

## Standing Committee on International Trade (CIIT)

### **Priorities of Canadian Stakeholders Having an Interest in Bilateral and Trilateral Trade in North America, Between Canada, United States and Mexico**

Submission on the Modernization of NAFTA  
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#### **Introduction:**

JAMA Canada supports liberalized trade, such as NAFTA, for delivering mutual benefits to trade partners that enhance competitiveness for both automakers and parts suppliers, encourage adoption of advanced technologies to provide safe and sustainable mobility for consumers that meet their transportation needs, and to provide reliable, long term employment for skilled and highly qualified Canadians.

The auto industry in Canada was 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&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 Canada hopes for a framework that will continue to support and strengthen the competitiveness of the North American auto industry.

## Recommendations for updating NAFTA:

- JAMA Canada strongly supports the continuation of the NAFTA as a trilateral trade agreement, recognizing that 3 out of every 4 Japanese brand sales in Canada are vehicles built in Canada, the US and Mexico.
- Moreover, the success of NAFTA for the auto industry stems from a single set of rules established through uniform regulations, which has allowed automakers to develop highly integrated supply chains and 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. NAFTA provided critical improvements over the Canada-US FTA, particularly with respect to automotive rules of origin. Although the RVC threshold was increased significantly from 50% in the FTA to 62.5% in NAFTA, the NAFTA rules were clearer, more flexible and more predictable (effectively addressing the issues of roll-up/roll-down in the CUSFTA).
- Key elements of the NAFTA ROO include: RVC net-cost method, tracing, averaging, accumulation, uniform regulations, phase-in for new plants/models, advanced rulings, etc.
- 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.
- Specific improvements to modernize NAFTA in the 21<sup>st</sup> century:
  - update and expand the list of job categories for temporary entry of business persons,
  - update customs and trade facilitation provisions recognizing the integrated nature of global supply chains in North America and around the world
  - update border infrastructure with mechanisms to address bottlenecks
  - create additional framework agreements within NAFTA – for example, for automated vehicles, data flows, cybersecurity and other measures that facilitate e-commerce.
  - Increase regulatory co-operation with flexibility to align with or mutual recognition of major international standards (e.g. UN-ECE and US FMVSS)
  - Adopt a generalized provision (referenced in CETA in the event of TTIP agreement) for cross-cumulation with other FTA partners in common.
- Finally, as a general rule, we strongly recommend not including any provisions in trade agreements that signatories don't want to use or to have used against them (e.g. country-specific RVC provisions in preferential rules of origin).

## The benefits of trade liberalization in Canada

A summary of the impact and benefits that have arisen in Canada from liberalized trade that will illustrate the 'build where we sell' principle:

- Since 1965, 15.8 million Japanese brand vehicles have been **red** in Canada.  
Since 1986, 17.4 million Japanese brand vehicles have been **built** in Canada.
- In the mid-80's, virtually 100% of our sales were vehicles made in Japan.  
By 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 US, and 11% were built in Mexico.
- As a result of long term investment in vehicle manufacturing in North America by Japanese automakers, all NAFTA partners benefit from their growing presence:

NAFTA Production - Japanese Brands					
	2016	2000	change	2016 share	2000 share
CANADA	1,012,880	530,535	90.9%	15.9%	16.1%
USA	3,976,482	2,433,769	63.4%	62.3%	73.8%
MEXICO	1,391,918	332,297	318.9%	21.8%	10.1%
TOTAL NAFTA	6,381,280	3,296,601	93.6%	100.0%	100.0%

(source: Ward's, JAMA Canada)

- When the Canada-US FTA came into force in 1989, Japanese brand light vehicle production in Canada was a little more than 100,000 units annually. In 2000, six years after the NAFTA was implemented, output had climbed to about 535,500 units annually. And in 2016, production had nearly doubled to over 1 million units for the first time.
- Needless to say, the investment and growth of production in Canada would not have happened without open access to the much larger US market through preferential trade agreements like the Canada-US FTA and NAFTA.

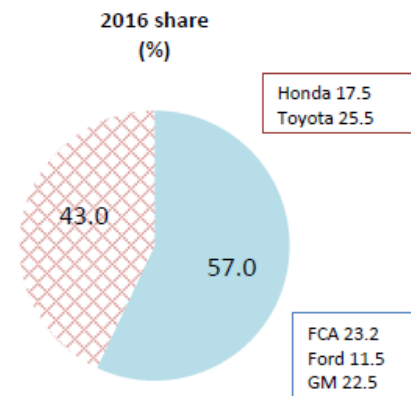
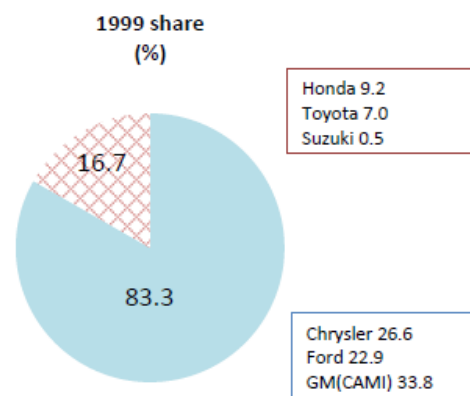
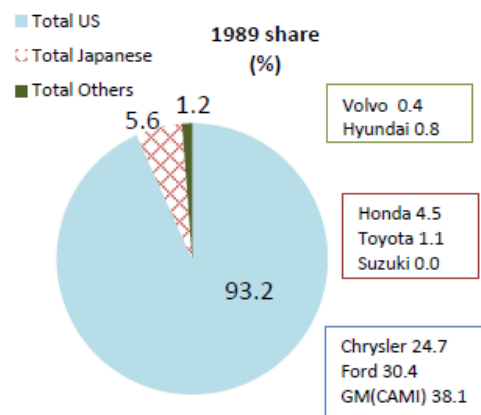
- As a result, currently over 79,000 direct & indirect jobs have been created in Canada: including sales, service, distribution, manufacture, export & import of vehicles & parts.

