

# The Japanese Auto Industry in Canada

## Competitiveness & Trade

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Canadian Embassy  
Tokyo, Japan

October 24, 2017



# Agenda

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- State of the Industry in 2017
  - **Highlights of 2017 Economic Contributions Study, 2001 – 2016**  
(Mordue & Sweeney)
- Manufacturing Transformation
  - Restructuring of the Auto Industry since FTA & NAFTA
- Canada's major trade agreements
- Competitiveness & Investment (CAPC perspective)

## Japanese Brands in Canada

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Heading for a 4<sup>th</sup> consecutive year of record performance:

	<u>2017 - 1<sup>st</sup> Half</u>	<u>2016</u>	<u>17/16 YTD</u>
• Sales	362,951	680,314	+6.1%
• Production	545,198	1,012,880	+2.5%
• Exports	429,183	816,585	+0.4%
• Imports – total	273,755	487,008	+9.2%
• Japan	93,748	163,443	+18.4%
• NAFTA/other	180,007	324,014	+4.9%



# Light Vehicle Sales in Canada

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Automakers	2016	2015	% change	share
US	849,231	834,833	1.7%	43.6%
Japanese	680,314	656,233	3.7%	34.9%
Korean	209,832	203,526	3.1%	10.8%
European	209,522	203,893	2.8%	10.8%
TOTAL	1,948,899	1,898,485	2.6%	100.0%

While Japanese brands set record sales volume in each of the last 3 years, market share still lags about 3 points below the pre-recession peak in 2008.

