

Canadian International Auto Show Stakeholder Reception
February 15, 2023

SPEAKING NOTES:

Larry Hutchinson, Toyota Canada President and CEO

“Using all the tools in our toolbox”

Hello, everybody.

Thanks for joining us this evening.

We know there's a lot going on this week, so we appreciate you spending some of your time with us.

It's great to be back together again after a couple years of social distancing.

But I have to say ... in that time, the world has changed a lot.

One thing I *haven't* missed is getting up and speaking after one of those corporate videos.

They always seem a little too "braggy" to me.

But, over the past few years, many companies stopped reporting their manufacturing and sales numbers on a regular basis.

And, if we don't put the numbers on record, it's difficult for stakeholders like you - or the public at large - to understand what's *really* happening in this important sector of the Canadian economy.

So, the video is what it is, and the numbers are there for you to see and consider.

But a few things in the video really jump out at me.

For me, Toyota Canada being *number one in Retail Sales* is the most important indicator of our performance.

When Canadians choose to spend *their own money* on a new vehicle, they choose a Toyota or Lexus more often than any other brand.

To us, it's a check on whether we're meeting the needs of Canadians.

And it reminds us of our obligation to provide a wide range of affordable, high quality, environmentally responsible options for Canadian drivers.

Our commitment to *build* vehicles where we sell them also stands out to me.

As you saw in the video, Toyota Motor Manufacturing Canada was ... once again ... the number one manufacturer in Canada ... by a wide margin.

And it's not a coincidence the number one selling non-pickup truck in our market is the *made-in Canada RAV4* right over there.

Nor is it a coincidence almost *two thirds* of the Lexus vehicles we sold in Canada last year were made right here in Ontario.

Finally, the fact the Corolla is the best-selling *car* in the Canadian market is also important.

What *that* tells us is ... Canadians still appreciate well built, well equipped, fuel efficient and, most importantly, affordable *cars*.

I mentioned the world of automotive seems remarkably *different* here at the start of 2023 than it was just a few short years ago.

Despite some headwinds, all indicators are the economy will manage through the government's fight with inflation, and performance in our sector will remain strong.

While we continue to be impacted by the global supply chain challenges affecting our industry, our *plants* ... including those here in Ontario ... are running at high capacity, and we're doing everything we can to bring down wait times for vehicles.

For anyone who's been waiting for a Toyota or Lexus vehicle, please accept our apologies.

I thank you for your patience and assure you we're all working hard to meet your needs as quickly as possible.

Just as 2023 began, the federal government revealed their draft zero emission vehicle (ZEV) mandate.

When some people hear we oppose ZEV *mandates*, they conclude we're opposed to environmental progress ... or we're against battery electric vehicles ... or we just don't want to be regulated.

None of those things is true.

Toyota's commitment to achieving net zero carbon is longstanding and well documented.

We're not only on record, but our *actions* ... from our manufacturing operations to our newest facilities to the mix of products and technologies we offer ... have *demonstrated* our commitment.

And we're not *waiting* to take *further* action.

This year, *40% of the vehicles we sell in Canada will be electrified.*

That means we're prioritizing the carbon reduction of *more than 80,000 electrified vehicles* ... immediately and throughout their entire lifespan.

Because of this, the overall carbon footprint of the entire fleet of vehicles we sell this year will be reduced significantly.

We're not waiting because we believe climate change is *urgent* and complex, and requires meaningful *action* backed by our best thinking.

And, while we agree our carbon reduction strategy must *include* battery electric vehicles ... we also know it can't be *limited* to them.

So, no, we're not afraid of regulation.

But we *are* afraid *this* regulation will *fail*.

And that it will *fail* with *heavy consequences* for the environment, for the economy and for average Canadians.

Our shared objective as Canadians ... eliminating carbon emissions ... is clear and undebatable ... but *how* ... and how quickly ... we get there is just as important.

For this reason, there's a universally accepted truth I feel needs to be highlighted right now:

Complex problems do not lend themselves to simple solutions.

And climate change is a *very* complex problem.

To solve this problem ... and start making a meaningful difference *now* ... we need to use *all* the tools in our toolbox.

The federal ZEV policy ... as currently drafted ... attempts to address the climate challenge with *just one tool*: The sale of new *battery electric vehicles*.

But there are significant problems with that *one-tool approach*.

It fails to acknowledge that carbon emissions come not just from *new vehicles* ... but from *every vehicle on the road*.

That means we need to get as many older, less fuel-efficient vehicles as possible off the road *now*... *and* make sure the *new vehicles* replacing them are as fuel-efficient as they can be.

So, a robust and resilient response to the carbon challenge needs to consider every vehicle on Canadian roads ... and incorporate *all the technologies* we have available to us... to start bringing down our overall emissions now.

Because the effect of greenhouse gas emissions is *cumulative*... so the *more* we do ... and the *sooner* we do it ... the better off we'll be.

I think the *biggest* problem, though, will be the impact of rising demand on the price and availability of battery materials.

Between 2020 and 2022, the price of lithium rose from \$5,000 U.S. per ton to over \$71,000 per ton.

I think we can expect prices for all the critical minerals to continue to climb, driven by our exponentially increasing demand for them.

