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Now that it is May, spring is in full bloom in Ottawa. The cherry blossoms in the garden of the official residence are also in full bloom.

I also feel that Japan-Canada relations are evolving to a new stage. It was widely reported in Japan and Canada, but on April 25th, Honda announced that it would invest a total of 15 billion Canadian dollars (1.7 trillion yen) to build a full value chain for zero-emission vehicles (ZEVs) in Canada. The company announced that they have entered the final stage of consideration for a major investment.

So, this time, I would like to share my personal opinion on net zero/decarbonization in 2050, electric vehicles, and the evolution of the Japan-Canada relationship, centering on Honda's announcement.



Source: Embassy of Japan in Canada

In the beginning - 21st century reality

Before talking about Japan-Canada relations, let's first take a look at the world situation. It's been 10 years, but when I look back at 2014, I realize that we are living in truly turbulent times.

In 2014, there was no COVID-19 or invasion of Ukraine. Looking back, the invasion of Crimea was a precursor to the invasion of Ukraine, but at the time I don't think it was taken that seriously. There was much talk about increasing the efficiency of the global division of labor due to the progress of globalization, but the reality was that there was little awareness of the potential vulnerabilities of globally diffused supply chains. If you look at the United States, this

was before Mr. Trump announced his candidacy for the US presidential election. The social divisions he represented were also not being touted. Competition in the high-tech field surrounding Huawei was still under the surface. Xi Jinping was in his second year on the scene, and his ambitions remained hidden. Artificial islands in the South China Sea were also not completed. The situation in the Middle East involving Hamas, Israel, and even Iran is still ongoing. Artificial intelligence had just begun to evolve with deep learning. The Paris Agreement was still being negotiated. There was also no perspective of the Global South.

It is clear how today's international society has become more complex and fluid than it was 10 years ago. To summarize, we live in an era in which we are facing severe geopolitical challenges, global warming is becoming even more serious, and we must work toward realizing a net-zero, decarbonized society by 2050. Against this backdrop, I believe there are four strategies for Japan to maintain peace and prosperity. First, increase Japan's national power. This includes national defense strength, economic strength, technological strength, soft power, etc. Second, strengthen the Japan-US alliance. Third, we need to further strengthen our relationships with like-minded and friendly countries. Fourth is international rule-making.

Honda's major investment this time is to build a full ZEV value chain in Canada, which will serve as a trump card toward net zero in 2050, but this is also related to Japan's strategies 1, 3, and 4 mentioned above. The strength of Japanese companies is a source of national strength; this will upgrade our relationship with Canada to a new level; and this has made a major impact on the creation of de facto international standards regarding ZEVs.

April 25th, 2024

This is just my personal opinion, but I have no doubt that this day's press conference will be remembered for a long time. The content presented is full of historical significance.

First is the total investment amount. At approximately 15 billion Canadian dollars, it is the largest amount in Honda's history. This is a huge amount, three times the previous record. It is the largest investment in the automotive sector in Canadian history. It is the largest investment for a single company. It is the largest investment in Ontario's history.

The contents of the deal are also historic. This will be a breakthrough in building a comprehensive electric vehicle (EV) value chain within one country. An EV assembly plant and a lithium-ion battery manufacturing plant for EVs will be built on Honda's premises in Alliston, Ontario, and in nearby areas. A joint venture to be established in Canada between Honda and Posco to produce positive electrode materials, which are the main components of batteries, and a joint venture with Asahi Kasei to produce separators. Honda also aims to source critical mineral resources such as lithium and nickel, which are raw materials for batteries, within

Canada. In that sense, there is no greater supply chain strength than this. This is sure to be a game changer as automakers around the world compete fiercely toward a future carbon-free society.

And then there are the participants in that day's press conference. Prime Minister Justin Trudeau, Deputy Prime Minister and Finance Minister Chrystia Freeland, Minister of Innovation, Science and Industry François-Philippe Champagne, and many locally elected members of the House of Commons. From Ontario, Premier Doug Ford, the provincial finance minister, the provincial industry minister, and local mayors. President Toshihiro Mibe from Honda and I participated on behalf of the Japanese government. CBC News broadcasted the press conference live. The heads of the federal, provincial governments, and key cabinet ministers gathered. According to Honda, 4,200 people are currently employed at Honda's Alliston plant, and the construction of the new battery factory and EV factory is expected to create approximately 1,000 additional jobs. This shows that it is an important investment for Ontario and Canada.

