

[COMMITTEE PRINT]

COMMITTEE ON FINANCE
UNITED STATES SENATE
HARRY FLOOD BYRD, *Chairman*

DATA RELATING TO H.R. 9042
AUTOMOTIVE PRODUCTS TRADE ACT OF 1965
INCLUDING
TEXT OF UNITED STATES-CANADIAN AGREEMENT
TOGETHER WITH
LETTERS OF UNDERTAKING
FROM
GENERAL MOTORS OF CANADA, LTD.
FORD MOTOR OF CANADA, LTD.
CHRYSLER CANADA, LTD.
AND
AMERICAN MOTORS (CANADA), LTD.



SEPTEMBER 14, 1965

(Compiled by the Staff for the Use of the
Committee on Finance)

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WASHINGTON : 1965

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**MATERIAL CONCERNING AUTOMOTIVE PRODUCTS TRADE
ACT OF 1965**

PRESIDENT'S MESSAGE ON H.R. 6960

[H. Doc. 132]

89TH CONGRESS } HOUSE OF REPRESENTATIVES { DOCUMENT
1st Session } { No. 132

**AGREEMENT CONCERNING AUTOMOTIVE PRODUCTS
BETWEEN THE UNITED STATES AND CANADA**

COMMUNICATION

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

A DRAFT OF PROPOSED LEGISLATION TO PROVIDE FOR THE IM-
PLEMENTATION OF THE AGREEMENT CONCERNING AUTOMO-
TIVE PRODUCTS BETWEEN THE GOVERNMENT OF THE UNITED
STATES OF AMERICA AND THE GOVERNMENT OF CANADA, AND
FOR OTHER PURPOSES

MARCH 31, 1965.—Referred to the Committee on Ways and Means and ordered
to be printed

THE WHITE HOUSE,
Washington, March 31, 1965.

HON. JOHN W. McCORMACK,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: On January 16, Prime Minister Pearson of
Canada and I signed an important agreement looking toward freer

trade in automotive products between our two North American countries. This agreement resolves the serious difference which existed between Canada and the United States over our automotive trade. More significantly, it marks a long step forward in U.S. commercial relations with her greatest trading partner. It testifies to the good will and confidence between us.

The automotive producers of the United States and Canada make up a single great North American industry. The same kind of cars, using the same parts, are produced on both sides of the border, in many cases in factories only a few miles apart. Over 90 percent of the automobiles sold in Canada are assembled by firms owned in part or in whole by U.S. companies. The men and women who work in the plants on both sides of the border are members of the same international union.

Tariffs and other restrictions involving Canadian-United States trade in automotive products have been the cause of significant inefficiency in this great industry. Canadian plants produce a great variety of cars, essentially identical with those made in far larger numbers in the United States. Because the Canadian market is relatively small, production runs have been short, and costs and prices have been high. High costs and prices, in turn—supported by the tariff and other restrictions—have contributed to keeping the market small.

Historically, Canada's share in North American automotive production has lagged far behind her share in automotive purchases. In 1963, in an attempt to increase its share of the North American market, the Canadian Government put into effect a plan, involving the remission of tariffs, which was designed to stimulate automotive exports. A number of U.S. manufacturers, believing they would be injured by the plan, called upon this Government to impose countervailing duties. In all probability, such action would have invited retaliation. We were faced by the prospect of a wasteful contest of stroke and counterstroke, harmful to both Canada and the United States, and helpful to neither. Our broader good relations with our Canadian friends would have suffered strain.

To avoid such a dismal outcome, our two Governments bent every effort to find a rational solution to the problems of a divided industry. The Automotive Products Agreement that the Prime Minister and I signed in January is the result of our joint labors.

The agreement will benefit both countries. We will have avoided a serious commercial conflict. Canada will have achieved her objective of increasing her automotive production. U.S. manufacturers will be able to plan their production to make most efficient use of their plants, whether in Canada or the United States. They will save the price of the tariff and, over the longer run, we will benefit from the faster growth in the Canadian market which lower prices will make possible.

The agreement has already brought results. The Canadian Government revoked its controversial plan and, on January 18, reduced all relevant duties to zero. I am informed that the Canadian Parliament will be asked to give its approval in the near future.

We recognize, of course, that full integration of the North American automobile industry cannot be brought about all at once. To allow

time for adjustment, the Canadian sector of the industry—less than one-twentieth the size of ours—will operate initially under special arrangements. The agreement itself will be subject to comprehensive review no later than January 1, 1968. We should then be in a position to judge what further steps are necessary.

In signing the agreement, I pledged myself to ask the Congress to authorize the President to remove all U.S. duties on Canadian automobiles and parts for original equipment. I am today sending to the Congress draft legislation which would give the President that authority. The proposed legislation would also authorize the President to make similar automotive agreements with other countries, and to make agreements leading to mutually beneficial reduction of duties on replacement parts.

I repeat: In my judgment, the agreement will benefit both Canada and the United States, and the automotive industry and automotive workers in both countries. However, we recognize that adjustments in an industry of such size could result in temporary dislocation for particular firms and their workers. To provide appropriate relief, the bill I propose will make applicable the adjustment assistance of title III of the Trade Expansion Act of 1962.

The tariff change contemplated in the automotive agreement, is, however, a special case. Tariffs will be cut to zero, *all at one time*. Furthermore, dislocation, if it should occur, may well be due as much to the decrease in exports of certain products as to an increase in imports. Therefore, this bill calls for special procedures for obtaining adjustment assistance. These special procedures will be limited in application to this agreement and to a transition period of 3 years. If a similar agreement is made with another country, or if we should make agreements affecting replacement parts, appropriate adjustment assistance legislation will be recommended to the Congress.

• • •

The agreement and this bill are designed to lead to a more efficient organization of the North American automotive industry. It is based on mutual trust and will result in mutual benefit—benefit to producers, to labor, and to consumers on both sides of the border.

Canada has acted. It is our turn. In order that we may act, I ask the Congress to approve promptly this legislation.

Sincerely,

LYNDON B. JOHNSON.

TEXT OF UNITED STATES-CANADIAN AGREEMENT

AGREEMENT CONCERNING AUTOMOTIVE PRODUCTS BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF CANADA

The Government of the United States of America and the Government of Canada,

Determined to strengthen the economic relations between their two countries;

Recognizing that this can best be achieved through the stimulation of economic growth and through the expansion of markets available to producers in both countries within the framework of the established policy of both countries of promoting multilateral trade;

Recognizing that an expansion of trade can best be achieved through the reduction or elimination of tariff and all other barriers to trade operating to impede or distort the full and efficient development of each country's trade and industrial potential;

Recognizing the important place that the automotive industry occupies in the industrial economy of the two countries and the interests of industry, labor and consumers in sustaining high levels of efficient production and continued growth in the automotive industry;

Agree as follows:

ARTICLE I

The Governments of the United States and Canada, pursuant to the above principles, shall seek the early achievement of the following objectives:

(a) The creation of a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved;

(b) The liberalization of United States and Canadian automotive trade in respect of tariff barriers and other factors tending to impede it, with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries;

(c) The development of conditions in which market forces may operate effectively to attain the most economic pattern of investment, production and trade.

It shall be the policy of each Government to avoid actions which would frustrate the achievement of these objectives.

ARTICLE II

(a) The Government of Canada, not later than the entry into force of the legislation contemplated in paragraph (b) of this Article, shall accord duty-free treatment to imports of the products of the United States described in Annex A.

(b) The Government of the United States, during the session of the United States Congress commencing on January 4, 1965, shall seek enactment of legislation authorizing duty-free treatment of imports of the products of Canada described in Annex B. In seeking such legislation, the Government of the United States shall also seek authority permitting the implementation of such duty-free treatment retroactively to the earliest date administratively possible following the date upon which the Government of Canada has accorded duty-free treatment. Promptly after the entry into force of such legislation, the Government of the United States shall accord duty-free treatment to the products of Canada described in Annex B.

ARTICLE III

The commitments made by the two Governments in this Agreement shall not preclude action by either Government consistent with its obligations under Part II of the General Agreement on Tariffs and Trade.

ARTICLE IV

(a) At any time, at the request of either Government, the two Governments shall consult with respect to any matter relating to this Agreement.

(b) Without limiting the foregoing, the two Governments shall, at the request of either Government, consult with respect to any problems which may arise concerning automotive producers in the United States which do not at present have facilities in Canada for the manufacture of motor vehicles, and with respect to the implications for the operation of this Agreement of new automotive producers becoming established in Canada.

(c) No later than January 1, 1968, the two Governments shall jointly undertake a comprehensive review of the progress made towards achieving the objectives set forth in Article I. During this review the Governments shall consider such further steps as may be necessary or desirable for the full achievement of these objectives.

ARTICLE V

Access to the United States and Canadian markets provided for under this Agreement may by agreement be accorded on similar terms to other countries.

ARTICLE VI

This Agreement shall enter into force provisionally on the date of signature and definitively on the date upon which notes are exchanged between the two Governments giving notice that appropriate action in their respective legislatures has been completed.

ARTICLE VII

This Agreement shall be of unlimited duration. Each Government shall however have the right to terminate this Agreement twelve months from the date on which that Government gives written notice to the other Government of its intention to terminate the Agreement.

IN WITNESS WHEREOF the representatives of the two Governments have signed this Agreement.

DONE in duplicate at Johnson City, Texas, this 16th day of January 1965, in English and French, the two texts being equally authentic.

For the Government of the United States of America:

(S) LYNDON B. JOHNSON

(S) DEAN RUSK

For the Government of Canada:

(S) LESTER B. PEARSON

(S) PAUL MARTIN

ANNEX A

1. (1) Automobiles, when imported by a manufacturer of automobiles.

(2) All parts, and accessories and parts thereof, except tires and tubes, when imported for use as original equipment in automobiles to be produced in Canada by a manufacturer of automobiles.

(3) Buses, when imported by a manufacturer of buses.

(4) All parts, and accessories and parts thereof, except tires and tubes, when imported for use as original equipment in buses to be produced in Canada by a manufacturer of buses.

(5) Specified commercial vehicles, when imported by a manufacturer of specified commercial vehicles.

(6) All parts, and accessories and parts thereof, except tires, tubes and any machines or other articles required under Canadian tariff item 438a to be valued separately under the tariff items regularly applicable thereto, when imported for use as original equipment in specified commercial vehicles to be produced in Canada by a manufacturer of specified commercial vehicles.

2. (1) "Automobile" means a four-wheeled passenger automobile having a seating capacity for not more than ten persons;

(2) "Base year" means the period of twelve months commencing on the 1st day of August, 1963 and ending on the 31st day of July, 1964;

(3) "Bus" means a passenger motor vehicle having a seating capacity for more than 10 persons, or a chassis therefor, but does not include any following vehicle or chassis therefor, namely an electric trackless trolley bus, amphibious vehicle, tracked or half-tracked vehicle or motor vehicle designed primarily for off-highway use;

(4) "Canadian value added" has the meaning assigned by regulations made under section 273 of the Canadian Customs Act;

(5) "Manufacturer" of vehicles of any following class, namely automobiles, buses or specified commercial vehicles, means, in relation to any importation of goods in respect of which the description is relevant, a manufacturer that

(i) produced vehicles of that class in Canada in each of the four consecutive three months' periods in the base year, and

(ii) produced vehicles of that class in Canada in the period of twelve months ending on the 31st day of July in which the importation is made,

(A) the ratio of the net sales value of which to the net sales value of all vehicles of that class sold for consumption in Canada by the manufacturer in that period is equal to or higher than the ratio of the net sales value of all vehicles of that class produced in Canada by the manufacturer in the base year to the net sales value of all vehicles of that class sold for consumption in Canada by the manufacturer in the base year, and is not in any case lower than seventy-five to one hundred; and

(B) the Canadian value added of which is equal to or greater than the Canadian value added of all vehicles of that class produced in Canada by the manufacturer in the base year;

(6) "Net sales value" has the meaning assigned by regulations made under section 273 of the Canadian Customs Act; and

(7) "Specified commercial vehicle" means a motor truck, motor truck chassis, ambulance or chassis therefor, or hearse or chassis therefor, but does not include:

(a) any following vehicle or a chassis designed primarily therefor, namely a bus, electric trackless trolley bus, amphibious vehicle, tracked or half-tracked vehicle, golf or invalid cart, straddle carrier, motor vehicle designed primarily for off-highway use, or motor vehicle specially constructed and equipped to perform special services or functions, such as, but not limited to, a fire engine, mobile crane, wrecker, concrete mixer or mobile clinic; or

(b) any machine or other article required under Canadian tariff item 438a to be valued separately under the tariff item regularly applicable thereto.

3. The Government of Canada may designate a manufacturer not falling within the categories set out above as being entitled to the benefit of duty-free treatment in respect of the goods described in this Annex.

ANNEX B

(1) Motor vehicles for the transport of persons or articles as provided for in items 692.05 and 692.10 of the Tariff Schedules of the United States and chassis therefor, but not including electric trolley buses, three-wheeled vehicles, or trailers accompanying truck tractors, or chassis therefor.

(2) Fabricated components, not including trailers, tires, or tubes for tires, for use as original equipment in the manufacture of motor vehicles of the kinds described in paragraph (1) above.

(3) Articles of the kinds described in paragraphs (1) and (2) above include such articles whether finished or unfinished but do not include any article produced with the use of materials imported into Canada which are products of any foreign country (except materials produced within the customs territory of the United States), if the aggregate value of such imported materials when landed at the Canadian port of entry, exclusive of any landing cost and Canadian duty, was—

(a) with regard to articles of the kinds described in paragraph (1), not including chassis, more than 60 percent until January 1, 1968, and thereafter more than 50 percent of the appraised cus-

toms value of the article imported into the customs territory of the United States; and

(b) with regard to chassis of the kinds described in paragraph (1), and articles of the kinds described in paragraph (2), more than 50 percent of the appraised customs value of the article imported into the customs territory of the United States.

TEXT OF SUPPLEMENTARY EXCHANGE OF NOTES

UNITED STATES NOTE

MARCH 9, 1965.

His Excellency the Right Honorable CHARLES S. A. RITCHIE,
Ambassador of Canada.

EXCELLENCY:

I have the honor to refer to the Agreement concerning Automotive Products between the Government of the United States of America and the Government of Canada signed on January 16, 1965.

It is the understanding of my Government that automobile truck tractors are included within the articles to be accorded duty-free entry by our two Governments pursuant to Article II and the Annexes of the Agreement.

I have further the honor to request you to confirm the foregoing understanding on behalf of the Government of Canada.

Accept, Excellency, the renewed assurance of my highest consideration.

For the Secretary of State:

(S) G. GRIFFITH JOHNSON

CANADIAN NOTE

WASHINGTON, D.C., *March 9, 1965.*

No. 98

The Honorable DEAN RUSK,
The Secretary of State,
Washington, D.C.

SIR,

I have the honor to acknowledge receipt of your Note of March 9, 1965, which reads as follows:

"I have the honor to refer to the Agreement concerning Automotive Products between the Government of the United States of America and the Government of Canada signed on January 16, 1965.

"It is the understanding of my Government that automobile truck tractors are included within the articles to be accorded duty-free entry by our two Governments pursuant to Article II and the Annexes of the Agreement.

"I have further the honor to request you to confirm the foregoing understanding on behalf of the Government of Canada.

"Accept, Excellency, the renewed assurance of my highest consideration."

I have further the honor to confirm the foregoing understanding on behalf of the Government of Canada.

Please accept, Sir, the renewed assurances of my highest consideration.

(S) C. S. A. RITCHIE

ARTICLE-BY-ARTICLE ANALYSIS OF AGREEMENT

PREAMBLE

The preamble of the Agreement sets out the principles underlying the Agreement. The Governments state their determination to strengthen the economic relations between the two countries. They recognize that this can best be achieved through the stimulation of economic growth and the expansion of markets available to producers in both countries within the framework of their established policy of promoting multilateral trade. They further recognize that expansion of trade can best be achieved through the reduction or elimination of tariffs and other barriers to trade operating to impede or distort the full and efficient development of each country's trade and industrial potential. Finally, they recognize the important place of the automotive industry in both countries and the interests of industry, labor and consumers in sustaining high levels of efficient production and continued growth in this industry.