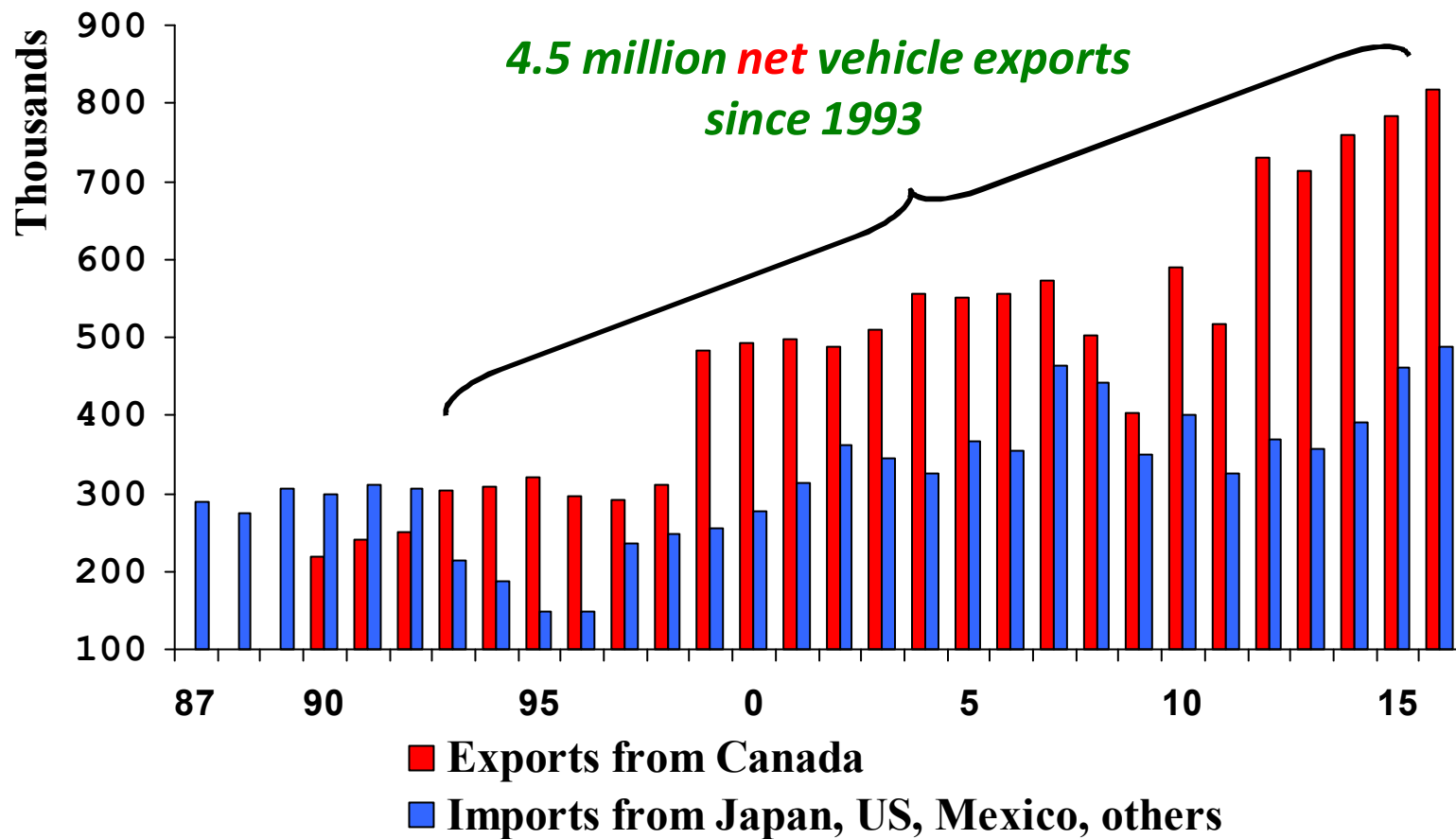
# Canadian Light Vehicle Production

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Automaker	2016	2015	% change	2016 share
FCA	546,737	514,969	6.2%	23.2%
Ford	271,494	200,689	35.3%	11.5%
GM	525,059	577,633	-9.1%	22.3%
Honda	411,164	384,982	6.8%	17.5%
Toyota	601,716	590,723	1.9%	25.5%
TOTAL	2,356,170	2,268,996	3.8%	100.0%

Japanese automakers (Toyota & Honda) are 1<sup>st</sup> and 4<sup>th</sup> rank, and together have a 43.0% share of LV production in Canada.

# Canada is a net exporter of Japanese brand vehicles



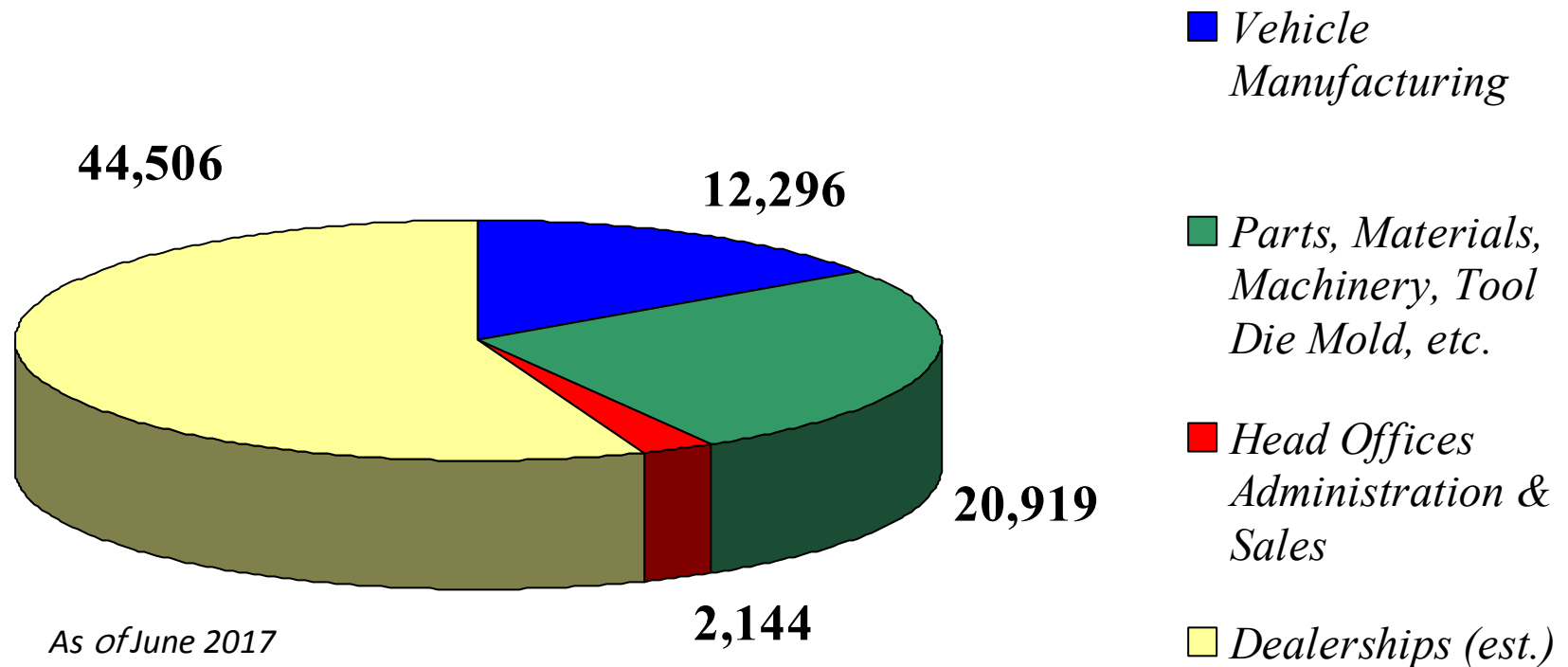
In 2016, Canada exported over 5 times the number of Japanese brand vehicles imported from Japan ...

