

OCT 19 2015

Minister of
International Trade



Ministre du
Commerce international

Ottawa, Canada K1A 0G2

OCT 07 2015

His Worship Rob Burton
Chair, Auto Mayors Caucus
Mayor of the Town of Oakville
1225 Trafalgar Road
Oakville ON L6H 0H3

Dear Mr. Mayor:

Thank you for your letter of October 1, 2015, sent before the Trans-Pacific Partnership (TPP) was concluded. I appreciated being made aware of your views and having the opportunity to respond now that the Agreement has been concluded and an extremely positive outcome has been achieved for all sectors of the Canadian economy, including the auto sector.

As we are all aware, 85 percent of what Canada's auto sector produces is exported, so the continued success of the sector depends on exports. The only way to export is if Canada has free trade agreements (FTAs).

Canada's strong TPP autos outcome provides our auto sector companies access to important new markets with which we do not currently have FTAs—including Japan, the world's third-largest economy—and protects and strengthens the integrated North American auto industry as a key competitive advantage for Canada.

Canada's TPP autos outcome is a strong one in most areas, commensurate with that obtained by the United States, or better in a number of important areas. The package advantageously reflects the integration of the North American auto market. It provides robust outcomes on content levels, tariff protection and preferential market access opportunities in fast-growing new markets. It also provides Canada with very strong safeguards against the trade barriers that TPP countries have used in the past. In particular, Canada has bilaterally negotiated a suite of auto-related elements with Japan. It includes a commitment to provide non-discriminatory treatment vis-à-vis other TPP Parties on automotive standards and regulatory measures, specialized accelerated dispute settlement procedures/tariff snapback protection, and safeguard provisions to protect against any surges of foreign imports. Each of these matters is addressed below in detail.

Accelerated dispute settlement and tariff “snapback” protection: Canada has secured a specialized dispute settlement mechanism with Japan in the TPP that will ensure that any dispute related to motor vehicles will be dealt with on an expedited basis.

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Canada The Canadian flag logo, featuring a stylized red maple leaf.

Unlike the US outcome, our accelerated mechanism is permanent and is faster than any other dispute settlement process agreed between TPP countries. Canada and Japan have also agreed that, in the event of non-compliance with TPP and bilateral obligations, Canada's tariff on motor vehicles may be "snapped-back" to the original rate.

Special motor vehicle safeguard: Canada and Japan have bilaterally agreed to a robust special motor vehicle safeguard mechanism that is stronger than the regular safeguard mechanism that is in TPP for other industry sectors. This tool will act as a safety net to protect Canada's automotive industry from harm caused by any potential import surge.

Regulatory measures and non-tariff barrier protections: Japan has made a legally binding commitment to treat Canadian auto exports on an equal footing with auto exports from any other TPP country. This means that in its market, Japan cannot favour another TPP country's vehicles over ours. If we think they are, we can use the very strong accelerated dispute settlement/snapback protection procedures described above to seek recourse.

Tariffs: The TPP will provide for phased-in tariff elimination for all vehicles and vehicle parts into TPP markets. The TPP secures preferential access for Canadian automotive exports to Malaysia and Vietnam, whose tariffs on vehicles can range as high as 35 percent and 74 percent, respectively (note: Japan has no auto tariff).

Despite Japan's strong demand in TPP that Canada fully eliminate its tariff immediately upon TPP's entry into force, Canada's 6.1 percent tariff on imports of passenger vehicles from TPP countries will be phased out through five annual, back-end loaded cuts. This outcome provides for Canada's retention of more tariff protection during the first two years following entry into force than either of Canada's FTAs with South Korea or the European Union. Moreover, under the TPP, Canada's auto tariff will be retained for twice as long as under our FTA with South Korea.

Further, with respect to requests for tariff elimination alignment between Canada and the United States, it is important that key contextual facts are understood. First, the United States has a very low, economically insignificant auto tariff. Canada's auto tariff starts from a considerably higher rate. This, combined with the back-loaded phase-out which Canada negotiated, will provide the auto sector with time to adjust. That said, the auto tariff actually provides less effective protection than one might expect, since it is not applied to the vast majority of Japanese-branded cars purchased by Canadians. This is because most Japanese-branded cars sold in Canada are either built in Ontario or elsewhere in North America, such that under the North American Free Trade Agreement, they are already imported into Canada on a duty-free basis. The reality is that less than one in every four Japanese-branded vehicles actually come from outside North America and are currently subject to our 6.1 percent auto tariff.