ARTICLE I

This article sets out the three objectives of the Agreement. The first objective is the creation of a broader market for automotive products to permit achievement of the full benefits of specialization and large-scale production. The second objective is the liberalization of United States and Canadian automotive trade in respect to tariff barriers and other factors tending to impede this trade, with a view to enabling the industries of both countries to participate in the expanding total market of the two countries on a fair and equitable basis. The third objective is the development of conditions in which market forces may operate effectively to attain the most economic pattern of investment, production and trade.

In this article, the Governments agree to avoid actions which would frustrate the achievement of these objectives.

ARTICLE II

Paragraph (a) requires the Canadian Government to accord duty-free treatment to imports of the products of the United States described in Annex A. This treatment is required to be given no later than the entry into force of the United States legislation according the same treatment to imports of the products of Canada described in Annex B. In fact, the Canadian Government began giving duty-free treatment to imports of the United States products on January 18, 1965.

Paragraph (b) requires the U.S. Government to seek, in this session of the Congress, enactment of legislation which would authorize the President to proclaim the duty-free treatment of imports of the products of Canada described in Annex B. The authority sought is

to include provisions permitting the implementation of such duty-free treatment retroactively to the earliest date administratively possible following the date upon which the Canadian Government has accorded duty-free treatment. As mentioned above, the Canadian Government accorded duty-free treatment on January 18, 1965. The U.S. Government is obligated to accord duty-free treatment promptly after the entry into force of such legislation, if enacted.

ARTICLE III

This article permits either Government to take action consistent with its obligations under Part II (arts. III through XXIII) of the General Agreement on Tariffs and Trade. Such actions include antidumping duties, escape clause measures, and national security actions.

ARTICLE IV

Paragraph (a) is a general consultation provision enabling either Government to request consultations on any matter relating to the Agreement.

Paragraph (b), without limiting paragraph (a), recognizes that special consultations may be needed with respect to problems of U.S. automotive producers which do not at present have facilities in Canada. Paragraph 3 of Annex A recognizes that Canada may designate such a manufacturer as being eligible for the benefits of the duty-free treatment with regard to the products of the United States described in Annex A.

Paragraph (b) also recognizes that special consultations may be needed with respect to the implications for the operation of the Agreement of new automotive producers becoming established in Canada. This provision is intended to provide a safeguard against firms becoming established in Canada without being required to undertake significant production in Canada and thus becoming a conduit enabling third-country products to secure duty-free entry into the United States. The Canadian content requirement for duty-free entry into the United States embodied in paragraph 3 of Annex B also provides a safeguard against this occurrence.

Paragraph (c) provides for a comprehensive review no later than January 1, 1968, of the progress toward achieving the three objectives stated in Article I. During this review, the Governments will consider such further steps as may be necessary or desirable for the full achievement of these objectives. This paragraph is intended to provide for future possible arrangements and other matters which may arise after the 3-year transitional period has expired.

ARTICLE V

This article provides that access to United States and Canadian markets of the kind provided by the Agreement may by agreement be accorded on similar terms to other countries. This permits either country or both countries to conclude similar agreements with third countries.

ARTICLE VI

This article provides for the provisional entry into force of the Agreement on the date of signature and its definitive entry into force when notes are exchanged between the two Governments giving notice that the appropriate action in their respective legislatures has been completed. Appropriate action by the United States would be enactment of the proposed Automotive Products Trade Act of 1965. Appropriate action for the Canadian Government would be consideration of the Agreement by the Canadian Parliament.

ARTICLE VII

This article establishes an unlimited duration for the Agreement. However, each Government is given the right to terminate the Agreement, effective after 12 months' written notice to the other Government of an intention to terminate.

ANNEX A

Paragraph 1 describes the products to be accorded duty-free treatment by the Canadian Government. A supplementary exchange of notes dated March 9, 1965, confirmed that automobile truck tractors are included among these products.

Paragraph 2 defines certain terms used in the description of the products to be accorded duty-free treatment and in other definitions.

Paragraph 3 relates to the designation of manufacturers not coming within the definition of "manufacturer" (as that term is defined in par. 2) as being eligible for the benefits of duty-free treatment.

ANNEX B

Paragraph (1) describes the motor vehicles and chassis to be accorded duty-free treatment by the Government of the United States. A supplementary exchange of notes dated March 9, 1965, confirmed that automobile truck tractors are included among these products.

Paragraph (2) describes the other articles to be accorded duty-free treatment under the Agreement.

Paragraph (3) makes clear that the articles described in paragraphs (1) and (2) include articles whether unfinished or in finished state but do not include articles which have less than 50 percent Canadian value added (40 percent for vehicles and chassis described in par. (1) until January 1, 1968).

TEXT OF CANADIAN ORDERS IN COUNCIL CONCERNING AUTOMOTIVE PRODUCTS

ORDER IN COUNCIL ESTABLISHING REBATE PLAN P.C. 1963-1/1544

At the Government House at Ottawa
Tuesday, the 22nd day of October 1963

PRESENT:

His Excellency, the GOVERNOR GENERAL IN COUNCIL:

His Excellency the Governor General in Council, pursuant to Section 22 of the Financial Administration Act, is pleased hereby to order as follows, in accordance with the following minute of the Treasury Board:

T.B. 617086
FINANCE
INDUSTRY

The Board recommends that Your Excellency in Council be pleased to order as follows:

ORDER

1. (1) In this Order,

(a) "designated period" means any following period, namely:

(i) November 1, 1963 to October 31, 1964, (ii) November 1, 1964 to October 31, 1965, or (iii) November 1, 1965 to October 31, 1966;

(b) "motor vehicle" means vehicles that, if imported into Canada, would be classified under any of Tariff items 410a(iii), 424 and 438a;

(c) "motor vehicle parts" means parts that, if imported into Canada, would be classified under any of Tariff items 410a(iii), 424 and 438a to 438u inclusive, and includes the following motor vehicle parts and accessories, namely, ball and roller bearings, radios, heaters, die castings of zinc, electric storage batteries, and parts of which the component material of chief value is wood or rubber, but does not include tires or tubes.

(2) A reference in this Order to the value for Customs duty purposes of any goods shall be construed as a reference to the value for Customs duty purposes of such of those goods as were subject to Customs duties specified in Schedule A to the Customs Tariff.

2. All Customs duties specified in Schedule A to the Customs Tariff payable in respect of the following goods, namely:

(a) motor vehicles imported or taken out of warehouse by a motor vehicle manufacturer in Canada during any designated period, and

(b) motor vehicle parts for use as original equipment for motor vehicles, imported or taken out of warehouse by or on behalf of such manufacturer during that designated period,

are remitted to the extent of the duties so payable on such part of the value for Customs duty purposes of those goods as does not exceed the amount (hereinafter referred to as the "excess value") by which

(c) the Canadian content value, as established to the satisfaction of the Minister of National Revenue, of motor vehicles and motor vehicle parts exported by such manufacturer during that designated period,

exceeds

(d) the Canadian content value, as established to the satisfaction of the Minister of National Revenue, of motor vehicles and motor vehicle parts exported by such manufacturer during the period November 1, 1961 to October 31, 1962,

and where the excess value exceeds the value for Customs duty purposes of the goods so imported or taken out of warehouse during that designated period, the amount of such excess may be added to the Canadian content value, as established to the satisfaction of the Minister of National Revenue, of motor vehicles and motor vehicle parts exported by such manufacturer during the immediately preceding period of twelve months in determining the amount of Customs duties specified in Schedule A to the Customs Tariff that may be remitted under this Order or under Order in Council P.C. 1962-1/1536 in respect of goods imported or taken out of warehouse during that preceding period.

3. For the purposes of this Order,

(a) a manufacturer is a motor vehicle manufacturer in Canada during any relevant period only if such manufacturer produces in Canada during that period motor vehicles the total number of which so produced is not less than forty percent of the total number of motor vehicles sold by such manufacturer during that period;

(b) motor vehicle parts that are produced in Canada by a parts manufacturer and exported and that can be identified, as being for use in the manufacture, repair or maintenance of motor vehicles produced by an affiliate outside Canada of a motor vehicle manufacturer in Canada may be considered to have been exported by such motor vehicle manufacturer; and

(c) motor vehicle parts exported for incorporation into motor vehicles to be shipped to Canada shall be deemed not to have been exported if the value of such parts may be taken into account for Customs duty remission purposes under any Order other than this Order upon the subsequent importation of such vehicles.

ORDER IN COUNCIL AMENDING REBATE PLAN P.C. 1964-1506

At the Government House at Ottawa
Thursday, the 24th day of September 1964

PRESENT:

HIS EXCELLENCY THE GOVERNOR GENERAL IN COUNCIL:

His Excellency the Governor General in Council, on the recommendation of the Minister of Industry, is pleased hereby to order as follows:

1. Section 3 of Order in Council P.C. 1963-1/1544 of 22d October 1963, is amended by deleting the word "and" after paragraph (b)

thereof, by adding the word "and" after paragraph (c) thereof and by adding thereto the following paragraph:

"(d) motor vehicles and motor vehicle parts exported under any United States Military prime or subcontracts entered into after August 31, 1964, shall be deemed not to have been exported."

ORDER IN COUNCIL REPEALING REBATE PLAN P.C. 1965-1/98

At the Government House at Ottawa
Saturday, the 16th day of January 1965

PRESENT:

His Excellency the GOVERNOR GENERAL IN COUNCIL:

His Excellency the Governor General in Council, pursuant to Section 22 of the Financial Administration Act, is pleased hereby to order as follows, in accordance with the following minute of the Treasury Board:

T.B. 635460
FINANCE

The Treasury Board recommends that your Excellency in Council, pursuant to Section 22 of the Financial Administration Act, be pleased to amend Order in Council P.C. 1963-1/1544, as amended, in accordance with the Schedule hereto.

SCHEDULE

1. Paragraph (a) of subsection (1) of section 1 of Order in Council P.C. 1963-1/1544 is revoked and the following substituted therefor:

"(a) 'designated period' means any following period, namely:

- (i) November 1, 1963 to October 3, 1964, or
- (ii) November 1, 1964 to January 17, 1965;"

2. (1) Paragraph (a) of section 2 of the said Order is revoked and the following substituted therefor:

"(a) motor vehicles imported or taken out of warehouse by a motor vehicle manufacturer in Canada during the designated period November 1, 1963 to October 31, 1964, and"

(2) Section 2 of the said Order is further amended by adding thereto the following subsection:

"(2) All Customs duties specified in Schedule A to the *Customs Tariff* payable in respect of the following goods, namely:

"(a) motor vehicles imported or taken out of warehouse by a motor vehicle manufacturer in Canada during the designated period November 1, 1964 to January 17, 1965, and

"(b) motor vehicle parts for use as original equipment for motor vehicles, imported or taken out of warehouse by or on behalf of such manufacturer during that designated period. are remitted to the extent of the duties so payable on such part of the value for Customs duty purposes of those goods as does not exceed the amount (hereinafter referred to as the 'excess value') by which

“(c) the Canadian content value, as established to the satisfaction of the Minister of National Revenue, of motor vehicles and motor vehicle parts exported by such manufacturer during that designated period,

exceeds

“(d) 78/365 of the Canadian content value, as established to the satisfaction of the Minister of National Revenue, of motor vehicles and motor vehicle parts exported by such manufacturer during the period November 1, 1961 to October 31, 1962, and where the excess value exceeds the value for Customs duty purposes of the goods so imported or taken out of warehouse during that designated period, the amount of such excess may be added to the Canadian content value, as established to the satisfaction of the Minister of National Revenue, of motor vehicles and motor vehicle parts exported by such manufacturer during the immediately preceding period of twelve months in determining the amount of Customs duties specified in Schedule A to the *Customs Tariff* that may be remitted under this Order or under Order in Council P.C. 1962-1/1536 in respect of goods imported or taken out of warehouse during that preceding period.”

ORDER IN COUNCIL ESTABLISHING DUTY-FREE TREATMENT P.C.
1965-99

At the Government House at Ottawa
Saturday, the 16th day of January 1965

PRESENT:

His Excellency the GOVERNOR GENERAL IN COUNCIL:

WHEREAS the Acting Minister of Finance and the Minister of Industry, have reported as follows:

1. That an agreement has been entered into with the United States with respect to the reduction of duties by Canada and the United States on importations of certain automobiles and other vehicles and parts for use as original equipment in certain automobiles and other vehicles; and
2. That it is deemed reasonable by way of compensation for concessions granted by the United States and in order to give effect to the agreement in Canada, to reduce the Customs duties on certain automobiles and other vehicles and parts for use as original equipment in certain automobiles and other vehicles.

THEREFORE, His Excellency the Governor General in Council, on the recommendation of the Acting Minister of Finance and the Minister of Industry, is pleased hereby, pursuant to the Customs Tariff,

- (a) to deem reasonable by way of compensation for concessions granted by the United States the reduction of duties provided for in, and
- (b) to make, effective the 18th day of January 1965, the annexed Motor Vehicles Tariff Order, 1965, the provisions of which may be cited as “Tariff Item 950”.

MOTOR VEHICLES TARIFF ORDER 1965

1. The rates of Customs duties on the following goods imported into Canada on or after January 18, 1965, from any country entitled to the benefit of the British Preferential Tariff or Most-Favoured-Nation Tariff, for which a special entry in such form and manner as is prescribed by the Minister has been made, are reduced to the rate set out as follows opposite the description of those goods:

<i>Description of goods</i>	<i>Rate</i>
(1) Automobiles, when imported by a manufacturer of automobiles.	Free.
(2) All parts, and accessories and parts thereof, except tires and tubes, when imported for use as original equipment in automobiles to be produced in Canada by a manufacturer of automobiles.	Free.
(3) Buses, when imported by a manufacturer of buses.	Free.
(4) All parts, and accessories and parts thereof, except tires and tubes, when imported for use as original equipment in buses to be produced in Canada by a manufacturer of buses.	Free.
(5) Specified commercial vehicles, when imported by a manufacturer of specified commercial vehicles.	Free.
(6) All parts, and accessories and parts thereof, except tires, tubes and machines or other articles required under Tariff Item 438a to be valued separately under the tariff items regularly applicable thereto, when imported for use as original equipment in specified commercial vehicles to be produced in Canada by a manufacturer of specified commercial vehicles.	

2.(1) In this Order,

(a) "automobile" means a four-wheeled passenger automobile having a seating capacity for not more than ten persons;

(b) "base year" means the period of twelve months commencing on the 1st day of August 1963 and ending on the 31st day of July 1964;

(c) "bus" means a passenger motor vehicle having a seating capacity for more than 10 persons or a chassis therefor, but does not include any following vehicle or chassis therefor, namely an electric trackless trolley bus, amphibious vehicle, tracked or half-tracked vehicle or motor vehicle designed primarily for off-highway use;

(d) "Canadian value added" has the meaning assigned by regulations made under section 273 of the *Customs Act*;

(e) "manufacturer" of vehicles of any following class, namely automobiles, buses or specified commercial vehicles, means, in relation to any importation of goods in respect of which the description is relevant, a manufacturer that

(i) produced vehicles of that class in Canada in each of the four consecutive three months' periods in the base year, and

(ii) produced vehicles of that class in Canada in the period of twelve months ending on the 31st day of July in which the importation is made,

(A) the ratio of the net sales value of which to the net sales value of all vehicles of that class sold for consumption in Canada by the manufacturer in that period is equal to or higher than the ratio of the net sales value of all vehicles of that class produced in Canada by the manufacturer in the base year to the net sales value of all vehicles of that class sold for consumption in Canada

by the manufacturer in the base year, and is not in any case lower than seventy-five to one hundred, and

(B) the Canadian value added of which is equal to or greater than the Canadian value added of all vehicles of that class produced in Canada by the manufacturer in the base year;

(f) "net sales value" has the meaning assigned by regulations made under section 273 of the *Customs Act*; and

(g) "specified commercial vehicle" means a motor truck, ambulance or hearse, or a chassis therefor, but does not include any following vehicle or chassis therefor, namely a bus, electric trackless trolley bus, fire truck, amphibious vehicle, tracked or half-tracked vehicle, golf or invalid cart, straddle carrier or motor vehicle designed primarily for off-highway use, or any machine or other article required under Tariff Item 438a to be valued separately under the tariff item regularly applicable thereto.