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# Direct & Indirect Employment in Canada

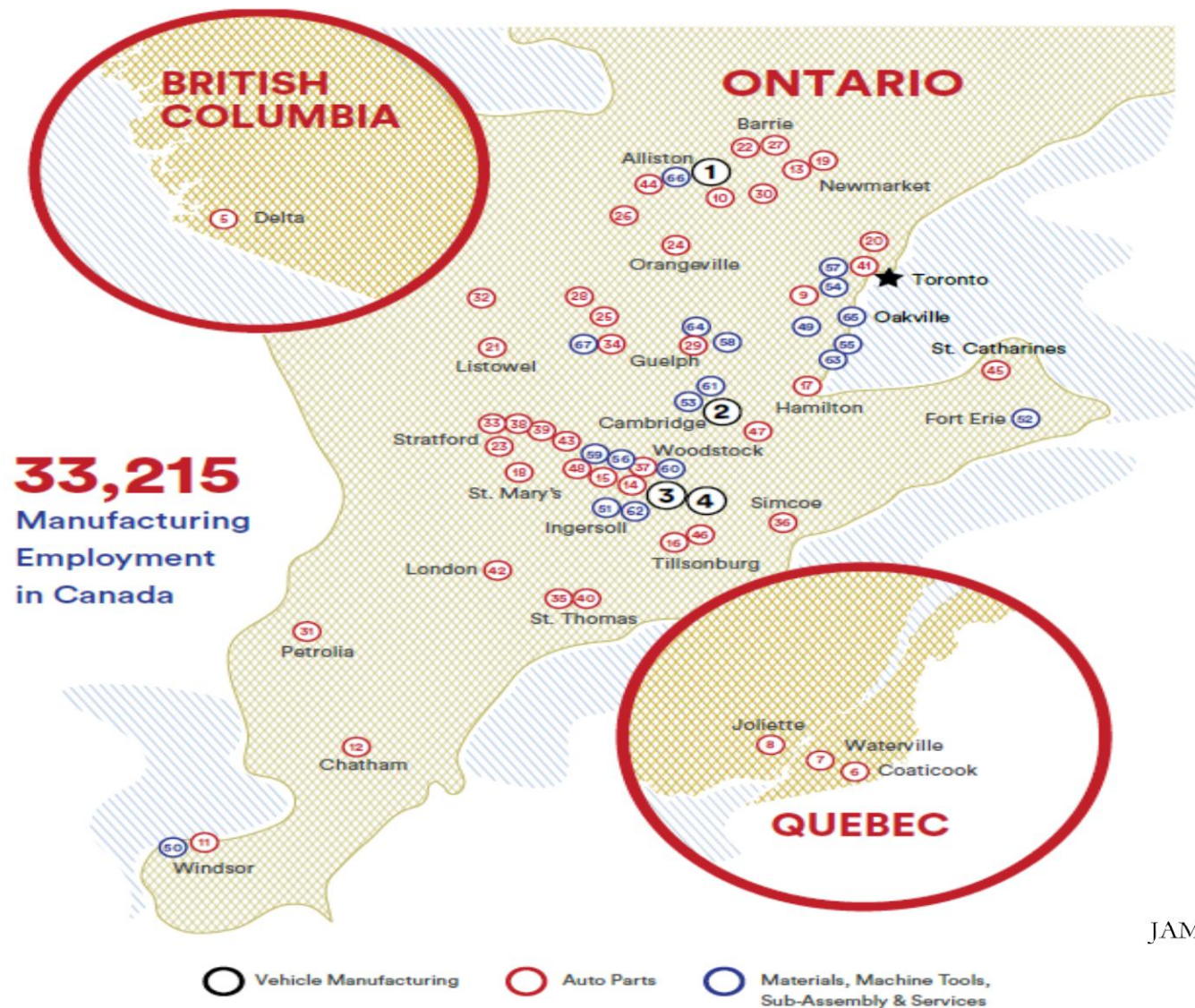
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**Employment total = 79,865**



