

The Japanese have several concerns about the automotive sector under FTA such as the ineligibility for Auto Pact status, higher content requirements to qualify for FTA tariff treatment and the elimination over time of duty remission schemes. Such concerns were raised during the negotiations between Canada and the United States in an attempt to address them.

For example, the FTA provides a mechanism for Canada to honour its duty remission commitments with Honda and Toyota. This allows for continuity of the commitments made in previous Memoranda of Understanding. Subject to ministerial approval, each company will receive duty remission benefits commensurate with Canadian value-added performance. At lower performance levels, the remission benefits are nominal when compared to those received by Auto Pact producers, but increase as performance begins to approach that required under the Pact. All benefits will terminate by January 1, 1996 although companies will continue to receive some duty remission based on Canadian value-added exports to countries other than the United States until January 1, 1998.

The FTA builds on the Auto Pact by keeping intact safeguards and the list of qualified participating firms. As such, Honda and Toyota will not be eligible to join the Auto Pact and will not therefore be able to import duty-free from outside North America. As General Motors, Chrysler and Ford retain the option of importing on a duty-free basis from third countries, Honda and Toyota will be subject to heightened competition and face an increase in costs when duty drawbacks on components are terminated in 1994.

Japanese auto makers have also expressed interest in the new rule of origin for duty-free entry under the FTA. The new rule, based as it is on direct manufacturing costs, ensures a greater degree of North American content. It further provides a clear direction to Honda and Toyota to use higher levels of North American parts. This reinforces a trend set by the continuing appreciation of the yen and should serve to accelerate investment by Japanese parts suppliers in North America.

In sum, there are several positive consequences flowing from the FTA for offshore automakers who established facilities in Canada. Products which qualify under the rule of origin receive preferred duty treatment, permitting rationalization on a North-South basis. Production-based duty remission arrangements Canada has with Japanese and Korean automakers building plants in Canada will be honoured until 1996. Duty remissions on parts exports to third countries continue for 10 years. Elimination of customs user fees will result in reduced costs and administrative burdens for exporters from Canada.

Impact on Japan of FTA Energy Provisions:

There appears to be little impact here. The FTA largely formalizes the deregulation initiatives taken by the Canadian Government since 1984. The Japanese have expressed some concern over security of