(2) For the purposes of paragraph (a) of subsection (1) of this section, in computing the net sales value of all vehicles of any class described in that subsection that were sold for consumption in Canada by a manufacturer

(a) in the period of twelve months ending on the 31st day of July, 1965, there shall be deducted an amount equal to one and one-half times the net sales value of all vehicles of that class so sold by the manufacturer in that period that were imported into Canada or taken out of warehouse for consumption on or after January 18, 1965, and for which no special entry as described in section 1 of this Order was made; and

(b) in any subsequent period of twelve months ending on the 31st day of July, there shall be deducted an amount equal to the net sales value of all vehicles of that class so sold by the manufacturer in that subsequent period that were imported into Canada or taken out of warehouse for consumption on or after January 18, 1965, and for which no special entry as described in section 1 of this Order was made.

(3) Where a manufacturer of vehicles of any following class, namely automobiles, buses or specified commercial vehicles has, by notice to the Minister in writing accompanied by the consent in writing of any other person, designated such other person as a person associated with the manufacturer in the production of vehicles of that class in Canada in the base year and in any subsequent period of twelve months ending on the 31st day of July specified in the notice, which notice has been communicated to the Minister on or before a day not later than the thirtieth day after the commencement of the period so specified or, in the case of the period ending on the 31st day of July, 1965, after January 18, 1965, the person so designated shall, with respect to vehicles of that class, be deemed for all purposes of this Order in the base year and in the period so specified, not to be a separate person but to be one and the same person as the manufacturer.

ORDER IN COUNCIL PROVIDING REGULATIONS CONCERNING DUTY-FREE TREATMENT P.C. 1965-100

At the Government House at Ottawa
Saturday, the 16th day of January 1965

PRESENT:

HIS EXCELLENCY THE GOVERNOR GENERAL IN COUNCIL:

His Excellency the Governor General in Council, on the recommendation of the Minister of National Revenue, pursuant to paragraph (t) of section 273 of the Customs Act, is pleased hereby to make the annexed Regulations Respecting the Entry of Motor Vehicles under the Motor Vehicles Tariff Order, 1965, effective 18th January, 1965.

REGULATIONS RESPECTING THE ENTRY OF MOTOR VEHICLES UNDER THE MOTOR VEHICLES TARIFF ORDER, 1965

Short title

1. These Regulations may be cited as the *Tariff Item 950 Regulations*.

Interpretation

2. In these Regulations all words and expressions have the meanings assigned to them by the *Motor Vehicles Tariff Order, 1965*, and for the purposes of these Regulations,

(a) "Canadian value added" means, in respect of vehicles of any following class, namely automobiles, buses or specified commercial vehicles, that are produced in Canada in any twelve month period ending the 31st day of July, the aggregate of the following costs to the manufacturer of producing all vehicles of that class that are produced in Canada by the manufacturer in that period and the following depreciation and capital allowances for that period:

(i) the cost of parts produced in Canada, and the cost of materials to the extent that they are of Canadian origin, that are incorporated in the vehicles in the factory of the manufacturer in Canada, but not including parts produced in Canada, or materials to the extent that they are of Canadian origin, that have been exported from Canada and subsequently imported into Canada as parts or materials,

(ii) transportation costs, including insurance charges, incurred in transporting parts and materials from a Canadian supplier or frontier port of entry to the factory of the manufacturer in Canada for incorporation in the vehicles, to the extent that such costs are not included under subparagraph (i),

(iii) notwithstanding subparagraph (i), the cost of the iron, steel and aluminum content of parts produced outside Canada for incorporation into the vehicles, if the iron, steel or aluminum was poured in Canada, to the extent that such cost does not exceed the amount the manufacturer was allowed in respect of such materials for vehicles of that class for the base

year under the *Tariff Item 438C Regulations* or *Tariff Item 438(d) and 438(e) Regulations*,

(iv) such part of the following costs as are reasonably attributable to the production of the vehicles:

(A) wages paid for direct production labour in Canada,

(B) wages paid for indirect production and nonproduction labour in Canada,

(C) materials used in the production operation but not incorporated in the final product,

(D) light, heat, power and water,

(E) workmen's compensation, unemployment insurance and group insurance premiums, pension contributions and similar expenses incurred in respect of labour referred to in clauses (A) and (B),

(F) taxes on land and buildings in Canada,

(G) fire and other insurance premiums relative to production inventories and the production plant and its equipment, paid to a company authorized by the laws of Canada or any province to carry on business in Canada or such province,

(H) rent for factory premises paid to a beneficial owner in Canada,

(I) maintenance and repairs to buildings, machinery and equipment used for production purposes that is executed in Canada,

(J) tools, dies, jigs, fixtures and other similar plant equipment items of a nonpermanent character that have been manufactured in Canada,

(K) engineering services, experimental work and product development work executed in Canada, and

(L) miscellaneous factory expenses,

(v) administrative and general expenses incurred in Canada that are reasonably attributable to the production of the vehicles,

(vi) depreciation in respect of production machinery and permanent plant equipment and the installation costs of such machinery and equipment as authorized by section 4, to the extent that such depreciation is reasonably attributable to the production of the vehicles, and

(vii) a capital allowance not exceeding 5 percent of the total capital outlay incurred by the manufacturer for land and buildings in Canada owned by the manufacturer and used by the manufacturer in the production of vehicles or parts (not including any capital outlay incurred by a person deemed by subsection (3) of section 2 of the Order in the period not to be a separate person but to be one and the same person as the manufacturer) to the extent that such allowance is reasonably attributable to the production of the vehicles;

(b) "Canadian value added" means, in respect of parts, the aggregate of those costs of producing the parts and those depreciation and capital allowances that would be included in the

calculation of Canadian value added if the parts were vehicles;

(c) "net sales value" means, in respect of any vehicle, the selling price received by the manufacturer for the vehicle, including costs of transporting the vehicle in Canada but not including any other costs of transportation or delivery charges, minus

(i) federal sales and excise taxes paid in respect of the vehicle and any parts thereof, and

(ii) rebates, commissions, discounts and other allowances granted by the manufacturer subsequent to the sale in respect of the vehicle;

(d) "Order" means the *Motor Vehicles Tariff Order, 1965*; and

(e) "parts" includes accessories for vehicles and parts of such accessories, but does not include parts or accessories or parts thereof for repair or replacement purposes.

3. (1) For the purposes of subparagraph (i) of paragraph (a) of section 2,

(a) the cost of parts and materials acquired by a manufacturer from its parent corporation, or from any subsidiary wholly-owned corporation or subsidiary controlled corporation of the manufacturer or of its parent corporation shall be deemed to be the Canadian value added of the parts and the cost to such corporation of the materials to the extent that they are of Canadian origin;

(b) the cost of parts and materials acquired by a manufacturer from a supplier other than a corporation described in paragraph (a) shall be deemed to be the selling price of the parts and materials to the manufacturer less the duty paid value of imported goods used in the production thereof and foreign charges applicable thereto;

(c) subject to paragraph (d), iron, steel and aluminum that has been poured in Canada shall be deemed to be wholly of Canadian origin; and

(d) parts acquired by a manufacturer shall be deemed to be produced outside Canada and materials acquired by a manufacturer shall be deemed to be of non-Canadian origin, except any such parts and materials acquired from a supplier in Canada in respect of which the manufacturer has obtained from the supplier a certificate in form prescribed by the Minister stating

(i) in the case of parts and materials acquired by the manufacturer from a corporation described in paragraph (a), the Canadian value added of the parts and the cost to that corporation of the materials to the extent that they are of Canadian origin, and

(ii) in the case of parts and materials acquired by the manufacturer from a supplier other than a corporation described in paragraph (a), the cost thereof as calculated in accordance with paragraph (b).

(2) In subsection (1),

(a) "manufacturer" does not include a person deemed by subsection (3) of section 2 of the Order not to be a separate person but to be one and the same person as the manufacturer; and

(b) "subsidiary wholly-owned corporation" and "subsidiary controlled corporation" have the meanings assigned to those expressions by the *Income Tax Act*.

4. For the purpose of subparagraph (vi) of paragraph (a) of section 2, the amount of depreciation in respect of production machinery and permanent plant equipment for any twelve month period ending on the 31st day of July is,

(a) in the case of machinery and equipment acquired before August 1, 1964 and within the one hundred and twenty months ending on the last day of the period, ten per cent of either

(i) the aggregate of

(A) the capital cost to the manufacturer of any such machinery and equipment that was manufactured in Canada, and

(B) the part of the capital cost to the manufacturer of any such machinery and equipment that was manufactured outside Canada that is reasonably attributable to the cost of installing that machinery and equipment,

minus

(C) the part of the cost referred to in clauses (A) and (B) that was incurred in respect of machinery and equipment that has been disposed of before the beginning of the period, or

(ii) one-half of

(A) the capital cost to the manufacturer of all such machinery and equipment whether manufactured in Canada or elsewhere,

minus

(B) the part of the cost referred to in clause (A) that was incurred in respect of machinery and equipment that has been disposed of before the beginning of the period; and

(b) in the case of machinery and equipment acquired after July 31, 1964 and within the one hundred and twenty months ending on the last day of the period, ten percent of

(i) the capital cost to the manufacturer of any such machinery and equipment that was manufactured in Canada, and

(ii) the part of the capital cost to the manufacturer of any such machinery and equipment that was manufactured outside Canada that is attributable to the cost of installing that machinery and equipment,

minus

(iii) the part of the costs referred to in subparagraphs (i) and (ii) that was incurred in respect of machinery and equipment that has been disposed of before the beginning of the period.

Declaration

5. Every manufacturer that intends to enter vehicles under Tariff Item 950 during any twelve month period ending on the 31st day of July shall, before making its first entry during the period, send to the

Minister a declaration in the form set out in the Schedule in respect of each class of vehicle it intends so to enter.

Reports

6. Every manufacturer that imports vehicles pursuant to the Order shall submit to the Minister and the Minister of Industry every three months commencing April 1, 1965, such reports as may be required by those Ministers respecting the production and sale by the manufacturer of vehicles and parts thereof.

SCHEDULE—DECLARATION OF MANUFACTURER UNDER TARIFF ITEM 950

Declaration

I, _____ of _____
place province

Canada, do hereby declare that I am the _____
Pres. Gen. Mgr. Controller

of _____ of _____
name of company place province

Canada, a manufacturer of vehicles of the class referred to in paragraph _____ of Tariff Item 950 and that it is the intention of our company to qualify for entry of vehicles referred to in that paragraph under that Tariff Item.

I further declare that

(a) our company produced vehicles of that class in Canada during each of the four consecutive periods in the base year;

(b) our company intends to produce in Canada in the period August 1, 196-, to July 31, 196-, vehicles of that class;

(c) the ratio of the net sales value of the vehicles of that class that are to be produced in Canada by our company to the total net sales value of all vehicles of that class to be sold for consumption in Canada by our company in the period August 1, 196-, to July 31, 196-, will be equal to or higher than the ratio achieved by our company in the base year; and

(d) the vehicles of that class that are to be produced in Canada in the period August 1, 196- to July 31, 196-, will have a Canadian value added that is equal to or greater than the Canadian value added of all vehicles of that class that were produced by our company in Canada during the base year.

Dated at _____ this _____ day of _____ 19—

Witness: (signed) _____

BACKGROUND INFORMATION ON AGREEMENT

The United States and Canada have arrived at an agreement which provides for the elimination of customs duties by both countries on motor vehicles (passenger cars, trucks and buses) and original parts for production of new vehicles. This paper presents background on the structure of the automotive industry in the two countries, and a description of the benefits to the two countries which are foreseen from the agreement.

I

The Canadian market for automobiles is a natural extension of the U.S. market, the two parts forming what is in most respects a single North American market. Canadian consumers overwhelmingly choose automobiles of American design and make (91 percent of all cars purchased in Canada in 1963 were American models.) They prefer and they get a range of body types and models almost as wide as is available to American consumers.

Production in Canada is almost wholly in the hands of subsidiaries of the United States motor vehicle manufacturers: General Motors, Ford, Chrysler, American Motors, Studebaker, International Harvester, Kaiser, Jeep, and others. The value of Canadian automotive output in 1963 was \$1.4 billion, the bulk of which was accounted for by United States subsidiaries.

Canada is now the world's sixth largest consumer of automobiles and other motor vehicles. Sales in 1963 amounted to about 600,000 units. In 1964, total sales probably exceeded 700,000 units. The Canadian market is growing rapidly, more rapidly than in the United States, and is likely to continue to do so since the number of automobiles in Canada per capita is relatively smaller than in the United States, and since Canadian incomes are growing at a faster rate than American incomes.

Canada is our major export market for automotive products. In 1963 the United States sold to Canada cars, trucks, and, most important, automobile parts valued at \$560 million. In the first eight months of 1964 our exports were about \$455 million, an increase of almost \$90 million over the same period of 1963.

We are importing from Canada a smaller but growing volume of automotive equipment. Imports in 1963 were \$33 million. In the first eight months of 1964, imports were \$46 million, as compared with \$16 million in 1963.

II

Although Canada produces and consumes the same automobiles under much the same conditions as does the United States, costs and prices are significantly higher than in the United States. This is so even in the face of lower Canadian wages and certain other Canadian cost advantages.

A principal reason is the lower volume of Canadian output. In an industry in which economies of scale are very important—that is, high costs of capital plant and equipment need to be spread over large numbers of units of output—Canadian manufacturers typically operate at levels too low to permit them to get the full advantage of such

economies. For example, the Ford Motor Co now makes some 60 different models of five distinct passenger car lines at its assembly plant in Canada. Just across the river on the U.S. side, Ford's great River Rouge assembly plant produces only three models of the Mustang line. Similar disparities exist for the other producers; in only a few auto parts and in none of the vehicles is the volume of Canadian output large enough to bring costs down to American levels.

This relatively high cost industry—and the word "relatively" should be emphasized because Canadian plants are for the most part modern and well-equipped—is protected by customs tariffs and by the so-called Commonwealth content requirement. Tariffs on finished vehicles are 17½ percent and range from duty-free up to 25 percent on component parts. The content requirement calls for up to 80 percent of Canadian parts and labor and other costs in the finished automobile. These restrictive devices have helped to screen producers located in Canada from U.S. competition. They have served to maintain a Canadian automotive industry in being but they also have worked to perpetuate uneconomic production runs, higher costs in Canada, higher priced cars for Canadian consumers, and a smaller total North American market.

III

So long as there are tariff and other barriers to the automotive trade between Canada and the United States, there is no possibility of achieving the full potential of a North American automotive industry and automotive market. Our tariff duties are considerably lower than Canadian duties, at 6½ percent on vehicles and 8½ percent on most parts, but they of course also have been a burden on the flow of trade in the automotive sector. Together with the higher Canadian tariffs they have helped to shape a pattern of trade and production that falls far short of the efficient pattern that could otherwise be developed.

With tariffs and other restrictive devices eliminated, an American motor company having a Canadian subsidiary will be able gradually to concentrate in Canada on a limited number of models—and on those component parts which could be most efficiently produced in Canada—while supplying the Canadian customer with a full range of other models from American plants. Canadian management naturally will work toward getting high volume production of specific components and models in Canada. The result, over time, will be to create a rationalized and integrated North American industry. With lower costs and prices, the Canadian market for automobiles will grow faster than before. The total of North American production and the total of United States-Canada trade similarly can be expected to expand.

IV

Canadian and American officials have worked together over several months to see whether the abstract concept of a North American market and industry, unimpeded by tariffs and other barriers, could be given substance and reality. Their talks took place against the background of serious differences between the two countries over a Canadian program, initiated in November 1962 and extended a year later, under which the automobile companies operating in Canada

were allowed to have the benefit of tariff-free treatment on certain automobile parts, through the technique of tariff rebates, in return for increased exports of automobiles or parts. This Canadian program was challenged by interested parties in the United States as being contrary to a section of our basic Tariff Act concerned with foreign "bounties or grants" on exports to the United States. If the Canadian plan were judged to fit the statutory definition of a bounty or grant, then the Secretary of the Treasury would be required to assess countervailing import duties on Canadian automotive equipment entering the United States so as to compensate for the export incentive being offered by Canada.

The applicability of countervailing duties was, of course, a legal question. Nevertheless, this issue and the Canadian program from which it derived has overhung the future of United States-Canadian automobile trade. If the differences between the United States and Canada were to have ended in trade retaliation and counter-retaliation, the consequences for North American commerce and commercial relations could have been harmful for both countries and, in particular, for the North American automobile industry.

This situation gave urgency, therefore, to the exploration of possibilities for the constructive alternative of a mutual attack on Canadian and United States barriers to trade in the automotive sector. The technical and economic problems involved were given extensive and searching examination by the two Governments. Various alternatives were considered and these were discussed with representatives of industry and labor.