Current Key Industry Metrics	2016	2015	% change
Total Cdn Light Vehicle Sales	1,948,899	1,898,485	2.6%
Japanese Brands	680,314	656,233	3.7%
Market Share	34.6%	34.6%	–
Total Cdn Light Vehicle Production	2,356,170	2,268,996	3.8%
Japanese Brands	1,012,880	975,705	3.8%
Share	43.0%	43.0%	–
Japanese Brand Canadian-built Exports	816,585	784,457	4.1%
Imports from Japan	163,433	144,762	12.9%
Imports from NAFTA / others	323,575	316,681	2.2%
Total Employment – Direct & Indirect	79,865	77,043	3.7%
Vehicle/Parts Plants	33,215	31,927	4.0%
Head/Regional Offices	2,144	2,116	1.3%
Dealerships in Canada (est.)	44,506	43,000	3.5%

Source: JAMA Canada

## Restructuring of Light Vehicle Production in Canada: 1989 – 2016

1989		1999		2016		% change (1999/1989)	% change (2016/1999)	1989 share (%)	1999 share (%)	2016 share (%)
Chrysler	480,153	Chrysler	796,727	FCA	546,737	65.9	-31.4	24.7	26.6	23.2
Ford	590,965	Ford	685,535	Ford	271,494	16.0	-60.4	30.4	22.9	11.5
GM	740,339	GM (incl. CAMI)	1,012,742	GM	524,451	36.8	-48.2	38.1	33.8	22.3
<b>Total US</b>	<b>1,811,457</b>	<b>Total US</b>	<b>2,495,004</b>	<b>Total US</b>	<b>1,342,682</b>	<b>37.7</b>	<b>-46.2</b>	<b>93.2</b>	<b>83.3</b>	<b>57.0</b>
Honda	86,447	Honda	274,908	Honda	411,164	218.0	49.6	4.5	9.2	17.5
Toyota	20,859	Toyota	211,082	Toyota	601,716	911.9	185.1	1.1	7.0	25.5
Suzuki (CAMI)	660	Suzuki (CAMI)	15,079	Suzuki (CAMI)	0	2184.7	-100.0	0.0	0.5	0.0
<b>Total Japanese</b>	<b>107,966</b>	<b>Total Japanese</b>	<b>501,069</b>	<b>Total Japanese</b>	<b>1,012,880</b>	<b>364.1</b>	<b>102.1</b>	<b>5.6</b>	<b>16.7</b>	<b>43.0</b>
Volvo	8,004	Volvo	0	Volvo	0	-100.0	-	0.4	0.0	0.0
Hyundai	14,780	Hyundai	0	Hyundai	0	-100.0	-	0.8	0.0	0.0
<b>Total Others</b>	<b>22,784</b>	<b>Total Others</b>	<b>0</b>	<b>Total Others</b>	<b>0</b>	<b>-100.0</b>	<b>-</b>	<b>1.2</b>	<b>0.0</b>	<b>0.0</b>
<b>Grand Total</b>	<b>1,942,207</b>	<b>Grand Total</b>	<b>2,996,073</b>	<b>Grand Total</b>	<b>2,355,562</b>	<b>54.3</b>	<b>-21.4</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>



Source: DesRosiers Automotive Consultants/JAMA Canada/Ward's

- Since the Canada-US FTA was implemented in 1989, the auto manufacturing industry in Canada has undergone considerable transformation. Production rose 54.3% from 1.94 million units in 1989 to a peak of almost 3 million light vehicles in 1999.
- In 1997, Toyota started production at the North Plant in Cambridge. In 1998, Honda opened Plant 2 in Alliston. On the other hand, plant closures included the Volvo plant in Nova Scotia, the Hyundai plant in Quebec and the GM Van Plant in Scarborough.
- After peak production in 1999, a number of other US vehicle and parts plants closed in Quebec and Ontario, while the only 'greenfield' auto manufacturing plant in Canada was opened by Toyota in Woodstock in 2008. With the advent of the global economic recession in 2008/2009, Canadian production fell to about 2 million units, and slowly recovered to about 2.4 million units in 2016.
- In spite of this restructuring, the auto industry in Canada still manages 'to punch above its weight', as total Canadian production exceeds total demand in the Canadian market, underscoring the benefits derived from free and open trade, particularly in the NAFTA.
- In 2016, Japanese vehicle assembly plants in Ontario accounted for 43% of total light vehicle production in Canada, and set new record levels of production and exports. Moreover, Canada has been a net exporter of Japanese brand vehicles every year since 1993.

## **Appendix:**

1. **The Economic Contributions of the Japanese-brand Automotive Industry to the Canadian Economy (2001 – 2016)**, by Greig Mordue & Brendan Sweeney, June 2017. (<http://www.jama.ca/aq/news/index.asp#A201706280>)