today.

I'd like to pick up where Madame Lapointe left off. Perhaps you could dig a little further and elaborate on some of the advantages and disadvantages of the trilateral trade. Ultimately, the U.S. may indicate to us that they want to convert NAFTA from a single trilateral deal into bilateral ones. Can you speak more specifically to the advantages and disadvantages of the trilateral agreement that exists?

Mr. Stephen Beatty: Perhaps I could start from a general plane. From a manufacturing standpoint, I think every vehicle manufacturer would say the same thing to you—that we are not hung up about where you set the bar on standards, but we do want to have as large a consumer marketplace as we possibly can. This is because of the incredible expense in developing new technologies for powertrain, for connectivity, and for safety. The best result for the consumer is for us to manufacture in volume for the largest possible consumer marketplace. It amortizes the cost of development of those technologies across that product consumer market. High standards shared amongst three countries will be a much better outcome from a manufacturing efficiency standpoint and from a public safety standpoint than a welter of bilateral arrangements.

I will say that one of our conversations in terms of where we go with this is that ultimately we'd like to see common regulatory standards between the United States and Europe. It doesn't make sense for us to make small changes in vehicles based on testing standards where the actual outcome of performance in the vehicle is very close. But that's where it comes down today. A lot of it comes down to the technical detail of the standard, not in terms of the real performance of the vehicle. When we talk about mutual recognition, it's about speeding the flow of those technologies to the consumer marketplace.

Ms. Tracey Ramsey: Okay.

My next question, for Honda and Toyota specifically, is about where you go forward from here. Obviously you're expanding and growing your North American platform. Perhaps you could both speak from your company's perspectives on where those plans are developing next. Will there be investment in Canada? Are you looking at investment in the U.S. or in Mexico as your next step? I'm just curious as to where you see your potential market growth.

Mr. Scott MacKenzie (Manager, Business Planning and Government Affairs, Toyota Motor Manufacturing Canada Inc.): For us, growth would probably be another market, whether it be Europe or elsewhere. In terms of investments, we are planning on investing in Canada at our manufacturing facilities in Cambridge and Woodstock. We have plans in place to reinvest and continue to manufacture high-quality vehicles in Canada for the Canadian and U.S. markets. It's important to recognize that, at least in our operations, 80% of our vehicles are going to the U.S. market.

Mr. Hanif Nori (Manager, Government and Environmental Affairs, Honda Canada Inc.): Scott is obviously more of an expert on this than I am, but perhaps I can add to that. The North American market right now is generally moving toward compact SUVs, or at least that's what we've found for our products. In the U.S. especially, that's where it's growing. We build the CR-V in Alliston. Like Toyota, we export the majority of our product, about 75% of it, to the U.S.

As you can see, the investment opportunity here is dependent on us being able to build product that can be exported to other jurisdictions. Obviously we can't absorb all of it. So when it comes to making those investment decisions, which are made in large part in consultation with, if not by, our head offices overseas, we look at where the market is and where it's going. I think the tripartite agreement, the way it's structured in North America right now, lends itself to favourable decisions being made in terms of investments in Canada.

Ms. Tracey Ramsey: Okay.

My next question is really about the highly integrated supply chain that exists. We certainly heard about that from other automotive manufacturers who came before the committee. I think we understand that well.

I wonder if you could speak to us about what a disruption to that chain would look like for you, and how you would address that type of disruption.

• (1550)

The Chair: It will have to be a short answer, sir, please.

Mr. Scott MacKenzie: It would be almost impossible to address that quickly. A lot of our sourcing decisions are made several years out. Right now more than 50% of the content in our vehicles that are made in Cambridge and Woodstock comes from the United States. Any trade-related impact to that would affect our profitability and also our ability to produce an optimally priced car for our customers.

The Chair: Thank you, sir.

We'll move over to the Liberals now.

Madam Ludwig, you have five minutes. Go ahead.

Ms. Karen Ludwig (New Brunswick Southwest, Lib.): Thank you.

I'd like to continue on from Ms. Ramsey's question about disruption and the potential that might have. Let's say there were a disruption in trade between Canada, the U.S., and Mexico. I'm wondering if you could speak specifically to what that might mean for jobs on the Canadian side as well as American side.

Mr. Scott MacKenzie: In simple terms, Toyota manufactured 600,000 vehicles in Canada last year, and we sold about 215,000. If we didn't have access to the United States market, we would have to find another market in order to sell our vehicles. I don't know if there are a lot of markets available right now that we could export to that would make up anywhere close to the market that the U.S. provides.