V

The negotiators on both sides found that the mutual advantage of both countries lay in taking a long step toward freeing United States-Canadian trade in motor vehicles and original parts for the production of new vehicles. Terms for achieving this end were agreed on and the overall agreement to this end has now been concluded.

The two Governments agree to seek the early achievement of a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved. They agree also to the early liberalization of automotive trade in respect of tariff barriers and other factors tending to impede it, so that the industries of both countries may participate on a fair and equal basis in the expanding total market in North America. And they agree to develop conditions in which market forces may operate effectively to attain the most economic volume of investment, production, and trade. Each government will avoid actions which would frustrate the achievement of these objectives.

Canada, on its part agrees to award duty-free treatment to automobiles and parts for original construction imported by Canadian vehicle manufacturers. Canada is bringing its measures into effect immediately by an order in council.

The U.S. Government will ask the Congress during its current session to enact legislation authorizing duty-free import into the United States of Canadian automobiles and parts for original construction—to be retroactive to the earliest date administratively possible following the date when Canada removes its duties.

At the request of either Government, the parties will consult concerning the application of the agreement to new automotive producers in Canada and for other purposes. A comprehensive review will be made of progress toward the objectives of the agreement no later than January 1, 1968.

The parties may agree to give other countries similar access to their markets. The agreement will continue indefinitely but may be ended by either party on 12 months written notice. The agreement will come into provisional effect on the date of signature and into definitive effect after action is completed in the legislatures of both countries.

VI

The new agreement not only provides a solution for a difficult existing problem. It is also a positive development for the North American automobile industry and for United States-Canadian automobile trade. It has been warmly welcomed by the automobile companies on both sides of the border.

Under the agreement, tariffs will be removed. The effects of the old Canadian content requirement will disappear as the industry grows. As a result, North American production will become substantially more efficient. Both the United States and Canada will benefit from increased consumption of automobiles and from expanded trade, as efficiency increases. Employment in both countries can be expected to increase and the earnings of the Canadian and American automobile companies can be expected to grow.

The Canadian sector of the industry at present is relatively much weaker than the American and special arrangements have been made to cover the transitional period of interindustry rationalization. Under Canadian tariff procedures duty-free treatment will be accorded to manufacturers maintaining their assembly operations at existing rates, subject to market developments. Customs duties on replacement, or services, parts will not be reduced under the agreement.

It is anticipated that the removal of duties and other barriers will result in a substantially increased market above the increase which would otherwise have developed. In the light of this widening opportunity, Canadian companies have made plans for an expansion of their production and have assured the Canadian Government that Canadian production will fill a substantial part of the increased demand.

VII

Apart from the specific benefits expected to accrue to automobile production and trade, the U.S. Government considers this step toward freer trade to be in a highly desirable direction so far as the broad United States-Canadian commercial relationship is concerned. The United States and Canada are one another's largest markets, by a wide margin over all others. The economic ties between the two countries are very close. Both countries have an interest in practical measures to make these ties as mutually beneficial as possible. The present agreement will contribute to this end and to the good relations that have historically marked the association between two great and friendly nations.

LETTERS OF UNDERTAKING

GENERAL MOTORS OF CANADA, LTD.,
Oshawa, Ontario, January 13, 1965.

HON. C. M. DRURY,
*Minister of Industry,
Parliament Buildings,
Ottawa, Ontario.*

DEAR MR. MINISTER: This letter is in response to your request for a statement with respect to the proposed agreement between the Governments of Canada and the United States concerning trade and production in automotive products, as you have described it to us. The following comments assume that the proposed agreement for duty-free treatment has the full support of the respective Governments, and that the program may be expected to continue for a considerable period of time.

It is our understanding that the important objectives of the inter-governmental agreement are as follows: (a) the creation of a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved; (b) the liberalization of United States and Canadian automotive trade in respect of tariff barriers and other factors tending to impede it, with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries; (c) the development of conditions in which market forces may operate effectively to attain the most economic pattern of investment, production, and trade. We subscribe to these objectives and agree with the suggested approach of removing tariff barriers and moving in the direction of free trade even in this limited area. Such an approach is fully compatible with General Motors' expressed position with respect to the desirability of free trade in automotive vehicles and components, not only in Canada, but in all other countries in the free world.

It is noted that under the proposed agreement the right to import vehicles and certain automotive parts, free of duty, into Canada will be available to Canadian vehicle manufacturers who (1) maintain Canadian value added in the production of motor vehicles in ensuing model years at not less than the Canadian value added in motor vehicle production in the 1964 model year; (2) produce motor vehicles in Canada having a net factory sales value in a ratio to total net factory sales value of their motor vehicle sales in Canada and those of their affiliated companies in Canada of not less than the ratio prevailing during the 1964 model year; (3) increase in each ensuing model year over the base model year, Canadian value added in the production of vehicles and original equipment parts by an amount equal to 60 percent of the growth in their market for automobiles sold for consumption in Canada and by an amount equal to 50 percent of the growth

in their market for commercial vehicles sold for consumption in Canada (for this purpose, growth in their market means the difference between the cost of vehicles sold in Canada during the ensuing model year and the cost of vehicles sold in Canada during the base model year net of Federal sales tax in both cases); and (4) undertake, in addition to meeting the above three conditions, to achieve a stipulated increase in the annual Canadian value added by the end of the model year 1968.

With respect to General Motors, in connection with the conditions outlined in the previous paragraph, it is our understanding, in the case of (1) that Canadian value added would be decreased in circumstances where the value of General Motors sales declined below that achieved in the base year, and in the case of (3) that in the event of a decline in General Motors net value of vehicle sales for consumption in Canada, a decrease in Canadian value added of 60 and 50 percent in cars and trucks, respectively, is acceptable. In addition, it is our understanding, with respect to (4), that for General Motors the stipulated annual increase in the Canadian value added by the end of the model year 1968 is \$121 million.

We understand that certain changes are proposed in the regulations pertaining to the determination of Canadian value added. We believe that several of these changes require further review and consideration as in our opinion they tend to impede rather than aid in the attainment of the objectives of the agreement.

In particular, these are (a) the elimination of the profit on components purchased from affiliated Canadian companies; (b) the elimination of profit on sales of vehicles and parts by General Motors of Canada or by Canadian affiliated companies to affiliated companies outside of Canada; and (c) the elimination of depreciation on non-Canadian facilities used in the manufacturing process both in our plants and in those of our Canadian suppliers.

(a) We believe that the elimination of the profit element on purchases of components purchased by General Motors of Canada from affiliated Canadian companies is discriminatory. McKinnon Industries, a major supplier of components, has been an affiliate of ours since 1929. McKinnon prices to us are competitive with those for similar components manufactured by other manufacturers. It is a policy of General Motors that pricing between affiliated operations be competitive and the purchasing unit has the obligation of negotiating the best possible price with the supplying unit. McKinnon and other affiliated Canadian parts manufacturers supply parts to other Canadian vehicle manufacturers and the profit on these transactions is not required to be eliminated by those manufacturers. We feel that at most any elimination of profit from value-added should be confined to the elimination of profit above the percentage level in the base period.

(b) It is our opinion that the elimination of the profit on sales of vehicles and parts produced in Canada by General Motors of Canada and affiliated Canadian companies to affiliated General Motors companies in the United States and other countries is also discriminatory and should be given added consideration. It is recognized in the tariff regulations of most countries that the value of imported goods includes a "reasonable" rate of profit. Further, on sales by nonaffiliated Canadian suppliers to General Motors Corp. in the

United States and its oversea subsidiaries the profit in such sales would be considered as Canadian value added.

(c) On the matter of exclusion of depreciation on non-Canadian machinery and equipment used in the production of automotive products in Canada, it seems that this only hinders the attainment of the objectives of the plan. In order to increase production in Canada, additional capacity is a necessity either in our plants or those of our suppliers. As much of this required equipment is either unavailable or more costly in Canada, it appears that not allowing depreciation on such equipment as Canadian value added discourages rather than encourages the enthusiasm required to effect the desired increase in Canadian value added. It should be noted, however, that it is our intention to maintain our present policy of obtaining any additional machinery and equipment in Canada whenever economically feasible.

You have requested that we should increase Canadian value added in our products by \$121 million between 1964 and the end of the model year 1968, as outlined under condition (4). Also you have requested that the amount should be further increased to the extent required under condition (3) stated above. We think that this objective in that time is extremely ambitious, particularly in view of the fact that one-half of the first model year has already passed.

We have carefully reviewed our situation in the light of your proposals and requests and have asked that our affiliates do the same. We can see areas where we can and will achieve a significant portion of your suggested objective of \$121 million increase in Canadian value added by 1968. This is possible because General Motors of Canada and our affiliated Canadian companies have recently engaged in the Canadian manufacture of certain automotive components heretofore imported. These include the fabrication and assembly of automatic transmissions at McKinnon Industries Windsor plant not only for Canadian requirements but for export to assembly plants in other countries as well. In addition, in the 1964 model year the oversea market for North American-type passenger cars and commercial vehicles has been increasingly served by our plants in Canada. Of course, any slowing down in the rate of growth in the industry or any adverse developments in the economies of Canada, the United States, or other principal markets, or failure to achieve duty-free entry into the United States would make this achievement more difficult.

To attain your stated objective ratably over the 4 years of the plan amounts to an increase in Canadian value added of \$30 million a year plus growth. Our plans, which have been underway for more than a year, should accomplish about \$60 million of the total or, putting it another way, we can see our way clear to accomplish that portion applicable to the first 2 years of the plan.

Studies are underway of various steps we might take to accomplish that portion applicable to the last 2 years. However, we are and have been operating our facilities in Canada at full capacity, and so, I believe, have most of our suppliers. Therefore, the Canadian value added applicable to the last 2 years will probably require added facilities on our part, or on the part of our suppliers, or both. A further reappraisal of our present facilities and our capacity and those of our suppliers must be made. The extent and nature of any additional facilities can be determined only in the light of the plan as

finally published. You can appreciate, I am sure, that all of this takes time.

Subject to the imponderables mentioned above, it is our intention and that of our affiliates to make every feasible effort to meet the objectives of the agreement to be made between the Governments of Canada and the United States, and to achieve the indicated goal as rapidly as possible.

Referring again to the items which appear to impede the program, we hope you will review your position further in the light of the information included earlier in this letter.

In conclusion, therefore, I am prepared to say at this time that, first, General Motors of Canada has plans underway to increase Canadian value added by about \$30 million in each of the first 2 years of the plan; and, second, we are continuing our studies of ways to accomplish the remainder of the program and will undertake to meet the full objective of \$121 million by the end of the model year 1968.

It is anticipated that these studies will take between 3 and 4 months to finish, and I will be prepared to discuss the results with you when they are completed. From time to time, as requested, we will be glad to discuss our current operations and our plans for future development with the Minister of Industry, and to receive and consider his suggestions.

Sincerely,

E. H. WALKER.

FORD MOTOR CO. OF CANADA, LTD.,
Oakville, Ontario, January 14, 1965.

DEAR MR. MINISTER: Enclosed are executed copies of our two letters to you of this date relative to the proposed agreement between the Governments of Canada and the United States concerning trade and production in automotive products under which it is proposed that the customs duty in each country on the importation from the other of automotive vehicles and original equipment parts therefor be eliminated.

We consider it essential that any substantial administrative interpretation or treatment that may be extended by you to any other motor vehicle manufacturer, the lack of which would place Ford Motor Co. in a noncompetitive position, also be extended to Ford.

You have provided us with a draft of the proposed order in council expected to be adopted in order to implement that agreement and with a draft of the regulations proposed to be adopted under that order in council.

Our undertakings are, of course, conditional upon the execution of that agreement, upon the adoption of an order in council, and regulations substantially in the form of the drafts that you have already delivered to us, and upon an acceptable response in respect of the enclosed supplementary letter.

Yours sincerely

FORD MOTOR CO. OF CANADA, LTD.,
By KARL E. SCOTT, *President*.

FORD MOTOR CO. OF CANADA, LTD.,
Oakville, Ontario, January 14, 1965.

DEAR MR. MINISTER: We are writing with respect to the agreement between the Governments of Canada and the United States concerning production and trade in automotive products.

Ford Motor Co. of Canada, Ltd., welcomes the agreement and supports its objectives. In this regard, our company notes that the Governments of Canada and the United States have agreed " * * * that any expansion of trade can best be achieved through the reduction or elimination of tariff and all other barriers to trade operating to impede or distort the full and efficient development of each country's trade and industrial potential * * * " In addition, we note that the Governments of Canada and the United States shall seek the early achievement of the following objectives:

(a) The creation of a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved;

(b) The liberalization of United States and Canadian automotive trade in respect of tariff barriers and other factors tending to impede it, with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries; and

(c) The development of conditions in which market forces may operate effectively to attain the most economic pattern of investment, production, and trade.

Our company also notes that the right to import motor vehicles and original equipment parts into Canada under the agreement is available to vehicle manufacturers in Canada who meet the conditions stipulated in the Motor Vehicles Tariff Order 1965. These conditions are, in brief, that vehicle manufacturers shall maintain in each model year their production of motor vehicles in Canada in the same ratio to sales of motor vehicles for consumption in Canada and the same dollar value of Canadian value added in the production of motor vehicles in Canada, as in the period August 1, 1963, to July 31, 1964.

We understand that—

(i) in ascertaining whether Ford qualifies as a motor vehicle manufacturer and whether the requirements of paragraphs 1 and 2, below, are satisfied, production of automotive vehicles in Canada by Ford Motor Co. of Canada, Ltd., and by any person designated as associated with Ford Motor Co. of Canada, Ltd. ("an associated person") will be taken into account, whether sold in Canada or exported;

(ii) in determining whether the requirements of paragraphs 1 and 2, below, are satisfied, export sales of original equipment parts by Ford Motor Co. of Canada, Ltd., and by any associated person in Canada (as well as production of automotive vehicles in Canada by Ford Motor Co. of Canada, Ltd., and by any associated person, whether sold in Canada or exported), and purchases of original equipment parts by any affiliated Ford company outside of Canada from Canadian vendors, will be taken into account. An "affiliated Ford company" is one that controls, or is controlled by, or is under common control with, Ford Motor Co. of Canada, Ltd.

(iii) for the purpose of computing the ratios referred to in paragraph 2(1)(c)(ii)(A) of the order in council of the definition of manufacturer, the numerators of the fractions will consist of the net sales value of all passenger automobiles (or specified commercial vehicles or buses) produced by the motor vehicle manufacturer in Canada, including those sold in Canada and those sold in export, and the denominators of the fractions will consist of the net sales value of all passenger automobiles (or of specified commercial vehicles or buses) sold by the motor vehicle manufacturer for consumption in Canada, including imported passenger cars (or specified commercial vehicles or buses) but excluding passenger cars (or specified commercial vehicles or buses) that are produced by the motor vehicle manufacturer in Canada and sold in export.

The undertakings in this letter are based on the definition of "Canadian value added" in your present regulations.

We understand that in the computation of Canadian value added for vehicle assembly in Canada, section 2(a)(i) of the regulations would prevent us from including the cost of parts produced in Canada that are exported from Canada and subsequently imported into Canada as components of original equipment parts; this provision reduces the incentive to source in Canada parts that would be incorporated in U.S. engines and other original equipment parts. Accordingly, we request that you give careful consideration to the revision of this clause.

In addition to meeting these stipulated conditions and in order to contribute to meeting the objectives of the agreement, Ford Motor Co. of Canada, Ltd., undertakes:

1. To increase in each model year over the preceding model year Canadian value added in the production of vehicles and original equipment parts by an amount equal to 60 percent of the growth in the market for automobiles sold by our company for consumption in Canada and by an amount equal to 50 percent of the growth in the market for the commercial vehicles specified in tariff item 950 sold by our company for consumption in Canada, it being understood that in the event of a decline in the market a decrease in Canadian value added based on the above percentages is acceptable. For this purpose, growth or decline in the market shall be measured as the difference between the cost to our company of vehicles sold in Canada during the current model year and the cost to our company of vehicles sold in Canada during the preceding model year net of Federal sales taxes in both cases.

We understand that in the event that the total passenger car and/or total truck sales of our company in any model year fall below the total passenger car and/or total truck sales of our company during the base period, Canadian value added requirements would be reduced below the base period amounts for the purpose of this section, and for the conditions stipulated in the Motor Vehicles Tariff Order 1965.

