

Submission to the Standing Committee on International Trade (CIIT) July 25, 2018

Re: Impact of Tariffs on Canadian Businesses, Companies and Workers

On behalf of the members of JAMA Canada, we are deeply concerned about the recent decision by the US to apply Section 232 tariffs on imports of steel and aluminium from Canada, and the subsequent decision by Canada to consider retaliatory measures in response. While we understand the reason for Canada's response, it is clear that even the threat of raising tariffs in a trade war creates uncertainty; and if implemented will be costly to consumers, as well as undermine investment, reduce competitiveness and threaten job losses especially in those industries and sectors directly hit by any new tariffs.

The current investigation under US Section 232 on auto and auto parts imports into the US is a significant threat to the Canadian auto sector due to the reality of global supply chains as well as the deeply integrated nature of the industry that has been forged over the past 53 years through trade liberalization - from the 1965 Auto Pact to the Canada-US FTA in 1989 and the NAFTA in 1994.

Canada's auto industry remains highly dependent on having open and trade-efficient borders, particularly within the NAFTA. Moreover, recent studies¹ in both Canada and the US have clearly illustrated the likely negative impacts on automakers, auto parts suppliers, workers, dealers and consumers from an unfounded and illogical tariff-based trade war.

To help the CIIT members understand our concern and the breadth of the impact on our members, we include a profile of the Japanese auto industry in Canada:

- In 2017, for the second year in a row, over a million Japanese brand vehicles were built in Canada. Approximately 1,009,200 passenger vehicles were manufactured in Ontario, representing an estimated 46% of total light vehicle output in Canada. In fact, two of the top three Canadian producers of light vehicles were Japanese-brand automakers (1st & 3rd).
- About 80% (almost 796,000 units) were exported in 2017, primarily to the US.
- The majority of parts in Canadian-built vehicles are localized in Canada, the US and Mexico. In fact, exports to the US more than exceeded the 62.5% NAFTA origin requirement for duty-free entry.
- In 2017, Canada exported over 4 times as many Japanese brand vehicles as were imported from Japan. Since 1993, Canada has exported 4.7 million more Japanese brand vehicles than were imported from Japan, US, Mexico and other countries combined.
- Since 1986, Japanese automakers have invested over \$12 billion in manufacturing operations in Canada to serve customers in Canada, the US & Mexico.

¹ CIBC Economics, [Auto Tariffs: More than a Fender Bender](#), July 4, 2018

TD Economics, [Potential US Auto Tariffs: Canadian Scenario Analysis](#), June 18, 2018

Scotiabank Global Economics, [Steeling Ourselves for the Macro Costs of Tariffs](#), June 14, 2018

Petersen Institute of International Economics (PIIE), [Trump's Proposed Auto Tariffs Would Throw US Automakers and Workers Under the Bus](#), May 31, 2018

- Currently, **Honda Canada** has two vehicle assembly plants and an engine plant in Alliston, Ontario employing over 4,200 associates. **Toyota Motor Manufacturing Canada** has three assembly plants in Ontario employing over 8,000 team members. **Hino Motors Canada** has a medium duty truck plant in Woodstock, Ontario employing over 100 team members.
- In 2017, JAMA Canada members as a group sold 719,806 light duty vehicles – overall, record sales for the fourth year in a row. Market share rose to 35.3% in 2017.
- In 2017, most Japanese brand light vehicles sold in Canada were locally built in North America:

28.3% - Canada	}	NAFTA – 72.3%
35.6% - US		
8.4% - Mexico		
3.1% - Europe		
24.6% - Japan		
- For every Japanese-brand vehicle sold in Canada, our members built 1.4 vehicles in Canada in 2017.
- There are 1,238 Japanese brand dealerships in cities and towns across Canada employing about 44,500 Canadians in sales, service & repair.
- Currently, there are over 60 Japanese auto parts related plants in Canada which employ over 20,000 Canadians.
- While direct and indirect employment in the Japanese auto industry in Canada stands at about 80,000 in 2017, a recent study found that the Japanese-brand auto industry supports over 202,000 jobs across Canada due to the impact of direct, intermediate and spin-off employment.
- If the US were to apply a 25% tariff on auto imports as well as a 10% tariff on auto parts from Canada, these measures would add at least \$6,000 to each Canadian-built vehicle exported to the US. As several studies have shown, higher costs will raise prices for consumers, reduce demand, leading to lower sales and production, as well as threaten both jobs and investment. This would be compounded by any similar retaliatory tariffs by Canada on auto and auto parts imports from the US. Overall, *ceteris paribus*, this would severely hurt the auto industry in Canada due to its dependency on trade in both vehicles and parts, as well as bring an end to over 50 years of tariff-free automotive trade between Canada and the US.

Finally, after the US Secretary of Commerce testified recently that in fact Canada was not a threat to national security on steel, it may not be wishful thinking that the US 232 tariff threat against auto imports from Canada is a US negotiating tactic in NAFTA. In any case, we deeply appreciate the ongoing efforts of the Canadian Government to resume negotiations as soon as possible with the US and Mexico toward the modernization of NAFTA for the benefit of all signatories and in the process boost the global competitiveness and prospects for growth of the auto industry across North America.

Contact:

David Worts, Executive Director
 Japan Automobile Manufacturers Association of Canada
dworts@jama.ca