And these prices will drive the price of vehicles *upwards*, further challenging average Canadians' ability to afford new battery electric vehicles in the near to medium term.

Despite those increased vehicle prices, the federal mandate will require 20% of new car sales in 2026 be ZEVs.

And, while that would represent significant growth from today's roughly 8% share of new car sales, the number is *meaningless* if the overall market recovers from the 1.45 million sales in 2022 to the 2 million vehicle sales level we were at prior to the pandemic.

That *one third* increase in overall vehicle sales would mean carbon emissions from the total vehicles sold will actually *rise* ... not fall ... even as record numbers of EVs are sold.

For this reason, the *type* of electrified vehicles we decide to make and sell also makes a big difference.

Because, if those same battery materials were used more efficiently, the carbon emissions could actually *fall* that year.

A few weeks ago, at the World Economic Forum in Davos, our global Chief Scientist, Dr. Gill Pratt, *clearly* outlined how the *limited* supply of high-cost critical minerals available to the global auto industry can be used more efficiently to reduce carbon emissions.

The bottom line?

There's at least a 13:1 carbon reduction benefit from choosing to produce hybrids instead of BEVs in a battery constrained environment.

So, it is *unconscionable* to me that expensive *monster* trucks powered by battery packs that weigh as much as a *small car* would be *validated* under Canadian environmental policy ... even as those same policies are trying to *eliminate* more affordable and effective alternatives.

If those giant BEV SUV batteries were spread out and used more efficiently to replace hundreds of thousands of gas-powered vehicles currently on the road with hybrids and plug-in hybrids ... the carbon footprint of the total fleet on the road in Canada would shrink significantly ... even *with* that increase in overall sales volume.

Clearly, this speaks to the need to focus on *overall carbon reduction*, rather than just how many BEVs we can sell.

As it stands, though, the current government mandate will force us to use our limited battery materials *less* efficiently to sell a minimum number of BEVs... and will actually result in *increased* greenhouse gas emissions in Canada.

Smaller batteries also mean *lower costs* for people buying a new vehicle.

To win the battle against carbon, we need new technologies to be *widely* adopted and used by Canadian drivers, so *affordability* and *choice* will be key to achieving the right results.

And *that takes me back* to the Corolla over here...

The number one selling car in Canada.

I'm pleased to announce we're aiming for 50% of our Corolla sedan sales to be hybrids this year.

That's *without* a ZEV mandate and *without* government purchase incentives.

And *that* can happen because a Corolla hybrid has a starting price at least \$20,000 *less* than a Tesla Model 3 ... even after federal incentives ... making it *affordable* for a much larger cross section of new car buyers.

As I mentioned earlier, *about 40% of Toyota Canada's overall sales this year will be electrified vehicles.*

And, if the government doesn't limit us, our sales of electrified vehicles ... hybrid, plug-in hybrid, battery electric and fuel cell electric ... will continue to grow.

By 2025, we'll offer an electrified version of almost every model we sell.

And, unlike *some* automakers, we'll offer our electrified options in *volume*.

We're doing this because we know battery electric vehicles alone can't meet all the diverse driving needs of Canadians from East to West or North to South.

Even as we deploy all the carbon-reducing tools we have now, we're also rapidly developing *other* new technologies like hydrogen internal combustion and e-fuels.

The e-fuel opportunity is especially exciting to me.

Imagine a future where we all have plug-in hybrids... so people do most of their driving on electric mode, already cutting their emissions by 80 or 90%... and then, to get to 100%, use a *zero-emission e-fuel* for the few times they need to drive longer distances or tow something.

Carbon-neutral emissions... less environmental impact from all the mines more BEVs would require... virtually no infrastructure challenges... and affordable transportation for everyone.

That future is both practical and possible.

So, if a technology can help Canada reduce its overall carbon emissions, shouldn't it be considered?

I'm not sure why the government simply shuts these kinds of ideas down without considering them.

We need to use every tool in our toolbox.

And, probably, some tools we don't even have yet.

Unfortunately, our governments have declared that there's no room for these alternatives under our existing and proposed federal and provincial ZEV mandates.

As Canada was contemplating its proposed ZEV regulation, we outlined how it would be possible for companies to achieve a 60% ZEV target while delivering *as little as 48%* reduction in overall carbon emissions.

We proposed that the ZEV regulation allow companies to comply with their plan by delivering either 60% ZEVs ... OR a *60% reduction in overall greenhouse gas emissions* without mandating a specific technology mix.

Because *we know* we can reduce more carbon at a lower cost to Canadian consumers ... and more quickly... just as we're doing today.

We *know* offering more choices to consumers will facilitate the elimination of older vehicles from Canadian roads.

And we know every new carbon-reducing electrified vehicle we put onto Canadian roads today has an important role to play as we transition to a zero-emissions future.

So, here's my message:

Our mission is too important and too impactful to get wrong.

The cost of making a mistake is *too high* and the road to 2050 is getting shorter all the time.

At the same time, having *affordable* transportation choices is *essential*.

We're ready to work with governments and serve our customers to reach a carbon neutral future ... but we're not waiting to act.

We're already using every tool we have, and we've been reducing carbon emissions from our fleet for years.

We invite you to visit our booths at the auto show this week ... or our dealership showrooms throughout 2023 ... as we continue to roll out our tools for a low carbon future.