We believe that the definition of growth is unfair because it includes as growth the difference between the cost of vehicles produced in Canada and the cost to us of identical imported vehicles. In the event that we rationalize our vehicle production in Canada so as to concentrate our production in Canada on high

volume models for the North American market with other models being imported, the difference in cost as defined above would result in a substantial growth even though there was no change in the number and models of vehicles sold in Canada. We request your careful consideration of a change in the definition that would eliminate this inequity. This inequity is compounded by the fact that Ford Motor Co. of Canada, Ltd., is compelled by the Canadian antidumping law to import vehicles at dealer price, and we request that your Government also give careful consideration to a change in the antidumping law in respect of vehicles imported under the Motor Vehicles Tariff Order 1965.

2. To increase Canadian value added over and above the amount that we achieved in the period August 1, 1963, to July 31, 1964, and that which we undertake to achieve in (1) above, by an amount of \$74.2 million during the period August 1, 1967, to July 31, 1968.

The undertakings given in this letter are to be adjusted to the extent necessary for conditions not under the control of the Ford Motor Co. of Canada, Ltd., or of any affiliated Ford company, such as acts of God, fire, earthquake, strikes at any plant owned by Ford or by any of our suppliers, and war.

The Ford Motor Co. of Canada, Ltd., also agrees to report to the Minister of Industry, every 3 months beginning April 1, 1965, such information as the Minister of Industry requires pertaining to progress achieved by our company, as well as plans to fulfill our obligations under this letter. In addition, Ford Motor Co. of Canada, Ltd., understands that the Government will conduct an audit each year with respect to the matters described in this letter.

We understand that before the end of model year 1968 we will need to discuss together the prospects for the Canadian automotive industry and our company's program.

Yours sincerely,

FORD MOTOR CO. OF CANADA, LTD.,
By K. E. SCOTT, *President.*

FORD MOTOR CO., OF CANADA, LTD.,
Oakville, Ontario, January 14, 1965.

DEAR MR. MINISTER: I wish to bring to your attention a matter of major importance to the Ford Motor Co., which will affect the ability of the company to participate under the Motor Vehicle Tariff Order 1965.

You will recall that our company and its parent, Ford Motor Co., have made commitments to spend in excess of \$50 million to increase production of a limited range of automotive engines in Canada for use in our Canadian plants and for export to the United States. This plan provides for greatly expanded production of engines in Canada, thus making possible substantial cost savings. The production of certain engines now produced in short high-cost runs will be discontinued in Canada but will be imported as required.

As a result of this plan, the contribution of engines to our Canadian value added in the production of motor vehicles in Canada in the 1966 model year and subsequent years, will be substantially reduced below the amount contributed by engines in the 1964 model year. The

total Canadian value added of our engine operations for domestic use and for export will, however, be increased substantially over our actual value added of engine production in the 1964 model year. For the purpose of the definition of a motor vehicle manufacturer, however, our value added in Canada in the production of motor vehicles in Canada in the base year may experience a short fall of approximately \$22 million. Regardless of this possibility, our total Canadian value added will be maintained at the level of our basic undertaking set forth in paragraph 2 of our letter of January 14, 1965.

Should the total Canadian value added in Ford's vehicle assembly in Canada in any model year fall below the level prevailing in model year 1964, Ford undertakes to purchase an additional amount over the amount purchased in the base year of automotive components from Canadian vendors who are not affiliated with a vehicle manufacturer, which is equal to the short fall in Canadian value added below the level achieved in model year 1964.

This undertaking is conditional upon the Ford Motor Co. of Canada, Ltd., being accorded the same tariff treatment it would receive as if it qualified under the Motor Vehicle Tariff Order 1965.

Yours sincerely,

FORD MOTOR CO. OF CANADA, LTD.,
By KARL E. SCOTT, *President.*

CHRYSLER CANADA, LTD.,
January 13, 1965.

Hon. C. M. DRURY,
*Minister of Industry,
Ottawa, Canada.*

DEAR MR. MINISTER: I am writing with respect to the agreement between the Governments of Canada and the United States concerning production and trade in automotive products.

Chrysler Canada, Ltd., welcomes the agreement and supports its objectives. In this regard, our company notes that the Governments of Canada and the United States have agreed " * * * that any expansion of trade can best be achieved through the reduction or elimination of tariff and all other barriers to trade operating to impede or distort the full and efficient development of each country's trade and industrial potential * * *." In addition, we note that the Governments of Canada and the United States shall seek the early achievement of the following objectives:

(a) The creation of a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved;

(b) The liberalization of United States and Canadian automotive trade in respect of tariff barriers and other factors tending to impede it, with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries; and

(c) The development of conditions in which market forces may operate effectively to attain the most economic pattern of investment, production, and trade.

Our company also notes that the right to import motor vehicles and original equipment parts into Canada under the agreement is available

to vehicle manufacturers in Canada who meet the conditions stipulated in the Motor Vehicles Tariff Order 1965.

These conditions are, in brief, that vehicle manufacturers shall maintain in each model year their domestic production of motor vehicles in the same ratio to their domestic sales of motor vehicles and the same dollar value of Canadian value added in the production of motor vehicles in Canada, as in the period August 1, 1963, to July 31, 1964.

In addition to meeting these stipulated conditions and in order to contribute to meeting the objectives of the agreement, Chrysler Canada, Ltd., undertakes—

1. To increase in each model year over the preceding model year, the dollar value of Canadian value added in the production of vehicles and original equipment parts by an amount equal to 60 percent of the growth in the market for automobiles sold by our company for consumption in Canada and by an amount equal to 50 percent of the growth in the market for the commercial vehicles specified in tariff item 950 sold by our company for consumption in Canada, it being understood that in the event of a decline in the market a decrease in such dollar value of Canadian value added in the above percentages is acceptable. For this purpose, growth or decline in the market shall be measured as the difference between the cost to our company of vehicles sold in Canada during the current model year and the cost to our company of vehicles sold in Canada during the preceding model year net of Federal sales taxes in both cases, and

2. to increase the dollar value of Canadian value added in the production of vehicles and original equipment parts over and above the amount that we achieved in the period August 1, 1963, to July 31, 1964, and that which we undertake to achieve in (1) above, by an amount of \$33 million during the period August 1, 1967, to July 31, 1968.

Chrysler Canada, Ltd., also agrees to report to the Minister of Industry, every 3 months beginning April 1, 1965, such information as the Minister of Industry requires pertaining to progress achieved by our company, as well as plans to fulfill our obligations under this letter. In addition, Chrysler Canada, Ltd., understands that the Government will conduct an audit each year with respect to the matters described in this letter.

I understand that before the end of model year 1968 we will need to discuss together the prospects for the Canadian automotive industry and our company's program.

Yours sincerely,

PRO FORMA LETTER RESPECTING COMPANY COMMITMENTS

JANUARY 14, 1965.

HON. C. M. DRURY,
 Minister of Industry,
 Parliament Building,
 Ottawa, Canada.

DEAR MR. MINISTER: I am writing with respect to the agreement between the Governments of Canada and the United States concerning production and trade in automotive products.

The American Motors (Canada), Ltd., welcomes the agreement and supports its objectives. In this regard, our company notes that the Governments of Canada and the United States have agreed " * * * that any expansion of trade can best be achieved through the reduction or elimination of tariff and all other barriers to trade operating to impede or distort the full and efficient development of each country's trade and industrial potential * * *". In addition, we note that the Governments of Canada and the United States shall seek the early achievement of the following objectives:

(a) The creation of a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved;

(b) The liberalization of United States and Canadian automotive trade in respect to tariff barriers and other factors tending to impede it, with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries; and

(c) The development of conditions in which market forces may operate effectively to attain the most economic pattern of investment, production, and trade.

Our company also notes that the right to import motor vehicles and original equipment parts into Canada under the agreement is available to vehicle manufacturers in Canada who meet the conditions stipulated in the Motor Vehicles Tariff Order 1965. These conditions are, in brief, that vehicle manufacturers shall maintain in each model year their domestic production of motor vehicles in the same ratio to sales of motor vehicles and the same dollar value of Canadian value added in the production of motor vehicles in Canada, as in the period August 1, 1963, to July 31, 1964.

In addition to meeting these stipulated conditions and in order to contribute to meeting the objectives of the agreement, the American Motors (Canada), Ltd, undertakes:

1. To increase in each model year over the preceding model year, Canadian value added in the production of vehicles and original equipment parts by an amount equal to 60 percent of the growth in the market for automobiles specified in tariff item 950 sold by our company for consumption in Canada, it being understood that in the event of a decline in the market a decrease in Canadian value added in the above percentages is acceptable. For this purpose, growth of decline in the market shall be measured as the difference between the cost to our company of vehicles sold in Canada during the current model year and the cost to our company of vehicles sold in Canada during the preceding model year net of Federal sales taxes in both cases; and

2. To increase Canadian value added over and above the amount that we achieved in the period August 1, 1963, to July 31, 1964, and that which we undertake to achieve in (1) above, by an amount of \$11,200,000 during the period August 1, 1967, to July 31, 1968.

The American Motors (Canada), Ltd., also agrees to report to the Minister of Industry, every 3 months beginning April 1, 1965, such information as the Minister of Industry requires pertaining to progress achieved by our company, as well as to fulfill our obligations under this letter. In addition, the American Motors (Canada), Ltd., understands that the Government will conduct an audit each year with respect to the matters described in this letter.

I understand that before the end of model year 1968 we will need to discuss together the prospects for the Canadian automotive industry and our company's program.

Yours sincerely,

EARL K. BROWNRIDGE,
President, American Motors (Canada), Ltd.

MAJOR AUTO PARTS AFFECTED BY HR 9042

Present and (new) TSUS numbers	Major items covered	1964: Estimated percent of U.S. imports from Canada (X = less than 1 percent)
692.05 (692.06)	Trucks and buses.....	4
692.10 (692.11)	Passenger cars.....	21
692.20 (692.21)	Bodies and chassis, trucks and buses.....	1
692.22 (692.23)	Bodies and chassis, passenger cars.....	X
692.24 (692.25)	Cast-iron parts, not alloyed and not advanced.....	X
692.25	Transmissions, wheels, brake drums, bumpers, radiators, tail pipes, steering gear assemblies, mufflers, etc.	29
(692.27 (692.28)		
360.20.....		
360.25.....		
360.30.....		
360.35.....		
360.36.....		
360.40.....		
360.45.....	Textile floor coverings and floor covering underlays made up for automotive use.	X
360.65.....		
360.70.....		
360.80.....		
361.80.....		
361.85.....		
516.71.....		
516.73.....		
516.74 (516.98)	Mica components for use in electrical equipment.....	X
516.76.....		
516.94.....		
646.20.....		
646.40.....		
646.41.....	Fasteners (staples, rivets, cotters, and cotter pins, screws, bolts, nuts, studs and studding, etc.).	1
646.42 and (646.79)		
646.49 through 646.78		
652.12 through (652.39)	Timing chains and other chains.....	0
652.38.....		
657.09 through (658.10)	Ornaments, decorative trim units, miscellaneous forgings, and castings.	X
658.00.....		
682.10 through 682.40 and (682.65)	Electric motors, generators, rectifiers, etc. (primarily small motors for use in motor vehicles).	X
682.55.....		
682.60.....		
685.20 through (685.55)	Radio, television, and phonographic equipment (limited in automotive use).	0
685.50.....		
Schedule 7, pt. 2 (721.20)	Clocks and parts.....	X
Subpt. E		
727.10 through (727.60)	Furniture and parts thereof (mainly metal for automotive use).	X
727.55.....		
207.00 (207.01)	Wooden components, not specifically provided for.....	X
220.45 (220.46)	Disks, washers, etc., of cork.....	X
357.90 (357.91)		X
357.95 (357.96)	Hose, of vegetable fiber or other textile materials.....	X
358.10 (358.11)	Belts of rubber, vegetable fibers, plastics (e.g., fan belts)...	X
517.81 (517.82)	Carbon and graphite brushes for generators or motors.....	0
535.14 (535.15)	Ceramic insulators and other ceramic electrical ware.....	0
540.71 (540.72)	Fiber glass components such as insulation panels.....	0
544.17 (544.18)	Glass components and various types and dimensions of cut...	0
544.31 (544.32)	Tempered glass components such as car windows.....	X
544.41 (544.42)	Laminated glass components, such as windshields.....	X
544.51 (544.52)		0
544.54 (544.55)	Mirrors.....	0
545.61 (545.62)		
545.63 (545.64)	Reflecting lenses and lenses for headlights and taillights..	X
547.15 (547.16)	Protective glass components.....	0
610.80 (610.81)		
613.15 (613.16)		
613.16 (613.19)	Pipe and tube fittings (e.g., fuel and hydraulic lines) of steel, copper, aluminum, nickel.	X
613.18.....		
618.47 (618.48)		
620.46 (620.47)		
642.20 (642.21)		
642.85 (642.86)	Cable fitted with fittings; wire mesh components.....	X
642.87 (642.88)		

Present and (new) TSUB numbers	Major items covered	1964: Estimated percent of U.S. imports from Canada (X=less than 1 percent)
646.92 (646.93)	Ignition, gas tank and door locks; hinges; handles; grills; metal letters and sign-plates.	X
647.00 (647.01)		
647.06 (647.08)		
652.00 (652.10)		
652.75 (652.76)	Springs for suspension	5
652.85 (652.86)		
652.87 (652.88)	Other springs (for use with brake pedals, carburetors, etc.)	1
653.40 (653.41)	Auxiliary lighting equipment (e.g., parking, dome)	X
660.42 (660.43)	Diesel engines	16
660.44 (660.45)	Spark-ignition engines (e.g., standard gasoline engines)	0
660.46 (660.47)	Non-piston-type engines (turbines, etc.)	14
660.50 (660.51)	Engine parts (e.g., pistons, cylinder heads, crankshaft assemblies, connecting rods).	0
660.52 (660.53)		
660.54 (660.55)	Nonelectric engines and motors, not specifically provided for.	X
660.55 (660.56)		
660.90 (660.91)	Fuel, oil, water, and carburetor pumps	0
661.10 (661.11)	Fans; compressors used in air conditioners and braking systems.	0
661.12 (661.13)		
661.15 (661.16)	Air conditioners and parts; refrigerators and parts	X
661.20 (661.21)		
661.35 (661.36)	Filtering and spraying equipment	0
661.95 (661.96)		
662.35 (662.36)		
662.50 (662.51)		
664.10 (664.11)	Holsts, winches, etc.	X
678.50 (678.51)	Machinery, not specifically provided for (a catch-all)	0
680.20 (680.21)	Cooling system drain plugs; fuel system valves	X
680.22 (680.23)		
680.27 (680.28)	Balls, rollers, ball and roller bearings	X
680.30 (680.31)		
680.35 (680.36)	Lubrication fittings	0
680.57 (680.58)	Nonelectric machinery parts, not specifically provided for (a catch-all)	0
680.60 (680.61)		
682.70 (682.71)	Permanent magnets for use in small motors and solenoids; batteries and parts thereof.	X
682.90 (682.91)		
683.10 (683.11)		
683.15 (683.16)		
684.50 (684.51)	Starting and ignition equipment (mostly starters, generators, and spark plugs)	X
683.60 (683.61)		
684.62 (684.63)	Telephonic equipment; microphones, speakers, etc.	0
684.70 (684.71)		
685.70 (685.71)	Directional signals, sirens, bells	X
685.80 (685.81)	Condensers	0
685.90 (685.91)	Fuses, plugs, switches, relays, lamp sockets	X
686.10 (686.11)		
686.20 (686.21)	Automatic voltage regulators	X
686.60 (686.61)	Sealed-beam lamps	X
686.80 (686.81)	Bulbs	X
687.50 (687.51)	Transistors, insulated conductors	X
687.80 (687.81)		
688.15 (688.16)	Electrical articles, not specifically provided for (catch-all)	0
688.40 (688.41)		
711.84 (711.85)	Thermostats, oil pressure gauges, taximeters, speedometers, odometers.	X
711.90 (711.91)		
711.92 (711.93)		
711.94 (711.95)		
711.96 (711.97)		
711.98 (711.99)		
712.25 (712.26)		
712.27 (712.28)		
712.50 (712.51)		
772.65 (772.66)		
772.80 (772.81)		
772.85 (772.86)		
773.25 (773.26)	Rubber tubing, gaskets, insulators, V-belts	X
773.30 (773.31)		
773.35 (773.36)		
791.80 (791.81)		
791.90 (791.91)		

**PRINCIPAL QUESTIONS
CONCERNING THE UNITED STATES-CANADIAN
AUTOMOTIVE PRODUCTS AGREEMENT
AND PROPOSED LEGISLATION
WITH ANSWERS**

(Prepared by Department of State, Department of Commerce, and
Department of Labor, May 1965)

**UNITED STATES-CANADIAN AUTOMOTIVE PRODUCTS AGREEMENT AND
LEGISLATION INDEX OF QUESTIONS AND ANSWERS**

General Effects of Agreement

1. How does the Agreement benefit the United States, its industry and workers?
2. Why has the Agreement been called "free trade"? Does it really provide free trade in automobiles?
3. How does the Agreement benefit Canada, its industry and workers?
4. Does the Agreement, as sometimes alleged, give Canada what it sought to get under the remission plan?
5. How does the Agreement differ from the Canadian remission plan? Why is the Agreement any more beneficial to the United States?
6. Does the Agreement violate the antitrust laws? Has the Justice Department been consulted?