Ms. Karen Ludwig: Next week we as the trade committee will be heading out to Detroit. If 50% of your content is imported from the United States, then what would a disruption in trade with the United States—maybe a border tax, maybe additional duties, or maybe other issues—mean on the American side for jobs in terms of the supply of content?

Mr. Scott MacKenzie: In the short term, it wouldn't mean much. Again, those sourcing decisions are made several years out. We wouldn't be able to make decisions quickly enough to affect that.

In the long term, sourcing decisions and also vehicle allocation decisions would gradually move the manufacturing and final assembly closer to the market they're sold in. There would be a natural inclination to build where you sell, even more than currently. Natural forces would force that toward the United States.

Mr. Stephen Beatty: It's important to remember that if the costs of compliance in a revised NAFTA become too high, the external duty rate the U.S. applies to cars is 2.5%, so a cost increase beyond 2.5% might very well lead some manufacturers to decide to relocate manufacturing out of the region. There is a real downside to disrupting those supply chains.

Ms. Karen Ludwig: Okay. Thank you very much for that.

I'm wondering about research and development. Where does R and D largely take place? Is it in Canada? Is it in United States? Is it completely outside of North America?

Mr. Hanif Nori: It's generally done in the United States. Some is done in Japan, but the majority is in the United States right now. We do some of it here, but a lot of that is related to cold-weather testing, such as whether or not our vehicles can match up to Canadian winters. This is especially when it comes to the new vehicles—electric, hydrogen, and things like that.

Ms. Karen Ludwig: Is the testing for Canada's cold climate actually done in the U.S.?

Mr. Hanif Nori: That part of it is done in Canada.

Ms. Karen Ludwig: Okay. Thank you.

I'm wondering if you could explain to us the share of your industry operations among Canada, the United States, and Mexico. What percentage, in terms of plant operations, is in each country?

Mr. David Worts: We're currently producing about a million vehicles a year in Canada. It's probably close to 3.5 million in the United States, and in Mexico I think it's probably around 500,000.

I could be wrong on the specifics. I don't have the data right here.

Ms. Karen Ludwig: Okay. Thank you.

My last question is regarding pre-clearance. We've heard from other witnesses before this committee about the significance of pre-clearance. Yes, I know that as a government we've been looking at airports, but would there be an opportunity for maybe streamlining some of the efficiencies at border crossings if we continued with manifests, or e-manifests, and pre-clearance of goods in Canada to go into the U.S., and vice versa?

• (1555)

Mr. Scott MacKenzie: Both Toyota and Honda have just-in-time manufacturing facilities. Honestly, pre-clearance is necessary for us to have a smooth flow of parts across the border. Any interruptions to that, if they extend long enough, can mean massive problems for us. Yes, we would like to keep what we have—and if not, improve it.

Ms. Karen Ludwig: Okay.

Do I have more time?

The Chair: No, that's about right on. Thank you for that.

That's the first round done.

Mr. Peterson, you have five minutes.

Mr. Kyle Peterson (Newmarket—Aurora, Lib.): Thank you, Mr. Chair.

Thank you, everyone, for being with us today.

I understand you guys are in Markham, or at least I'm assuming you are. Are you guys at Honda right now?

Mr. Hanif Nori: Yes, they are: proudly at Honda.

Mr. Kyle Peterson: Perfect. Good stuff. My riding is Newmarket—Aurora, just one riding north of you guys. Look out the window and see how the 404 north traffic is, because I hope to be in it in a couple of hours if I get my flight on time. How's the traffic looking so far, not bad?

Mr. Hanif Nori: You can always get—

A voice: Take a helicopter.

Mr. Kyle Peterson: I hope to be driving by there in a couple of hours, if all goes well. And if I get to my questions, we'll get out of here sooner, so I'll start doing that.

Voices: Oh, oh!

Mr. Kyle Peterson: David and Stephen, it's good to see you again. I've worked with you gentlemen in the past. I was affiliated with and worked with Magna for a number of years not too far from where you guys are.

David, you represent more than just Toyota and Honda. What are the other manufacturers that you represent?

Mr. David Worts: It's all of the Japanese-brand companies that are selling in Canada. We represent the subsidiaries here in Canada. We're not representing the global operations of the companies from Japan.