# Vehicle & Auto Parts Plants in Canada



# Highlights: Economic Contributions Study\*

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1. Employment in the Japanese-brand automotive industry in Canada increased 69.1% from 50,667 in 2001 to 85,678 in 2016
2. Current direct, intermediate & spin-off employment of almost 203,000
3. Japanese production in Canada almost doubled from 501,000 in 1999 to over 1 million vehicles for the first time in 2016
4. Japanese vehicle manufacturing employment in Canada up 65% to over 13,000 in 2016 from 8,000 in 2001
5. Japanese auto parts employment in Canada rose 124% to over 17,000 in 2016 from 7,600 in 2001 (*despite Canada eliminating import tariffs on OE auto parts in 1998*)
6. In 2016, the Japanese auto industry generated:
  - \$5 billion in income
  - \$1.5 billion in EI, CPP/QPP & PIT
  - \$200 million paid in import tariffs

**\* Published in June 2017 - Authors: Greig Mordue (McMaster) & Brendan Sweeney (APRC)**

# Direct Employment: Summary

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	2001	2016	Change	% Change
<b>Vehicle Assembly</b>	8,062	13,308	+5,480	+65.1%
<b>Automotive Parts Manufacturing</b>	7,660	17,155	+9,465	+124%
<b>Tire Manufacturing</b>	1,200	1,300	+100	+7.7%
<b>New Vehicle Dealerships</b>	32,145	51,799	+19,654	+37.9%
<b>Head and Regional Offices</b>	1,600	2,116	+516	+32.3%
<b>TOTAL</b>	50,667	85,678	+35,011	+69.1%

# Intermediate & Expenditure Induced Employment, 2016

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	Direct	Intermediate	Expenditure Related	Total
Vehicle Assembly	13,308	30,608	51,901	95,816
Dealerships	51,799	16,576	38,797	107,172
<b>Total</b>	65,107	47,184	90,698	202,988

# Summary – Economic Contributions Study

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1. Consistent growth and stability in all segments helps sustain the Canadian auto sector, as other manufacturers have reduced their operations in Canada since 2001
2. Top employer in communities in Southern Ontario & Quebec: *Alliston, Cambridge, Woodstock, Waterville, Palmerston, Coaticook, Stratford, etc.*
3. Important source of revenue for provincial and federal governments
4. Property taxes (*not included in this study*) are also an important source of revenue for municipalities