The next day, I also had an interview with CTV. I emphasized that Honda's large-scale investment is a symbol of the new chapter in Japan-Canada relations.



Source: Embassy of Japan in Canada



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The Advantage of Canada

Honda's decision represents a major shift in the company's strategy, both in scale and content. Honda's global strategy to date has centered on the United States, but from now on, Canada will be the main focus. The idea is to consolidate the vehicle assembly and battery factories in Alliston, Ontario, and expand globally with a focus on North America. I think this is the result of a lot of wisdom on how to take the lead as the ZEV shift accelerates towards net zero in 2050. This is where you can see Canada's advantage.

First, it is part of the North American market, the largest in the world. The market integrated by the three countries of the United States, Canada, and Mexico through the North American Free Trade Agreement (New NAFTA) has a population of approximately 500 million people and a GDP of approximately \$32 trillion. EVs manufactured in Canada can be exported duty-free to the North American market if they meet the conditions set by the new NAFTA. It is also subject to the US IRA (Inflation Reduction Act), which provides huge subsidies for decarbonization.

Secondly, although Canada has abundant reserves of critical mineral resources, it is almost the only country in the world that can carry out the entire process from mining to smelting, manufacturing, and recycling. In fact, it has always been pointed out that although there are abundant reserves and great potential, there are four challenges. (1) The infrastructure for development is underdeveloped; (2) Regulations regarding mine development and the environment are strict and procedures are complicated; (3) Critical mineral resources are located in or adjacent to indigenous peoples' areas, and it is difficult to obtain their understanding and support; and (4) It is difficult to collaborate and coordinate between the federal and provincial governments. However, in December 2022, the federal government

launched their "Critical Minerals Strategy," clearly demonstrating its stance to address the issue. In March of this year, at an event related to PDAC, the world's largest international convention related to non-ferrous metal mining, held in Toronto, Minister of Energy and Natural Resources Jonathan Wilkinson announced that the procedure that previously took 15 years would be shortened to 5 years. The policy of taking concrete steps to link Canada's critical mineral resources to real-world business was welcomed by stakeholders.

Additionally, the Canadian and Ontario governments are extremely active in attracting investment. At the federal level, Innovation, Science and Economic Development Canada (ISED) budgets for the Strategic Innovation Fund (SIF), Canada's version of the IRA. The Department of Finance Canada is enhancing the Investment Tax Credit (ITC). ITC is being utilized for Honda's recent investment. The Ontario government also provides subsidies to attract investment. Government support is extremely important for companies to sustainably produce competitive products that are relevant to the times and maintain employment, and consistency in support is also essential. Canada is a democratic country with a stable political system.

Additionally, Canadian society is diverse and inclusive. The social security system is also stable. Thanks to a very aggressive immigration policy, they attract talented people from all over the world. They can obtain the necessary human resources in a timely manner. The workforce is key.

What is interesting in this regard is the ranking of lithium-ion battery supply chains by country by Bloomberg's research division BNEF. This ranking has been published every year since 2021, targeting 30 major countries by evaluating each country's manufacturing capability, policies, support measures, location conditions, etc. In the rankings released in February 2024, Canada took the top spot for the first time, overtaking China. Canada's superiority was recognized.