Mr. Kyle Peterson: Right, but they're present in Canada. Obviously Toyota and Honda are key members of your group. This is just to let people know that it's bigger than just those two, of course.

Mr. David Worts: I would just make the point that Hino is also manufacturing here in Canada with a plant at Woodstock, making medium-duty trucks specifically for the Canadian market.

Mr. Kyle Peterson: Right. I want to dig a little deeper and find out whether there's any distinction or space between the position of some of the Japanese manufacturers when it comes to NAFTA, when it comes to free trade, and when it comes to things like consolidating regulations and so on. Is there some dissenting voice in your association, David—or even between Honda and Toyota, as you're both here—on these sorts of things, or is everyone united about the importance of these free trade agreements and the regulatory change that may follow?

Mr. David Worts: Well, as JAMA Canada, we tend to operate on a consensus basis with all of our members, so yes, I would say that's probably the case.

Mr. Stephen Beatty: I think it's also important to understand that every one of our member companies manufactures in the NAFTA region. The experiences we have in importing or exporting from Canada are the same experiences other member companies have with their operations in the U.S. or Mexico, if they don't manufacture here. There's a common vision.

Mr. Kyle Peterson: I know that the Toyota numbers historically, perhaps from 2000 to 2015, and the company's footprint in Canada and North America in terms of the number of cars sold in Canada and those produced in North America have grown over that time frame. Does that continue to be the case, and is it also the case for Honda and some of the other members of your organization?

Mr. Stephen Beatty: Speaking on behalf of Toyota, it certainly is increasing, and investments continue to be made, as Scott has identified.

The same is true at Honda. I think Hanif may want to expand on that.

Mr. Hanif Nori: We made an investment earlier this year. We built 400,000 last year, and 75% of our vehicles go to the States. In terms of sales numbers, we're growing—

The Chair: Excuse me, sir. You might want to get a little closer to the mike. Just repeat your comments, please.

Mr. Hanif Nori: I was just going to echo what Stephen said. At Honda we have been investing more in Canada. Our production numbers have gone up, and our sales numbers continue to grow.

Mr. Kyle Peterson: That's good.

Is it fair to make the assumption that most of that growth, most of that increased capacity in North America and in Canada, is as a result of NAFTA, the integrated supply chain, and the other things that flow from NAFTA?

• (1600)

Mr. David Worts: Absolutely.

Mr. Scott MacKenzie: It's 100% attributable to NAFTA. I mean, both of us started manufacturing in the late 1980s. In Toyota's case, it was an initial 50,000 units. We made just over 600,000 units last calendar year. I would say that 80% would go to the United States.

So yes, NAFTA is the singular reason for our growth.

Mr. Stephen Beatty: Scott is being a little modest. TMMC is the largest manufacturing operation in Toyota globally by volume. It's been a substantial increase.

Mr. Kyle Peterson: Okay. That's good.

I'm almost out of time, but thank you, gentlemen.

Honda, we love having you in York region.

Stephen, if Toyota is ever looking for some space in York region, let me know. We'll see if we can help you out.

The Chair: Mr. Peterson, your time is up, but that was a good promo at the end.

We'll move on now to the Conservatives.

Mr. Van Kesteren, you have the floor for five minutes.

Mr. Dave Van Kesteren (Chatham-Kent—Leamington, CPC): Thank you, Mr. Chair.

Thanks to all of you for being here. It's good to see you again.

I've always been curious to know this. I think I know the answer, but I'd like you to tell me. Why, when so many other manufacturers chose Mexico or the United States, did Honda and Toyota choose to make a substantial investment in Canada? I know that the dollar was a factor in that, but what was the other reason for you to choose Canada as probably your leading manufacturing spot in North America?

Mr. Scott MacKenzie: Honestly, speaking on Toyota's behalf—I would expect Honda to have the same answer—we have great people to hire here as part of our talent pool. They could be technical people. They could be manufacturing people as well. We have a tremendous reputation for quality. Not just the Japanese OEMs but all of the OEMs in Ontario have a tremendous record in terms of manufacturing [*Technical difficulty—Editor*].

We are recognized within Toyota as being one of the best or highest-quality manufacturers globally. We have reliable production. They can bank on us for the units they order. We've never had any concerns with explaining that we're a valued entity within Toyota.