Rules of origin: The TPP includes one set of rules of origin that apply to all TPP countries. It also provides for the accumulation of materials and production among TPP countries. For vehicles and vehicle parts, this will ensure that Canadian auto parts producers can continue to supply vehicle producers in North America on a preferential basis, while allowing Canadian vehicle producers to maintain their current supply chains. The TPP rules of origin for vehicles and vehicle parts will allow Canadian producers to benefit from preferential market access treatment when they export to other TPP countries.

Although several TPP countries were seeking rules of origin that would have allowed for very high amounts of non-TPP content in autos and auto parts, Canada was successful in pressing for rules of origin with strong regional value content requirements. This will ensure that producers in Canada and other TPP countries use parts and other materials sourced from within the TPP region. This outcome positions Canada's parts producers to increase their exports to the TPP region. The rule of origin for vehicles and key Canadian-produced vehicle parts requires that 45 percent (using a specific accounting method requested by Canadian automakers) of the cost of the vehicle or part be comprised of TPP-originating content. This outcome is consistent with the request of Canada's automakers and is in line with the parts industry's request that content levels for vehicle parts in TPP be reflective of the content levels for vehicles. For other key categories of Canadian-produced vehicle parts, the TPP rule will require that 40 percent of the cost be comprised of TPP-originating content. These strong outcomes represent a significant improvement over the proposals that were previously presented by some TPP Parties.

As we have always said, Canada will only sign an agreement that is in the best interest of Canadians. Through the TPP, that is exactly what we have done. Our Government has always been a strong promoter of auto industry. For example, we have provided significant support to the industry through the creation of programs such as the Automotive Innovation Fund, the Advanced Manufacturing Fund and the Automotive Supplier Innovation Program. I am certain that these programs will continue to provide for meaningful industry-government partnerships in the future. We are always open to considering new partners in these initiatives at all levels of government.

Since Prime Minister Stephen Harper's announcement that Canada will be a founding member of the TPP, the Agreement's contents have been lauded by stakeholders from each sector of the Canadian and Ontario economies. This includes the auto sector. For example, Canada's TPP auto package has been positively received by the Canadian Manufacturers and Exporters who have said "TPP will give better access to a market of more than 800 million consumers to Canada's small and medium sized companies." The Japan Automobile Manufacturers Association of Canada has stated that the TPP "would enhance the competitiveness of our members in Canada and not distort our supply chain in Canada." The Automotive Parts Manufacturers Association and the Canadian Steel Producers Association have both declared the TPP outcomes "reasonable."

In short, the Agreement has received a broadly positive response by credible, non-partisan industry groups.

In conclusion, I wish to assure you and the communities you represent that Canada's strong autos outcome in TPP will protect and create jobs, and allow Canada's auto sector to succeed as it achieves important objectives for Canada:

- recognition of the integration of the North American automotive sector;
- preservation of the ability of Canadian auto sector manufacturers to leverage their competitive advantages within the TPP region; and
- facilitates diversification of export opportunities for Canadian auto sector manufacturers with robust safeguards against the trade barriers and unfair trade practices.

Sincerely,

A handwritten signature in black ink, appearing to be 'Ed Fast', with a stylized, flowing script.

The Honourable Ed Fast, P.C., Q.C., M.P.

c.c.: His Worship Doug Craig, Mayor of the City of Cambridge
His Worship Walter Sendzik, Mayor of the City of St. Catharines
His Worship Trevor Birtch, Mayor of the City of Woodstock
Her Worship Linda Jeffrey, Mayor of the City of Brampton
His Worship Drew Dilkens, Mayor of the City of Windsor
His Worship John Henry, Mayor of the City of Oshawa
His Worship Rick Milne, Mayor of the Town of New Tecumseth
His Worship Matt Brown, Mayor of the City of London
His Worship Randy Hope, Mayor of the City of Chatham-Kent
His Worship Berry Vrbanovic, Mayor of the City of Kitchener
His Worship Jeff Lehman, Mayor of the City of Barrie
His Worship Cam Guthrie, Mayor of the City of Guelph
Her Worship Bonnie Crombie, Mayor of the City of Mississauga
His Worship John Tory, Mayor of the City of Toronto
His Worship Fred Eisenberger, Mayor of the City of Hamilton
Her Worship Sandra Cooper, Mayor of the Town of Collingwood
His Worship Ted Comiskey, Mayor of the Town of Ingersoll