# Manufacturing Transformation in Canada

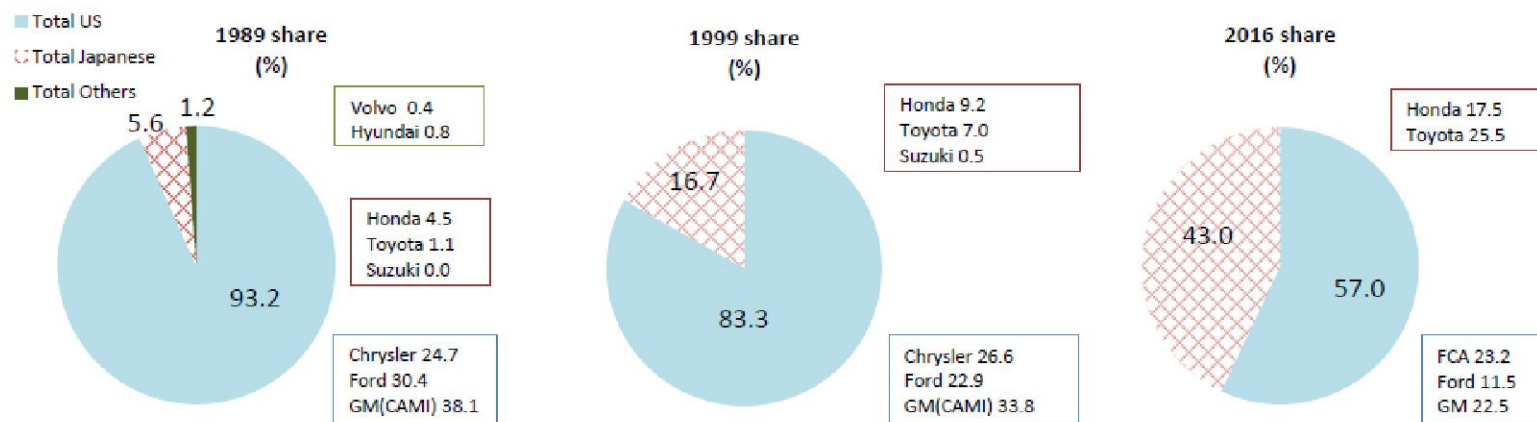
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- 15.8 million Japanese brand vehicles sold in Canada since 1965  
17.4 million Japanese brand vehicles built in Canada since 1986  
\$12 Billion cumulative Japanese investment in vehicle manufacturing  
Currently 60 Japanese–affiliated auto parts related plants in Canada
- Since the Canada-US FTA in 1989 and NAFTA in 1994, the auto industry in Canada has undergone considerable transformation.
- Production in Canada rose 53% from 1.94 million units in 1989 to a peak of almost 3 million light vehicles in 1999 (*details on the next slide*)
- However, there were plant closures during the 1990's: Volvo plant in Nova Scotia, the Hyundai plant in Quebec and the GM Van Plant in Scarborough
- After 2000, 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.



# 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

# Manufacturing Transformation in Canada

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- In 2006, Hino Motors Canada opened an assembly plant for medium duty trucks (Class 4 – 7) in Woodstock to supply the Canadian market
- With only US and Japanese automakers building vehicles in Canada after 1999, total light vehicle production in Canada dropped 21.4% to 2.36 million units in 2016 from the peak of almost 3 million units in 1999
- At the same time, Japanese light vehicle production in Canada increased 102.1% to 1,012,880 units in 2016 from 1999, even as Suzuki stopped production and sold their 50% share in CAMI to GM in 2010.
- Last year, 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 in the past 3 years



# Canada's Major Trade Agreements

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- **Canada – US Auto Pact (1965)**
  - *sectoral agreement with both free & managed trade aspects – repealed in 2001 after WTO dispute*
- **Canada – US FTA (1989) superseded by NAFTA in 1994**
- **NAFTA (1994)** – *NAFTA modernization negotiations began in August 2017 with US & Mexico – whither NAFTA 2.0?*
- **CKFTA** – *In force as of Jan 1, 2015 (Korean auto imports duty free as of Jan 1, 2017)*
- **CJEPA** – *on hold after 7<sup>th</sup> Round, Nov 2014*
- **CETA** – *signed in October 2016 – ratification & provisional implementation in September 2017*
- **TPP** – *US withdrew in 2017 (can the TPP-11 be saved without the US, and will Canada ratify?)*

# NAFTA 2.0 – Negotiating Objectives

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## First - Do No Harm:

- Continue NAFTA as a trilateral agreement
- Retain current automotive Rules of Origin (ROO), and all related provisions
- Do not trade Canada's auto sector off against other export-focused sectors
- As a general rule, do not include any provisions in trade agreements that signatories don't want to use, and/or don't want to be used against them.