Why it was Made This Way

7. Why did the United States hasten to make this Agreement? Why didn't we impose countervailing duties and then negotiate from strength and make a better Agreement?
8. Why did the Executive Branch sign the Agreement without getting legislative authority first, as is usual for trade agreements? Is there any precedent for such action?

Relation to GATT and Third Countries

9. Doesn't the Agreement violate our GATT obligations and our longstanding most-favored-nation policy? How can we justify this?
10. Doesn't the Agreement run counter to our standard position on preferences?
11. What will the United States (and Canada) do under Article V which provides that access to the United States and Canadian markets provided for under the Agreement may be accorded on similar terms to other countries? Have other governments been informed that they may be eligible to participate on the same reciprocal terms? Have the United States and Canada agreed on similar arrangements with other countries?
12. What provision is made for agreements with other countries for free trade in automotive products?

Protection for Canada in the Agreement

13. What are the limitations in the Agreement to protect the Canadian automobile industry?

Effects of the Agreement and Companies' letters on U.S. Industry

14. Doesn't the Agreement just help the big companies? Will there be any new market for U.S. independent parts manufacturers? Isn't it true that the small companies that make replacement parts will be no better off?

15. What is the answer to the allegation that "the Agreement will cost U.S. parts manufacturers \$200 million in the next few years"?

16. What are the "letters of undertaking" which the Canadian manufacturers have given to the Canadians? Were these letters approved by or known to U.S. officials?

17. In the company letters, what do the Canadian companies undertake to do by way of increasing producing in Canada? How is the increase in production to be computed?

18. Have the automobile companies committed themselves to source more parts in Canada which will be shipped to the United States?

How do we know there is no *secret-agreement* relating to production of parts in Canada? Or as to particular kinds of parts?

19. Do the automobile companies' letters require the companies to purchase parts in Canada to the extent of \$260 million—or in any other amount?

20. Is the charge true that the Canadian Government is requiring that there be a \$250 million increase in the export of parts to the United States?

21. What will be the effect on the U.S. parts industry? Replacement parts industry?

22. What is the answer to the argument that "the major automobile manufacturers have given the Canadian Government assurances that the Canadian subsidiaries would gain a larger share of the North American automobile market"?

Effects on Balance of Trade

23. What effect do we expect the Agreement and the Companies' letters to have on the United States-Canadian balance of trade in automotive products in the next three years? In the longer run?

24. What plans do the automotive companies have to expand production in the United States?

Effects on Employment in Canada and the United States

25. What about the press statements that Canada plans to take 60,000 U.S. jobs under this Agreement?

Adjustment Assistance

26. Why should the Adjustment Assistance provision in this legislation be any different from the Trade Expansion Act?

27. Why is the determination of eligibility for adjustment assistance to be made by the President rather than by the Tariff Commission?

28. What is the meaning of the provision (sec. 303) that the President will make recommendations about adjustment assistance arrangements in the case of future agreements under the legislation?

Replacement Parts

29. What is the situation regarding the removal of duties from replacement parts? If there is to be duty-free trade in automotive products, shouldn't duties on replacement parts be removed?

30. What provision will be made to insure against Canadian parts brought in as original equipment being diverted for use as replacement parts in competition with the U.S. replacement parts industry?

1. Question

How does the Agreement benefit the United States, its industry and workers?

Answer

Fundamentally: The Agreement is a great forward step in U.S. relations with Canada in a major area of production and trade. It represents a determination by the Canadian Government not to pursue policies leading to the artificial establishment of uneconomic production in Canada, which could only have hurt the United States, its industry and workers. Instead, Canada has chosen to join with the United States in a relationship that will allow the development of a single North American automotive industry on the basis of efficient and rational production.

A. *Immediately.*—(1) The Agreement made possible the revocation of the remission plan—and the Canadians did in fact revoke it immediately.

(2) This revocation got rid of the discriminatory provision regarding replacement parts which was particularly objectionable to the U.S. replacement parts industry. (Under the remission plan, credit was given for the *export* of replacement parts, but no remission of duties was allowed on the *import* of replacement parts.)

(3) The Agreement got rid of the 60 percent content provision—the requirement that if a manufacturer in Canada produced a product with 60 percent or more Canadian content, he could import duty free certain parts not produced in Canada. This incentive led to uneconomic duplication of production facilities in Canada, high production costs and higher priced products. There remains only an *absolute* content requirement at the figure for the base year. Its effect will therefore diminish each year as production increases.

(4) The Agreement has already led to the elimination of Canadian duties on U.S. automobiles and parts for original equipment.

This duty-free treatment is conditional upon the maintenance of certain minimum levels of production in Canada, but is already better than the previous situation.

Moreover, the Agreement is subject to review no later than January 1, 1968, and it can be hoped that these limiting conditions may be further reduced in such review.

(5) The U.S. parts industry, already more efficient than the Canadian industry, will benefit by the opportunity to sell duty free into Canada.

(6) The Agreement has ended the danger of a costly trade war with Canada and relieved the U.S. vehicle and parts manufacturers of the uncertainty which overhung them.

B. *In the long run.*—(1) The Agreement offers the U.S. vehicle and parts manufacturers the valuable opportunity of integrating their United States and Canadian operations. They will no longer need to

build duplicate production facilities in Canada which are uneconomic or to maintain uneconomic production duplicating production in the United States. They will be able to realize the full benefits of the economies of scale through longer production runs of fewer models in their Canadian plants.

(2) These economies, when reflected in lower prices, should stimulate further expansion of the Canadian market in which U.S. firms will participate—as well as their Canadian subsidiaries.

2. Question

Why has the Agreement been called "free trade"? Does it really provide free trade in automobiles?

Answer

A major objective of the Agreement is free trade in automotive products. This is explicitly recognized in the preamble to the Agreement. The Agreement makes substantial strides toward freer trade, but does not establish full free trade yet.

The Agreement provides now for one of the principal aspects of free trade, the *elimination of duties* on vehicles and parts for original manufacture. Yet this elimination of duties is limited initially on the Canadian side to manufacturers who undertake to produce a defined part of their total output in Canada. An ordinary Canadian citizen cannot yet buy a United States made car duty free. Because of the obvious disparities between the size and relative costs of the automotive industries in Canada and the United States, it was not feasible to provide in the Agreement for *immediate* removal of *all* restrictions on full integration of the automotive products industry in the United States and Canada.

As the industry adapts itself to the new situation and as Canadian costs in certain areas approach more closely low-cost U.S. production, we anticipate we will be able to take steps to remove remaining restrictions on full integration of the industry.

The Agreement itself contains built-in momentum toward removing the remaining restrictions. Article IV provides for a comprehensive review of the operation of the Agreement no later than January 1, 1968. The Canadian limitations, which are necessary in the short run, will be carefully reexamined at that time.

3. Question

How does the Agreement benefit Canada, its industry and workers?

Answer

1. With the barriers between the United States and Canada removed, Canada will be able, through specialization, to achieve the longer production runs necessary to reduce most costs.

2. This will eventually result in lower prices to the Canadian consumer.

3. Canada will have the opportunity to compete in the far larger U.S. market, duty free.

4. All this will lead to an increase in production in Canada and increased jobs for Canadian workers—not only in the automobile industry but also in many related industries—without reducing production and employment in the United States.

5. In the longer run, lower costs for transportation of people and goods will provide a further stimulant to the Canadian economy.

4. Question

Does the Agreement, as sometimes alleged, give Canada what it sought to get under the remission plan?

Answer

1. The Agreement gives Canada much of what it hoped to get under the remission plan but it does not disadvantage the U.S. industry as the remission plan did. On the positive side, it contains real benefits for the United States, the U.S. auto companies, U.S. parts producers, and U.S. labor which would not have been derived under the remission plan.

2. Under the plan Canada maintained substantial limitations on duty free importations into Canada, while at the same time providing an artificial incentive to exports from Canada. The Agreement removes these limitations and these artificial incentives for exports.

3. While the remission plan may have been intended to provide ultimate rationalization of the industry, the disabilities in the plan raised a serious question whether the likely outcome of the plan was not the opposite. More importantly, the plan could have put some U.S. parts producers at a serious disadvantage.

4. The January 16 Agreement, unlike the remission plan, does not disadvantage U.S. producers. The Agreement gives them full scope to compete for business on a fair and equitable basis. Unlike the remission plan, the Agreement will permit the integration of the United States and Canadian automotive industries on a rational basis.

5. Question

How does the Agreement differ from the Canadian remission plan? Why is the Agreement any more beneficial to the United States?

Answer

The Agreement differs in several important respects from the remission plan:

1. *Remission plan.*—The purpose of the plan was to increase Canadian exports of automotive products, essentially to the United States. The *remission of Canadian import duties was given only in return for increased exports.* The remission plan therefore provided a powerful incentive for Canadian subsidiaries of U.S. firms to produce parts in Canada for export to their parent companies in the United States.

Agreement.—Canada has revoked the remission plan with its built-in export incentives. Duty-free treatment under the Agreement is *not contingent* upon a company's level of exports. Canada's aim under the Agreement is to increase production in Canada and it can achieve this without reducing the present U.S. automotive trade surplus.

2. *Remission plan.*—The remission plan's export incentives applied to *replacement parts* as well as original equipment but the duty-free treatment accorded to Canadian imports of original parts was *not* accorded to imports of replacement parts. Thus, the plan worked to the disadvantage of U.S. *replacement parts* producers by giving remission credit for Canadian *exports* of replacement parts to the United States, but *not* permitting remission of duties on Canadian *imports* of replacement parts from the United States.

Agreement.—With the revocation of the remission plan, U.S. producers of replacement parts no longer face this discrimination. Existing United States and Canadian duties on replacement parts still remain in effect, but U.S. producers in the replacement sector are now on equal competitive footing with Canadian producers.

3. *Remission plan.*—Canada's "Commonwealth content" provisions, still in effect under the remission plan, permitted vehicle manufacturers duty-free importation of parts, provided:

(a) the parts were of a class or kind not made in Canada, and

(b) the manufacturers achieved a stated percentage (60 percent for the large car makers) from Canada or other British Commonwealth sources of the factory cost of production of such vehicles.

Agreement.—

(a) Duty free treatment is accorded to imports of all original equipment parts, not just those of a class or kind not made in Canada. Thus U.S. parts manufacturers have a much greater opportunity to sell in Canada than they did under or before the remission plan.

In addition, duty free treatment is accorded to vehicles. Thus, manufacturers do not have to assemble in Canada the whole range of makes and models they sell in Canada, as they had to in the past, but can concentrate on achieving long, economical production runs in a few lines in Canada, and importing other lines from the United States.

(b) The "Commonwealth content" requirement is dropped. The Agreement instead sets forth two requirements which establish a floor for Canadian production:

(i) To maintain at least the same ratio of production of cars in Canada to sales of cars in Canada as prevailed during model year 1964.

(ii) To maintain in the production of vehicles a "Canadian value added" at least equal to that attained in model year 1964. Since the base year figure is *absolute*, as the market in Canada grows, this requirement will become a smaller and smaller percentage of the cost of production and therefore will be less onerous than the fixed percentage requirements of the Commonwealth content scheme.

During the transitional period, between now and 1968, the percentage requirements will, in practice, remain in effect because of the additional commitments undertaken by the vehicle manufacturers to increase production in their "letters of undertaking." After that time, however, the Canadian value added requirement can be expected to decrease as a percentage of the cost of production.

6. *Question*

Does the Agreement violate the antitrust laws? Has the Justice Department been consulted?

Answer

The Executive Branch does not believe there is anything in the Agreement or in the manner by which the automotive products arrangement is to be implemented which conflicts with the antitrust laws. Of course, it is not possible to know in advance whether or not the actual conduct of private parties under the arrangement will

involve any violations of the antitrust laws, but we fully expect that those private parties involved are aware of the legal requirements of U.S. law and will comport themselves accordingly.

The Justice Department was consulted during the negotiation of the Agreement and subsequently, and has been kept informed of all material developments.

The Antitrust Division concurs with this view of the matter.

7. Question

Why did the United States hasten to make this Agreement? Why didn't we impose countervailing duties and then negotiate from strength and make a better Agreement?

Answer

1. Imposition of countervailing duties would not have provided a satisfactory solution to the complex situation faced by the United States and Canadian automotive industries.

2. For one thing, there was a legal question whether the countervailing duty statute was applicable. While a strong legal case had been made in support of its applicability, a very respectable argument had been made on the other side. The issue would most certainly have had to have been tested in the courts over an extended period of time, during which the industry would have been faced with uncertainty.

3. It is hard to see how the interests of the industry, or of the United States generally, could have been served by the imposition of countervailing duties, whatever the outcome of the legal issue. If countervailing duties were found not to be applicable, there would have been no protection for U.S. producers who might have been injured by the remission plan. If countervailing duties were found to be applicable and were applied it was likely that the Canadian Government would have adopted an alternative and perhaps even less desirable measure to achieve its objectives. In this connection, it should be noted that the Canadian content provision was at the 60-percent level whereas in many other countries in the world it is above 90 percent (Argentina, Australia, Brazil). The United States might then have been led to take further counter measures. It is not hard to imagine that the end result could easily have been a trade war with our most important trading partner.

4. In our examination of the United States and Canadian automotive industry, it became readily apparent that the real problem was the artificial separation into two parts of what, by all reason, should have been a single industry. The remission plan attempted to deal with this basic problem, but did so in an inadequate and unfortunate way. The imposition of countervailing duties would not really have helped anyone since they would have failed to treat the fundamental problem—the artificial division of the industry.

5. Rather than help us negotiate a better agreement, the countervailing duties might well have precluded any agreement.

8. Question

Why did the Executive Branch sign the Agreement without getting legislative authority first, as is usual for trade agreements? Is there any precedent for such action?

Answer

The reason the Executive Branch did not get legislative authority first was the clear need to sign the Agreement as expeditiously as possible. Many U.S. firms believed the remission plan would hurt them. It was the subject of petitions made to the Treasury Department that countervailing duties be imposed, and such a development could have triggered a serious trade war with the Canadians. At the same time, the Canadians would not agree to revoke the plan until the duty free agreement was signed. This being the case, we believed we had no choice but to enter into the agreement prior to seeking legislation.

In view of the lack of existing legislative authority, the principle pledge of the United States is only to ask for such authority. Under article VI, the Agreement does not enter into force definitively until after both governments have completed appropriate legislative action.

In the trade agreement field, there are few recent precedents for entering into agreements prior to securing legislative authority because we have had such authority since 1934 in one form or another. However, there have been other cases where prompt action was important. We did enter into the Short-Term Arrangement on International Cotton Textile Trade and thereafter sought amendment of section 204 of the Agricultural Act so that we would be able to impose the terms of the arrangement against nonparticipating countries.

In this case, the benefits of this procedure for prompt action have already appeared: Canada has revoked its remission plan and has removed its duties which were about three times as high as U.S. duties.

9. Question

Doesn't the Agreement violate our GATT obligations and our long-standing most-favored-nation policy. How can we justify this?

Answer

Under the Agreement we have committed ourselves to seek legislation which would permit the duty-free entry of certain automotive products from Canada. In our legislation to implement the Agreement we propose to limit the duty-free entry to products of Canada while retaining the existing duties on similar products from other countries. The elimination of duties on motor vehicles and original equipment between the United States and Canada will not have any substantial impact upon the trade of third countries. Nevertheless, we recognize that implementation of our commitment to Canada will be inconsistent with our obligations under article I of the General Agreement on Tariffs and Trade (GATT), which contains the principle of unconditional most-favored-nation treatment. However, the GATT makes provision for waivers of the obligations of contracting parties in "exceptional circumstances". We intend to seek such a waiver at an appropriate time and expect to arrive at a satisfactory resolution of the GATT problem.