Mr. Dave Van Kesteren: I'm going to address the elephant in the room. The way I see it, the United States, specifically Donald Trump, has a real problem with the Midwest—that is, that much of their manufacturing has moved, either to Canada...especially for the United States in the way of North American automakers. What happens if Donald Trump says tomorrow, "Geez, fellows, we'd love to have you sell your cars here, but you're going to have to start making them here"? At what point would you comply, or is that a consideration? Is that something you're considering at this point?

Mr. Stephen Beatty: I think it's fair to say that we already do manufacture substantially in the U.S. Toyota's operations have taken us into states such as Indiana, Kentucky, Texas, and beyond. We have design and engineering facilities in California and Detroit. We have a very strong on-the-ground level of investment, because a basic principle of Toyota is that we build where we sell. The U.S. is a top-10 market in the world, and so is Canada. It makes sense for us to be invested in both countries and to work back and forth. That level of integration between our operations and the dependence on

each other's suppliers are part of the benefits, I think, that have come out of NAFTA and that relationship.

We're going to be talking, I think, not just from the corporate executive level but also from the level of our associates, about the importance of jobs, about that investment, and about what's happened in the economies for both. I'm convinced that those voices will be heard.

Mr. Dave Van Kesteren: You mentioned earlier that if we had harmonization with jurisdictions like the European Union, that would gain you entry into Europe or make it more affordable, I suppose, to move into Europe. Is that something our government should be considering and possibly encouraging the Americans to do? Let's face it: it's the Americans who make the rules.

Mr. Scott MacKenzie: From Toyota's point of view, I'll say that we manufacture two vehicles right now that are quite popular in Europe. Actually, all three of our vehicles are popular in Europe, but they manufacture one of them there.

Access to the European market would be good. It would be a good outlet for us, but right now we do not manufacture a vehicle that's saleable into the EU because they have different standards. They have different vehicle crash-testing standards and different lighting-related standards. That's not something that's impossible to overcome, but it is something that we would have to overcome. Any—

• (1605)

Mr. Dave Van Kesteren: Scott, I'm sorry, but I have only a minute and I do want to ask you this question.

Are there any plans for Toyota to build heavy-duty trucks for the North American market?

Mr. Stephen Beatty: We build medium-duty trucks through our sister company, Hino. We currently have a heavy-duty truck powered by fuel cells that we're using in a demonstration in the U.S., so there is some possibility that this will also develop.

Mr. Dave Van Kesteren: Are the heavy-duty trucks being manufactured in Canada or the United States?

Mr. Stephen Beatty: The medium-duty trucks are being produced here. The heavy-duty truck is a pilot right now, coming out of Detroit.

Mr. Dave Van Kesteren: Okay.

I think I'm out of time. Thank you very much.

The Chair: That wraps up your time.

We're going to hear from one more MP on the docket here.

Mr. Fonseca, you have the floor. Go ahead for five minutes.

Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.): Thank you, Mr. Chair.

Thank you to the witnesses.

I proudly drive a GM-built car. I won't say which car. It was manufactured here in Ontario, but I ask myself in regard to the car about how all of the pieces, components, etc., as we often hear, must have gone back and forth across the border six or seven times. So is it a Canadian car or an American car? Really, it's a North American car, and I don't even know if some of those pieces came up from Mexico. Can you take us through that and how much of a car is really...? I know that it may be finished and come off the line here in Canada, but a lot of it could be American.

Mr. Scott MacKenzie: Most of it's North American. In terms of content, as I said earlier, more than 50% of it is coming from the United States. A lower percentage is coming from Mexico; it's mainly electronics—wire harnesses—that we will get from Mexico.

You need to understand that it costs a lot of money for us to ship parts, and we tend to centralize our supply chain near to our manufacturing base. We do import parts from Mexico and Japan, but there are always economic factors that cause us to centralize our supply chain near our manufacturing facilities. Right now, we're a strongly North American car.

Mr. Peter Fonseca: From what we've heard about any tariff being imposed on parts going back and forth across the border, can you envision something like that? What would that mean to those parts? If a part is coming over and gets a tariff from the U.S. and then there's a tariff going back the other way, how would that even work? Would that be possible?

Mr. Scott MacKenzie: To Stephen's earlier point, at some point I think a company would make a decision as to whether it's worth it and then make a decision on whether they just want to import an entire vehicle. For instance, Toyota makes vehicles in Japan. Would it be cheaper for Toyota to bring a Japanese-built vehicle into the Canadian or U.S. market and pay a 2.5% tariff on the vehicle into the U.S.—or 6.1% into Canada—rather than looking at the 3,000 parts we have in a car and paying a 2.5% tariff or otherwise on every single part for every single time it crosses the border?