# NAFTA 2.0 – Modernization

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- update and expand the list of job categories for **temporary entry** of business persons to reflect advances in automotive technologies & job classifications since 1993
- **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 CMVSS with or mutual recognition of major international standards (e.g. UN-ECE and US FMVSS)
- Adopt a general provision (referenced in CETA in the event of TTIP agreement) for **cross-cumulation** with other CETA partners in common

# CAPC: Examples of Canada's Advantages



## KPMG Competitive Alternatives Report (2016):

- Lowest overall business costs in G-7
- 8% advantage vs the U.S. for auto parts manufacturing
- 28% cost advantage vs the U.S. for product testing R&D

## Other indicators:

- Much lower corporate tax rate
  - Canada 26.5%
  - U.S. 40%
- Favourable access to foreign markets
  - Zero tariffs on parts imports
- Accelerated depreciation on capital

# CAPC: Examples of Canada's Advantages

## Leaders Across Canada: Did You Know?



Automotive infotainment supplier, with more than 50% of global market share.



World leader in fuel cell development and commercialization in B.C.



World's first commercial quantum computing company.



World's most advanced electric drivetrains.

### Deep learning Artificial Intelligence

Two of the three "fathers" of deep learning AI are established in Canada

### Major Auto Hub

1 CAR every 14 SECONDS  
With 23 hrs labour / vehicle  
**8 assembly plants**

11 production lines  
**Over 670 parts suppliers**  
**2.3M cars made** in 2015

C\$79B exported  
Canada is a Global Player

### Auto R&D Clusters

**QC:** Significant capacity in AI and electric transportation

**ON:** Expertise in cloud computing, robotics, security and telecom

**MB:** Advanced research in composite materials

**BC:** Leader in hydrogen fuel cell research

## Brain Power to Lead

### Institute for Quantum Computing

Interdisciplinary collaboration in quantum information science and tech at the highest international level

### Perimeter Institute for Theoretical Physics

bringing together the world's top theoretical physicists, like **Stephen Hawking**, to work on foundational issues in theoretical physics

### Creative Destruction Lab

World's fastest-growing venture labs for science and technology

## Canada's Proven Record

**Won 1/3 of all JD Power awards** for initial assembly quality in North America.

**Ontario is the largest IT region in North America outside Silicon Valley**

**First in G-7** for available qualified engineers (200,600) and licensed skilled trades.

### Numerous Colleges and Universities

Innovative and partnerships with auto and IT

Network of incubators and accelerators supporting adoption of new technologies

# Consensus on Key Competitiveness Issues

1. **ELECTRICITY COST** is higher in Ontario than in competing manufacturing jurisdictions

**Policy options**

- Co-generation
- Government incentives
- Electricity industrial rate for highly trade-sensitive industries

2. **CAP & TRADE**: Compliance costs are only borne by Ontario plants since there are no similar programs in other automotive jurisdictions, thus putting other plants at a competitive advantage.

**Policy options**

- Provide extended free allowances past 2020 for highly trade-sensitive industries
- Consider policy options identified under “electricity”

3. **CANADA PENSION PLAN (CPP)**: Enhancements to CPP will result in higher employer contributions which could be as high as 32% with a 7-year phase-in .

**Policy options**

- Provide an opt-out option from CPP enhancement to employers who offer comparable workplace pension plans

4. **ONTARIO'S NEW LABOUR LEGISLATION (BILL 148)**: Expanding personal emergency leave; facilitating union certification, etc.

5. **PROMOTION OF Zero Emission Vehicles (ZEV)**: Industry concerned about ZEV mandates

# Questions?

David Worts, Executive Director

Tel: 416-968-0150

[dworts@jama.ca](mailto:dworts@jama.ca)