10. Question

Doesn't the Agreement run counter to our standard position on preferences?

Answer

The United States has long recognized that trade preferences may serve a constructive purpose in certain special circumstances. We

thus consented to trade preferences in the coal and steel sector of the European Coal and Steel Community. We consented to trade preferences among the countries of the European Free Trade Association. We accepted trade preferences among the countries of the European Economic Community.

The United States actually proposed last year that less developed countries be given the right to enter into regional arrangements among themselves involving particular industries which required economies of scale and larger markets in order to be efficient.

We have not changed our position against generalized preferences, since we think indiscriminate preferential trading arrangements will not accomplish a constructive economic purpose and could lead to undesirable political consequences between preference givers and receivers. Most preferential arrangements harm third parties; we have entered into an arrangement which we believe will not damage third country suppliers of automobiles and automotive equipment.

The arrangement is, moreover, open to third countries on similar terms.

11. Question

What will the United States (and Canada) do under article V which provides that access to the United States and Canadian markets provided for under the Agreement may be accorded on similar terms to other countries? Have other governments been informed that they may be eligible to participate on the same reciprocal terms? Have the United States and Canada agreed on similar arrangements with other countries?

Answer

The purpose of article V is to leave the Agreement open-ended to permit all countries which wish to join Canada and the United States in duty-free automotive trade to do so.

While the special circumstances present in the United States and Canadian industry (structure and ownership) are not likely to be found as regards other countries, we wished to leave the door open to the possibility of similar arrangements with third countries on a mutual advantageous basis. In doing so, we were not unmindful of the possible precedential aspects of this Agreement. We have had no formal indication of interest by other governments in joining the arrangement.

Naturally, in extending duty-free treatment to other countries, we would require that this be done on a mutually beneficial basis, as the proposed bill says. This would of course include the elimination of their automotive duties and, where they exist, relief from some of the nontariff barriers such as road taxes which seem to be designed to discriminate against U.S. automobiles.

Other countries have been informed of the Agreement and consultations have already been undertaken in the GATT.

12. Question

What provision is made for agreements with other countries for free trade in automotive products?

Answer

1. Section 202(a) of the proposed legislation would authorize the President to proclaim necessary modifications to the Tariff Schedules

if he enters into trade agreements, like the Canadian agreement, with other countries after determining that such additional agreements will afford mutual trade benefits. It is highly desirable to include it in the legislation.

2. It holds open to other countries the willingness of the United States to enter into arrangements equally favorable with our Agreement with Canada.

3. It would establish the precedent that when a sectoral arrangement is entered into between two countries, it should be open-ended to permit accession by third countries.

4. The elimination of tariff and other barriers to trade in automotive products between the United States and Europe and Japan would be very much in our interest. Our duties on automotive products are already very low and we maintain no nontariff barriers on such trade. Other countries, however, maintain high duties. Moreover, EEC countries and Japan, in particular, maintain various nontariff barriers which are even more important than the high duties. The United States has nothing to fear and much to gain from a mutual elimination of trade barriers in automotive products.

5. Section 202(a) requires "mutual benefit." The President must determine that an agreement to eliminate duties on vehicles or original parts in section 202(a) or replacement parts in section 202(b) would be in the interests of the United States. It is not possible now to specify all of the factors which this requirement might cover in a particular situation, but the President would need, for example, to consider the removal of barriers other than tariffs maintained by the other country and operating to impede trade.

6. Should there arise an opportunity to negotiate an elimination of trade barriers on auto products, the Executive will consult fully with all interested parties.

7. The authority sought in section 202(a) is in line with established precedents. Such authority has been granted to the President in the various trade agreements acts and in the Trade Expansion Act. The Trade Expansion Act, in particular, gives the President authority to eliminate duties which are presently 5 percent or less.

13. Question

What are the limitations in the Agreement to protect the Canadian automobile industry?

Answer

Under the Agreement, in order to keep the Canadian market from being flooded by lower priced U.S. cars at the expense of sales of Canadian-produced cars, duty-free entry into Canada is limited to imports by or for duty-free automobile manufacturers. Such a manufacturer must meet two criteria:

1. It must continue to produce in Canada in each 12-month period vehicles of each class having a ratio of net sales value to the net sales value of all vehicles of that class sold for consumption in Canada by that manufacturer in that year which ratio is at least as high as the ratio of such production to such sales in the base year (model year 1964), but not less than 75 to 100.

2. It must include in its production in Canada no less than the absolute dollar value of "Canadian value-added" as in the base year.

Why these limitations are necessary.—Canada has believed these protections are necessary because of the weakness of the Canadian automotive industry compared to the United States.

Production of automobiles and trucks in Canada in 1964 amounted to 669,446 units versus 9,299,190 units in the United States. However, some 35 to 45 percent of the value of the Canadian production was from parts made in the United States. The total dollar value of Canadian automobile production in 1964 was approximately one twenty-fourth of the production in the United States.

Subsidiaries of U.S. companies account for 90 percent of the automotive production in Canada. For a number of reasons these subsidiaries produce less efficiently than the plants of the companies in the United States. Therefore, in an immediate, complete free trade situation straight economics would dictate consolidation of the great majority of both vehicle and parts production in the United States, with Canada producing only those parts and components on which Canada enjoys a cost advantage.

Canada's vehicle assembly plants employ many workers. The Canadian parts industry came into being following encouragement by Government. Protected over the years by tariffs and a Canadian content requirement imposed upon vehicle manufacturers, it remains generally inefficient because of lack of specialization and of short production runs. Consolidation of assembly operations in the United States without some transitional protection could cause heavy unemployment in Canada.

Purchase of the majority of required parts from the United States would injure the independent Canadian producers who had entered the field with assurance of protection from their Government.

Effect on U.S. producers and trade.—Neither of these limitations is onerous for the U.S. companies.

All now have a ratio of production of over 75 percent. All expect in any case to increase the Canadian part of the production.

The change in the requirement for Canadian value-added from the present requirement of 60 percent to the absolute figure of the value added in 1964 is an easier requirement which will continually diminish in effect as production increases.

It should be constantly borne in mind that the terms of the Agreement call for its review no later than January 1, 1968. It will be possible at that time to consider these limitations on a "bona fide manufacturer" again.

14. Question

Doesn't the Agreement just help the big companies? Will there be any new market for U.S. independent parts manufacturers? Isn't it true that the small companies that make replacement parts will be no better off?

Answer

The Agreement will help the entire U.S. automotive products industry because it will help make possible an increased market in Canada in which the U.S. vehicle and parts manufacturers can participate. The U.S. independent parts manufacturers will benefit because under the Agreement U.S. parts to be used in original equipment in a motor vehicle produced in Canada by a bona fide manufacturer will now enter Canada duty free.

Companies making replacement parts will be better off because the Agreement has led to the revocation by Canada of the remission plan which discriminated against U.S. replacement parts manufacturers. The duty-free privilege has not yet been applied to replacement parts. However, the proposed legislation would provide authority to reduce duties on such parts.

15. Question

What is the answer to the allegation that "the Agreement will cost U.S. parts manufacturers \$200 million in the next few years"?

Answer

If this statement is intended to mean that the Agreement will cause U.S. producers to lose \$200 million of sales they *now* have—it will not. There is no reason to believe that there will be any loss of sales by U.S. producers as a whole. In fact, we anticipate that the U.S. parts sales over the years will increase materially.

If it is intended to mean that under the Agreement U.S. producers will not gain *all* of the anticipated overall increase in sales in Canada which the Agreement can be expected to produce—certainly that is the case.

We do anticipate that the Agreement will contribute to a greater and more rapid growth of production and sales in Canada than would have occurred without the Agreement. It is also clear that Canadian industry and workers will participate in the gain—its benefits will not be limited to U.S. companies.

Under the Agreement, U.S. parts manufacturers have full scope to compete on a fair and equitable basis with Canadian parts firms. Our consultations with representatives of various U.S. parts firms who understand the new arrangements lead us to believe that the U.S. parts industry generally can face the new duty-free situation with confidence.

It should be realized that if the Agreement had *not* been made, the U.S. parts manufacturers obviously would *not* have gained the benefits of growth in the Canadian industry which we hope it will help make possible. Instead, U.S. parts manufacturers undoubtedly would have *suffered disadvantages* from whatever unilateral course Canada would have taken such as a rapid and continuing increase in the Canadian content requirement.

16. Question

What are the "letters of undertaking" which the Canadian manufacturers have given to the Canadians? Were these letters approved by or known to U.S. officials?

Answer

During the course of the negotiations for the automotive agreement the Canadian Government discussed with Canadian firms the outlook for the Canadian part of the industry under a situation of zero tariffs.

Canada, with a smaller and relatively higher cost industry understandably wanted some assurance that the elimination of tariffs would not submerge the Canadian industry. Moreover, the Canadians wished to have some indication that, as we moved toward an integrated continental automotive industry with duty entry on both sides, the advantages of production or procurement in Canada would not be overlooked.

The discussions with the Canadian Government were on a company-by-company basis. In each case the Canadian firm gave a statement of its expectations about the probable expansion of production in Canada over the next three years, subject to necessary qualifications about market conditions and other factors beyond the control of individual companies.

The U.S. Government was not a party to the discussions, nor did it know the specific content of the individual company statements. The U.S. Government was informed in detail, however, by the Canadian Government as to the essential provisions of the letters. From the aggregate effect of the letters, Canada expects an increase by 1968 of about \$241 million in "Canadian value added" in automotive production, in addition to the increase in "Canadian value added" which would result from normal growth of production in Canada. This is not an unreasonable increase, in view of the growth prospects for the industry.

17. Question

In the company letters, what do the Canadian companies undertake to do by way of increasing production in Canada? How is the increase in production to be computed?

Answer

Canadian vehicle manufacturers have furnished the Canadian Government with letters in which they undertake to do the following four things:

They will comply with the two requirements set forth in the Agreement which establish a floor for Canadian production:

1. To maintain at least the same ratio of production of cars in Canada to sales of cars in Canada as prevailed during model year 1964.

2. To maintain in the production of vehicles a Canadian value added at least equal to that attained in model year 1964.

In addition, they undertake to increase production in the following manner:

3. To increase in each model year over the preceding model year, the dollar value of Canadian value added in the production of vehicles and original equipment parts by an amount equal to 60 percent of the growth in the market for automobiles (50 percent for trucks; 40 percent for smaller firms; a weighted average for all companies of 58 percent) sold by each company for consumption in Canada.

4. To increase (in addition to 3) the dollar value of Canadian value added in the production of vehicles and original equipment parts by \$241 million (260 million Canadian dollars). This increase is to be achieved by the end of model year 1968. The amounts for the major companies are:

[In millions]

	U.S. dollars	Canadian dollars
General Motors.....	111.9	121.0
Ford Motor Co.....	68.6	74.2
Chrysler Corp.....	30.6	33.0
American Motors.....	10.4	11.2

18. *Question*

Have the automobile companies committed themselves to source more parts in Canada which will be shipped to the United States?

How do we know there is no *secret-agreement* relating to production of parts in Canada? Or as to particular kinds of parts?

Answer

No. Neither the Agreement nor the companies' letters contain any such commitment. We are informed by the four major automobile companies and the Canadian Government that there are no such commitments. On the contrary, we believe more parts will be sourced in the United States to help meet the rise in Canadian production to meet the rise in Canadian sales.

Officials in the Canadian Department of Industry have given assurances that there are no *secret* commitments regarding production of parts in general or particular kinds of parts. This has been confirmed by our consultations with vehicle manufacturers.

19. *Question*

Do the automobile companies' letters require the companies to purchase parts in Canada to the extent of \$260 million—or in any other amount?

Answer

No. There is no requirement and no commitment to purchase parts in Canada to the extent of \$260 million—or any other amount.

First, the letters contain only undertakings "to increase the dollar value of Canadian value added in the production of vehicles and original equipment parts" by a stated amount above the amount achieved in the 1964 model year plus normal growth of Canadian value added. They do not contain any commitment or undertaking regarding increased purchases in Canada of any specific value of parts, or any increased production of parts in Canada to the expense of imports of parts from the United States, or any increase of purchases or production of parts in Canada for export to the United States. The automobile companies can increase their Canadian value added, if they wish, by increasing production either from their present assembly plants through adding a second shift or by enlarging their assembly operations to keep up with the growing Canadian market.

Second, in view of the growing Canadian market there is no reason to believe that these undertakings of increased production of Canadian value added will cause loss of sales for U.S. parts manufacturers either in the United States or to Canada.

Third, in fact, it is quite possible that the new set of arrangements—the Agreement and related letters—will result in substantial new opportunities for U.S. parts manufacturers even during the three-year period of the letters. They will certainly do so increasingly after the period of the letters has run out.

This will be true because:

(a) *In past years*, to meet the Commonwealth content requirement and thereby to insure duty-free importation of parts of a class or kind not manufactured in Canada, vehicle manufacturers bought inefficiently from Canadian parts producers. The Drury plan (remission plan) gave additional incentive to purchase Canadian parts—sometimes inefficiently. In mid-1964 a typical Canadian vehicle

manufacturer purchased from 10 to 15 percent of his parts at prices 10 to 100 percent greater than he could buy the same part in the United States. Moreover, with the content requirement subject to change at any time and the Drury plan (remission plan) intended to be effective for only three years, the vehicle manufacturers lacked the foundation upon which they could make long-range plans for expansion of their manufacturing operations.

(b) Now, under the Agreement, the old incentives to purchase parts uneconomically in Canada are removed. In fact, there is now an incentive for the Canadian companies to purchase parts from the United States because all kinds of parts will now enter Canada free of the duties which formerly ranged up to 25 percent.

(c) Moreover, because the Agreement is of unlimited duration and because of the growth in the Canadian market for automotive vehicles, the vehicle manufacturers will be able to plan for expansion of existing production facilities in Canada and for building new plants to meet forecast demands. The resulting increased production will further assist the vehicle manufacturers to meet their "Canadian value added" requirement from their own assembly activities and to revert to the United States for purchase of efficiently produced parts which were sourced from Canada to meet the 60-percent content requirement or to earn the benefits provided by the Drury plan.

(d) In those cases where increased production or purchase of parts in Canada makes good business sense to the Canadian companies, such production or purchases can be made without reducing imports of U.S.-made parts because the rapidly increasing Canadian market for automobiles calls for an increasingly large value of parts for Canadian production of cars and trucks.

(e) Finally, the undertakings in the company letters to increase production in Canada by an amount above the normal growth of production in Canada are to be accomplished by the end of model year 1968. Thereafter, the U.S. share of the expanding Canadian market can be expected to grow at an increasing rate.

20. Question

Is the charge true that the Canadian Government is requiring that there be a \$250 million increase in the export of parts to the United States?

Answer

There is no such requirement, explicit or implicit.

The Agreement contains no such requirement.

The "letters of intent" do not contain any such requirement.

With or without a reduction in prices of cars and trucks in Canada, we believe that actual Canadian consumption will continue to increase at a rate so that the additional \$241 million production undertaken in the company letters can be absorbed by the actual growth in the Canadian market for automotive products. Moreover, it would be unreasonable to assume that the substantial economies made possible by the Agreement would not permit the kind of price reductions which would stimulate even further the rapidly growing Canadian market.

The charge that the Agreement or the letters of intent will require a "\$250 million increase in the export of parts to the United States" has several further substantial errors.

1. The increased production of the companies in Canada is not limited to parts. *It can and will include vehicles as well.*

2. If it is necessary to sell parts or vehicles outside the Canadian market in order to meet any portion of the requirement for increased production (Canadian value added) in Canada, such sales can and will be made *to the rest of the world* as well as to the United States. The value of such sales to third countries in 1964 was over \$60 million. This amount will certainly have at least a normal future increase.

It is entirely possible that some or all of the companies may increase this production in Canada by concentrating on such components as body stampings or *increased assemblies*, thereby making it possible to *increase* their purchase of parts from the United States.

In fact, we understand that the alternatives suggested above as possible *will* actually be followed by some or all of the companies: they do intend to increase their assembly operations in Canada, they do intend to sell a substantial part of their increased production to meet their market requirements elsewhere in the world, and they do intend to increase their parts purchases in the United States.