Mr. Peter Fonseca: Sure.

We've had a great deal of success in terms of landing assembly plants here in Ontario with Toyota and Honda. We've mentioned Alliston and Woodstock/Cambridge.

In terms of the ingredients that have made that happen, for you to be able to go to the global table and say that where we have a competitive advantage... Sometimes it's a low dollar, or it could be the workforce or the infrastructure that's there, the supply chain, etc. Can you take me through a bit of that? How do they all stack up? What's most important? What would be number one for you?

Mr. Scott MacKenzie: Manufacturing cost per unit is how we're judged. We compete within Toyota for manufacturing mandates and we get compared to other jurisdictions. For instance, if they make a RAV4 in Japan or in Russia or China, how much does it cost us to make that, versus some other jurisdiction?

It could be the cost of labour, which, again, is your Canadian dollar. It could be the cost of electricity. It could be many factors, but where we generally do well is in our manufacturing efficiency, such as, for instance, spreading out fixed costs over more units, so the

more efficient you are in your production, the better you are; our reputation for quality; and, our reputation for delivering the orders that are made by our sales company.

Mr. Peter Fonseca: Our economy is doing quite well. Unemployment is down to 6.5%, I believe. Our growth rate has really taken off, especially here in Ontario. We've heard that there are some shortages of skilled workers. Has it been an issue for you finding talent? I know that we're attracting a lot, but has that been an issue?

• (1610)

Mr. Scott MacKenzie: It has been a challenge. I wouldn't say that it's held us back in any way or affected us directly in a negative way, but yes, it is hard. An example is skilled trades. We require the skilled trades, and finding people quickly is a challenge. I wouldn't say that we have a shortage right now, but it's definitely harder to recruit and bring in those people.

Mr. Stephen Beatty: Also, the skills requirements are changing now, and we're competing against other high-tech sectors for valuable employees who have good training and experience. We have to pick up the pace in the way that we attract people to the industry generally.

Mr. Peter Fonseca: Would you say that the technology triangle there, with the Kitchener-Waterloo area, would be a driver? Would it be something that you can take to the global table?

Mr. Scott MacKenzie: Absolutely, and I should have mentioned it earlier, but one of the aspects where we're particularly strong is local innovation around manufacturing technologies. We have a lot of local partners—suppliers or technology providers in our area—that we draw from. Other jurisdictions simply don't have that. Our operations in the U.S. can't compete with us in terms of local innovation.

The Chair: Thank you. That wraps up our time.

I have a couple of quick questions. You might already have answered these questions.

First, for Toyota and Honda, how many vehicles a year does Toyota produce in Canada?

Mr. Scott MacKenzie: Last year, it was slightly over 600,000.

The Chair: That's over 2,000 a day.

Mr. Scott MacKenzie: Yes. We have three plants: two in Cambridge and one in Woodstock. We build a car every 55 seconds in two of those plants and every two minutes in the other plant.

The Chair: Would it be 70% U.S. and 20% here? Also, how much would go to Mexico? What's the breakdown?

Mr. Scott MacKenzie: Toyota doesn't currently ship a car to Mexico. We have in the past.

The Chair: Okay.

Mr. Scott MacKenzie: About 81% goes to the U.S., and the rest remains here in Canada.

The Chair: What about Honda?

Mr. Hanif Nori: Last year, it was just over 400,000. We have three plants in Alliston. Out of 400,000 cars, some 100,000 cars are sold in Canada, so every three cars go to the U.S. We build the Civic and the CR-V. As I was mentioning earlier regarding the CR-V, the

subcompact SUV market tends to be the market that is growing a lot right now, so a lot of our demand is for the CR-V.

The Chair: Thank you. That's impressive. From the two of you together, a million cars a year are coming out of Canada. That's pretty good.

That wraps up our time, folks. Thank you for coming and for the presentation. We're going to work hard to continue this great trade relationship with the other countries and, hopefully, expand it. We'll be sending you a copy of our report as we wrap it up.

We're going to suspend now and go in camera. We're only going to be a few minutes, folks, because we have seven items on future business on the agenda.

Thanks again, folks.

[Proceedings continue in camera]

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