A “New Chapter” in Japan-Canada Relations

Japan and Canada are democratic countries that share fundamental values such as human rights, the rule of law, and a market economy, and are both members of the G7 and TPP members. We have maintained an extremely good relationship and have worked hard to develop it. On the other hand, Canada's diplomatic, security, and economic policies have historically and geographically centered on its relationship with the Atlantic region and Europe. However, in November 2022, Canada announced its "Indo-Pacific Strategy" and made clear its stance to strengthen its involvement in this region. At the core of this strategy are the revision of their policy toward China, the strengthening of relations with ASEAN countries, which have not always been sufficient to date, and the fundamental strengthening of relations with Japan, which has traditionally been a focus. Meanwhile, Japan also announced its National Security Strategy in December of the same year. Its pillars are by Japan's own efforts, strengthening the

Japan-U.S. security arrangements, and promoting cooperation with like-minded countries, including Canada. Japan and Canada agreed on the “Canada-Japan Action Plan for contributing to a free and open Indo-Pacific region”, in which the two countries acknowledged to work together on six shared priorities: rule of law, peacekeeping, health security, energy security, free trade, and global warming countermeasures.

The action plan is a very well-written document, but it's the actions themselves that matter. Concrete cooperation is progressing in the security and economic fields. However, in particular, the visit of then Minister of Economy, Trade and Industry Nishimura to Ottawa in September 2023, led by representatives of related companies, was extremely significant, with the aim of closer cooperation between Japan and Canada in business and industrial technology. Individual discussions were held with Canadian counterparts: Minister of Export Promotion, International Trade and Economic Development Mary Ng, Minister of Innovation, Science and Industry François-Philippe Champagne, and Minister of Energy and Natural Resources Jonathan Wilkinson. Additionally, at a joint working lunch that included representatives from the private sector from Japan and Canada, discussions were deepened from a frank and wide-ranging perspective. I personally refer to the four like-minded economic ministers of Canada and Japan as the "economic quartet" because they share a vision and strategy. Under the leadership of this quartet, the governments of Japan and Canada signed two documents. One is a memorandum of cooperation on Industrial Science and Technology between Japan and Canada. The other is a memorandum of cooperation on the Japan-Canada battery supply chain. Honda's recent mega-investment in Canada is a true embodiment of the strategic intent of these memorandums.

The Future of Zero-Emission Vehicles

As decarbonization accelerates towards net zero by 2050, ZEVs are inevitable as approximately 20% of greenhouse gas emissions come from the transportation sector. Each country has specified a time frame for transitioning to ZEV.

For example, Canada has a law that requires 100% of new car sales to be ZEVs by 2035. The United States has issued an executive order to require more than 50% of new car sales to be electric by 2030. In the EU, virtually all gasoline and diesel cars, including hybrid cars, will be banned by 2035.

With that in mind, let's take a look at the EV penetration rate (share of new automobile sales) in 2023. Canada is 8% (300,000 units), the US is 7.6% (1.19 million units), and the EU is 14.6% (1.54 million units). The number of units sold and market shares are increasing year by year.

At the same time, challenges have also emerged. In particular, they are with price, performance,

and associated infrastructure. Consumers are price sensitive, but EV prices are relatively high at this stage. Direct government subsidies to consumers or support to manufacturers will be essential for future widespread use. In terms of performance, one guideline is an actual cruising range of 500km on a single charge. There is also discussion about related infrastructure such as charging stations in remote areas, and driving in cold or extremely hot regions. The procurement of critical mineral resources such as lithium, which is essential for the batteries that are the core of EVs, is now directly linked to economic security. This is why companies from Europe, America, and Japan are paying attention to Canada.

Furthermore, for ZEVs including EVs, how future regulations will develop is of vital importance. The future outcome of the US IRA (Inflation Reduction Act) is also attracting attention. California's Advanced Clean Cars II (ACC II) goes into effect in 2026. It is considered to be the touchstone of the world market and predicts future trends. Manufacturers around the world are competing with each other in terms of technology and sales strategies.

Conclusion

The effects of global warming are prominent. United Nations Secretary-General António Guterres has gone so far as to describe it as global boiling rather than global warming. We can afford no further delay in addressing global warming, and technology is also progressing rapidly. EVs are the key to combating global warming.

In addition, EVs are compatible with autonomous driving, and it is expected that collaboration with cutting-edge technologies such as AI will advance. Fierce competition that will determine future business supremacy has already begun. Canada is undoubtedly competing in the main battlegrounds. I look forward to further progress in strategic collaboration between Japanese companies and Canada.