21. Question

What will be the effect on the U.S. parts industry? Replacement parts industry?

Answer

1. U.S. manufacturers of parts for original equipment with lower costs, more efficient plants should be able to benefit from increased sales into Canada as a result of the removal of duties ranging up to 25 percent. They should have greater sales to the vehicle manufacturers in Canada as a result of the increasing production and sales in Canada, coupled with the fact that there is in Canada only relatively limited capacity for production of parts.

2. In view of the intended permanence of the Agreement and the forecast growth and demand for motor vehicles in Canada, vehicle manufacturers there will now be able to plan safely to increase their major manufacturing processes. The value of these processes represents important portions of the total manufacturing costs of the vehicle. The companies are free to meet their Canadian added value undertakings increasingly in this way. *Should they choose to do so, they will then be able to purchase in the United States in greater quantities those parts and components formerly inefficiently purchased in Canada to meet the former content requirement.* Independent manufacturers of original equipment parts could, therefore, find a growing export market in Canada under the Agreement.

3. *As for replacement parts*, the great majority of U.S. independent automotive parts manufacturers produce for both the original equipment and replacement markets. As a result of the Agreement, Canada revoked the provisions of the Drury (remission) plan which artificially stimulated exports of replacement parts into the U.S. market by giving credit for export of replacement parts but not remitting the duty on imports of replacement parts. Now that the barrier is removed, U.S. manufacturers will be able to maintain and increase their sales of replacement parts in the domestic market with the knowledge that they are protected from unfair competition from Canadian replacement parts. The increasing production and sale of motor vehicles in Canada, coupled with only limited capacity for the production of parts

in Canada will provide the U.S. parts manufacturer with a growing market for replacement parts.

22. Question

What is the answer to the argument that "the major automobile manufacturers have given the Canadian Government assurances that the Canadian subsidiaries *would gain a larger share of the North American automobile market?*"

Answer

This allegation presumably refers to the letters of undertaking the Canadian subsidiaries have given the Canadian Government. These letters set out the intention of the Canadian companies to increase their production or purchases in Canada over a period of years. The purpose of the letters is to assure that an increased part of the market for automotive products in Canada will be met out of production in Canada. Stated in simple terms, Canada wants by model year 1968 to increase production in Canada (meaning "Canadian value added") over the level of Canadian value added in the base year (model year 1964) by C\$260 million (or US\$241 million) in addition to normal growth of Canadian value added.

This extra increase would be less than 1 percent of the total North American market which by the end of the 1968 model year should be approximately \$30 billion. It would be less than 10 percent just of the increase of about \$3 to \$4 billion in U.S. production in the same period.

In model year 1964 the Canadian market was about 7 percent of the total North American market. The total Canadian production (in terms of Canadian value added) was about 4 percent of the total North American production. Under the Agreement and with the effect of the companies' letters, Canadian production (in terms of Canadian value added) would rise to about 5.1 percent of the total North American production by the end of model year 1968.

23. Question

What effect do we expect the Agreement and the companies' letters to have on the United States-Canadian balance of trade in automotive products in the next three years? In the longer run?

Answer

1. The Executive Branch agencies that have studied the problem carefully believe the *net surplus* of U.S. trade in automobile products with Canada through model year 1968 will remain firm at about the level of model years 1963-64, about \$495 to \$580 million. It is estimated that there will be no significant gain or loss in the present substantial U.S. surplus.

2. After model year 1968 we expect that with freer play of market forces the U.S. net surplus of trade with Canada in automotive products *will again increase* but more gradually than in recent years.

3. The average rate of growth in sales of vehicles in Canada over the past five years has been approximately 8 percent per year. Over the last three years the rate of growth of sales of vehicles in Canada has increased approximately 12 percent per year. (The Canadian Government uses the figure of 8 percent in making projections.) The figure of 8 percent per year increase in sales of vehicles does *not* take into account the stimulation of sales which will come from any

reduction of prices which will be made possible as a result of the Agreement. Sales from Canada to *third countries* may also be taken as likely to increase over the 1964-68 period.

4. The considerable increase in total sales in Canada and to third countries during this period will be large enough to absorb the increase in Canadian value added undertaken in the companies' letters, so there will be *no significant change in the U.S. net surplus in relation to model years 1963-64.*

5. *The Canadian Government* also has reached the conclusion that the Agreement and the companies' letters will not adversely affect the present very favorable U.S. net balance of trade in automotive products with Canada. Minister of Industry Drury explained the Canadian expectations from the Agreement and the companies' letters to the Canadian House of Commons, in detail, May 10, 1965. He began by quoting the statement of Secretary of Commerce Connor before the Ways and Means Committee:

However, I do not expect that our own exports to Canada will drop as a result. On the contrary, I am satisfied that it is reasonable to project a continuing growth in the Canadian automotive market sufficient to absorb the projected increase in Canadian production without reducing our net favourable balance of trade with Canada.

Minister Drury then went on to say:

The figure mentioned, in the American way, as the net favourable balance of trade with Canada, is \$500 million. It is unfortunate that over the past two years, there has been a tendency for the U.S. net favourable balance of trade in automotive products with Canada to increase by something like the rate of \$100 million a year. This has meant that as the Canadian market for cars grew, the—from our point of view—unfavourable balance of trade grew correspondingly, to some degree even faster. *It is our expectation that this program will arrest the continuing growth of the unfavourable balance of trade and ensure that it is maintained at about the present level; that is, in absolute dollars, something in the order of \$500 million or \$550 million.*

Mr. Connor is saying that the present level will not be exceeded. Talking in U.S. terms, he says that the present level will not be reduced; but this comes to the same thing. From our point of view we are avoiding what would have been a substantial and intractable increase in the unfavourable balance. As I pointed out earlier, the main purpose of this program is not to deal with the balance-of-payments situation. The main objective of the program is to increase substantially the production of automobiles and automobile parts in Canada for the next three years, leading as a consequence to a number of favourable results; one being a substantial increase in the number of jobs, another a holding action in relation to the unfavourable balance of payments in this sector, another a reduction in the cost of the production of cars and the consequent price advantage to the consumers of Canada; and finally the ability, as a consequence, to produce cars to compete effectively in the external market (Commons Debates, May 10, 1965, p. 1131). [Emphasis supplied.]

24. Question

What plans do the automotive companies have to expand production in the United States?

Answer

Based on announcements, during 1965 the car manufacturers alone plan a total investment of \$2.7 billion in new plant and equipment. Seventy percent of this total, or \$1.59 billion, will go to investments of new facilities in the United States; 6 percent in Canada; and 24 percent in the rest of the world. Much of this will of course be possible from foreign earnings or borrowings. For 1966, total investment plans amount to \$2,128 billion. Here again, approxi-

mately 70 percent of this total will go for new plant and equipment in the United States.

25. Question

What about the press statements that Canada plans to take 60,000 U.S. jobs under this Agreement?

Answer

These statements have no foundation in fact. Increased production in Canada will undoubtedly lead to increased employment in the automotive industry in Canada. But this will *not* mean a reduction of employment in the United States.

1. *Effect in Canada.*—Press speculation on the number of new Canadian jobs that may be created as a result of the Agreement have ranged from 6,000 workers to 60,000 workers. It is difficult—probably impossible—to make an exact estimate of the number of new jobs in Canada which will be made possible by this Agreement. But it seems probable that over the period until the Agreement comes up for review the facts will turn out to be closer to the lower estimate than to the higher one.

In 1963 there were an estimated 58,000 workers in the automotive products industry in Canada. The suggestion that 60,000 jobs will be added in Canada would mean a doubling of the employment in Canada, with at least a doubling of the output in three years. This seems impossible on its face.

Productivity in Canada in the automotive industry has been at a 25- to 35-percent lower level than in the United States and has been increasing rapidly. With the rationalization in the industry in Canada which the Agreement will make possible, a more rapid increase in productivity can be expected. The number of new jobs which would accompany what ever increase in production develops in Canada would be proportionately less than the jobs accompanying the 1963 level of production.

2. *Effect in United States.*—Most important, however, is the fact that an increase in Canadian employment does not mean a decrease in U.S. employment. All industry experts expect that U.S. automotive production will also be increasing over the coming several years. Both Canada and the United States expect an increase in sales and production. The increase in U.S. production in 3 years may approximate 3 to 4 percent per year. Based on a 1964 model year value of production of about \$25 billion, this increase in output could be worth \$3 to \$4 billion—five to six times the total anticipated increase of production in Canada.

In view of many factors, particularly the growth of productivity, it is impossible to know exactly what effect the increase in production will have on employment. The important point, however, is that the Agreement will help bring about more economical production and a larger market in which the industry, both the United States and Canada, will participate.

3. *Effect on U.S. jobs without the Agreement.*—It is important also to realize that in the absence of the Agreement there would have been a threat to jobs in both the United States and Canada. A trade conflict in the automobile sector, which accounted last year for almost \$800 million worth of United States-Canadian trade, would have had serious effects on employment, particularly in the United States,

whose exports comprise the largest part of this total. We have avoided such a conflict, and in a way that should bring over the next several years more jobs in both countries.

26. Question

Why should the Adjustment Assistance provision in this legislation be any different from the Trade Expansion Act?

Answer

Special procedures for adjustment assistance under this legislation are warranted because the removal of duties on automobiles and original equipment parts will have a more direct and immediate effect than the reduction of duties under the Trade Expansion Act (TEA). Under the TEA, all tariff reductions, except in a few special cases, are limited to 50 percent and must be staged over a five-year period, allowing U.S. firms and workers time for orderly adjustment. This Agreement provides for an immediate elimination of the entire duty and the action has already been taken by the Canadians.

The TEA provides for adjustment assistance only where injury or dislocation is caused by an increase in U.S. imports. In the present case injury or dislocation may also result from loss of an export market. The nature of the United States-Canadian industry as an integral North American automobile producer that obtains raw materials and parts from the most economically advantageous source is such that displacements may result from loss of exports across the border as easily as from import competition. The gradual shifts from one source of supply to another are constantly occurring in the dynamic U.S. domestic market. The removal of tariff duties to create a single North American automobile industry may be expected to affect the costs of some parts and result in some changes in supply arrangements where dislocation is expressed in loss of exports as well as from import competition.

The obligation to provide adjustment assistance to those workers or establishments whose jobs and existence have depended on tariff barriers has been recognized by the Trade Expansion Act of 1962. The interests of the nation as a whole in lower consumer costs and expanded markets and production outweigh the cost of temporary aid in adjusting to a larger and freer market economy. In view of anticipated expanded consumption and production, no net loss of jobs is anticipated, but dislocations may be expected as parts and components suppliers are shifted to benefit from lower costs provided by the removal of tariffs.

27. Question

Why is the determination of eligibility for adjustment assistance to be made by the President rather than by the Tariff Commission?

Answer

H.R. 6960 deals with a unique situation—a single industry manufacturing and selling the same product on both sides of the border. *It is aimed at eliminating barriers to the more efficient operation of an industry which is continental by its nature and scope.* The proposed legislation provides for the complete and immediate elimination of duties on certain automotive products. It recognizes that in this case dislocation can be caused by a loss of exports and by shifts in product mix as well as by increased imports. Thus the problem goes

well beyond the possible adverse impact of increased imports, traditionally assigned to the Tariff Commission.

The workers in the automotive industry, those most likely to be affected as a result of the more efficient operation of the industry, feel very strongly that any cases of dislocation which may arise should be examined from the broadest prospective.

Since the Agreement is a unique venture in the trade field, the change in tariff treatment unprecedented, and factors other than increased imports must be considered, it is the judgment of the Executive Branch that the interests of the Government would be best served by vesting in the President the authority to make findings with respect to eligibility for assistance. This is not unprecedented. For example, in dealing with such a special issue as the effect of imports upon national security, the Congress, in the TEA, placed the responsibility for the investigation and advice to the President with an arm of the President's office (the Office of Emergency Planning).

28. Question

What is the meaning of the provision (sec. 303) that the President will make recommendations about adjustment assistance arrangements in the case of future agreements under the legislation?

Answer

This section provides that no less than three months prior to the issuance of any proclamation pursuant to section 202, the President shall recommend to the Congress such legislative provisions concerning adjustment and assistance to firms and workers as he determines to be appropriate in light of the anticipated economic impact of the reduction or elimination of duties provided by such proclamation. It is intended that, after concluding any new agreement of the kind described in section 202, the President will make public his determination concerning the type of adjustment assistance which he believes should be available to any firms or workers which may be affected by the operations of the agreement. This provision recognizes that with respect to the implementation of a new agreement under section 202, the President might recommend to the Congress provisions of adjustment assistance different from those provided in the TEA.

29. Question

What is the situation regarding the removal of duties from replacement parts? If there is to be duty-free trade in automotive products, shouldn't duties on replacement parts be removed?

Answer

The Canadian Government refused to agree to include replacement parts in the duty-free Agreement—at least at this time. They argued that a continuation of this protective tariff is essential because production of such parts in Canada is by small, generally inefficient firms which often operate the only manufacturing plant in a town or village. Removal of protection at this time would have been too great an economic shock.

However, the Agreement does get rid of the inequitable treatment given the U.S. replacement parts industry by the Drury (remission) plan. Under the remission plan, imports of replacement parts were not given duty free entry into Canada. However, the Canadian Government gave firms in Canada "credit" for the value of exports

of replacement parts and these firms could then use these "credits" for remission of duties on an equal value of imports of vehicles or parts for original manufacture. Under this arrangement, there was an incentive for plants in Canada to manufacture replacement parts and export them to—particularly to the United States.

The Agreement gets rid of this inequity. It still does not provide for duty-free import of replacement parts, but it eliminates the grant of credits for the export of replacement parts. Therefore, it removes the incentive for production of replacement parts in Canada and their export to the United States which the remission plan involved.

Removal of this incentive will free the U.S. replacement parts industry from this form of competition in the United States and will enable it to maintain its markets in Canada. The increase of sales of automobiles in Canada will give an increasing market for replacement parts.

As to the future.—The U.S. replacement parts industry is highly competitive in comparison with the Canadian and could benefit substantially from the mutual elimination of duties on replacement parts.

The Executive Branch intends to renew its efforts to include replacement parts when the Agreement is reviewed, no later than January 1, 1968. Meanwhile, the proposed legislation would provide authority (sec. 202(b)) for the President to remove U.S. duties on replacement parts—so he will be in a position to do so when an agreement is worked out.

The Government will consult with interested parties before any negotiations are undertaken regarding replacement parts.

30. Question

What provision will be made to ensure against Canadian parts brought in as original equipment being diverted for use as replacement parts in competition with the U.S. replacement parts industry?

Answer

The proposed legislation provides in section 404 that the original motor-vehicle equipment (that is to enter duty-free) is equipment obtained by a supplier in Canada under or pursuant to a written order, contract, or letter of intent of a bona fide motor-vehicle manufacturer in the United States, and which is a fabricated component intended for use as original equipment in the manufacture in the United States of a motor vehicle.

It is intended that the Department of Commerce will maintain a list of bona fide manufacturers. The use of duty-free parts will be restricted to original equipment in the manufacture of vehicles by these manufacturers.

The Bureau of Customs has already instituted a procedure for identification of imported articles entitled to duty-free importation pursuant to the Agreement if legislation providing retroactive coverage is enacted. The Customs Regulations Code (19 C.F.R.) will be amended to provide for proper certification on each shipment after enactment of the implementing legislation.

Any importer who might try to profit from duty-free entry of a part by fraudulently representing it to be for original equipment and then selling it as a replacement part would be subject to prosecution under law and the forfeiture penalty provided in the implementing legislation.

The Customs Bureau would conduct the necessary checks to assure against violations of the statute.

The Bureau of Customs has extensive experience in administering laws giving goods imported for one purpose duty treatment different from that given the same goods when imported for other purposes. For example, ethyl alcohol imported for nonbeverage purposes has a lower duty rate than that imported for beverage purposes. Also, certain wools used in the manufacture of floor covering enter duty free; the identical wools when used for other purposes are dutiable. The Bureau of Customs satisfies itself such certifications of use are complied with. The Bureau will do so in the present case.

The method to be employed by Customs is a routine one involving reference of individual importations to the Customs Agency Service for investigation of actual use. In other words, Customs Agents will call on importers on a selective basis at the discretion of the Collector of Customs or the Appraiser of Merchandise at the port of entry, and will ascertain from the books of account and production records to their satisfaction the actual use made of the articles in question.

